



IPSASB Update 1

April 2005

Introduction

The International Public Sector Accounting Standards Board (IPSASB) met in Oslo, Norway on March 14-17, 2005. This was the first meeting of the IPSASB since the IFAC Board reconstituted the Public Sector Committee (PSC) as the IPSASB in November 2004. (The Terms of Reference of the IPSASB can be downloaded as part of the agenda materials for this meeting of the IPSASB from the IPSASB web site at www.IPSASB.org.)

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.

In conjunction with this meeting, the IPSASB and Den norske Revisorforening (DnR), the IFAC Member Body in Norway, jointly hosted a seminar on Public Sector Accounting in the Nordic countries. The seminar was well attended by accounting professionals and others interested in financial reporting by governments from Norway, Denmark and Sweden.

Work Program

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

The IPSASB reviewed a first draft exposure draft (ED) and provided directions for its further development. A drafting sub-committee was appointed to review and provide input to the updated draft before the next meeting. In addition to other structural and editorial amendments identified by members, the revised ED is to include a flow chart to assist users in determining whether an inflow of resources should be recognized as revenue and examples to illustrate application of the proposed requirements. An updated draft will be considered by the IPSASB at its next meeting in July 2005, with a view to its approval for issue.

Accounting for Social Policies of Governments

The IPSASB decided to split its project on accounting for social policies of governments into a number of broad components for its ongoing development. Those components are:

- social benefits of governments other than pensions and similar social benefits. The IPSASB will review a first draft ED dealing with this component of the project at its July 2005 meeting;
- “distress” or “basic” pensions provided by governments; and

- social security type pensions (which are in place in many countries around the world, including in Europe and the USA) which require some contribution by, or on behalf of, members and provide benefits related to the amounts of contributions made.

The key characteristics of these components will be further developed for consideration at the next IPSASB meeting in July 2005. At that meeting, the IPSASB will also consider whether guarantees of pension benefits that might be provided by governments should be included within the scope of the project.

The IPSASB has also agreed that pensions provided as consideration for employee services should be included within its work program. The development of this project will consider the applicability of IAS 19, “Employee Benefits” to the public sector. Subject to resource availability, this project will be developed in parallel with the social security pensions components noted above.

Budget Reporting

The IPSASB reviewed a draft ED dealing with the comparison of budget and actual amounts, and Project Advisory Panel comments thereon. The IPSASB identified areas for amendment and agreed the ED should be further developed for consideration at the next meeting in July 2005. Aspects for further developments include clarification that:

- the ED is applicable to entities that make publicly available their approved budget or a summary thereof;
- the objective of the ED is to enhance accountability and transparency and forge a link to budget information that may be made publicly available; and
- the financial statements are to include a comparison of actual to the final approved budget, whether as an additional “primary” financial statement or as an additional column in the financial statements currently required by IPSASs.

Accounting for Heritage Assets

The IPSASB agreed to develop a discussion paper on accounting for heritage assets in conjunction with the UK Accounting Standards Board (ASB). A subcommittee of IPSASB members will work with the ASB to finalize the paper. This initiative reflects the recommendation of the Externally Chaired Review Panel which reported in 2004, that the IPSASB further develop partnering relationships with national standard-setting bodies on project development where appropriate. (IPSAS 17, “Property, Plant and

Equipment” does not currently require public sector entities to recognize these assets.)

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

The IPSASB continued to progress its IPSAS Improvements Project. This project comprises the improvement of eleven IPSASs which were based on the International Accounting Standards (IASs) that were re-issued by the International Accounting Standards Board (IASB) in December 2003 following the IASB’s General Improvements Project.

At this meeting, the IPSASB reviewed EDs of the final three improved IPSASs included within the Project: IPSAS 7, “Investments in Associates”, IPSAS 8, “Interests in Joint Ventures”, and IPSAS 4, “The Effects of Changes in Foreign Exchange Rates”. These EDs were approved with minor amendments, subject to final review of all eleven proposed improved IPSASs at the next meeting for consistency in application of the IPSASB’s improvements policy. The IPSASB will consider an “omnibus” IPSAS Improvements ED at its next meeting in July 2005, with a view to its approved for issue.

The IPSASB has a long-term objective of convergence of IPSASs and IASs/IFRSs issued by the IASB, where the requirements of the IASs/IFRSs are relevant for the public sector. In the short term, the IPSASB does not have the resources to fully progress all aspects of its IAS/IFRS convergence program, in addition to the IPSAS improvements project. However, the IPSASB is committed to re-activating its full IAS/IFRS convergence program when additional resources are in place.

Convergence of IPSASs with Statistical Bases of Financial Reporting

The IPSASB continued its program of convergence of IPSASs with statistical bases of financial reporting, where such convergence is appropriate.

At this meeting, the IPSASB considered a first draft ED dealing with the disclosure of information about the general government sector (GGS) in whole-of-government general purpose financial statements, and Project Advisory Panel comments thereon. The ED is to be further developed for consideration at the next meeting in July 2005. The revised ED will include a clarification that it does not require disclosure of GGS information, but that if governments elect to make such disclosures the requirements of the ED are to be complied with.

The IPSASB noted that the UK Treasury had offered to field test the Draft ED. At its next meeting, the IPSASB will consider field test results and input from members on the relationship between government budgets and the GGS

in their jurisdictions, and how GGS information is reported in general purpose financial reports in their jurisdictions.

Service Concession Arrangements

The IPSASB noted that the IASB’s International Financial Reporting Interpretations Committee (IFRIC) had recently issued Draft Interpretations on accounting for service concessions for comment by 3 May 2005. The IPSASB agreed to submit comments to the IFRIC and established a subcommittee to develop that submission out-of-session.

The IFRIC Draft Interpretations deal only with accounting by the operator. The IPSASB agreed that the IPSASB Chair should continue to explore with the IASB Chair participation in a joint IASB/IPSASB project to develop financial reporting requirements for service concession arrangements by both the grantor (typically a public sector entity) and the operator.

At its next meeting, the IPSASB will review its strategy for development of guidance on accounting by the grantor.

Consultative Group

Prior to its meeting the IPSASB met with Consultative Group members, including members from China, Sweden, Switzerland, United Kingdom and United States of America. Key members of the government financial reporting community in Europe and the USA who were present also joined in the discussion. The discussion focused on the issues surrounding accounting for pensions and other social policies of government; revenue from non-exchange transactions (including taxes and transfers); and heritage assets. Consultative Group members noted that these were important issues for the public sector and encouraged the IPSASB to proceed with these projects. Some members expressed the view that it was also important to develop an IPSAS on accounting for government employee pensions.

Members also noted potential future developments in the structure and operation of the Consultative Group that might occur as a consequence of the recommendations of the Review Panel, and the anticipated inclusion of the IPSASB under the oversight of the Public Interest Oversight Board (PIOB). Some members advocated that no changes occur until the PIOB oversight role in respect of the IPSASB was clarified.

Next IPSASB Meeting: New York, USA, July 25-28, 2005.
For further information please contact:
Paul Sutcliffe, IPSASB Technical Director
psutcliffe@ifac.org or
Matthew Bohun, IPSASB Technical Manager
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 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.

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 closes 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

530 Little Collins Street, Suite 1302, Melbourne Victoria Australia

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