



IPSASB Update 5

July 2006

Introduction

The International Public Sector Accounting Standards Board (IPSASB) met in Paris, France from July 3 – 6, 2006.

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

Work Program

National standards setters and similar organizations

In conjunction with this meeting the IPSASB met with representatives of a number of National Standards Setters and similar organizations from Argentina, Australia, Canada, France, Israel, Malaysia, Italy, the Netherlands, New Zealand, Spain, South Africa, Switzerland, the United Kingdom and the United States of America to discuss the potential for collaborative projects on the development of a public sector conceptual framework and on financial reporting of public private partnerships (PPPs, also known as service concession arrangements). Also participating in the discussion were members and/or staff of the Public Sector Committee of the Fédération des Experts Comptables Européens (FEE), the International Accounting Standards Board (IASB), the Task Force on Harmonization of Public Sector Accounting (TFHPSA) and Eurostat.

IPSASB Conceptual Framework

It was agreed that the IPSASB will lead a collaborative project on the development of a conceptual framework for public sector financial reporting in conjunction with participating national standards setters and similar organizations (NSSs). A draft project brief and tentative development program was considered and the broad characteristics of the project were agreed. The project will be coordinated by a sub-committee comprising IPSASB and NSS members, and NSS staff will provide input on a task basis. The detailed arrangements, including an updated project brief, identification of key project milestones and the composition of the subcommittee will be agreed by the IPSASB in consultation with the NSS prior to formal initiation of the project later in 2006.

Public Private Partnerships/Service Concession Arrangements (PPPs)

The IASB staff and IASB member provided an update on progress being made by the IASB's International Financial Reporting Interpretations Committee (IFRIC) on the development of an Interpretation dealing with service concession arrangements.

The IPSASB and NSS agreed to initiate a collaborative research project on financial reporting of public private partnerships (PPPs) by both grantors and operators. The IPSASB in consultation with the NSS will develop a final project brief and agree the composition and staffing of a subcommittee. The subcommittee will then develop a consultation paper as a first step in the due process intended to lead to authoritative requirements for public sector entities.

Social Policy Obligations

The IPSASB considered draft exposure drafts (EDs) dealing with non-pension social policy obligations and social security pensions. These draft EDs had been developed on the basis that present obligations to beneficiaries for cash transfers arise when all eligibility criteria have been satisfied.

The IPSASB continued its consideration of the measurement of liabilities arising from such present obligations and mechanisms for presentation of information about the funding of social benefit programs and social security pension schemes. The IPSASB will consider these issues further at its next meeting when it will review a single draft ED dealing with all social policy obligations, including those arising from social security pensions. The IPSASB also acknowledged the importance of reporting on long term fiscal sustainability to provide users with information supplementing that in the financial statements.

Employee Benefits

The IPSASB considered and approved for issue an ED, "Employee Benefits" based on IAS 19, "Employee Benefits" with modifications where necessary to reflect public sector circumstances. The proposals in the ED include:

- a risk free rate is to be adopted for discounting post-employment benefit obligations. That risk free rate is to be based on government bonds or, where such bonds do not provide the best reflection of a risk free rate, high-quality corporate bonds; and
- transitional provisions which provide that the resulting IPSAS need not be applied for a period of five years after its approval in order to support its orderly introduction.

Impairment of Cash Generating Assets

The IPSASB noted that the ED, "Impairment of Cash Generating Assets" had been approved out of session subject to processing of final revisions and their approval by the Chair. It is anticipated that the ED will be published on the IPSASB web page for comment in September of 2006.

Financial Reporting Under the Cash Basis of Accounting - Disclosure Requirements for Recipients of External Assistance

The IPSASB considered and approved an ED, "Financial Reporting under the Cash Basis of Accounting - Disclosure Requirements for Recipients of External Assistance". Following this meeting the ED will be finalized and prepared for publication on the IPSASB web page.

The ED proposes amendments to the Cash Basis IPSAS to include both required and encouraged disclosures of external assistance by recipients. This ED was developed in response to feedback received on ED 24, "Financial Reporting under the Cash Basis of Accounting – Disclosure of External Assistance" and after consultation with members of the IPSASB's consultative group and other key constituents. The IPSASB in association with the OECD Development Assistance Committee Joint Venture on Public Financial Management (OECD-DAC-JV) and the Eastern and Southern African Association of Accountants General (ESAAG), intends to field test the requirements proposed in the ED before development of a final IPSAS.

General Improvements Project

In September 2005 the IPSASB issued ED 25, "Equal Authority of Paragraphs in IPSASs" which proposed amendments to the Preface to IPSASs, and ED 26, "Improvements to International Public Sector Accounting Standards" which proposed improvements to eleven (11) IPSASs. At this meeting the IPSASB reviewed and approved an updated "Preface to International Public Sector Accounting Standards", and improved versions of IPSAS 1, "Presentation of Financial Statements", IPSAS 3, "Accounting Policies, Changes in Accounting Estimates and Errors", and IPSAS 4, "The Effects of Changes in Foreign Exchange Rates". Subject to final approval of the package of IPSASs, each improved IPSAS will apply for annual periods commencing on or after January 1, 2008.

The IPSASB will consider further draft IPSASs included in ED 26 at its next meeting. It is intended to publish the revised Preface and improved IPSASs on the IPSASB web page by January 1, 2007.

ED 27, "Presentation of Budget Information in Financial Statements"

The IPSASB commenced its consideration of a first draft of an IPSAS based on ED 27, "Presentation of Budget Information in Financial Statements". The IPSASB agreed to develop a separate IPSAS dealing with the presentation of budget information by entities adopting the accrual basis of financial reporting, and to amend the Cash Basis IPSAS

to include requirements for the presentation of budget information by entities adopting the cash basis of reporting. A revised draft accrual IPSAS and draft amendments to the Cash Basis IPSAS will be considered by the IPSASB at its next meeting.

ED 28, "Disclosure of Financial Information about the General Government Sector"

The IPSASB considered and approved a draft IPSAS based on ED 28, "Disclosure of Financial Information about the General Government Sector". The IPSAS specifies disclosure requirements for governments which elect to present financial information about the general government sector in their consolidated financial statements. The IPSAS will apply for annual reporting periods commencing on or after January 1, 2008. The IPSAS will be finalized out of session and published on the IPSASB web page later in 2006.

Review of IPSASB Current Work Program and Longer Term Strategy

During the course of this meeting the IPSASB undertook a broad review of its current work program and longer term strategy and the resource implications thereof. The IPSASB expressed the view that its long term objectives and work program should focus on four broad areas of work:

- Development of a public sector conceptual framework;
- Development of other public sector specific projects (including convergence with statistical bases of reporting where appropriate);
- IFRS convergence; and
- Other projects and activities, including promotion and communication.

The IPSASB will further consider its longer term strategy and work program at its next meeting.

IPSASB Consultative Group

During this meeting, the IPSASB met with Consultative Group members from France, Ghana, South Africa and the United Kingdom and the OECD-DAC. The discussion focused on disclosure of external assistance, budget reporting, social policy obligations, and other aspects of the work program. Consultative Group members provided valuable input on these issues.

Staff Changes

This was the last meeting of IPSASB Technical Director, Paul Sutcliffe, whose resignation becomes effective in late August 2006. Members expressed their appreciation for the significant contribution Paul has made to the work of the IPSASB during the past 6 years.

The Chair advised that Stephenie Fox, who is currently a senior staff member with the Canadian Public Accountability Board, has been appointed as the new IPSASB Technical Director to commence on September 1, 2006. The Chair also noted that the appointment of an additional technical manager to support the IPSASB was imminent.

Next IPSASB Meeting: Norwalk, USA, November 7 – 10, 2006. For further information please contact:
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IPSASB MEMBERS 2006

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 Inter-American Development Bank. **AUSTRALIA** – Wayne Cameron, Auditor-General, State of Victoria. **CANADA** – Richard J. Neville, Vice-President and Chief Financial Officer, Royal Canadian Mint. **INDIA** – Pankaj Jain – Partner, Khandelwal Jain & Co. **ISRAEL** – Ron Alroy, Chief Accountant, Accountant General, Ministry of Finance. **JAPAN** – Tadashi Sekikawa, Partner, Deloitte Touche Tohmatsu Japan. **MALAYSIA** – Mohd. Salleh Mahmud, Deputy Accountant-General, Malaysia. **MEXICO** – Alejandro Luna Rodríguez, Controloria de la Funcion Publica. **NETHERLANDS** – Frans Van Schaik, Partner, Deloitte Netherlands. **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. **PUBLIC MEMBERS:** Prof. Andreas Bergmann, Zurich University of Applied Sciences; John Peace, Attorney-at-Law, Dover Dixon Horn, Little Rock, USA; Prof. Stefano Pozzoli, University of Napoli, Italy.

IPSASB OBSERVERS 2006

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 (UN), United Nations Development Programme (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 June 15, 2005.*

ED 25 Equal Authority of Paragraphs in IPSASs proposes that bold and normal font paragraphs in IPSASs have equal authority, and that authority be determined by the language used. *The comment period closed January 31, 2006.*

ED 26 Improvements to International Public Sector Accounting Standards proposes amendments to IPSASs 1, 3, 4, 6, 7, 8, 12, 13, 14, 16 and 17, to included amendments made to related IASs to January 2004. *The comment period closed January 31, 2006.*

ED 27 Presentation of Budget Information in Financial Statements proposes that entities that publish budget information be required to include budget information in their general purpose financial statements. *The comment period closed February 15, 2006.*

ED 28 Disclosure of Financial Information About the General Government Sector proposes permitting entities to disclose information about the general government sector in consolidated whole of government general purpose financial statements, and prescribes requirements for making such disclosures. *The comment period closed February 15, 2006.*

ED 29 Revenue from Non-Exchange Transactions (Including Taxes and Transfers) proposes requirements for accounting for taxes, transfers, fines, bequests, gifts and donations including goods and services in kind and other non exchange revenues, and provides guidance on dealing with conditions and restrictions on transferred assets. *The comment period closed June 30, 2006.*

RECENTLY ISSUED INFORMATION and CONSULTATION PAPERS

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."

Accounting for Heritage Assets under the Accrual Basis of Accounting (February 2006). This Consultation Paper incorporates a Discussion Paper issued by the United Kingdom Accounting Standards Board. It highlights and evaluates a range of possible approaches to accounting for heritage assets. Although the proposals in the Consultation Paper do not necessarily reflect the views of the IPSASB they suggest potential solutions to challenges in accounting for heritage assets that are likely to be faced in many jurisdictions reporting on the full accrual basis or in the process of migrating to that basis. *The comment period on this Consultation Paper closed June 30, 2006.*

The Road to Accrual Accounting in the United States of America (March 2006). This Information Paper outlines the experience of the United States (US) in its transition to accrual accounting, notes the development of administrative arrangements for standards setting at the local, state and federal government levels in the US and highlights key factors shaping the standards-setting structure. It also provides input on the US federal government reporting model.



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