



**INTERNATIONAL FEDERATION
OF ACCOUNTANTS**

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DATE: 29 JULY 2004
MEMO TO: MEMBERS OF WORKING GROUP 1 OF THE TFHPSA
FROM: PAUL SUTCLIFFE
SUBJECT: **PSC REPORT AND GGS PROJECT BRIEF**

ACTION REQUIRED

Working Group 1 acting as the PSC Project Advisory Panel is requested to:

- **Consider** the draft project brief on Disclosure of Financial Information about the General Government Sector and provide input for consideration of the PSC at its next meeting in November 2004.

MATERIALS ATTACHED:

	Pages
• Extracts of PSC minutes of March and July (draft) 2004	4 – 9
• Project Brief – General Government Sector	10 – 23
• TFHPSA Minutes and Working Group 1 Report	24 – 29
• Notes on PSC meeting of July 2004	30 – 33

BACKGROUND

The PSC reviewed the recommendations of Working Group I (WG1) of the Task Force on Harmonization of Public Sector Accounting (TFHPSA) at its March 2004 meeting. WG1 recommended that:

- the PSC should allow and encourage disclosure of financial information about the general government sector as defined by the *Government Finance Statistics Manual 2001* (GFSM 2001);
- the PSC should activate a long-term project on developing a comprehensive report of financial performance which distinguishes between transactions and other economic flows as defined in GFSM 2001 as far as possible; and
- the PSC should require or allow the adoption of current values in IPSASs.

The PSC agreed to action projects dealing with the disclosure of financial information about the general government sector and comprehensive performance reporting as its resources allowed. The status of work on these projects is outlined below. The PSC also agreed to raise the third recommendation (above) with the IASB as it progressed its IFRS/IAS convergence project.

As noted in the minutes of the PSC meeting of March 2004 (see pages 4-9 attached) the PSC also agreed that it would be useful to issue the “matrix” developed by WG1 as a PSC Occasional Paper or Research Report. WG1 agreed with that proposal, and the “matrix” is

being updated for presentation to the PSC at its November 2004 meeting. The updated draft “matrix” will be forwarded to WG1 members prior to the September TFHPSA meeting.

Project Brief - Disclosure of Information about the General Government Sector

The GFSM 2001, the *European System of Accounts* (ESA 95), the *ESA95 Manual on Government Deficit and Debt* (EMGDD) and the *System of National Accounts 1993* (SNA 93) require institutional units¹ in the general government sector (GGS) to present financial information in respect of the GGS. The IPSASs do not contain any provisions in relation to the GGS. IPSAS 18 *Segment Reporting* does not result in the disclosure of information about the GGS that is compatible with the objectives of the WG1 Recommendation.

As noted above, at its March 2004 meeting, the PSC agreed to action a project that would lead to IPSASs permitting or encouraging entities to disclose GGS information in general purpose financial statements prepared using IPSASs. The PSC directed staff to prepare a project brief for consideration at the PSC’s July 2004 meeting.

The PSC also agreed that WG1 should be invited to form a Project Advisory Panel (PAP) to provide input to staff in drafting the Exposure Draft. Ian Mackintosh, Chair of WG1, updated WG1 members on the decisions taken by the PSC at its March 2004 meeting. Ian also extended the PSC’s invitation for WG1 members to form a PAP. Staff have had positive responses to this invitation from several WG1 members. No WG1 members indicated that they were unable to join the PAP.

The PSC considered a first draft project brief at its July 2004 meeting. That project brief included staff recommendations on key issues. The PSC discussed the issues and the staff recommendations, noted it did not wish to make decisions that would pre-empt input from the PAP, and directed staff to update the project brief to reflect PSC discussion and forward it to the PAP for comment and input. The PSC noted that a meeting of WG1 of TFHPSA may occur in September 2004, and that the draft project brief could usefully be discussed at that meeting.

The project brief is attached. It outlines the project’s background and objectives, and identifies staff views on key issues that need to be resolved in preparing the first draft of an Exposure Draft. WG1 members are requested to review the project brief and confirm or otherwise staff proposals regarding the key issues and project timing. Members are also requested to identify any additional issues that need to be resolved or discussed at this stage.

Following this meeting, the project brief will be updated to incorporate PAP comments and will be re-represented to the PSC at its meeting on 1-4 November. If approved at that meeting, work will commence with a view to preparing a first draft exposure draft for consideration by the PSC at its March 2005 meeting.

Project Brief - Performance Reporting

International Public Sector Accounting Standards (IPSASs) are based on International Accounting Standards to the extent that these are relevant to the public sector. The IPSASs

¹ An “institutional unit” is defined as “an economic entity that is capable, in its own right, of owning assets, incurring liabilities and engaging in economic activities and in transactions with other entities.” (SNA 93, paragraph 4.2). The IPSASs apply to general purpose financial statements (GPFS) prepared by reporting entities. IPSASs specify the basis on which GPFSs are to be prepared. Reporting entities are not defined in IPSASs.

require public sector entities to prepare general purpose financial statements that present financial information about the financial position, performance and cash flows of an entity that is useful to a wide range of users in making and evaluating decisions about the allocation of resources.

WG1 recommended that the PSC should activate a long term project to develop a comprehensive report of financial performance that distinguishes between transactions and other economic flows as defined in GFSM 2001, as far as is possible. At its March 2004 meeting, the PSC:

- agreed with the recommendations of WG1, noting that a performance reporting project was important and should be activated;
- noted that the IASB had actioned a project on “Reporting Comprehensive Income”, but that progress on that project had been delayed; and
- noted that in the development of the performance reporting project, it would need to be cognizant of developments in the IASB’s project, and balance its twin objectives of converging with IASs/IFRSs and with statistical financial reporting bases. As such, the PSC project may not exactly track the recommendations of WG1 because of the IAS/IFRS convergence components of its work program.

The PSC directed staff to develop a project brief on a comprehensive performance reporting project that acknowledged issues that arose under both the IAS/IFRS and statistical financial reporting convergence aspects of the project.

Staff have not yet developed the project brief. As WG1 members are probably aware, the IASB has now reactivated its performance reporting project and is establishing an Advisory Panel to provide input to the project. At its July 2004 meeting the PSC agreed that the performance reporting project brief should not be finalized until staff:

- have a better feel for the IASB project on Reporting Comprehensive Income and can develop a project brief that responds to both the IASB project and WG1 recommendations; and
- explore the potential for IASB representation on any Steering Committee established to progress this project. Such representation will assist to minimize the potential for any unintended differences between GAAP and statistical bases of financial reporting in this respect.

At the PSC’s July 2004 meeting, staff noted they intend to discuss this matter with the IASB and are hopeful that a co-operative approach to the development of this project can be initiated in respect of private and public sector GAAP and statistical bases of financial reporting in the public sector. The PSC agreed with this approach. I will provide WG1 members with a verbal update on progress at the September 2004 meeting.

Paul Sutcliffe
PSC TECHNICAL DIRECTOR

EXTRACT OF PSC MEETING MARCH 2004

11. GFS, ESA, IPSAS HARMONIZATION

The Committee received and considered:

- A memo from Paul Sutcliffe;
- A document outlining the mandate of OECD Task Force on Harmonization (TFHPSA) and the Agenda for the February 2004 meetings of the Task Force and Working Groups 1 and 2;
- The minutes of the Task Force Meeting on 11 February 2004, including the Report of Working Group 1;
- A paper on the Strategy of the Task Force; and
- A matrix identifying differences between IPSASs, GFSM 2001 and ESA 95.

Ian Mackintosh, the Chair of Working Group 1 of the Task Force, provided background to the Task Force and its Working Groups. He noted that:

- Philippe Adhémar, the PSC Chair, was a member of the Task Force and that the Working Groups reported to the Task Force;
- The Task Force had been established as a result of a meeting the PSC had initiated in June 2003 of an IPSAS-GFSM 2001-ESA 95 “convergence group”; and
- The purpose of the Taskforce is to promote convergence of the requirements of IPSASs, GFSM 2001 and ESA 95 where appropriate, and make recommendations to the various working groups involved in making proposals for the review of the *System of National Accounts 1993* (SNA 93) in 2008. He also outlined the broad anticipated time frame and activities involved in that review.

Ian then outlined the recommendations of Working Group 1, which included the following:

- the PSC should allow and encourage note disclosure of financial information about the general government sector as defined by the *Government Finance Statistics Manual 2001* (GFSM 2001). The PSC agreed that subject to resource availability, this project should be actioned and members of Working Group 1 may be requested to form the Project Advisory Panel. Staff are to prepare a draft project brief and program for development of this project for consideration by the PSC at its July 2004 meeting. Members noted that issues related to the prominence of such a note and the potential of such additional disclosures to confuse users about the reporting entity and the financial performance and position of that entity needed to be considered as the project progressed;
- the PSC should activate a long term project on developing a comprehensive report of financial performance which distinguishes between transactions and other economic flows as defined in GFSM 2001 as far as is possible. The PSC agreed that a performance reporting project was important and should be activated. The PSC noted that issues encompassed by such a project may be broader than those reflected in a desire to harmonize with GFSM 2001 as far as possible, and that a project proposal should be developed to draw out the wider issues. In the course of its discussion, the

PSC noted that the IASB was re-establishing its project on reporting comprehensive income and the PSC would need to be cognizant of developments in that project and balance its twin objectives of harmonizing with IASs/IFRSs and with statistical financial reporting bases where appropriate; and

- the PSC should require or allow the adoption of current values in IPSASs. This would include:
 - adopting IAS 39 *Financial Instruments: Recognition and Measurement* either explicitly or implicitly through the PSC hierarchy of authoritative guidance; and
 - Requiring or allowing inventories to be valued at current replacement cost when all other assets are valued at fair value.

The PSC noted that these latter recommendations could imply a very significant departure from the original IPSAS. They also impacted on the IASB harmonization strategy. The PSC also noted that it would consider the role of the hierarchy in the IPSASs – IAS/IFRS improvement project. The PSC agreed to consider these recommendations as they progressed that project and to raise matters with the IASB as appropriate.

Philippe and Ian also noted that it was acknowledged in the Working Group and in the Task Force that some differences between accounting and statistical reporting models were likely to remain because of the different objectives of those models. Accordingly, after harmonization had been progressed, it would be necessary to develop a reconciliation statement for any remaining items.

Members noted that actions on these matters would need to be considered in the context of the PSC's strategy for the next stage of the standards program. Members noted that given current staff resources and PSC meeting time, these would be long term projects. The PSC directed staff to incorporate proposals regarding time and resource requirements for these projects within the broad PSC strategy document.

The PSC also considered whether it should request the primary authors of the matrix to further develop the document with the view of issuing it as a PSC Study, Occasional Paper, or other publication. Members agreed it was a most useful piece of work and should be issued. Some members suggested that the "comments" column be deleted. However, other members were of the view it should be retained but that:

- It should be re-labeled as "Working Group Recommendations"; and
- It be neutralized as far as possible by noting that recommendations for change may be made to various groups. However, the recommendations therein were specifically directed to the PSC because it was felt that in some cases the PSC was in a better position to pursue harmonization.

It was agreed that the Comments column should be relabeled, neutralized as far as possible and retained.

It was agreed that Ian Mackintosh seek permission from Working Group 1 members to develop the matrix as a PSC Paper and Betty Gruber, Robert Keys and Paul Sutcliffe be requested to participate in that development.

Action Required: ***Seek agreement from Working Group I to develop an Occasional Paper. Develop Project Brief on Performance Reporting and outline program for General Government Sector Reporting.***

Person(s) Responsible: ***Working Group1 Chair, Betty Gruber, Robert Keys, PSC Staff.***

EXTRACT OF DRAFT MINUTES OF PSC MEETING JULY 2004

(Note: These minutes have not yet been approved by the PSC and are subject to change)

11. GFS, ESA, IPSAS HARMONIZATION

The Committee received and considered:

- A memo from Paul Sutcliffe and Matthew Bohun; and
- A draft Project Advisory Panel project brief;

Matthew Bohun introduced the topic and advised members that the project brief on disclosure of financial information about the general government sector (GGS) had been drafted in the context of the recommendations of Working Group I. Matthew outlined the main features of the project brief, which proposes the development of an IPSAS that encourages disclosure of general government sector information by entities preparing whole of government, consolidated, general purpose financial statements. Where an entity elects to disclose general government sector information the project brief proposes that the IPSAS require the following:

- Disclosure be made in the notes of the general purpose financial statements;
- Disclosure of the GGS is encouraged not required. There is no prohibition on disclosure of the public financial corporation (PFC) sector and the public non financial corporation (PNFC) sector.
- If disclosure of the GGS is made, the IPSAS will prescribe requirements for the information to be disclosed. Those requirements may also be applied to the PFC and PNFC sector;
- Recognition and measurement of items shall be according to the requirements of IPSASs, except for consolidation under IPSAS 6 *Consolidated Financial Statements and Accounting for Controlled Entities*;
- Balances and transactions within sectors are to be eliminated, however balances and transactions between sectors should not be eliminated;
- The GGS will report an investment in other sectors, rather than consolidate the entities they control in those other sectors;
- The disclosure of the GGS sector would not replace the need to disclose information by segments as required by IPSAS 18 *Segment Reporting*; and
- The IPSAS would not require disclosure of additional information by classification of function of government.

The project brief also noted that the general government sector should not be considered a segment, and that information about the general government sector would be disclosed in addition to information about segments.

The Chair reiterated that the project aims at converging IPSAS with statistical financial reporting models to the extent appropriate. The IMF Observers noted that there are links between this project and the budget reporting project, in that the International Monetary Fund is encouraging national governments to prepare budgets on a GFSM 2001 basis. Some members expressed the view that GGS disclosures and the preparation of financial statements in accordance with statistical models of financial reporting are in the nature of

special purpose financial reports and that the PSC should not devote resources to establishing standards for the preparation of special purpose reports. Other members expressed the view that disclosure of GGS information in general purpose financial statements was consistent with the PSC's mandate and would provide relevant information to users. They also noted that it was proposed that the disclosure of GGS information be encouraged, not required and that the PSC had already decided that it should converge with statistical models of financial reporting to the extent appropriate. The PSC agreed that this project should be further developed with input from the Project Advisory Panel (PAP).

Paul Sutcliffe noted that following the last PSC meeting in March 2004, Ian Mackintosh the Chair of WG1 had advised WG1 members of the decisions of the PSC and:

- sought WG1 approval for the development and issuance of the “matrix” as a PSC Occasional Paper or Research Report, and had received a positive response;
- invited WG1 members to form a Project Advisory Panel to provide input to the project on the disclosure of information about the GGS, and had received a positive response from a number of WG1 members.

The PSC discussed the project brief in detail, noted tentative support for the recommendations made by staff but directed staff to gather PAP input on those recommendations before a final decision was made. The PSC noted that the project brief should be provided to the PAP, should raise the issues to be considered by the PAP, but should not pre-empt recommendations made by the PAP. In this context, the PSC noted that the PAP should consider:

- Whether disaggregation by level of government should be required by the IPSAS. In some jurisdictions, a higher level of government may control lower levels of government, for example the national government may control local governments;
- Whether entities applying the Cash Basis IPSAS should also be specifically encouraged to disclose general government sector information;
- The prominence that should be given to GGS disclosures. Whilst staff recommended that disclosure be made by way of a note to the financial statements, the PAP may recommend disclosure in a separate column of the individual financial statements, as a note, or otherwise;
- Whether entities which make GGS disclosures should be required to reconcile the IPSAS information to the data contained in financial reports prepared under the statistical financial reporting model adopted in that jurisdiction – whether GFSM 2001 or other reporting model. Some members expressed the view that in the long term there would be a demand for a reconciliation statement;
- Whether measurement of investments in other sectors be in accordance with GFS or another basis;
- How information on the general government sector relates to the requirement to disclose segment information;
- Whether a new IPSAS was needed to deal with the GGS disclosure, or whether amendments should be made to IPSAS 1 “Presentation of Financial Statements” and IPSAS 2 “Cash Flow Statements” to encourage such disclosures; and

- Whether the IPSAS should require that entities disclosing the GGS should be required to disclose information using the classifications of functions of government (COFOG) widely adopted in statistical financial reporting models.

Staff noted that the draft project brief proposed disclosures of specific items using terminology drawn from GFSM 2001, and they had received comments that expressed concern that this may be confusing because these amounts would be compiled by reference to IPSAS requirements rather than GFSM 2001 requirements; and because some jurisdictions may not adopt GFSM 2001 reporting formats. It was proposed that input be sought from the PAP on whether it was appropriate that key “line item” disclosures be required for the GGS disclosure, and whether those line items should be based on disaggregating the IPSAS financial statements (and therefore adopting for example, IPSAS terminology, measurement and classification) or whether this approach required amendment and the nature of the amendment.

The PSC directed staff to redraft the project brief for presentation and approval at the November PSC meeting after input from the PAP.

Matthew advised members that staff had not developed a performance reporting project brief. Staff were of the view that the project brief should not be finalized until staff:

- have a better feel for the IASB project on Reporting Comprehensive Income Project and can report to the PSC on the potential for any overlap before finalizing the proposed project brief; and
- explore the potential for IASB representation on any Steering Committee established to progress this project. Such representation will assist to minimize the potential for any unintended differences between GAAP and statistical bases of financial reporting in this respect.

Staff noted they intend to discuss this matter with the IASB and would report back to the PSC at its next meeting. The PSC agreed with this approach.

Action Required: ***Prepare final draft project brief.***
Person(s) Responsible: ***PSC Staff.***

INTERNATIONAL FEDERATION OF ACCOUNTANTS
PUBLIC SECTOR COMMITTEE
PROJECT BRIEF
Disclosure of Financial Information Related to the General Government Sector

(Updated July 2004 for TFHPSA – WG1)

Background

The Government Finance Statistics Manual 2001 (GFSM 2001), the European System of Accounts 1995 (ESA 95), the ESA95 Manual on Government Deficit and Debt (EMGDD) and the System of National Accounts 1993 (SNA 93) require governments to publish comprehensive information about the “General Government Sector” (GGS). GFSM 2001, ESA 95, EMGDD and SNA 93 define the GGS as “The group of units consisting of all resident government units and all resident non-market nonprofit institutions that are controlled and mainly financed by resident government units”.¹

The GGS typically includes entities such as government departments, law courts, public educational institutions, public health care units and other government agencies. The financing of these entities is sourced primarily from the government’s taxes, similar revenue and borrowings, rather than from the sale of goods or services. The definition of GGS only includes resident government units – however, “foreign” GGS operations are generally considered domestic operations located within national enclaves in a foreign country. The GGS does not include consolidation of “public non-financial corporations” (PNFCs) such as government business enterprises that trade in goods and services and “public financial corporations” (PFCs) such as central banks. Where financial statements are presented for the PNFC and PFC sectors under statistical financial reporting models, they exclude any foreign operations of those sectors. Information about those foreign operations is presented elsewhere in the national accounts.

Current International Public Sector Accounting Standards (IPSASs) do not require entities to disclose information about the GGS in their general purpose financial statements. IPSASs require entities to prepare general purpose financial statements that include information about all the resources controlled by the reporting entity. IPSAS 18 *Segment Reporting* also requires entities to identify segments and present information about those segments.

Working Group I (WG1) of the Task Force on Harmonization of Public Sector Accounting (TFHPSA) recommended that the PSC consider explicitly allowing/encouraging the disclosure of financial information about the GGS, as defined in GFSM 2001, in whole of government general purpose financial statements. WG1 also recommend that the PSC specify rules to be followed by a government electing to disclose GGS information in its general purpose financial statements. WG1 stated that the

¹ See for example GFSM 2001 *Glossary*.

presentation of GGS financial information is important as a means of facilitating the convergence of international public sector accounting. The PSC agreed to action the project as proposed by WG1.

Project Objective

The objective of this project is to develop an IPSAS that allows/encourages entities to make additional disclosures of financial information regarding the GGS in general purpose financial statements. The IPSAS will be applied by entities adopting the accrual basis of accounting and electing to disclose GGS information in their general purpose financial statements.

After completion of the IPSAS, the PSC will then consider whether to amend the Cash Basis IPSAS to allow/encourage entities to make additional disclosures about the GGS in general purpose financial statements of entities applying the Cash Basis IPSAS *Financial Reporting Under the Cash Basis of Accounting*.

IPSASs deal with general purpose financial statements. The term “financial statements” is defined to encompass all statements and explanatory material which are identified as being part of the financial statements (see Preface to IPSASs para 8). IPSAS 1 *Presentation of Financial Statements* (para 19) identifies a complete set of financial statements (under the accrual basis) as a statement of financial position, statement of financial performance, statement of changes in net assets/equity, cash flow statement and accounting policies and notes to the financial statements.

Operating Procedures

The PSC follows a formal due process for the development of IPSASs. That process involves the preparation and issuance for comment of an Exposure Draft that identifies the proposed requirements of an IPSAS. The PSC then fully considers any comments received in the process of finalizing the IPSAS.

It is proposed that this IPSAS be developed by the PSC at Committee level, with input from a Project Advisory Panel (PAP). The role of the PAP will be to provide input to the PSC and PSC staff on key issues to be dealt with by the IPSAS, and to operate as a sounding board to the PSC and staff in the exposure draft development process. Communications among the PAP members and PSC staff will be by electronic means.

The PSC agreed that the members of WG1 be invited to form the PAP. WG1 developed the matrix comparing IPSASs, GFSM 2001 and ESA95/EMGDD/SNA which is to be issued by the PSC as a Research Report or Occasional Paper.

Project Timetable

- 2004 Action project, agree Project Brief, form Project Advisory Panel
- 2005 Develop and finalize Exposure Draft (issue ED in late 2005 or early 2006)
- 2006 Issue ED early 2006 if not issued after final PSC meeting in 2005. Review responses to ED and commence preparation of IPSAS
- 2007 Develop, Finalize and Issue IPSAS

Key Issues and Staff Recommendations

1. Should the IPSAS apply to all entities or only to those presenting whole-of-government general purpose financial statements?

WG1 recommended that the IPSASs allow/encourage the disclosure of GGS information in whole-of-government general purpose financial statements. IPSASs generally apply to all public sector entities. However, it is only possible to get a full representation of the GGS for a government at the whole-of-government level.

Staff Recommendation

Staff recommend that the IPSAS should only be available for application by whole-of-government reporting entities which prepare general purpose financial statements under the accrual basis of accounting as prescribed by IPSASs. These reporting entities would include national, state/provincial or local governments. This is because GGS information may be useful for statistical purposes at those levels.

PSC Discussion

The PSC was generally supportive of this proposal. PSC members also noted that the PAP should be requested to provide input on whether there should be separate disclosure for each level of government included in the Whole of Government Financial Statements. That is, if a national government controls, and therefore consolidates, provincial or local government should disclosures about the GGS at each level of government be required.

The PSC also sought advice from the PAP on whether entities applying the cash basis of accounting in accordance with the Cash Basis IPSAS should also be encouraged to disclose cash basis GGS information.

Project Advisory Panel Comments (WG1)

2. Should the disclosure of GGS information and information about other sectors be mandatory?

WG1 recommended that disclosure of GGS information be allowed or encouraged. The PSC agreed with this recommendation. The benefit of the disclosure of GGS information is that it would allow the link between IPSAS information and information generated from statistical models of financial reporting to be established in jurisdictions where GGS data is widely published. Disclosure would also enable GGS stand-alone data to be extracted from general purpose financial statements. The compilation and presentation of GGS data of sufficient quality to satisfy general purpose financial statement (GPFS) and related audit requirements will add to the workload of preparers and the complexity of the GPFS.

WG1 also recommended that IPSASs acknowledge that the Public Finance Corporation (PFC) and Public Non Finance Corporation (PNFC) sectors could be disclosed in a manner similar to the GGS information.

Staff Recommendation

In some jurisdictions, users may not demand the disclosure of GGS information, and it seems unnecessary to make disclosure of GGS information mandatory in such circumstances. As such, staff recommend that the IPSAS be developed on the basis that disclosure of GGS information is encouraged, not mandatory, and that the IPSAS note that information may also be presented about the PFC and PNFC sectors using the same rules as for the GGS. However, consistent with the recommendation of WG1, when disclosures about GGS are made in GPFSs, these disclosures should be made in accordance with the requirement prescribed in the IPSAS.

PSC Discussion

The PSC was supportive of this recommendation, and requested the PAP to confirm, or otherwise, that this approach reflects the intentions of WG1.

Project Advisory Panel Comments (WG1)

3. What prominence should be given to GGS disclosures in the general purpose financial statements?

WG1 recommended that the PSC consider the prominence that should be given to GGS disclosures in the general purpose financial statements.

The choices that are available appear to be to identify GGS disclosures as a primary financial statement(s), to include GGS disclosures as an additional column in the primary financial statements as specified by IPSASs or to include GGS disclosures as a note to the general purpose financial statements.

IPSAS 1 *Presentation of Financial Statements* identifies the primary financial statements as:

- The Statement of Financial Position;
- The Statement of Financial Performance;
- The Statement of Changes in Net Assets/Equity; and
- Cash Flow Statement.

IPSAS 1 (and other IPSASs) also identify disclosures to be made by way of notes to the GPFSSs.

Staff Recommendation

Staff recommend that the disclosure of GGS information be as a note to the financial statements, particularly as the disclosure will not be mandatory. Staff are concerned that including GGS information as additional primary financial statements will undermine the clarity and prominence of the financial statements identified in IPSAS 1. Staff are also concerned that inclusion of additional GGS columns in the IPSAS 1 prescribed financial statements will complicate and confuse the messages communicated by the primary financial statements.

PSC Discussion

The PSC requested PAP input on the appropriate manner of disclosure before providing direction to staff. Some members clearly favoured note disclosures but others raised the possibility of a “third column” type approach.

Project Advisory Panel Comments (WG1)

4. If disclosure of GGS information is made, should the IPSAS prescribe the basis for disclosure?

WG1 recommended that the PSC specify the definitions, recognition, measurement and presentation rules to be applied where a government elects to disclose GGS information in its GPFSSs.

Statistical reporting models and IPSASs have many similarities, but there are also differences in approaches taken to the definition, recognition, measurement and presentation of elements of the financial statements. For example, statistical reporting models require entities to use market values for measuring all items, except loans, whilst IPSASs require or permit cost and current values. Differences also occur in classification for example, IPSASs treat dividends as distributions while statistical reporting models treat them as expenses.

Staff Recommendation

The objective of this project is to disaggregate IPSAS information (at the “whole of government” level) and to disclose information about the GGS (one sector of the “whole of government”) as defined in statistical financial reporting models. Staff recommend that to achieve the objective of the project, the IPSAS should require entities that elect to make GGS disclosures to apply the same definitions, recognition, measurement and presentation rules that are applied when preparing the consolidated general purpose financial statements, with one exception. That exception being that the consolidation rules established in IPSAS 6 *Consolidated Financial Statements and Accounting for Controlled Entities* should not be applied in respect of the GGS. This will enable the link between the IPSAS financial report and the GGS component thereof to be established.

Whether or not a reconciliation should be required of the amounts in the GGS disclosures made in the GPFSSs to the amounts disclosed consistent with the definitions, recognition, measurement and presentation requirements of statistical financial reporting models is considered below under a separate heading (see final issue). Explanation of the need to depart from IPSAS 6 is also discussed below (see consolidation).

PSC Discussion

The PSC was supportive of this recommendation, noting that the consequences of the application of IPSAS 6 to the GGS would be a fully consolidated GGS and this did not appear consistent with the WG1 intentions. PSC requested the PAP to confirm or otherwise their support for this recommendation.

Project Advisory Panel Comments (WG1)

5. Consolidation

IPSAS 6 requires controlling entities (including the whole-of-government) to prepare consolidated financial statements that consolidate controlled entities on a line-by-line basis. IPSAS 6 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.

Statistical models of financial reporting require the GGS financial statements to present public sector entities outside that sector as investments in other sectors. In addition, transactions of the GGS with entities in other sectors are not eliminated from the statement of government operations.

The GGS controls entities in other sectors. To adopt the IPSAS 6 rules on consolidation for the GGS would result in the re-presentation of the consolidated whole-of-government financial statements, rather than the GGS financial statements.

Staff Recommendation

Staff recommend that the balances and transactions between entities within the GGS be eliminated in accordance with IPSAS 6. Balances and transactions between entities in the GGS and entities in other sectors should not be eliminated, and the GGS should present “investment in other sectors” consistent with statistical reporting models.

PSC Discussion

As noted above, the PSC accepted that the consequences of application of IPSAS 6 would not deliver the outcome desired by WG1. In addition, some members requested further input from the PAP on whether the investment in other sectors should be measured consistent with statistical reporting models, by reference to the requirements of IPSASs, or on some other basis.

Project Advisory Panel Comment (WG1)

6. Should GGS information replace segment information?

IPSAS 18 applies to all entities not just those preparing whole-of-government general purpose financial statements. IPSAS 18, paragraph 9, defines a segment as follows:

A segment is a distinguishable activity or group of activities of an entity for which it is appropriate to separately report financial information for the purpose of evaluating the entity's past performance in achieving its objectives and for making decisions about the future allocation of resources.

IPSAS 18 then specifies the rules that are to be applied in compiling segment information. Significant amongst those rules is the application of the principles of consolidation and the treatment of surplus deficit of associates, joint ventures and other investments accounted for on the equity basis.

Paragraph 24 of IPSAS 18 notes that identifying segments only on the basis of budget-dependent entities (usually equivalent to GGS) and GBEs (usually equivalent to the combined PFC and PNFC sectors), would be unlikely to meet the objectives of IPSAS 18.

Staff Recommendation

Staff are of the view that identifying the GGS as a segment is not appropriate and that IPSAS 18 should not be replaced by the IPSAS on GGS disclosures. This is because information about the GGS alone would not provide sufficient detail to enable users to evaluate the entity's past performance in achieving major service delivery objectives if those objectives were achieved through non GGS entities. For example, identifying the GGS as a segment would not provide information about a government's performance in achieving its defense, healthcare or educational objectives where government corporations or quasi corporations also pursued these objectives. Because the scope of the GGS is narrower than the whole-of-government, important information would be omitted if entities did not present segment information in respect of their whole-of-government financial statements.

PSC Discussion

The PSC was supportive of this recommendation, but requested PAP input. Some PSC members are concerned about information overload if segment information and GGS information are disclosed in the GPFS. In this context, the PSC also requested PAP input on whether a separate IPSAS on GGS disclosure was required or whether IPSAS 1 and/or other IPSASs should be amended.

Project Advisory Panel Comments (WG1)

7. Should GGS information be presented in the IPSAS format or the GFS format?

IPSAS 1 *Presentation of Financial Statements* specifies that certain financial information is to be presented in particular financial statements. Statistical reporting models also specify that certain financial information is to be presented in a particular form. The format used to present financial information in a particular jurisdiction may vary depending on whether the jurisdiction uses the format prescribed by GFSM 2001, ESA 95, EMGDD or SNA 93. The GFSM 2001 and IPSAS presentation formats have some similarities, but there are differences.

A key difference in presentation between IPSASs and statistical reporting models is the treatment of “transactions” and “other economic flows”. Transactions are “interactions between two units by mutual agreement or an action within a unit that is analytically useful to treat as a transaction”. Other economic flows are “changes in the value or volume of an asset or liability that does not result from a transaction”.² Not all items that the IPSASs treat as revenues or expenses are treated as transactions in statistical reporting models, which means that some items that are included in the IPSAS statement of financial performance would be included in other economic flows under statistical models. For example:

- Certain downward revaluations of assets including property, plant and equipment, accounts receivable and investment property;
- Reversals of downward revaluations; and
- Gains on sale of property, plant and equipment.

Staff Recommendation

Staff recommend that, to facilitate the comparison of the GGS disclosures in IPSASs with statistical reporting models, the IPSAS should require that particular key line items, totals and subtotals prepared in accordance with IPSAS requirements, be disclosed. This would then allow entities to present financial information in the format that is used in the particular jurisdiction for presentation under the statistical reporting models. Therefore, if the entity wished, it could adopt the GFSM 2001 format or another format.

PSC Discussions

In the project brief presented to the PSC meeting in July 2004, staff identified a listing of disclosure items drawn from Chapter 4 “The Analytical Framework” of GFSM 2001. These disclosures included key line items for the GFS and in some cases used GFS terminology such as net worth, net lending/borrowing, changes in net worth, and financial assets and non financial assets from other economic flows.

Staff noted that it had received input from some jurisdictions which expressed concern that the disclosures did not “fit” with a disaggregation of the IPSAS financial statements and that use of GFSM 2001 terminology for IPSAS determined/classified/measured line

² See GFSM 2001 *Glossary*.

items and sub-totals would be confusing. Some members also noted that some jurisdictions may not adopt GFSM 2001 reporting formats.

The PSC directed staff to seek input from the PAP on whether it was appropriate that key “line item” disclosures be required for the GGS disclosure, and whether those line items should be based on disaggregating the IPSAS financial statements (and therefore adopting for example, IPSAS terminology, definitions, measurement and classification) or whether this approach required amendment and the nature of the amendments. In this context, members also requested the PAP to consider whether reconciliation to the statistical financial report was needed (see also the final issue in this project brief). A listing of potential disclosure items drawn from IPSASs is included at Figure 1. (Note a separate project will deal with performance reporting. That project is intended to lead to convergence of IPSAS and GFS, including convergence of presentation and classification formats.)

Project Advisory Panel Comments (WG1)

FIGURE 1

Statement of Financial Position

- Non-financial assets by major class showing separately investment property and biological assets;
- Financial assets by major class;
- Liabilities by major class showing provisions separately;
- Net assets/equity;

Statement of Financial Performance

- Revenue by major class;
- Expenses by major class;
- Gain or loss on sale of non-financial assets;
- Surplus or deficit;

Statement of Changes in Net Assets/Equity

- Total revaluation increments and decrements and other items of revenue and expense recognized directly in net assets/equity;
- The effects of changes in accounting policies and corrections of errors recognized in net assets/equity;
- Total amounts attributable to controlling interest and minority interests (likely to be relevant only if PNFC and PFC are disclosed);
- The amounts of dividends recognized as distributions to owners during the period (likely to be relevant only if PNFC and PFC are disclosed).

Cash Flow Items

- Cash receipts from operating activities by major class;
- Cash payments for operating activities by major class;
- Net cash inflows from operating activities;
- Cash flows from purchases of non-financial assets by major class;
- Cash flows from sales of non-financial assets by major class;
- Net cash flow from investments in non-financial assets;
- Cash surplus/deficit;
- Net cash flow from financing activities; and
- Net change in the stock of cash.

8. Should entities electing to disclose GGS information disclose the controlled entities that make up the GGS?

IPSAS 6 currently requires entities preparing consolidated financial statements to disclose a list of the significant controlled entities that are included in the consolidation. This provides useful information to users of financial information.

Staff Recommendation

Staff recommend that the IPSAS on GGS disclosures require entities electing to disclose GGS information, to disclose which of the entities consolidated under IPSAS 6 are included in the GGS. To develop an understanding of the relationship between IPSAS information and GGS information, and to better understand the GGS information users need to be able to identify which entities are included in the GGS.

PSC Discussion

The PSC was supportive of this recommendation and sought PSC input on whether the entities included in the GGS would also be disclosed in statistical reporting models so that a mapping of the scope, and any potential differences therein could be identified.

Project Advisory Panel Comments (WG1)

9. Should entities electing to disclose GGS be required to disaggregate GGS information using the Classification of Functions of Government?

IPSAS 18 provides significant discretion for the entity to identify those activities that are key to evaluating the entity's performance and therefore should be identified in segments. These may differ from entity to entity. GFS requires government expenditure to be disaggregated using the COFOG. Ten broad classes are prescribed, with a number of sub-classes. The ten broad categories of COFOG are:

1. General Public Services
2. Defense
3. Public Order and Safety
4. Economic Affairs
5. Environmental Protection
6. Housing and Community Amenities
7. Health
8. Recreation, Culture and Religion
9. Education
10. Social Protection

Staff Recommendation

Staff are of the view that the requirements of IPSAS 18 should drive the disclosure of segment information, therefore the IPSAS should not require entities electing to disclose GGS information to disaggregate that information using COFOG.

If entities disclosing GGS information wanted to disaggregate GGS information by COFOG, the IPSAS should not prevent them doing so. It is likely that in jurisdictions where the disclosure of GGS and adoption of GFSM 2001 or other statistical reporting models is adopted to communicate to stake holders information about government finances, the COFOG would be the basis of segmenting the whole-of-government general purpose financial statements.

PSC Discussion

The PSC was supportive of this recommendation, but sought PAP confirmation or otherwise.

Project Advisory Panel Comments (WG1)

10. Should a reconciliation of IPSAS and statistical reports be required if GGS disclaimers are made?

Some PSC members raised whether or not a reconciliation should be required of the GGS prepared in accordance with IPSASs (except for IPSAS 6 on consolidation) and the GGS presented in accordance with statistical reporting models.

Staff observation

Staff noted that they had not proposed that such a requirement be included because of concerns about the implications and practicability of such a requirement - for example, whether:

- The timing of compilation of IPSAS and statistical information was such that a reconciliation could not be completed within the time frame necessary for the general purpose financial reports to be audited and “signed off” in accordance with legislative requirements or requirements of the IPSASs (IPSAS 1.74 – establishes the expectation of reporting within six months of the end of the reporting period). If for example, the GFSM 2001 or ESA 95 information was not available within the specified time frame, the inclusion of such a requirement could trigger an audit qualification or modification;
- The inclusion of such a requirement would trigger an audit of the reconciliation and may also trigger an audit of the statistical financial reports themselves;
- The reporting entity would be required to remeasure and reclassify assets, liabilities, revenues and expenses in accordance with the requirements of the statistical reporting models, and whether this would discourage disclosure of the GGS information.

There are currently a number of differences between IPSASs and statistical financial reporting models as identified in the matrix developed by WG1. WG1 noted that it may be premature to work on a reconciliation statement at this stage. Differences may be reduced because of ongoing work by the PSC, Working Group 11 and other groups.

PSC comments

The PSC noted staff comment and requested input from the PAP on this matter.

Project Advisory Panel Comments (WG1)

Extract of Minutes TFHPSA Paris, 27 February 2004

**TASK FORCE ON HARMONIZATION OF PUBLIC SECTOR ACCOUNTING:
SUMMARY OF CONCLUSIONS OF FEBRUARY 11, 2004 MEETING**

28 participants attended the Task Force on Harmonisation of Public Sector Accounting's plenary meeting (OECD headquarters, room 6) on February 11, 2004. Were represented in the TFHPSA and Working Groups meetings:

- Countries: Australia, Austria, Belgium, Denmark, Czech Republic, France, Germany, Greece, Hungary, Japan, New Zealand, Sweden, United Kingdom, United States.
- International organisations: IMF, OECD, IFAC-PSC, European Central Bank, Eurostat

1) Strategy for the TFHPSA

Lucie Laliberté (IMF), Chairperson of the TFHPSA, emphasised the importance of countries being represented in the Task Force, along with international organisations. Absent countries will be encouraged to join.

She submitted a presentation to be shown the following week (16-20 February) in Washington DC at the meeting of Advisory Expert Group (AEG) of national accountants, in charge of selecting the issues to be discussed in the SNA review process. The purpose of this presentation is to clarify the role of the TFHPSA, its strategy (harmonisation of international accounting and statistical standards), its place among other working parties providing to the SNA review and the issues to be dealt with in the TFHPSA working groups (in particular 10 issues derived from the 5 priority topics).

2) Report of Working Group I (see Annex I for more details)

Betty Gruber (IMF) reported on the Working Group I meeting (6-7 February). WG I examined in detail Matrix 1, identifying the differences between IPSAS (from IFAC-PSC) and the GFS manual 2001 (IMF), as well as ESA95 (for the European countries).

Action was decided vis-à-vis:

- IFAC-PSC: to make recommendations that the PSC consider on 1. Sector reporting – explicitly allow introduction of the general government, 2. Performance reporting – develop a performance statement showing two columns: transactions and other economic flows, and 3. allow and encourage current value of assets and liabilities,
- TFHPSA Working Group II: to consider the requirements and current projects of the PSC when developing recommendations for the treatment of the following: Public sector definition, Control definition, payments between governments and public corporations, low interest and interest-free loans
- Canberra II group of national accountants: to consider the current requirements and developing projects of the IASB, and where relevant PSC, when dealing with Research and development, Intangible assets, Mineral exploration, Computer software, Defense weapons platforms, BOOT schemes, Subsoil assets, and
- Other Expert Groups: to consider the current and emerging PSC and IASB treatments when developing positions on non-performing loans (provisions), pensions, ownership transfer costs.

It was decided that Matrix 1 would be amended to reflect all TFHPSA meetings' discussions. The long-term goal is to align definitions and terminology between IPSAS and GFS. Future meetings of WG 1 will be undertaken on "as a need basis".

3) Report of Working Group II (see Annex II for more details)

Jean-Pierre Dupuis (OECD) reported on the Working Group II meeting (9-10 February). WG II examined 4 of the 5 priority issues (Provisions and contingent liabilities, including guarantees, Capital injections and dividends, Tax revenue and tax credits, Public / private sector delineation). Eurostat made a short point for information on the 5th issue (privatisation, restructuring agencies and securitisation) as well as on the recording of public-private partnerships (PPPs).

The discussion showed that:

- All 5 topics should be split into 2 or 3 issues and sometimes re-formulated (see below), some issues requiring longer examination and discussion

- Tax recording, and Delineation of public sector: on these issues, principles are quite firmly established, and some guidelines exist, even though implementation is problematic. An opportunity exists to reach convergence between national accounts, GFS and IPSAS (the PSC will commence the process of considering responses to the Invitation to Comment in the second half of 2004)

- Contingent liabilities (including guarantees) and funding of public corporations: these issues need more interpretation of our systems and sometimes conceptual changes. This may require more lengthy discussions.

Issues and tasks being identified, it was agreed on proposals from the Chair to set up working teams, and nominate team leaders, resulting in five teams and leaders:

Topics/issues	Team leaders and members
1. <u>Government transactions with public corporations</u> 1.1 Earnings (reinvested earnings, dividends) 1.2 Funding (dividends and capital injections)	P. de Rougemont , J. Golland, A. Braakmann, B. Robinson, T. McCarron, I. Argyris, V. Gidaris, G. Meskos
2. <u>Privatisation / restructuring agencies and SPVs</u> 4.1 Privatisation 4.2 Agencies, bad banks and other special purpose vehicles (SPVs) 4.3 Securitisation	D. Besnard/JP. Dupuis , R. Mink, G. Csonka, B. Robinson, B. Baker, J. Libens, A. Kester, K. Wilson, P. O'Hagan
3. <u>Tax revenue</u> 3.1 Tax revenue and accrual recording 3.2 Tax credits	J-P. Dupuis , C. Heady, M. Rasmussen, I. Carruthers, W. Stübler, B. Robinson, K. Lundquist, T. McCarron, A. Braakmann, B. Kaufmann, M. Roy, B. Cowan, F. Campi
4. <u>Private / public / government sector delineation</u> 2.1 Public vs private: the definition of control (including BOOT schemes) 2.2 Government vs other public sector: the market / non market criterion	B. Gruber , G. Jenkinson, A. Kester, G. Csonka, L. Vebrova, K. Warren, I. Carruthers, Y. Fujishiro, R. Hemming
5. <u>Contingent assets / guarantees / provisions / constructive obligations</u> 5.1 Guarantees and loan partitioning	J. Golland , P. Harper, R. Mink, B. Kilpatrick, B. Kaufmann, K. Lundquist, Y. Fujishiro, I. Argyris, V. Gidaris, G. Meskos

It was agreed that IFAC-PSC would focus on any projects emerging from the recommendations of Working Group 1 and would provide input to the other teams on decisions made by the IFAC-PSC at meetings during 2004 and beyond which may be relevant for their project.

The electronic discussion group (EDG) will be organised accordingly. Each team leader will endeavour to update one unique central paper for each issue, submitted to the team members. Secondary papers and contributions will be also available on the EDG, in the relevant group of issues.

In addition to the five groups of topics, WG II keeps on looking at other issues relevant for the government. This includes, for instance, reviewing the Canberra II group proposals for recording BOOT schemes and PPPs.

Time table:

All teams must produce a paper by June 2004 (at the latest), to be circulated in the TFHPSA, before discussion in the next WG II meeting and TFHPSA (in Washington DC, hosted by the IMF). ***Development after the February 11 meeting: while the date of October 4-6 had been suggested for the next meeting, it would need to be advanced for in September given the Annual Meetings in Washington and the need for the AEG to have the paper 2 months in advance).***

Having in mind the timetable of AEG and ISWGNA, the following horizon for reporting to these groups has been agreed on:

- November 2004: . Tax revenue and tax credit (first version)
 - . Privatisation and SPVs
 - . Earnings and funding of public corporations
- November 2005: . Tax revenue and tax credit (second version)
 - . Delineation of public sector
 - . Contingent assets and guarantees

Each paper presented to these groups should comprise in annex a first draft of SNA paragraphs (for SNA corpus or appendix). The Strategy paper will be updated by the Chair for the next meeting.

It was agreed that if possible a flow chart, or schematic outline, identifying the relationship between each of the groups providing input to the 2008 SNA review would be prepared and circulated.

ANNEX 1: Working Group I: Report on the February 6-7, 2004 meeting

Background

- A Steering Committee Meeting of the Task Force on the Harmonization of Public Sector Accounting (TFHPSA) was held on October 3, 2003 in Paris (following a preliminary meeting between PSC, IMF and others in June 2003 in Washington). Attendees were representatives of:
 - IFAC PSC (Public sector Committee)
 - IMF
 - OECD
 - Eurostat
 - ECB
 - Australia
 - United Kingdom
- The meeting commenced consideration of a matrix that had been prepared identifying differences between the IFAC PSC's IPSASs and the IMF's *Government Finance Statistics Manual 2001 (GFSM 2001)*.
- Between October 2003 and February 2004:
 - Further work has been undertaken on the matrix with the differences being grouped into 10 broad categories and possible convergence processes being identified for each difference. For example, recommendations for action by the PSC or IMF, referral to other Groups (ISWGNA, OECD, Canberra II Group, and IASB), and clarification of existing standards on some issues.
 - Electronic consultation with participants at the October meeting has been undertaken throughout.
- At the February 2004 meeting, Working Group I reviewed the matrix with a line by line discussion of each difference and suggested convergence process. Generally, the suggested action was accepted by the meeting. For some differences further elaboration is required.
- The IMF and the PSC acknowledge the principle that as far as is possible, they should work jointly towards convergence.

Outcomes

The main outcomes of the February 2004 meeting are as follows:

- Reporting entity/sector reporting

The PSC will be asked to consider explicitly allowing the disclosure of financial information for the general government sector (GGS), as defined in the *GFSM 2001*, in whole of government general purpose financial statements, and specifying rules where a government elects to make such disclosures. For example, the PSC could consider requiring "Investment in controlled entities in other sectors" to be disclosed and measured at the government's proportional interest in the net assets of the other sectors – a form of the equity method of accounting. To the extent that the net assets of the other sectors is accepted by GFS as the market value of those other sectors, that would enable GGS stand-alone financial information to be extracted from the fully-consolidated general purpose financial statements, thereby facilitating substantial progress towards convergence.

The Working Group recommends that the IPSASs encourage disclosures of GGS information and acknowledge that other sectors may also be disclosed in a manner similar to the GGS information.

Consistent with the objective of enabling GGS stand-alone financial information to be extracted from the fully-consolidated general purpose financial statements, the PSC will also need to consider which GAAP/GFS principles and presentation are to be followed and the GFS/GGS prominence including GFS aggregates.

- Performance reporting

The Group noted that the IPSAS and GFS frameworks are very similar.

For convergence, one way forward would be for PSC to require comprehensive reporting of financial performance that splits the comprehensive result into two components that aligns as far as possible with the GFS split between transactions and other economic flows.

The Working Group recommends that the PSC action such a project. The Working Group did not think that it is necessary for the PSC to await the outcome of the IASB Reporting Comprehensive Income Project before developing/amending an IPSAS on financial performance. Developing public sector specific performance reporting requirements would not conflict with the PSC's policy of aligning IPSASs with IASB standards unless there are public sector specific reasons not to. That PSC policy was supported by the Working Group.

- Current value of assets and liabilities

The PSC will be asked to consider allowing and/or requiring current value in the IPSASs. This would entail adopting IAS 39 (possibly indirectly but explicitly through the PSC hierarchy), which provides options that are expected to facilitate convergence with GFS treatments of financial instruments. The PSC will also be asked to consider:

- removing the historical cost option from certain standards (for example, property, plant, and equipment); and
- requiring current replacement cost for inventories when all other assets and liabilities are measured at fair value.

- Other differences

These will be the subject of convergence or reconciliation. It is expected that reconciliation will be required for:

- Fundamental differences arising from differences between GAAP and GFS principles (for example, ownership relations, emphasis on time series, and counterparty symmetry)
- In the interim, differences that are the subject of convergence work.

The Working Group feels that it would be premature at this stage to develop a reconciliation statement.

- Differences that are the subject of other Groups

The Working Group will not undertake any further work on differences that are currently under consideration by other Groups. Instead it will monitor developments in those Groups.

The Working Group encourages these other Groups to work as closely as possible together to avoid duplication and overlaps. Examples of other Groups are:

- ISWGNA (research and development, intangibles, pensions, and nonperforming loans)

- OECD Canberra II Group (military assets, intangibles, research and development, leases and licences, definition of economic assets, classification of assets and terminology, cultivated assets, mineral exploration, obsolescence/depreciation, and BOOT schemes, costs of ownership transfer)
- Working Group II of the TFHPSA (distributions to owners, capital injections, and reinvested earnings; privatization and restructuring agencies; public/private sector delineations; tax revenue, uncollectible taxes, and tax credits; and provisions, contingent assets, and constructive obligations)
- IFAC PSC (impairment of assets, non-exchange revenue, and social policy obligations)
- IASB (research and development, extractive industries, and leases)

Future directions

- Matrix I is to be amended to reflect the Working Group discussion and outcomes. It will be provided to the PSC at its March 2004 meeting as a foundation document along with recommendations for consideration
- Some differences will be referred to TFHPSA and subsequently to the ISWGNA and other relevant Groups
- The Working Group will monitor the work being undertaken by other groups
- In the longer term, the Working Group will work towards aligning, to the extent possible, definitions and terminology. For example, differences exist for revenue, expense, assets (e.g., control versus ownership) and liabilities. In addition, it will look to limit differences emerging in the future.

Public Sector Committee Meeting 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.

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. The PSC also 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.
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