



**INTERNATIONAL FEDERATION
OF ACCOUNTANTS**

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DATE: 16 JUNE 2004
MEMO TO: MEMBERS OF THE IFAC PUBLIC SECTOR COMMITTEE
FROM: PAUL SUTCLIFFE AND MATTHEW BOHUN
SUBJECT: **ITEM 11 GFS, ESA IPSAS HARMONIZATION**

ACTION REQUIRED

The Committee is asked to:

- **review** and **approve** the draft project brief for the General Government Sector Project.

AGENDA MATERIAL:

	Pages
11.3 Project Brief – General Government Sector	11.4 – 11.11

BACKGROUND

At the last PSC meeting, the Committee reviewed the recommendations of Working Group I (WGI) of the Task Force on Harmonization of Public Sector Accounting (TFHPSA). WGI recommended that:

- 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 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 disclosure of financial information about the general government sector and comprehensive performance reporting as resources allowed. The PSC also agreed to consider the final recommendation as it progressed the IPSAS – IFRS/IAS harmonization project. The status of work on the project briefs is outlined below.

ISSUES

(i) 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 general government sector.

The IPSASs do not contain any provisions in relation to the GGS. The Committee agreed to the WGI recommendation to permit or encourage entities to disclose GGS information in whole-of-government general purpose financial statements prepared using IPSASs. The PSC directed staff to prepare a project brief for consideration at this meeting.

The Committee agreed that WGI should be invited to form a project advisory panel to provide input to staff in drafting the Exposure Draft. Ian Mackintosh, Chair of WGI, updated WGI members of the decisions taken by the PSC at its March 2004 meeting. Ian also extended the Committee's invitation to join the PAP – Staff have had positive responses to this invitation from several PAP members.

The project brief is attached at item 11.3. It outlines the project's background and objectives, and identifies key issues that need to be resolved in preparing the first draft of an Exposure Draft. Staff recommendations have been provided for each key issue. 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, staff will provide PAP members with an update on Committee decisions and deliberations, and seek their reaction thereto. If the project brief is approved, it will be forwarded to other IFAC committees so that they can determine if it is appropriate for them to provide input to the project at its developmental stage.

(ii) 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 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.

WGI 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. The PSC agreed that a performance reporting project was important and should be activated. The PSC also noted that:

- the IASB had actioned a project on “Reporting Comprehensive Income”, but that progress on that project had been delayed; and
- in the development of the performance reporting project it would need to be cognizant of developments in the IASB's projects and balance its twin objectives of harmonizing with IASs/IFRSs and with statistical financial reporting bases.

¹ An “institutional unit” is defined as a “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)

Staff are developing a project brief on comprehensive performance reporting to reflect the recommendations of WGI. Staff have not completed the brief as yet. As 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. While acknowledging that the PSC agreed with WGI that it is not necessary for the PSC to await the outcome of the IASB Reporting Comprehensive Income Project before actioning its own project, staff believe it is appropriate to get a better feel for the IASB project and the potential for any overlap before finalizing the proposed project brief.

At its last meeting the PSC noted that it may be appropriate to progress this project with input from a Steering Committee. Staff would like to explore the potential for IASB representation on any such Steering Committee. Such representation will assist to minimize the potential for any unintended differences between GAAP and statistical bases of financial reporting in this respect.

Staff will follow up with the IAASB and provide a verbal update on any feedback at the July PSC meeting. Staff intend to finalize the brief for consideration by the PSC at its November meeting.

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TECHNICAL MANAGER