

PUBLIC SECTOR COMMITTEE – 2004
NEW DELHI MEETING TIMETABLE
Le Meridien Hotel
Windsor Place, New Delhi, India

Monday 1 November 2004

10.00am – 12.45pm	Seminar (2¾ hrs)	
12.45pm – 1.45pm	Lunch (1 hr)	
1.45pm – 4.15pm	Item 16 (2½ hrs)	Consultative Group meeting and Guests including Ghosh Committee
PSC Meeting Commences		
4.30pm – 4.40pm	Welcome, Items 1–3 (10 mins)	Procedural Matters
4.20pm – 5.00pm	Items 4, 5, and 17 (40 mins)	Chairman’s Report and Secretariat’s Report including IFAC Liaison Report, Public Sector Perspectives and Consultative Group update
5.00pm – 5.30pm	Item 6 (½ hr)	Report on the Standards Work Program
5.30pm – 6.30pm	Item 16 (1 hrs)	External Review Update, PSC Action Plan, TOR and Preface for 2005 Handbook

Tuesday 2 November 2004

8.30am – 10.30am	Item 8 (2 hrs)	ITC, “Revenue from Non-Exchange Transactions”
10.30am – 10.45am	Morning Tea (¼ hr)	
10.45am – 12.30pm	Item 8 (1¾ hrs)	ITC, “Revenue from Non-Exchange Transactions” (continued)
12.30pm – 1.15pm	Lunch (¾ hr)	
1.15pm – 3.30pm	Item 10 (2¼ hrs)	ED Accounting for Development Assistance
3.30pm – 3.45pm	Afternoon Tea (¼ hr)	
3.45pm – 6.00pm	Item 14 (2¼ hrs)	Proposed IPSAS 22, “Impairment of Cash-generating Assets”

Wednesday, 3 November 2004

8.30am – 10.30am	Item 9 (2 hrs)	ITC, “Accounting for Social Policies of Governments”
10.30am – 10.45am	Morning Tea (¼ hr)	
10.45am – 12.30pm	Item 9 (1¾ hrs)	ITC, “Accounting for Social Policies of Governments” (continued)
12.30pm – 1.15pm	Lunch (¾ hr)	
1.15pm – 2.45pm	Item 15 (1½hrs)	Heritage assets – project brief
2.45pm – 4.00pm	Item 12 (1¼ hr)	IFRS Convergence – General Improvements project IPSAS 17, IPSAS 16
4.00pm – 4.15pm	Afternoon Tea (¼ hr)	
4.15pm – 6.00pm	Item 12 (1¾ hrs)	IFRS Convergence – General Improvements project IPSAS 17, IPSAS 16 (continued)

Thursday, 4 November 2004

9.00am – 11.00am	Item 12 (2 hrs)	IFRS Convergence – General Improvements project IPSAS 3, IPSAS 6
11.00am – 11.15am	Morning Tea (¼ hr)	
11.15am – 1.15pm	Item 11 (2 hr)	Reporting Budget Compliance
1.15pm – 2.00pm	Lunch (¾ hr)	
2.15pm – 3.30pm	Item 13 (2¼ hr)	GGs disclosure – project brief Draft Research Report –Comparison of IPSAS/GFS/SNA/ESA (the matrix)
3.30pm – 4.00pm	Item 7 (½ hr)	Country report, future meetings

SEMINAR TIMETABLE

**Program for a PSC/ICAI Seminar/Roundtable, New Delhi
Full Day Programme with IFAC Public Sector Committee
Enhancing Accountability and Good Governance in the Public Sector
November 1, 2004, New Delhi**

Time	Activity
10:00 – 10:30 Inauguration	Welcome and Introductory Remarks Conference Theme Address by IFAC, PSC Chairman Presidential Address Address by Guest of Honour Vote of Thanks
10.30 – 10.55 Key Note Address	Presentation on the background and work of PSC by Philippe Adhémar Chair of PSC
Technical Session Country Perspective in Public Sector Accounting	
10.55 – 11.15	Presentation on current status of financial reporting by government in UK - highlighting issues in <i>Dealing with Assets – Particularly Heritage and other Assets</i> - country experience in implementing accrual accounting by UK delegation
11.15 – 11.35	Presentation on current status of financial reporting by government in Norway - highlighting the <i>Political Process and the Planned Migration Path</i> - country experience in implementing accrual accounting by Norwegian delegation
11.35 – 11.55	Presentation on current status of financial reporting by government in USA - highlighting <i>The Role of the Standard Setter and Relationship to Government</i> - country experience in implementing accrual accounting by USA delegation
11.55 – 12.15	Presentation of country experience by Indian delegation (Government and Standard setters etc)
12.15 – 12.30	Presentation on Capacity building in financial management by World Bank official – P.K. Subramanian
12.30 - 12.45	Discussion and questions from the floor on PSC and country presentations
12.45 – 13.45	Lunch Break with interaction of Press and Media on emerging perspective of PSC
13.45 – 16.15	Roundtable discussion, PSC Consultative Group and key participants from India and the Asian region

* PSC Meeting preliminaries run thereafter, 16.30 to 18.30 hours.

**Tentative Program for Roundtable Discussion
PSC Consultative Group and Guests
November 1, 2004, New Delhi**

Time	Activity
13.45 – 14.00	Welcome and Introductory Remarks Philippe Adhémar PSC Chairman
14.00 – 14.40	ITC Non Exchange Revenue Discussion of Key Recommendations of Steering Committee
14.40 – 15.20	ITC Social Policies of Government: Discussion of Key Recommendations of Steering Committee
15.20 – 15.45	Presentation by Ghosh Committee on local area issues
15.45 – 16.15	Open discussion of other issues on PSC agenda including issues raised by Ghosh Committee End
16.15	End Consultative Group meeting. PSC meeting commences 16.30.



**INTERNATIONAL FEDERATION
OF ACCOUNTANTS**

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DATE: OCTOBER 1, 2004
MEMO TO: MEMBERS OF THE IFAC PUBLIC SECTOR COMMITTEE
FROM: MATTHEW BOHUN
SUBJECT: PSC MINUTES

ACTION REQUIRED

- **Review and approve** the minutes of the PSC meeting in New York in July 2004.

AGENDA MATERIAL

	Pages
2.2 Draft minutes of the PSC meeting in July 2004	2.2 – 2.44

BACKGROUND

The first draft of these minutes together with the draft action list was circulated to members and observers for comment on September 10, 2004. The attached draft has been marked-up to highlight amendments proposed by members and observers as a consequence of their review of the first draft of the minutes.

Matthew Bohun
TECHNICAL MANAGER

INTERNATIONAL FEDERATION OF ACCOUNTANTS
PUBLIC SECTOR COMMITTEE
MINUTES OF THE NEW YORK MEETING
Held on July 5 – 7, 2004

ATTENDANCE

COUNTRY	MEMBERS	ATTENDEES	APOLOGY/NIA*
France	Philippe Adhémar (M)	X	
	Jean-Luc Dumont (TA)	X	
	Henri Giot (TA)		X
Argentina	Carmen Palladino (M)	X	
	Pablo Maroni (TA)		X
	Blanca Arazi (Translator)		X
Australia	Wayne Cameron (M)	X	
	Robert Keys (TA)	X	
Canada	Rick Neville (M)	X	
	Ron Salole (TA)	X	
	Dan Duguay (TA)	X	
Germany	Norbert Vogelpoth (M)	X	
	Catherine Viehweger (TA)	X	
	Andreas Dörschell (TA)		X
Israel	Zvi Chalamish (M)	X	
	Ron Alroy (TA)	X	
Japan	Ryoko Shimizu (M)	X	
	Tadashi Sekikawa (TA)	X	
Malaysia	Mohd Salleh bin Mahmud (M)	X	
	Er Beng Kiong (TA)	X	
	Nafsiah Mohammed (TA)	X	
	Javier Pérez Saavedra (M)	X	
Mexico	Conrado Villalobos Diaz (TA)		X
	Peter Bartholomeus (M)	X	
Netherlands	Aad Bac (TA)	X	
	Wilma Wakker (TA)		X
	Greg Schollum (M)	X	
New Zealand	Simon Lee (TA)	X	
	Tom Olsen (M)	X	
Norway	Harald Brandsås (TA)	X	
	Terence Nombembe (M)	X	
	Erna Swart (TA)	X	
South Africa	Freeman Nomvalo (TA)	X	

COUNTRY	MEMBERS	ATTENDEES	APOLOGY/NIA*
United Kingdom	Mike Hathorn (M)	X	
	John Stanford (TA)	X	
United States	Ron Points (M)	X	
	David Bean (TA)	X	
	Mary Foelster (TA)		X
ADB	Ping Yung Chiu (O)	X	
EU	To Be Appointed (O)		X
IASB	Warren McGregor (O)		X
INTOSAI	John Fretwell (O)	X	
IMF	Keith Dublin (O)		X
	Ethan Weisman (O)	X	
	Anne Kester (O)	X	
OECD	Jon Blondal (O)		X
UN	Jay Karia (O)	X	
UNDP	Darshak Shah (O)		X
World Bank	Simon Bradbury (O)		X
IFAC	Paul Sutcliffe (S)	X	
	Matthew Bohun (S)	X	
	Jerry Gutu (S)	X	
	Li Li Lian (S)	X	
	Hongxia Li (S)	X	
	Charles Coe (C)	X	
	Jesse Hughes (C)	X	
	Ian Mackintosh (PAP Chair)	X	

* NIA- Not in Attendance

- (M) Member
- (TA) Technical Advisor
- (B) IFAC Board
- (O) Observer
- (S) IFAC Staff
- (C) Consultant

1. WELCOME AND APOLOGIES

The Chair opened the meeting and welcomed the members to New York for this meeting. The Chair thanked Jay Karia, the observer from the United Nations, for organizing for the PSC to view the Macy's July 4th fireworks from the United Nations' building.

The Chair welcomed the new members, technical advisors and observers to their first Committee meeting:

- Mr. Mohd Salleh bin Mahmud, Member, Malaysia;
- Mr. Er Beng Kiong, Technical Advisor, Malaysia;
- Dr (Ms.) Nafsiah Mohammed, Technical Advisor, Malaysia;
- Mr. Ron Alroy, Technical Advisor, Israel;
- Mr. Tadashi Sekikawa, Technical Advisor, Japan;
- Mr. Ethan Weisman, Observer, International Monetary Fund; and
- Ms. Anne Kester, Observer, International Monetary Fund.

The Chair also welcomed Mr. Robert (Bob) Attmore the new Chairman of the Governmental Accounting Standards Board (GASB, USA). Mr. Attmore joined the meeting as an observer invited to the table.

Apologies were noted from:

- Warren McGregor, Observer (IASB);
- Simon Bradbury, Observer (World Bank); and
- Jon Blondal, Observer (OECD).

Jerry Gutu noted that the European Commission's previous observer, Mr. Dieter Glatzel, had stepped down and had not been replaced. Jerry noted that the Director-General responsible in the EC was in the process of nominating a replacement observer. The PSC members from Europe were requested to take up the issue of a replacement. Mike Hathorn agreed to take this up at the next meeting of the EC at which the Director-General Budget would be present.

2. CONFIRMATION OF MINUTES

The meeting received the minutes from the meeting held in Buenos Aires on March 24 – 26, 2004. The minutes were confirmed subject to the following changes:

- Jay Karia was present at the meeting;
- Under Item 11 on page 2.21, it should be noted that members were invited to pass comments on the matrix of differences between IPSASs and GFS to the authors out of session; and
- Any minor editorial amendments.

<i>Action Required:</i>	<i>Amend minutes, Post to IFAC Leadership Intranet. Prepare Action List.</i>
<i>Person(s) responsible:</i>	<i>PSC Staff.</i>

3. MATTERS ARISING AND ACTION LIST

There were no matters arising from the minutes, apart from matters to be raised under other agenda items. The PSC Technical Director noted that the items on the Action List had been dealt with as indicated.

Action Required: *Prepare Minutes and Action List from July 2004 meeting, circulate to members for review – members to advise staff of any proposed amendments.*

Person(s) responsible: *PSC members, Staff.*

4. CHAIRMAN'S REPORT

The Committee received and considered a report by Philippe Adhémar, the Chair of the PSC, on his activities as Chair since the previous PSC meeting. In particular, Philippe noted that he had:

- Promoted IPSASs in various public sector seminars;
- Participated in an OECD workshop on implicit liabilities and IAS 19, "Employee Benefits." He advised that the workshop participants expressed interest in the progress on the Invitation to Comment "Accounting for Social Policies of Governments;" and
- Attended IASB's Standards Advisory Council (SAC) meeting in Oslo, Norway. He noted that the IASB was moving along with a large agenda which included:
 - Convergence with the USA's Financial Accounting Standards Board (FASB). One of the projects within the convergence project is a joint project for a single conceptual framework;
 - A project on consolidation of special purpose entities (SPEs); and
 - A revenue recognition project.

The Chair also noted that he had met with Sir David Tweedie, the Chair of the IASB and other Board members to discuss the possibility of joint projects between the PSC and the IASB, especially in regards to public/private partnerships (service concession arrangements).

Action required: *Prepare Chair's Report for November meeting.*

Person(s) responsible: *Chair, PSC Technical Director.*

5. SECRETARIAT'S REPORT

The Committee received and noted:

- A report from the Secretariat; and
- An updated Members' Correspondence Distribution List.

Jerry Gutu spoke to the Secretariat's report identifying the activities he had been involved in since the last meeting of the Public Sector Committee on March 24 – 26, 2004 in Buenos Aires, Argentina. He advised the meeting that he had been involved among other duties in:

- The second contribution from the Asian Development Bank (ADB) under the existing funding agreement had been received. It was noted that a third and final tranche was due in 2005.

Ron Points noted that he had been advised that the Inter-American Development Bank had approved funding to match the ADB funding.

The Chair requested representatives of the regional banks and international organizations to meet with him, the Deputy Chair and the Technical Director following the meeting to discuss regional funding initiatives.

Paul Sutcliffe outlined translation and promotional activities that had been undertaken since the last meeting including:

- The Spanish translation had been completed except for one IPSAS, which was still in process. The Mexican member advised that the final IPSAS had been completed and forwarded to the IASCF during the last few days;
- The French translation was still progressing. The Chair advised that it was anticipated that the French translation would be completed in October of this year;
- The PSC Chair, members and staff had been active in promoting PSC activities. Members noted the schedule of PSC presentations included in agenda materials and agreed to provide to Staff out of session information about any additional presentations made or scheduled;
- English, French and Spanish versions of PSC Update 11 had been prepared and distributed following the Buenos Aires meeting. Paul particularly thanked the Mexican member and French delegation for their work in reviewing and correcting the translations; and
- Ron Points advised that translation of IPSASs into Vietnamese was about to commence.

Matthew Bohun provided an update on responses received to the Invitations to Comment “Accounting for Social Policies of Governments” and “Revenue from Non-Exchange Transactions (including Taxes and Transfers).” Matthew noted the closing date for comment was June 30 and forty-five responses had been received to date, with more to come. Members agreed that copies of all responses and the analysis should be provided to Steering Committee members at the same time as they were sent to the PSC.

Paul drew members’ attention to the summary of projects on the active work plans of standard setters. He noted that it was compiled from input from PSC members on the active projects on the agendas of standards setters or similar bodies in their jurisdiction, and would be circulated to all members again prior to the next PSC meeting for any updates.

Paul noted progress on technical projects since the March 2004 meeting of the PSC including that:

- The Budget Reporting Research Report had been finalized and made publicly available on the PSC’s website in late May. Paul also noted that a limited number of hard copies of the Report had been prepared and were available;

- Development Assistance Project – the draft Exposure Draft had been circulated to the Project Advisory Panel (PAP). Paul also noted that the consultant would discuss the draft at an OECD seminar in Paris immediately following this PSC meeting (on July 9, 2004) at which further input would be received;
- A project brief on the PSC's performance reporting project had not been prepared. Staff were seeking input from the IASB on the reactivation of their project and were not yet in a position to prepare a comprehensive project brief; and
- The project brief for an Occasional Paper surveying the use of IPSASs had not been prepared. Paul Sutcliffe noted that given limited staff resources there had not been sufficient time to prepare the brief. He also expressed doubts about whether the PSC had the resources to proceed with the project in the short term. Members noted that this project was important but agreed that the current level of PSC resources would not allow this project to be progressed in the very near future.

Members noted and agreed the 2004 and 2005+ work plans, subject to revisions to reflect decisions made during the remainder of this meeting. Paul advised that these work plans reflect decisions, and the consequences of decisions, already made by the PSC and that the forward work plan would be significantly influenced by the PSC's decision on its IASB convergence strategy to be considered later in the meeting. He also noted that an extended work plan had been prepared to support the PSC's discussion of its IAS/IFRS convergence strategy later in the meeting.

Paul advised members that:

- Jerry Gutu and Li Hongxia would soon be completing their time with IFAC, and this was likely to be their last meeting. Paul noted the significant contribution both had made to the PSC's activities and thanked them for their support. Members also thanked them and wished them well for the future. Members noted that, if possible, arrangements be made to enable Li Hongxia to attend the next meeting to complete her work on the IPSAS Improvements Project;
- Matthew Bohun would move from the Melbourne office to New York to take over from Jerry Gutu;
- LiLi Lian had been promoted to Technical Manager. Members congratulated LiLi, noting the promotion was well deserved; and
- He was exploring a number of possibilities to recruit staff, including a secondment. He noted that the PSC's current funding position made filling vacant staff positions very difficult.

The Chair noted that the IASB was moving ahead with a project on public/private sector arrangements (PPSAs) and it would be wise for the PSC to be involved. It was agreed that an update on the status of accounting for PPSAs in PSC members' jurisdictions should be prepared for the next meeting, and that PSC staff should monitor closely the IASB project, including direct involvement if appropriate.

Action Required: Update register of funding, translation and promotion activities. Update work program and funding proposal. Prepare Project Brief for Occasional Paper on use of IPSASs when time allowed and resources

were available to support the project. Meet with observers re funding strategies. Prepare Update on public private sector arrangements, Project Brief on heritage assets and follow up activities from discussion of PSC convergence strategy. Follow up with the IASB on its projects on performance reporting and develop project brief if appropriate.

Person Responsible: *PSC Chair and Deputy Chair, Members, PSC staff.*

7. COUNTRY BRIEFING REPORTS

The country reports were taken as read.

Action Required: *Prepare country reports for the PSC meeting in New Delhi in November 2004. Circulate reports with agenda materials.*

Person(s) Responsible: *Members, Technical Advisors, PSC Secretariat.*

8. ED 23 IMPAIRMENT OF ASSETS

The Committee received and noted:

- A memorandum from Matthew Bohun;
- A draft IPSAS 21, "Impairment of Non-Cash-Generating Assets;"
- An extract of the draft minutes of the PSC meeting in March 2004 in Buenos Aires;
- A proposed endorsement of IAS 36, "Impairment of Assets;" and
- A proposed endorsement and summary of IFRS 5, "Non-Current Assets Held for Sale and Discontinued Operations."

Matthew Bohun introduced the topic and explained that the draft IPSAS 21 had been marked up to reflect decisions made at the last PSC meeting and to ensure compatibility with the IAS/IFRS draft convergence strategy. Matthew advised that paragraphs 1(d) and 5 would revert to the form of words used in ED 23, and that paragraphs 1(f) – (j) would be deleted because the Committee decided not to adopt the proposed convergence strategy (see item 12, which was discussed prior to this item at the meeting).

The PSC considered whether non-cash-generating property, plant and equipment carried at revalued amounts should be tested for impairment. Several members argued that there was no public sector specific reason for differing from the approach adopted in IAS 36, which requires such assets to be tested for impairment. Other members argued that the different approach taken to measuring value in use of cash-generating and non-cash-generating property, plant and equipment rendered any impairment test superfluous because the recoverable service amount would never be materially different from the carrying amount. It was also noted that ED 23 was different from IAS 36 because of the latter's need to account for cash-generating assets and groups thereof. The PSC agreed that it would not require impairment testing of property, plant and equipment, but that it would note in the Basis for Conclusions that its reasons for doing so included the

pragmatic reason that it did not consider an impairment test should be triggered solely because of the impact of transaction costs.

Staff proposed that investment property be excluded from the scope of the proposed IPSAS because investment property is, by definition, cash generating. Members argued that where the use of a property has not yet been determined, it is treated as investment property and it is possible, therefore, for investment property to be non-cash-generating. The PSC agreed to exclude from the scope of the proposed IPSAS, investment property measured using the fair value model in accordance with the IASB's approach, and agreed that paragraph 6, as drafted in ED 23 would be restored.

The PSC confirmed its previous decision that for a decline in market value to be considered as an indicator of impairment, the decline must be significantly more than would be expected as a result of the passage of time or normal use. The PSC agreed to the amendment to paragraph 21(a).

The PSC discussed cessation of demand as an indicator of impairment. Staff proposed in the draft IPSAS that the indicator be "cessation or near cessation of demand" and that commentary note that if demand declined to a point at which the entity would not have responded to it, or would have responded other than by acquiring the asset being considered for impairment, then demand would be considered to have nearly ceased. The PSC recognized that this would require entities to use professional judgment in making such decisions. The PSC agreed with the proposal outlined in the staff memo and draft IPSAS.

The PSC discussed whether the depreciated replacement cost, restoration cost and service units approaches to measuring value in use were one approach or three separate approaches. Staff advised the PSC that they were of the view that these were methods of determining depreciated replacement cost before and after impairment and reflected practice in the valuation profession. Members noted that the working group that developed ED 23 was concerned to avoid describing all the approaches in a manner that suggested that they were "fair values" because that would place an impediment to adoption of the IPSAS in jurisdictions where the historical cost model was mandated by law. The PSC agreed that the amendments proposed by staff in the draft IPSAS would not be adopted and that the IPSAS should retain the wording that was included in ED 23.

The PSC discussed whether to include obsolescence as an indicator of impairment and agreed that changes in the technological environment encompassed obsolescence and thus obsolescence was already included within the minimum indicators of impairment in paragraph 21(a) of the draft IPSAS. The PSC agreed to note this in the Basis for Conclusions.

The PSC agreed to reverse its previous tentative decision to include a reference to IPSAS 3 in paragraph 49. The PSC considered that this would unnecessarily date the IPSAS as the work program envisages updating IPSAS 3 within the next two years.

The PSC discussed additional amendments that had been made to IAS 36 in the March 2004 version of that IAS. The PSC agreed that:

- It would substitute the term “fair value less costs to sell” for the term “net selling price” which was included in ED 23;
- It would adopt “shall” in place of “should” in line with the staff recommendations in relation to the improvements project;
- It would not amend the draft IPSAS to include particular provisions relating to intangible assets or goodwill; and
- It would adopt the abbreviation “CU” for currency unit, as has been done by the IASB.

The PSC reviewed the illustrative example of impaired software as an example of an impaired intangible asset, which was included by staff in appendix B of the draft IPSAS. The PSC agreed that the example would provide useful guidance to users and that it should be included in the final IPSAS.

The PSC undertook a page by page review of the draft IPSAS and agreed the following amendments:

- The Introduction should be updated to reflect the revised introduction used in new IPSASs;
- The title of the IPSAS is to be “Impairment of Non-Cash-Generating Assets”;
- It is proposed that this IPSAS be effective after equal authority is adopted after the revision of the “Preface to International Public Sector Accounting Standards.” At that time the italicized paragraph before the objective paragraph would be revised to acknowledge equal authority of the bold and plain type paragraphs. PSC members noted that as they worked through the IPSAS at this meeting they would ensure that commentary paragraphs were appropriate for the equal authority environment;
- Paragraph 7, which explains why property, plant and equipment carried at revalued amounts is excluded from the standard, should include some of the rationale from the Basis for Conclusions;
- The definition of “active market” should be included, as drafted;
- The definition of “cash-generating assets” should be “cash-generating assets are assets held to generate a commercial return” in accordance with the decision made at the March 2004 meeting;
- Superfluous definitions should be deleted;
- In paragraph 15A, the second sentence should read: “An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.”
- Paragraph 16A on depreciation and amortization should be deleted;
- In paragraph 18, the second sentence should only refer to paragraph 20, not to paragraphs 20 – 24;
- In paragraph 21 the third sentence should read: “The existence of other indicators may result in the entity estimating the asset’s recoverable service amount.”
- In paragraph 36, a sentence should be inserted to note that in this standard “value in use” refers to the “value in use of a non-cash-generating asset”;
- Paragraphs 42A and 43 should be deleted;

- The Basis for Conclusions should explain that the indicator of reversal of impairment in paragraph 55(a) (a significant increase in an asset's market value) is not the mirror of the indicator of impairment in paragraph 21(a) (during the period, an asset's market value has declined significantly more than would be expected as a result of the passage of time or normal use) because a significant decline in market value is only an indicator of impairment if it is unexpected. Expected declines in market value are incorporated into the measurement of the carrying amount of an asset without testing for impairment;
- The Basis for Conclusions should explain that a resurgence in demand (minimum indicator of reversal of impairment in paragraph 53(a)) is different from a long term increase in demand for the services provided by the asset (additional indicator of impairment in paragraph 55(b)) because paragraph 53(a) refers to a reversal of the situation that caused an impairment loss to be recognized, whereas paragraph 55(b) refers to a change in circumstances unrelated to the reason an impairment loss was recognized;
- The Basis for Conclusions should explain that whilst physical impairment is an indicator of impairment, restoration of damage is not an indicator of reversal of impairment because the costs of restoration would be added to the carrying amount of the asset and because the reason for impairment (physical damage) does not reverse, but is rectified;
- The first sentence of paragraph 68 should read "An entity that discloses information about a segment in accordance with IPSAS 18, "Segment Reporting" shall disclose the following for each segment reported by the entity:" Similarly, paragraph 69(d) should be amended to clarify that entities are required to apply IPSAS 18;
- In Appendix A, the paragraph lettering should be matched to that in paragraph 20 to enable readers to cross reference them;
- In Appendix C, the heading above paragraph C12 should be "Other Assets". Paragraph C12 should be amended to reflect that the PSC is developing its own standard on impairment of cash-generating assets;
- Paragraph C15A should be deleted; and
- Paragraph C16D (second occurrence) should be deleted.

With two abstentions, the PSC voted unanimously to approve the standard subject to a final review of the editorial changes and Basis for Conclusions by the Chair and a sub-committee consisting of the members from Australia, Canada, New Zealand, South Africa and the United States of America.

The Committee agreed that this IPSAS would have same application date as the eleven IPSASs currently being improved, and that this approach to the application date of this IPSAS would be confirmed at the November 2004 PSC meeting.

The Committee noted that it had exposed the requirement to apply IAS 36 to cash-generating assets in ED 23, and that this satisfied the due process and that it could issue an IPSAS based on IAS 36 without further exposure. However, the Committee decided that it would review a draft document at the next meeting and would decide then whether further due process was required, it appointed a sub-committee consisting of members

from Canada, South Africa and USA to develop a draft IPSAS 22, “Impairment of Cash-Generating Assets” based on IAS 36, but not including amendments made by IFRS 3, “Business Combinations” or IFRS 5, “Non-Current Assets Held for Sale and Discontinuing Operations”, with public sector examples. The Committee would review this document at the November 2004 meeting and determine whether, in practice, the changes required were sufficiently minimal that it could issue the document without further exposure.

<i>Action Required:</i>	<i>Finalize IPSAS, review finalized IPSAS, prepare draft IPSAS 22, “Impairment of Cash-Generating Assets.”</i>
<i>Person(s) Responsible:</i>	<i>PSC Staff, Chair, Members from Australia, Canada, New Zealand, South Africa and the United States of America.</i>

9. PSC STEERING COMMITTEE – BUDGET REPORTING

The Committee received and considered:

- A memorandum from Paul Sutcliffe;
- The final Research Report prepared by Dr Hughes; and
- Extract of the minutes of the PSC meeting in March 2004.

Paul spoke to the memorandum noting:

- The Research Report had been finalized following the March 2004 meeting and loaded on the IFAC web for public access in late May; and
- To facilitate analysis, the memo grouped the ten recommendations made in the Research Report under five broad headings and provided staff views on those categories.

Paul noted that staff views on the recommendations were that:

- Budget reporting, or certain aspects thereof, was within the mandate of the PSC to the extent it related to and/or was communicated by general purpose financial reports;
- The next stage of this project should be dealt with in two components. The first component being a short term project on comparisons of actual and budget (ex-post reporting), with an ED being developed by the consultant and staff. The second component being a longer term project on reporting budget forecast information as general purpose financial reports (ex-ante reporting). This component should be developed by the Steering Committee with an ITC being prepared as a first step. Paul noted a range of issues that could usefully be considered in that ITC;
- Matters relating to budget formulation and other management accounting and budget management issues were dealt with in the Research Report and this was appropriate. However, these matters should not be dealt with in an IPSAS;
- Any conceptual framework on public sector financial reporting should acknowledge the role of the budget in the public sector;

- That while a separate exposure draft on reporting actual and budget comparisons should be developed and issued, it may well be that the final requirements could be included in IPSAS 1; and
- There was strong support for the PSC dealing with budget reporting from constituents responding to the PSC Review survey.

Paul Sutcliffe noted that Ron Points, the Chair of the Steering Committee, and Dr Jesse Hughes, the author of the Research Report were in attendance and requested their views. Ron Points noted that he had no objections to the project being progressed as proposed by staff, but noted that it was important that momentum gained during the Research Report development process be maintained. Dr Hughes noted that he also generally agreed with the staff recommendations for progressing the project. He noted he would place a strong emphasis on the requirement or encouragement for governments to operate their budget and accounting systems on the same basis. He was also of the view that Recommendation 5, which advocates development of an IPSAS on budgetary accounting procedures, should be supported.

Members discussed the recommendations of the Research Report and the staff views in detail noting that Dr Hughes should be commended for his work. Key matters discussed and members' views thereon included:

- There was strong support for ex-post reporting but some members were of the view that the issues and principles relating to ex-ante reporting were more complex. Some members questioned whether ex-ante reporting was within the PSC's mandate;
- Some members expressed the view that the project on ex-ante reporting should be postponed until the PSC had progressed other components of its work program. Others were of the view that its inclusion on the work program should not be postponed, noting that this was a major gap in financial reporting in the public sector. However, they agreed that while included on the work program, it should be dealt with as resources allowed, and this may not be in the short term;
- Some members questioned whether a Steering Committee and an ITC was needed for the ex-ante reporting project, noting their preference to deal with it directly at PSC level. Other members noted that it was important to have input from the budget community as this project developed, and the Steering Committee, or Project Advisory Panel approach was an effective means of achieving this;
- Some members noted the link between the proposed project and the GFSM 2001 developed by the IMF, and requested views from the IMF observers. The IMF observers supported the development of an IPSAS to deal with comparisons of budget with actual. However, they expressed some misgivings about the PSC dealing with ex-ante reporting. They expressed the view that the PSC should not deal with presentation of forward budget information, but focus on ensuring that the accounting records maintained relevant and reliable information which could be used as input for GFS reports and the next round of budget estimates;
- The focus of any project. Members noted any project dealing with ex-ante reporting should focus on the presentation of budget information as general purpose financial reports and should not deal with budget formulation issues. Some members also noted that the project should not deal with matters for which legislation was in place. They

expressed the view that IPSASs should not deal with issues that may put them in conflict with legislation. However, other members noted that there may have been legislative requirements in place in respect of financial reporting issues dealt with by the existing IPSASs, but the PSC quite appropriately developed IPSASs which reflected its view of high quality financial reporting, after input generated through the due process – they advocated that the PSC continue with that policy. At issue should only be what constituted high quality general purpose financial reporting. Some members noted the project should focus on the principles underlying the reporting of budget information;

- Budget reporting, both ex-ante and ex-post were key issues in the public sector and should be pursued vigorously. Some members noted that while they agreed with this in principle, it was still not clear what could, should, or would be dealt with by a PSC project on ex-ante reporting, and this should be clarified in a detailed project brief;
- It was not clear how ex-ante reporting would fit within the PSC's work program and what its implications were for the progress of the other components of the work program. Some members noted the PSC's resources were already stretched and questioned the ability of the PSC to progress all aspects of this project in general purpose financial reports; and
- The timing of initiation of the ex-ante reporting project. Members noted that the work program included in the agenda papers proposed that the ex-ante budget reporting project be actioned in 2005 and a Steering Committee established. Some members expressed the view that it was appropriate to continue with that program at this stage, noting that whether or not a Steering Committee or Project Advisory Panel should be established should be reconsidered in light of the detailed project brief which identified the specific issues to be addressed.

Paul Sutcliffe noted that PEFA had provided funding to support the project for this calendar year and if the comparison of actual to budget were to be progressed, it would be advantageous to retain Dr Hughes under the terms of his existing contract and, with the support of PEFA funding, continue his work on this segment of the project.

The PSC agreed that:

- An exposure draft dealing with the comparison of budget to actual should be developed by the consultant and staff. The first draft of that exposure draft would be considered by the PSC at its meeting in November 2004;
- A detailed project brief on the ex-ante reporting project should be prepared for consideration in early 2005. That project brief is to identify key matters to be dealt with in the project, an estimate of resources needed to support it, whether it should be developed as an exposure draft or as an ITC and how it would fit within the work program. The PSC would then make a decision on timing and process for the project development.

Action Required:

Prepare draft Exposure Draft on comparisons of actual to budget (ex-post reporting) for consideration at the next PSC meeting. Prepare Project Brief on reporting budget forecast data as a general purpose financial statement (or note) for

consideration at first meeting in 2005.
Person(s) Responsible: *Consultant and PSC Staff.*

10. ACCOUNTING FOR DEVELOPMENT ASSISTANCE

The Committee received and considered:

- A Memorandum from Paul Sutcliffe;
- An updated draft ED;
- Responses to the updated ED from Project Advisory Panel members;
- A preliminary draft ED; and
- A Progress Report from Charles Coe.

Ian Mackintosh, Chair of the Project Advisory Panel (PAP) and Charles Coe, consultant on the project, were in attendance. Ian Mackintosh introduced the topic noting that:

- The PAP had been reconstituted and the draft ED circulated for comment. Some comments had been received and more were anticipated;
- Charles Coe would make a presentation to a major OECD forum on the ED following this PSC meeting; and
- The OECD forum presentation would provide the opportunity for input by OECD member countries, other developing countries, PAP members and donors. The PSC Chair noted that a PSC member had been invited to attend but that he and the Technical Director were unable to attend because of obligations at the IFAC Board immediately following the PSC meeting. The Chair requested that other members who could attend make contact with Charles Coe.

Charles Coe noted that he had arranged to meet with the PSC Technical Director in September to work through a number of technical and format issues that they had identified and to ensure that linkages to the Cash Basis IPSAS were properly formed and expressed. Accordingly, the primary focus of this session would be on the definitional and other issues raised by PAP members to date. He also noted that an additional submission had been received from the OECD in the last two days. He then identified the major issues raised in all submissions received including:

- Whether military assistance and humanitarian assistance could be encompassed by the definition of development assistance. He noted that responses received so far had differing views on whether they would be, and should be, encompassed within the definition. Staff noted their preference to develop a definition of development assistance that did not include military assistance. PSC members noted that even if included, military assistance should be separately disclosed;
- The recent proposal from the OECD that revised its previous submission and proposed that a broad definition of external assistance rather than development assistance be adopted, with separate disclosure of major components as appropriate. Members noted they were not averse to this approach in principle. However, this would change the focus and scope of the project, and the focus on development assistance had been made specifically at the request of the OECD-DAC and MDB. If the focus was now to be changed, staff should seek input on whether those bodies supported were not opposed to it;

- That a number of respondents had outlined the specific detailed characteristics of the definition of development assistance adopted by their organization, and these characteristics differed in some respects. Charles Coe also noted that in its most recent submission the OECD had outlined key factors of the definition that was being developed for application by its members. PSC members noted that the focus of any definition should be on general purpose financial reporting and, in that context, there was a need to ensure that developing a definition based on detailed technical specifications would not narrow the definitions such that it was only suitable for special purpose financial reporting by a subset of recipients;
- The extent to which separate disclosures should be required. Members also advocated that the disclosure requirements not single out particular organizations but require identification of major classes of donors, major purposes for which assistance was given and the major types of assistance. In other respects, disclosure should be by nature and function as reflected in IPSASs. Members noted this might result in amounts provided by individual donors not being separately identified. Similarly, the specific projects for which assistance was to be applied may not be separately identified;
- Whether third party settlements should be encompassed within the IPSAS. Members agreed that they should;
- Whether the IPSAS should apply to donors. Members agreed the IPSAS should apply to recipients. If recipients also acted as intermediaries and in that sense were donors, the IPSAS would apply to them in respect of assistance received;
- Whether details of compliance with loan or grant conditions should be required. Members noted that the disclosure of all instances of compliance could be extensive and questioned the value of such disclosures, noting disclosure of instances of non-compliance was likely to be more relevant to assessments of the financial performance and position of reporting entities. Members agreed that the notion of negative assurance could usefully be adopted, such that disclosures of instances of material non-compliance with adverse consequences for the recipient entity should be required;
- Whether disaggregation of development and humanitarian assistance should be proposed in the ED. Members agreed that it should;
- Whether the illustrative financial statements were supported. Members agreed they were important and should be further developed following input from the PAP and OECD presentation;
- Whether transitional requirements should be included. Members noted they would consider this following further input from the OECD forum and the PAP. Some members observed that a case for transitional requirements was developed by some respondents to date; and
- Whether concessional rate loans and subsidies, including export credits, should be encompassed by definitions of development and external assistance. Members agreed they should, provided they could be identified and quantified and their benefit to the recipient entity could be identified.

The IMF representative noted that the IMF had developed functional categories to identify classes of assistance and expressed some doubts about the need for an IPSAS on

this topic. Members explained the background to the project, noting it had been initiated in response to requests by the OECD – DAC group and the multi-lateral development banks (MDBs) harmonization committee and was intended to include additional relevant disclosures in general purpose financial statements, and to assist in the reduction of compliance costs by recipients of development assistance.

The IMF representatives also advised that IMF loans and other operations were not in the nature of development assistance. The PSC noted that if this was the case, IMF loans would be separately disclosed outside development assistance. Charles noted that many individual organizations had their own, specific reporting requirements. These were different for each organization and hence the compliance cost relief consequence of this project was dependent on these organizations harmonizing their requirements under the broad parameters of the IPSAS. The general purpose disclosures could then be supported by detailed special purpose reports, provided at donors' request.

A number of PSC members from developing countries noted that this IPSAS was very important. Members agreed the IPSAS was necessary for transparent reporting and should apply to all reporting entities adopting the cash basis, not only governments and not only in developing nations.

Members agreed to consider further whether the ED should be refocused on external assistance with requirements to disclose the key component thereof when further input had been received from the OECD – DAC and MDB groups who initially proposed the project to the PSC, and from the PAP.

Action Required: ***Make presentation to OECD Forum. Update draft exposure draft based on PAP comments for consideration at next PSC meeting. Consultant and PSC staff to meet to refine technical and format issues.***

Person(s) Responsible: ***PAP Chair, Consultant, PSC Staff.***

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 response to the recommendations of Working Group I (WG1). 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 but not required. There is no prohibition on disclosure of the public financial corporations (PFC) sector and the public non-financial corporations (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;”;
- 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; and
- The IPSAS would not require or prohibit disclosure of additional information by classification of function of government.

The Chair reiterated that the project aims at converging IPSASs 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 of general purpose financial statements. 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 brief should be further developed with input from the Project Advisory Panel.

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; and
- Invited WG1 members to form a Project Advisory Panel (PAP) 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 that may be 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 GGS 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
- 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 based report (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.

Staff advised members that a performance reporting project brief had not been developed, and 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 with the project recommended by WG1; 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.*

12. IASB UPDATE AND IPSAS HARMONIZATION WITH IASs/IFRSs

The Committee received and considered:

- A memorandum from Paul Sutcliffe on the IPSAS/IFRS harmonization policy;
- A paper outlining a PSC-IAS/IFRS Harmonization Strategy; and
- Work program 2004-2009.

Paul Sutcliffe introduced the topic noting that at the request of the Chair, the Deputy Chair, Mike Hathorn, agreed to work with staff to coordinate the IASB convergence projects on the PSC agenda.

He noted that, at its meeting in Buenos Aires the PSC directed Staff to prepare a strategy for the PSC's IPSAS/IFRS Harmonization program, which:

- Maintain the nexus between IPSASs and IASs/IFRSs in the long term where appropriate for the public sector;
- Established a stable platform of second generation IPSASs in the medium term; and
- Made English, French and Spanish versions of the second generation IPSASs available simultaneously;

and staff had spent a great deal of time on the development of a IPSAS/IFRS Harmonization program consistent with those parameters.

He also noted that the Deputy Chair had spent two days working with staff on the strategy and that the Chair had provided valuable input, but the Strategy remained the Staff view and did not necessarily reflect the view of the Chair or Deputy Chair. Paul also noted that the Chair had written to the Consultative Group and sought comments from them on the proposed strategy. To date, three responses had been received – those responses were from the AGA in the United States, HOTARAC in Australia and the representative from Switzerland.

At the request of Chair, the Deputy Chair introduced the proposed strategy and provided background to it noting that the PSC's work program consisted of three broad components being public sector specific issues which the PSC had agreed would be its first priority in the medium term and convergence with IASs/IFRSs and with statistical reporting models, which the PSC had agreed would be its second and third priorities. He also noted that in the short and medium term:

- Significant time would need to be devoted to the development of IPSASs dealing with public sector specific issues such as non-exchange revenue, social policy obligation and budget reporting over 2005 and 2006; and
- The strategy proposed a mechanism to continue to work on but at the same time set realistic expectations for the achievement of the other two components of its work program. In this context, he noted that many of the IASs on which the twenty existing accrual-based IPSASs were based had been revised and a number of IASs for which no IPSAS currently existed had been issued. He noted that the draft strategy identified the new IASs/IFRSs in two categories depending on their relevance to the public sector.

The Deputy Chair then outlined the main features of the proposed strategy noting that it was proposed that it comprised a stable platform and a "second generation" of IPSASs which would articulate with the public sector specific issues currently be developed as a priority by the PSC. He noted those features included:

- The stable platform would comprise the twenty existing IPSASs on issue as at the end of 2004. He noted that even if approved at this meeting, it was not proposed that IPSAS 21, "Impairment of Non-Cash-Generating Assets" be included in this group because it impacted on IPSAS 17, "Property, Plant and Equipment", would require amendment to that standard and this could delay the implementation of the stable platform. However, he noted that it would be available for early adoption by those seeking guidance on accounting for impairment of non-cash-generating assets;
- The application date of the second generation IPSASs would be January 1, 2009. An earlier date was not possible, given current Staff resources, the need to link with PSC priority projects and given the PSC intention to have English, French and Spanish translations in place at the same time. It was noted that as standards were approved they could be made available as pending standards and certain IPSASs may be able to be early adopted. The PSC acknowledged that setting a later effective date beyond 2009 may damage the credibility of IPSASs;
- Each IFRSs/IASs that was applicable to the public sector would be issued as an IPSAS to clarify its authority to the public sector, rather than rely on the hierarchy. This would require the PSC to go through full due process and ensure the transparency of its deliberative process. However, where there was not a public sector reason to depart from the IAS/IFRS it was proposed that the IAS/IFRS would not be amended – rather the IAS/IFRS would be adopted by endorsement – an illustration of an endorsement statement which would identify linkages to other IPSASs was included in agenda materials. However, where there was public sector specific reason for departure, the IAS/IFRS would not be endorsed, rather provisions of an IFRSs/IAS would be amended and an IPSAS issued, again after due process. This approach would ensure transparency of process (rather than relying on the hierarchy)

and would allow the PSC to allocate Staff resources to deal with public sector specific issues, while maintaining the consistency of existing IPSASs with IFRSs/IASs; and

- By January 2009, the PSC would have:
 - IPSASs dealing with public sector specific issues, eg., non-exchange revenue, social policy obligations of governments, budget reporting etc.;
 - Twenty-one IPSASs, of which eleven IPSASs would be updated as part of General Improvements Project; and
 - About ten additional IPSASs being endorsed IFRSs/IASs.

The Deputy Chair that the work completed on the General Improvements Project meant that a significant portion of IASB Harmonization convergence program was already well developed.

Chair and members commended the Deputy Chair for and staff for the work that had been done and discussed the main issues of the strategy paper, noting:

- The IASB had an extensive work program and was in the process of converging with the certain Standards of the Financial Accounting Standards Board (FASB) in the United States. Therefore, it was unlikely that the IPSASs would ever catch-up and be harmonized with the IASs/IFRS. As such, the PSC's priority should be to progress the public sector specific issues on its work program;
- The IPSAS on impairment should be included in any stable platform platform, given its importance to public sector entities, even if this meant deferring the stable platform until the IPSAS was approved and its consequences for other IPSASs worked through;
- The endorsement approach differed from that adopted during the first phase of the standards program and did not provide sufficient opportunity for the PSC to provide a public sector perspective to the matters dealt with in IPSASs. Some members expressed the view that this approach would not add value to the IAS/IFRS convergence program;
- That it would involve considerable PSC time to develop IPSASs equivalents of many IASs/IFRSs, whichever approach was adopted. In addition, the IASB was constantly changing these Standards and by the time the second generation IPSASs is in place, some of the endorsed IASs/IFRS will likely be obsolete. Some members noted that this may well be the case in respect of IAS 19, "Employee Benefits" and IAS 39 which were included in the proposed strategy work program. Other members noted that these standards were important to the public sector and the hierarchy mechanism may not work as well as was expected in providing guidance to constituents; and
- When there were public sector specific reasons that justify a departure from an IAS/IFRS and therefore the preparation of a separate IPSAS, rather than the endorsement of an existing IAS/IFRS was subjective. Some members expressed a preference for an approach that dealt with each IAS/IFRS in the same manner and was not subject to such judgments.

The PSC agreed that the IASB convergence program for the medium term should comprise :

- IPSAS 21, “Impairment of Non-cash-generating Assets” and IPSAS 22, “Impairment of Cash-generating Assets”; and
- The General Improvements Project – this project would deal with the eleven existing IPSASs being updated consequential on the IASB’s improvement project. These IPSASs would be updated to reflect the changes resulting from the IASB Improvements project. In respect of amendments for IASs/IFRSs for which an IPSAS had not yet been issued, the cross-referencing to those IASs/IFRSs should adopt a similar style to that adopted in the existing IPSASs including the recently approved IPSAS21; and
- The refreshing of the remaining existing nine IPSASs (those not part of the General Improvements Project) as a consequence of the issue of IPSASs 21 and 22, and of the eleven improved IPSASs noted above.

The application date of the second generation IPSASs should be either January 2006 or January 2007 subject to progress made on the general improvements project at the November 2004 and March 2005 meetings.

Members also agreed that:

- the initiation of projects dealing with IFRSs/IASs for which there was no IPSAS on issue would be deferred; and
- that the remaining nine IPSASs (those not part of the General Improvements Project) could be updated for amendments made to their equivalent IASs/IFRSs as of the end of 2004 if resources allowed.

Members requested that staff provide their views on the resource implications and desirability of updating the remaining nine IPSASs at this time. The Technical Director noted that it was desirable to maintain the nexus between IPSASs and their equivalent IAS/IFRS. However, he also noted that:

- IAS 32, “Financial Instruments: Presentation and Disclosure,” the equivalent of IPSAS 15, had been substantially updated as a consequence of issuance of IAS 39, and it may involve consider staff resources and PSC meeting time to work through this IPSAS;
- that an Exposure Draft on IAS 37, “Provisions, Contingent Liabilities and Contingent Assets,” the equivalent of IPSAS 19, was expected by the end of 2004 and this would mean that IPSAS 19, which is based on the existing IAS 37, may soon be out of date; and
- changes had been made to a number of existing IASs as a consequence of the issuance of new IASs/IFRSs for which an IPSAS had not yet been issued, consequently an updated IPSAS could not reflect all the requirements of the equivalent IPSAS/IFRS.

Staff expressed concern that there was sufficient staff resources and PSC meeting time to update the remaining nine IPSASs and enable the full due process to work through in time for a 2006 application date.

The PSC noted staff views and agreed it would not make a decision on whether IPSAS 15 and IPSAS 19 should be updated as part of the second generation IPSASs until it considered its work program in November 2004.

12A General Improvements Project

The Committee received and considered:

- A memorandum from Hongxia Li and Li Li Lian;
- An overview of changes; and
- Marked up drafts of IPSAS 1, IPSAS 3, IPSAS 17 and IPSAS 16.

Hongxia Li introduced the topic noting that at the Buenos Aires meeting, the PSC agreed to continue to review the marked-up IPSASs under the General Improvements Project. She noted that the criteria Staff adopted for the amendments to these IPSASs were to process changes to paragraphs that were the same in both existing IPSASs and previous IASs and to incorporate in the IPSASs the new requirements in IASs where appropriate. However, changes were not processed for paragraphs that were introduced or changed by the PSC in the existing IPSASs.

She provided a brief update on the changes made to the marked-up IPSASs since the PSC March meeting. The additional changes were in three broad groups to reflect:

- Decisions made at the March meeting – to delete unnecessary definitions in IPSAS 1 and IPSAS 3;
- Amendments made to improved IASs resulting from new IFRSs issued by the IASB, such as IFRS 3, “Business Combinations” and IFRS 5, “Non-current Assets Held for Sale and Discontinued Operations”;
- Amendments to identify the consequences of accepting the IPSAS/IFRS Harmonization Strategy (Item 12.2) proposed by Staff. These included an authoritative appendix of Amendments to Other Pronouncements, an appendix of IFRIC/SIC Interpretations of IFRSs/IASs and cross references to key IFRSs/IASs such as IAS 36, “Impairment of Assets” and IFRS 5. However, based on the discussion of that Strategy, Hongxia advised that some of these changes needed to be revised.

Hongxia Li then outlined the major changes in IPSAS 1, “Presentation of Financial Statements” and the PSC’s views on issues raised in the IASB Improvements Exposure Draft in its submission to the IASB in 2002. These major changes were to:

- Transfer the requirements relating to the selection and application of accounting policies from IPSAS 1 to IPSAS 3 and to transfer the presentation requirements for surplus or deficit for the period from IPSAS 3 to IPSAS 1;
- Include the guidance on the meaning of “present fairly”;
- Tighten the existing requirements on departure from a requirement in an IPSAS and to distinguish two situations in which the relevant regulatory framework permits or prohibits the departure;
- Require a financial liability that is due within twelve months after the reporting date, or for which the entity does not have an unconditional right to defer for at least twelve

- months after the reporting date, to be classified as a current liability, even if an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting date and before the financial statements are authorized for issue;
- Require that a long-term financial liability be classified as a current liability at the reporting date when the liability that is payable on demand because the entity has breached a condition of its loan agreement on or before the reporting date. This is to be the case even if, after the reporting date, and before the financial statements are authorized for issue, the lender has agreed not to demand payments as a consequence of the breach;
 - Include additional line items on the face of the financial statements, such as investment property;
 - Remove “extraordinary items” from the face of the statement of financial performance and emphasize that an entity shall not present any items of revenue and expense as “extraordinary items” either on the face of the financial statements or in the notes;
 - Require an entity to disclose the judgments that management has made in the process of applying the entity’s accounting policies that have the most significant effect on the amounts recognized in the financial statements; and
 - Require an entity to disclose the key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Members agreed the changes in principle subject to the detailed page by page review, except for the prohibition on presentation of “extraordinary items”. Some members noted that based on the analysis taken in the public sector, there were significant user needs for information about extraordinary items. Therefore, extraordinary items should, at least, be disclosed in the notes to meet these information needs. Other members were of the view that there was not a public sector reason to differ from the IAS. They noted that the requirements in proposed IPSAS 1 did not preclude the separate presentation of the substance of so-called extraordinary items in existing IPSAS 1, either on the face of the financial statements or in the notes as long as these items were material. They further added that the only difference was that these items would no longer be described as extraordinary items. The PSC voted on whether retaining paragraph 105, which states “an entity shall not present any items of revenue and expense as extraordinary items, either on the face of the statement of financial performance or in the notes”. The majority voted to delete paragraph 105. It was also agreed that this difference would be identified in “comparison with IAS 1” and the reason why the presentation of extraordinary items either on the face of the financial statements or in the notes was required in IPSAS 1 should be contained in Basis for Conclusion accompanying IPSAS 1.

The Committee undertook a page-by-page review of proposed IPSAS 1 and agreed the following:

- Paragraph 7 referring to the establishment of the IASB should be deleted. The similar paragraph in all eleven proposed IPSASs should also be deleted;

- An interpretation of “management” should be included in paragraph 18 to clarify the meaning of “management” in the public sector;
- References to IPSAS 9, “Revenue from Exchange Transactions” should be included in paragraph 48. Therefore, the first sentence of paragraph 48 should read “Revenue relating to exchange transactions IPSAS 9, “Revenue from Exchange Transactions” defines revenue and requires it to be is measured at the fair value of the consideration received or receivable, taking into account the amount of any trade discounts and volume rebates allowed by the entity”;
- The middle sentence of paragraph 58 should read “Unless specified to the contrary elsewhere in this Standard, or in another Standard, such disclosure are made either...”;
- Paragraph 87, which relates to the presentation of assets classified as held for sale and liabilities included in disposal groups classified as held for sale, should be deleted;
- Paragraph 101(d), which relates to the presentation of the result of discontinued operations, should be deleted;
- “Or recoverable service amount as appropriate” should be added to paragraph 107 (a) after “recoverable amount” because recoverable service amount is a measurement basis for non-cash-generating assets specified in IPSAS 21;
- “Finance costs” in the last sentence of paragraph 115 should be deleted;
- “Or recoverable service amount” should be added after “recoverable amount” in the brackets of paragraph 133;
- The effective date of January 1, 2009 in paragraph 152 should be changed to an undefined date “MM DD YY”. A similar change should be made to all eleven proposed IPSASs;
- A paragraph should also be added indicating that the proposed Standard supersedes IPSAS 1 issued in May 2000. This paragraph should be included in all eleven proposed IPSASs under the General Improvements Project;
- Based on the decision made on the IPSAS/IFRS Harmonization Strategy, all references in the text of proposed IPSAS 1 to IPSAS XX, “Employee Benefits,” IPSAS XX, “Financial Instruments: Recognition and Measurement” and IPSAS XX, “Non-current Assets Held for Sale and Discontinued Operations” should be removed;
- Based on the decision made about the IPSAS/IFRS Harmonization Strategy, Appendix 1 Interpretations of International Financial Reporting Standards should be removed. The similar Appendix in IPSAS 17 should also be removed;
- The line item “gains on sale of property, plant and equipment” on the statement of financial performance (either by function or by nature) in Appendix 3, should be removed. Consequently, “Gains shall not be classified as revenue” as specified in IAS 16, “Property, Plant and Equipment” should also be in IPSAS 17. A reference to “other income” should be included in the illustration. In addition, the line item “share of surplus of associates” on that statement should be relocated after “total expenses”;
- and
- An introductory paragraph to Appendix 4 Qualitative Characteristics of Financial Reporting, which states the Appendix is not part of the Standard, should be included.

Some members noted that they had identified editorial comments and would provide them to staff out of session.

The Committee also agreed:

- To further progress the General Improvements Project at the November 2004 and March 2005 meetings;
- To consider an omnibus Exposure Draft at its March or July 2005 meeting, depending on how quickly it is able to progress consideration of the individual revised IPSASs;
- To consider revisions to IPSASs 3, 16 and 17 and the “Preface to International Public Sector Accounting Standards” at its meeting in November 2004; and
- That time allocated to the General Improvements Project should not be at the expense of public sector specific issues.

12B Submission on IASB-ED on Proposed Amendments to IAS 19, “Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures”

The Committee received:

- A memorandum from Paul Sutcliffe and Li Li Lian;
- A draft submission on IASB-ED *Proposed Amendments to IAS 19 Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures*; and
- IASB-ED *Proposed Amendments to IAS 19 Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures*.

Due to lack of time, the Committee did not discuss this agenda item. (Secretarial note: members were asked to provide comments on draft submission to Staff out of session.)

Due to lack of time, the Committee did not discuss the proposed revisions to the “Preface to International Public Sector Accounting Standards”, IPSAS 3, “Accounting Policies, Changes in Accounting Estimates and Errors” or IPSAS 17, “Property, Plant and Equipment”. Members agreed these would be considered at the next meeting in November 2004.

12D IASB Update

The IASB Update was taken as read.

<i>Action Required:</i>	<i>Update the eleven IPSASs in the General Improvements Project for review at future PSC meetings based on the decision made on the IPSAS/IFRS Harmonization Strategy. Finalize the submission on IASB ED IAS 19 and circulate to members for approval out of session. Prepare revised IPSAS 3, 16 and 17 for consideration at the New Delhi meeting in November 2004. Prepare IASB update for the PSC New Delhi meeting in November 2004.</i>
<i>Person(s) Responsible:</i>	<i>Chair, Deputy Chair, PSC Staff.</i>

13. EXTERNAL REVIEW OF IFAC PUBLIC SECTOR COMMITTEE – SUMMARY OF PSC DISCUSSION OF REPORT OF REVIEW PANEL

The Committee received and noted:

- A memorandum from John Stanford; and
- A summary of responses to the survey questionnaire issued as part of the review process.

Philippe Adhémar, the PSC Chair noted that the final Report of the Review Panel (the Report) had been distributed directly to members by Sir Andrew Likierman, the Chair of the Review Panel. He also noted:

- Because the Report had been prepared for the IFAC Board, the PSC had not been able to include it in its Agenda materials and make it publicly available; and
- Sir Andrew would present the Report to the IFAC Board on Thursday, July 8, and he and the Technical Director would attend the Board meeting to communicate the PSC's views.

He noted that comments on the Report from four PSC members had been received and circulated prior to the meeting, and comments from an additional two PSC members had been tabled.

Members noted that in broad terms they were of the view that the Report was comprehensive and balanced, and that they supported the majority of the recommendations. Members also noted that the IFAC Board should be encouraged to establish clear guidelines for the implementation of those recommendations it accepted to ensure that the significant momentum developed through the Review Panel process is not lost. Members also were pleased to note that the survey results generated as part of the review process confirmed that the PSC is performing an important function and should continue to be supported.

Philippe Adhémar sought guidance on matters he should raise at the Board. Members discussed each recommendation in detail and identified recommendations that could usefully be clarified, or in respect of which members had reservations, including in particular the following:

Re: Fundraising – Members noted that fundraising is the single most significant issue addressed in the Report. Members also noted the PSC had held off starting a new fundraising campaign until the completion of the External Review. Without disagreeing with the recommendation in the Report, the PSC noted that:

- It was not convinced that PSC members and staff were appropriately skilled for fundraising activities and therefore did not believe that the chief responsibility for fundraising should rest with it (the PSC). Members agreed that the IFAC Board be encouraged to provide support to the PSC's fundraising activities whether through an IFAC fundraising committee or fundraising activities targeted specifically for the PSC, or through the establishment of a separate trust fund or other entity to raise funds for IFAC standard setting activities;

- Governments are amongst those entities that benefit most from the PSC's work and should be included in any fundraising campaign. However there may well be implications from this for PSC governance arrangements, including representation on the PIOB; and
- In seeking funds from the audit and consultancy firms, the PSC may find itself in competition with the fundraising activities of other IFAC Committees. This reinforces the need for IFAC to adopt a coordinated approach to its funding activities for all its Boards and Committees.

Re: Content of the PSC Work Program – The PSC discussed its future work program in detail and confirmed that over the short and medium terms its priorities should be as follows:

- Addressing public sector specific issues will be the PSC's first priority;
- Convergence/harmonization with the IFRSs/IASs, will be the PSC's second priority; and
- Convergence/harmonization with statistical reporting will be the PSC's third priority.

Re: Conceptual Framework – Members did not agree with the Review Panel Recommendation that it not initiate a project to develop its own conceptual framework, but rather only interpret the IASB framework. Members directed Philippe to advise the Board that the PSC is of the view that it is important for the credibility of the IPSASs that the PSC develop its own conceptual framework. However, Members did acknowledge that as part of developing its own framework the PSC should consider the IASB's existing framework, learn from that framework and interpret and incorporate it in a PSC framework where appropriate. Members also agreed that the PSC should actively monitor the work that is ongoing to further develop the IASB framework and also the work of other public sector standard setters in this area.

Re: Partnering with National Standard-Setters – The PSC supports the recommendation that it continue to use Steering Committees and establish more formal partnering arrangements with selected National Standards-Setters. Members also noted that the Steering Committees and partnering arrangements should be balanced to ensure that there is no regional or other inappropriate bias.

Re: The appropriate governance model – The PSC had no objection to the recommendation that public and private sector accounting standards should converge where appropriate, subject to its decision (see above) of the priority of public sector specific issues in the short and medium terms, and subject to the appropriateness of the convergence.

The PSC also supports the recommendation that it should be brought within the scope of the IFAC PIOB, but noted that the composition of the PIOB and the process for identification of the public sector members of the PIOB and the identity of those members are critical for PIOB oversight of PSC activities to be, and to be perceived to be, a success. Members also noted that the resolution of these PIOB membership issues could usefully be linked to initiatives for gaining additional PSC funding.

The PSC had no objection to the appointment of public members, but noted that in its implementation the Nominating Committee would need to ensure that there was broad public representation, and not just representation from finance ministries.

In terms of not-for-profit entities, the PSC agreed that in principle not-for-profit entities could be brought within its scope in the long term, but in the medium term the PSC would need to focus on public sector specific issues. Members also noted that the IASB's role in this area would need to be clarified.

Re: Renaming the PSC – The PSC strongly supports the change of its name to the International Public Sector Accounting Standards Board (IPSASB) as recommended by the Review Panel, but does acknowledge that the name change needs to be marketed effectively by IFAC.

Re: Number of meetings – The PSC agrees with the recommendation that more meeting time is necessary. Members of the PSC have a clear preference for longer meetings rather than more frequent meetings. The PSC also strongly supports the recommendation that the PSC not be required to conduct 50% of its meetings in New York. This is because the PSC should meet in key locations where it can effectively promote its output and support constituents interested in implementing IPSASs. A number of PSC members noted that seminars and other promotional activities undertaken by the PSC when meeting in their countries or in their region had been most important in raising the awareness of IFAC, the PSC and the IPSASs in the public sector in their regions.

Re: PSC size and geographical representation – The PSC supports the recommendation to address geographical and gender imbalances on the PSC, subject to appointees having appropriate skills and expertise. The PSC supports the recommendation regarding technical advisors, but one member noted that there might be an issue regarding member body representation.

Re: Approval Arrangements – The PSC agrees with the recommendation that formal provisions be included in its terms of reference in respect of proxy voting. However, the PSC noted that it should be clarified that “proxy voting” meant that an alternate actually present at the meeting (usually the technical advisor) could vote on behalf of the member.

The PSC agrees with the recommendation that agreement of two-thirds of the voting rights of the PSC are necessary for approval of Exposure Drafts, Invitations to Comment and pronouncements, noting that it would align the PSC with other IFAC committees.

The PSC agreed with all other recommendations of the Review Panel.

<i>Action Required:</i>	<i>Present PSC views to the IFAC Board</i>
<i>Person(s) Responsible:</i>	<i>PSC Chair and Technical Director</i>

14. PSC CONSULTATIVE GROUP

Members received and considered:

- a memorandum from Jerry Gutu regarding the PSC Consultative Group;

- a report on current status of appointments to the Consultative Group;
- a membership profile and operating procedures of the Consultative Group; and
- a list of members of the group and participants from the United States and Canada observing the PSC meeting as well as attending the special session of the group.

Jerry Gutu provided an update on the status of the Consultative Group, noting that 59 out of 67 individuals and organizations had confirmed their membership and participation in the group. He noted that there had only been an increase of one member, Mr. Rafi, an ex-PSC member from Pakistan, who rejoined the group following an invitation from PSC on reactivation of his membership. Jerry pointed out that of the 8 appointments which remained outstanding, 3 were from the Middle East, 2 from Latin America and a single seat each remaining for Asia, North America and Australasia.

The meeting was advised and agreed to the following:

- Replacement of Mr. Jeremiah Mutonga as representative of the African Development Bank on the Consultative Group by Mr. Charles Muthuthi who has assumed the office of Director of Accounting;
- Replacement of Mr. Hirokazu Fujita as representative of the Ministry of Finance of Japan on the Consultative Group by Mr. Tetsuo Kanai who has assumed the office of Director Public Accounting Office;
- Replacement of Dr Arthur McHugh, the outgoing Auditor General of Tasmania, as representative of the Australasian Council of Auditors-General (ACAG) on the Consultative Group by Mr. Mike Blake the new Auditor General of Tasmania;
- Professor Ato Ghartey becomes a representative of the Association of Accountancy Bodies in West Africa (ABWA). He had been initially nominated to the group as an academic;
- Acceptance of membership to the Consultative Group of Mr. Fernando Mayorga sent a request through Jerry. Mr. Mayorga of Fitch Ratings Agency. Mr. Mayorga is the Head of the International Public Finance Division in Europe; and
- That all ex-members of PSC be invited to rejoin the Consultative Group without waiting for their countries' representatives to retire from PSC. Jerry indicated that this would ensure that the valuable expertise and contribution of the ex-members is not lost to PSC and that they all be invited to attend PSC meetings in their regions whenever those meetings take place. PSC agreed to the proposal and directed staff to extend invitations to all ex-members to rejoin the Consultative Group with immediate effect.

Action Required: *Finalize the remaining nominations to the Consultative Group and invite all ex-members to rejoin the group.*

Person(s) Responsible: *Members, PSC Secretariat.*

15. PUBLIC SECTOR PERSPECTIVES ON ISAs

Members received and noted:

- A progress report on the process of takeover of PSPs by INTOSAI and IAASB from Jerry; and
- An update on the current Public Sector Perspectives (PSPs).

Jerry expressed appreciation to the PSP subcommittee for the assistance they had given PSC Staff since the meeting in Buenos Aires, Argentina. He advised the meeting that a draft PSP on International Standard on Auditing (ISA) 320, “Audit Materiality” had been submitted a few days before the meeting to the International Auditing and Assurance Standards Board (IAASB) at the end June 2004. A PSP would be developed for revised ISA 540, “Audit of Accounting Estimates” as soon as a draft ISA was available from IAASB sometime in September 2004.

John Fretwell, the Observer on PSC representing INTOSAI confirmed that their representatives experts, supported by technical staff, had now joined the Task Forces of IAASB and work had commenced on development of ISAs. INTOSAI perspectives and views would be woven into the ISAs as INTOSAI would work with IAASB from the beginning of the development process of an ISA rather than in the form of a PSP on a completed ISA. He also noted that, on an exceptional basis, where justified, INTOSAI would develop separate guidelines outside the ISA. Terence Nombembe, who attends the INTOSAI meetings, requested that John Fretwell report on the new procedures to INTOSAI at its next congress in Hungary – John undertook to report to the INTOSAI congress.

Action Required: *Draft Public Sector Perspectives (PSPs) on International Standards on Auditing (ISAs) and circulate to PSC, forward final PSPs to IAASB*

Person(s) Responsible: *PSP Subcommittee and Secretariat.*

16. FUTURE MEETINGS & GENERAL BUSINESS

The Committee agreed that PSC meetings should be extended to a four-day meeting to deal with PSC’s extensive work program.

The Committee noted the final meeting in 2004 would be from November 8 – 10 in New Delhi, India with the fourth day either on November 7 (Sunday) or November 11 (Thursday). (Secretarial note: Following the meeting, PSC agreed to change the dates of the next PSC meeting to November 1 – 4, 2004 so that the PSC Chair could attend the IFAC Board meeting in Paris from November 8 – 11, 2004.)

The PSC also discussed meeting locations and dates for 2005 and 2006.

Dates	Locations
PSC Meetings 2005	
March 7 – 10 or March 14 – 18	Oslo, Norway
June/July	To be finalized, staff are to explore the possibility of having a meeting in

Dates	Locations
	Eastern Europe, Cairo, or New York
December 6 – 9, subject to PSC's coordination with IAASB's meeting in Cape Town	Cape Town, South Africa

PSC Meetings 2006 (Dates to be confirmed later)	
March	To explore the possibility of having a meeting in Eastern Europe or Cairo (TBC)
June/July	Paris, France
November	Japan or Istanbul to coincide with the World Congress of Accountants in Istanbul

(TBC = to be confirmed)

Other member countries also expressed interest to host PSC meetings. These included: Japan (to coincide with the CAPA meeting), Cayman Islands (not during June/July 2005) and Israel (subject to consultation with the Ministry of Finance and the Institute of Certified Public Accountants in Israel).

Members also noted that IFAC has a policy of holding at least half of all meetings in New York, but that the Review Panel had recommended that this policy not be applied to the PSC, that this recommendation was supported by the PSC, and would be considered by the IFAC Board.

Action Required: *Liaise with IFAC, The Institute of Chartered Accountants of India and others as necessary to coordinate the November meeting in New Delhi. Liaise with Norwegian member, technical advisor and the Norwegian Institute of Public Accountants to finalize arrangements for the March meeting. Investigate meeting locations for July 2005 meeting.*

Persons Responsible: *PSC Staff and Secretariat.*

17. CONSULTATIVE GROUP MEETING

The PSC Members, Observers, Technical Advisors and Staff met with the PSC Consultative Group on the afternoon of July 6, 2004. This meeting focused on two issues, Budget Reporting and Harmonization of IFRSs and GFS with IPSASs. The members of the Consultative Group present were:

- Ato Gharty, Ghartey Associates, Ghana;
- Robert Freeman, Texas Tech University, USA;
- Charles Coe, Consultant, Canada;
- Kenneth Dye, Cowater International, former PSC Chair, Canada;

- James Luedeke, NATO;
- Jesse Huges, Old Dominion University, USA;
- Anna Miller (representing Sharon Russell), Association of Government Accountants, USA; and
- Wendy Comes, Federal Accounting Standards Advisory Board, USA

In addition the following were invited to join the discussion;

- Robert Attman, Chair, Governmental Accounting Standards Board, USA;
- Anne Kester, IMF;
- Anthony Gioffre, Department of Education, USA; and
- Ian Mackintosh, Regional Manager (South Asia), World Bank, former PSC Chair, Australia.

Philippe Adhémar, PSC Chair, welcomed the PSC Consultative Group members and members of the public gallery and others present to the meeting of the Consultative Group. Philippe gave a brief history of the PSC and its standards project and advised participants that the PSC had recently been subject to an external review, and that the Review Panel had prepared a report which would be presented to the IFAC Board the following day.

Philippe advised that the discussion of the Consultative Group meeting would focus on two areas: the workplan of the PSC (in particular the harmonization strategy) and the Budget Reporting Research Report.

The Consultative Group discussed the PSC's work plan and convergence strategy and stressed the following points:

- Convergence with IASs/IFRSs and statistical reporting bases should be pursued where appropriate, but not to the detriment of progress on public sector specific issues;
- It supports the Strategy proposed by staff, but also supports the approach proposed by members in the discussion of that strategy;
- Funding of the standards setting project remained a critical issues that was still to be resolved;
- The PSC needs to support countries that are, or are considering, using the IPSASs;
- The PSC needs to support implementation of the Cash Basis IPSAS as a step in implementing the accrual basis IPSASs;
- The PSC needs to develop relationships and networks with organizations engaged in training public sector accountants; and
- The PSC needs to seek greater participation of stakeholders including governments, multi-lateral development banks, accounting firms and others.

The Consultative Group discussed the Research Report "Budget Reporting" and made the following points:

- Reporting budgeted forecast information involved complex issues and was likely to be a longer-term project. References to such information in a management discussion and analysis section was also likely to be useful;

- Budget reporting should be within the mandate of the PSC; and
- An IPSAS on budget reporting should include within its scope ex-ante forecast information and ex-post comparison of actual performance and position to budgeted performance and position.

The PSC Chair thanked those in attendance for their contributions and invited them to provide further written comments to the PSC on either the convergence strategy or the Research Report.

A more comprehensive record of the Consultative Group meeting is attached to these minutes as Annex 1.

18. ROUNDTABLE SEMINAR WITH UNITED NATIONS

The PSC met with members of various programs and organizations within the United Nations system on the afternoon of July 7, 2004. United Nations officers present were:

- Mr. Janyantilal M. Karia, Director, Accounts Division, United Nations (UN);
- Mr. Raj Rikhy, Deputy Director, Accounts Division, UN;
- Ms. Vera Rajic, Chief, Insurance and Disbursement Service, UN;
- Mr. Chulmin Kang, Chief, Central Accounts Section, UN;
- Ms. Ester Boxill, chief, Trust Fund and Technical Cooperation Section;
- Mr. Christophe Monier, Chief, Payroll Section, UN;
- Ms. Valencia Williams-Baker, Chief, Analysis and Reports Unit, UN;
- Mr. George Kyriacou, Finance Support Coordinator, IMIS Support Unit, UN;
- Mr. Sejong Lee, Peacekeeping Accounts Section, UN;
- Ms. Sarita Whiteside, Central Accounts Section, UN
- Ms. Rosita Chan, Central Accounts Section, UN;
- Ms. Lara Beeson, Trust Fund Unit, UN;
- Ms Myung Chun, Payroll Section, UN;
- Ms Jasminka Haznadar, Risk Management Unit, UN;
- Ms. Melissa Buerbaumer, Peacekeeping Accounts Section;
- Mr. Darshak Shah, Comptroller, UN Development Programme (UNDP);
- Mr. Sammy Ng'era, Chief, Corporate Financial Reporting, UNDP;
- Mr. Nicolas Beresford, UNDP;
- Mr. Claude Graham, UNDP;
- Mr. Kenwrick Phillip, UNDP;
- Mr. Richard Barr, Chief of Finance, UN Population Fund (UNFPA);
- Mr. Louis Bradley, Director, Accounting Services, UN Children's Fund (UNICEF);
- Mr. Prom Chopra, UNICEF; and
- Ms, Sally Neal, Director, Division of Finance, Budget and Administration, UN Office for Project Services (UNOPS).

The PSC Chair made a brief presentation to introduce IFAC, the PSC and the IPSASs to the UN representatives.

Jay Karia, the UN observer on the PSC, made a presentation on the accounting system used by the UN. Jay noted that:

- There are more than thirty affiliated organizations in the UN, each with their own governing bodies, budgets and secretariats;
- Organizations can roughly be divided into two categories: those funded by assessed contributions, and those funded by voluntary contributions (e.g. World Food Programme);
- The United Nations System has a Chief Executives Board for Coordination (CEB) made up of the chief executives of all the organizations to facilitate cooperation on a range of substantive and management issues, it is chaired by the Secretary-General of the UN and meets twice annually;
- The CEB is assisted by the High Level Committee on Programmes (HLCP) and the High Level Committee on Management (HLCM). The HCLM approves changes to the UN System Accounting Standards (UNSAS);
- In 1990 the panel of external auditors completed an interim study on the development of accounting standards for the UN system and recommended the development of such standards to ensure consistency between organizations within the UN. ~~However, it is not clear that the UNSASs are applied consistently across all entities;~~
- In 1991 a task force was formed which developed the UNSAS, which are based on IASs/IFRSs. UNSAS have been in force since and have been updated;
- In 2001 the Board of Auditors (BOA) reaffirmed the value of the UNSAS and suggested that in future developments of these standards, IPSASs be considered;
- In 2002 the HLCM established a task force to review the existing UNSAS and to pursue with the PSC how to put in place a mechanism to monitor and participate in the development of IPSAS;
- In 2002 UN agencies reviewed IPSASs with a view to determining whether adoption of IPSASs would have any impact on UN Financial Regulations and Rules, and what financial/systems modifications would be needed to ensure compliance with IPSASs;
- In 2002 the HCLM task force met with IFAC and reestablished the UN's observer status. The UN observer has attended all PSC meetings since November 2002. The task force concluded that it was not feasible to fully adopt IPSASs, or any external standards, at this stage, but that UNSAS should incorporate IPSASs where appropriate. The HLCM adopted these recommendations; and
- In the future the HLCM task force will continue to develop UNSAS with a view to improving financial reporting in the UN.

The PSC and members of the UN organizations present discussed the difficulties faced by UN organizations in implementing accrual accounting ~~were raised~~ including:

- Current practice in the UN is to recognize acquisition of property, plant and equipment as an expense in the period of acquisition. Changing this practice may meet some resistance from organizations and member states;
- Employees' post-employment benefits are not recorded or funded in most UN organizations, although some organizations have started to fund them. Under accrual accounting, a large liability would need to be recognized in respect of these after service benefits; and

- At present revenue is recognized in respect of assessed contributions when the assessment is made, however many member states are in arrears and it is politically difficult to recognize a bad debt expense in relation to these contributions. It is also politically difficult to defer recognition of the receivable and revenue because it is tantamount to saying that the member state may default on its obligation.

The PSC Chair thanked those present for their attendance, said that he looked forward to the continuing contribution being made by the UN to the PSC's deliberations and expressed the hope that PSC standards could find their useful application in the UN world.

ANNEX 1

Meeting of PSC Consultative Group participants from the North American region: New York, July 6, 2004

Philippe Adhémar, PSC Chair, welcomed participants to the meeting. In attendance were members of the Consultative Group (CG), GASB incoming Chair, Mr. Robert Attman and Mr Tony Gioffre of the US Department of Education, and PSC Members, Observers, Technical Advisors and Staff. The list of the Consultative Group members in attendance is attached.

Philippe highlighted the importance of the Consultative Group in the light of the complexity and technical nature of subject matters under consideration by PSC. He stressed the need for input from the group and the need to focus the input and relationship with PSC on a few but critical topics. Philippe requested the participants to introduce themselves and advised that the discussion of the meeting would center on two following issues:

- Harmonization with IFRSs/IASs; and
- Budget Reporting Project

Introductory remarks on PSC and its work plan

Philippe gave a brief history of PSC and its Standards Project and advised the participants that PSC had been subject to a recently concluded external review whose report was due for discussion at the IFAC Board during the same week. He pointed out that the Review Panel had consulted PSC constituents on its role, governance and operations. The responses received had been very positive and encouraging and confirmed the relevance of PSC and that it was doing a good job. The objectives and priorities of PSC were also confirmed to be on the right lines according to the views of the constituents.

Philippe asked Paul to give a summary of the PSC work plan and comment on the two areas of harmonization and budget reporting in order to focus the meeting. Paul made reference to agenda items 6.3 and 6.4 in his presentation of the work plan of PSC. He acknowledged that comments had been received from participants around the table and from other people not present with regard to harmonization and budget reporting. He highlighted that the work plan of PSC may be broken into three components as follows:

- Public sector specific issues, these include the ITCs for Non-Exchange Revenue, Social Policies of Government, indicating that to date more than forty-six comments had been received from respondents and more were expected. The analysis leading to EDs and IPSASs would be presented at the next PSC meeting in November;
- IASB Convergence program, which included current proposals for improving eleven IPSASs; and
- Harmonization of GFS/ESA/SNA/IPSASs, Paul indicated that PSC initiated work in this area in 2003 leading to the formation of a Task Force on Harmonization on which PSC and other interested organizations participate. He indicated that a matrix of the differences in treatment of the issues between the various formats of reporting would be issued later by PSC as a Study, Research Report or Occasional Paper. Proposals on how this work would be carried forward were to be tabled to PSC.

General Discussion by all participants

The Chair opened the discussion to the floor and asked participants to give general comments first and then focus on the issues of harmonization and budget reporting.

Participants who had introduced themselves earlier spoke to the subject as follows:

- Ken Dye – ex-PSC Chair, Consultant and Member of the Consultative Group. He expressed concern on the subject of harmonization indicating that the Public Sector financial reporting matter could be swallowed up in the process. He stressed the importance of the IPSASs in providing guidance and leadership in the public sector particularly to developing economies. He referred to the need for IFAC to give preeminence to PSC and provide it with adequate funding, lamenting the lack of attention to PSC so far;
- Wendy Comes – Financial Accounting Standards Advisory Board (FASAB) Representative to the PSC Consultative Group. Wendy explained to the meeting the funding of FASAB highlighting that perhaps PSC could consider this and other models in its search for solutions to issues such as funding and governance. She indicated that FASAB had an oversight body and that three organizations contributed to the funding of FASAB, these were the General Accounting Office, the US Treasury and the Office of Management and Budget. The funding arrangements were subject of Act of law which was to ensure the independence of FASAB;
- Ian Mackintosh – ex-PSC Chair, PSC PAP Chair Development Assistance Project. He enquired whether GASB's program would enable more cooperation, sharing of resources and conducting joint projects with PSC. The incoming Chair of GASB, Robert Attman, responded that while recognizing that he was new in the position he would welcome the opportunity to interact more with PSC;
- Charles Coe – Consultant and member of the Consultative Group. He stressed that obtaining funding for continuing the standards program was critical even if it meant engaging marketing expertise to undertake this exercise. He said the standards program had been funded by donors to date and that the package of the existing twenty IPSASs had not focused on public specific issues of financial reporting. He suggested that PSC needs to ask itself whether it was adding value to the whole process to warrant recognition. PSC needed to deal with a misconception out there that it was for private sector accounting. He said governments should be approached to contribute to funding particularly the G7 countries, which always espouse the issue of good governance of which IPSASs are a good foundation. Agreeing with Charles' comment, Rick Neville suggested that perhaps the Finance Ministers forum which is a subcommittee of G7 was a better group to approach;
- Jesse Hughes – Consultant and member of the Consultative Group. Jesse referred to the ICGFM training program, which he coordinates, conducting training programs around the world incorporating IPSASs and GFS. He said ICGFM always encouraged countries to consolidate application of the cash basis first, and obtain certification from the Auditors before preparing to move to the accrual basis. Jesse wondered whether this was a sound approach in the effort to have countries on a common comparable basis;
- Anthony Gioffre – Acting Director of Financial Management in the US Department of Education, observing the meeting as a member of the public. He encouraged PSC

to cooperate with other organizations and to consider endorsement of a certified body of knowledge, citing examples of ACCA and ICGFM as explained by Jesse Hughes;

- Anna Miller – representing Sharon Russell, member of the Consultative Group for Association of Government Accountants, USA. She concurred with the suggestion for PSC to network with similar organizations including AGA which was now working with many countries including Mongolia;
- Ken Dye – ex-PSC Chair and member of Consultative Group. He concurred with the view of networking between PSC and other organizations emphasizing the importance of capacity building through continuous training and certification at both professional and technician levels. He cited examples of programs he is involved with in Malaysia and other countries;
- Mike Hathorn – PSC Member for the United Kingdom. Mike expressed his agreement with the approach of sticking with the cash basis first to create a sound basis for transitioning to accrual basis. He highlighted the frustration with the current public relations approach emphasizing the need for a different strategy to bring on board those who benefit from what PSC does, that is, the governments. PSC needed help in this in his view;
- Ian Mackintosh – Chair of PAP Development Assistance Project. He suggested that perhaps a flexible approach to the application of cash and accrual bases would be better perhaps a mixed approach depending on the demands of the country. He pointed out that, the World Bank has established that there is good training for lower and middle levels of officials in India which is taking accrual on a piloting basis;
- Ethan Weisman – Alternate Observer of IMF to PSC. He echoed a case by case approach to assisting countries. He indicated that many countries were in between cash and accrual bases. He stressed that the GFS framework provides a good bridge between the cash and accrual bases of accounting in the public sector;
- Ato Ghartey – member of Consultative Group. He stressed that very few countries were operating on a pure cash accounting basis as most countries were on modified cash or accrual. He cautioned against overstressing of the cash basis thereby setting back many countries in the process; and
- Freeman Nomvalo – Technical Advisor, South Africa. He shared with the meeting the capacity building initiatives in the public sector of South Africa indicating that South Africa has decided to move to accrual basis of accounting for the public sector. He said after looking at the market including all training and education institutions they established that none of them provided relevant training to their needs. An arrangement has been made to run a pilot program focusing on the public sector financial reporting issues. This institution spearheads training programs and development of long-term programs to supply skills required for the municipality sector as well. IPSASs would be incorporated in the program. He suggested that perhaps part of the solution of spreading the IPSASs is creating the supply of skills in developing countries;

The Chair summed up the discussions of this part of the meeting stressing the following:

- Explained that emphasis of PSC is on convergence where applicable and that PSC is not losing sight of its priorities;

- Funding remained a fundamentally unresolved issue at this stage and if no additional funding becomes available PSC would not be able to proceed with its standards setting program beyond middle of 2005;
- Need for PSC to prove its worth by showing that PSC makes a difference in the countries which uses its materials;
- Need for PSC to pay more attention to the implementation of Cash Basis as a way to pave way to accrual basis;
- Need for PSC to enter into relationships and networking with organizations engaged in training; and
- Need to seek greater participation of other stakeholders including governments, MDBs, firms and other interested parties;

Discussion on Harmonization and Budget Reporting Project

Discussion then turned to the two topics of Harmonization and Budget Reporting with introductory remarks from Paul Sutcliffe. He indicated that PSC Staff received some comments from Consultative Group members on harmonization, which were not adverse to the proposed strategy, though others had expressed the view that the matter of harmonization was not an urgent one. He explained further that PSC would progress as quickly as it could with the improvement program of eleven IPSASs impacted by IASB and would want to refresh the other nine IPSASs. He indicated that Staff would indicate whether this was feasible given the work on the ITCs and the Impairment of Assets. It was intended to have a refreshed stable platform of twenty-one IPSASs in 2006 or 2007.

Turning to the Budget Reporting Research Report, Paul noted that the report that had been prepared by Jesse with assistance from a Steering Committee chaired by Ron Points, had since been circulated. The report focused on the following matters:

- Is Budget Reporting in the mandate of PSC;
- Where is the focus, comparison of budget versus actual, should this include ex-ante reporting; and
- What is the character of the information to be communicated to users.

Paul highlighted that the responses received were divided, some were in support of the report and some were not.

The Chair opened the discussion to the floor. Members noted they were comfortable with the proposed harmonization strategy proposed by staff, and with the modifications made by members during the discussion of the strategy. Members general comments included:

- James Luedeke – NATO Financial Controller and member of Consultative Group. He stressed the importance of the IPSASs staying current through the harmonization project. He indicated that the resource constraints of PSC are appreciated but from a user's perspective, he was of the view that users would want updated IPSASs rather than using outdated ones and in that context a stable platform was not necessary. James indicated his support for development of a standard dealing with budget reporting emphasizing that budgeting and accounting were integrated in many systems now;

- Anna Miller – AGA Technical Manager standing for the representative on the Consultative Group. She supported the efforts for harmonization of IPSASs and IASs to stay current. She also stressed the importance of the budget reporting report offering AGA to host the document or link it to their website for wider access by their members and visitors to the AGA website;
- Terence Nombembe – PSC Member for South Africa. He emphasized the need to advise the group of decisions made in the previous PSC meeting in Buenos Aires, Argentina that the Report had been issued as a report of the Consultant and not as one from PSC and to get the views of the members of the group on this;
- Ato Ghartey – Consultant and member of Consultative Group. He stressed the importance of wide distribution of such reports as the Budget Reporting Research Report. These contacts should include all professional associations and Ministries of Finance;
- Wayne Cameron – PSC Member for Australia. He highlighted the importance of a targeted approach in circulation of such documents as the Budget Reporting Research Report particularly to reach all the Heads of Treasuries around the world; and
- Charles Coe – Consultant and member of Consultative. He expressed his support for an IPSAS on Budget Reporting given the centrality of the budget and stressed that the IPSAS would cover ex-ante reporting and budget versus actual.

Philippe posed a question on what the format and focus of an IPSAS on Budget Reporting should be. Responses were as follows:

- Anna Miller of AGA. She referred to the initiatives in the US to improve the management discussion and Analysis section of the general purpose financial reports in the public sector as worth consideration by PSC;
- Mike Hathorn – PSC Member for UK, suggested that form and content of financial reports in the public sector including budget reports needed to be improved through research. He said it was important to put the message in a wider context and conveying the message beyond the figures. He stressed the cross cutting nature of the issue in the private as well as public sectors. In this connection he pointed to a study by the Institute of Chartered Accountants of Scotland on reporting;
- Ken Dye – ex-PSC Chair and member of Consultative Group. He referred to a joint study done by GAO and Office of the Auditor General of Canada that addressed the issue of focus of budget reports and recommended that PSC refers to it. He stressed the importance of including the accrual concept in the budget so that both accounting and budgeting are driven by it; and
- Wendy Comes – FASAB representative on the Consultative Group. She confirmed the usefulness of the study referred to by Ken Dye, done by GAO and Auditor General of Canada that addressed the issue of reporting on the budget. She said IPSASs on the budget reporting should cover both ex-ante and ex-post reporting. She stressed the importance of covering the management discussion and analysis dealing particularly with forecasts in the IPSAS.

The Chair closed the session by thanking all the participants for their contributions inviting them to provide further comments.

List of PSC Consultative Group Members and other participants who attended the session: New York, July 6, 2004

	Name	Organization	Title
1	Ato Gharthey	Gharthey Associates, Ghana	Chief Executive, Professor
2	Robert Freeman	Texas Tech University	Professor
3	Charles Coe	Consultant	Consultant
4	Kenneth Dye	Cowater International	Senior Vice President
5	James Luedeke	NATO	Financial Controller
6	Jesse Hughes	Old Dominion University	Professor, Consultant
7	Anna Miller (rep. Sharon Russell)	Association of Government Accountants (AGA, USA)	Technical Manager
8	Wendy Comes	Financial Accounting Standards Advisory Board (FASAB)	
9	Robert Attman (not member of Consultative Group)	Governmental Accounting Standards Board of USA (GASB)	Incoming Chair
10	Anthony Gioffre (not member of Consultative Group)	US Dept of Education	Acting Director, Financial Management
11	Ian Mackintosh (not member of Consultative Group – appointed to the CG after the meeting)	World Bank	Manager, Financial Management for South Asia, former PSC Chair.

**PUBLIC SECTOR COMMITTEE
ACTION LIST FROM THE NEW YORK MEETING**

Action Required	Person(s) Responsible	Date Due	Date Completed
1. Prepare, review and distribute minutes.	Chair, PSC Staff	August 2004	September 2004
2. Update the Committee's Action List and distribute with the minutes.	PSC Staff	August 2004	September 2004
3. Post approved minutes from the Buenos Aires meeting on the Intranet.	PSC Staff	July 2004	July 2004
4. Prepare PSC Update on New York Meeting.	Chair, PSC Staff	August 2004	July 2004
5. Prepare Chairman's Report.	Chair	September 2004	September 2004
6. Update PSC Correspondence, Distribution and Network Lists; and send to members.	PSC Secretariat	July 2004 and Ongoing	October 2004
7. Prepare Secretariat Report.	PSC Secretariat	September 2004	September 2004
8. Liaise with Institute of Chartered Accountants of India and others as necessary to co-ordinate the November 2004 meeting in New Delhi, advise members.	PSC Secretariat	July 2004 and Ongoing	October 2004 and ongoing
9. Liaise with the member and technical advisor from Norway, and the Norwegian Institute of Public Accountants to arrange the March 2005 meeting in Oslo.	PSC Secretariat	October 2004 and ongoing	September 2004 and Ongoing
10. Investigate meeting locations for the July 2005 meeting.	PSC Secretariat	October 2004 and ongoing	September 2004
11. Update PSC Work Program and Funding proposal. Update register of funding, translation and promotion activities.	PSC Staff	August 2004 and Ongoing	October 2004
12. Continue fundraising activities. Meet with observers re funding strategies. Follow up on funding and promotion activities.	Chair, PSC Staff	September 2004 and Ongoing	September 2004 and ongoing

Action Required	Person(s) Responsible	Date Due	Date Completed
13. Prepare Project Brief for Occasional Paper on use of IPSASs when time allows and resources are available to support the project.	PSC Staff	August 2004 and Ongoing	Ongoing
14. Prepare Update on Public – Private sector arrangements.	PSC Staff	August 2004 and Ongoing	October 2004
15. Prepare Project Brief on Heritage Assets.	PSC Staff	September 2004 and Ongoing	October 2004
16. Follow up with the IASB on its projects on performance reporting, develop Project Brief for a PSC project if appropriate.	PSC Staff	September 2004 and Ongoing	Ongoing
17. Prepare Occasional Paper of USA governmental accounting.	USA delegation	July 2004 and ongoing	Ongoing
18. Prepare country reports to be included in the Committee Agenda.	Members, PSC Secretariat	August 2004	August 2004 and Ongoing
19. Finalize IPSAS 21 “Impairment of Non-Cash-Generating Assets,” review finalized IPSAS.	PSC Staff, Chair, Members from Australia, Canada, New Zealand, South Africa and United States of America	August 2004	October 2004 and Ongoing
20. Prepare draft IPSAS 22 “Impairment of Cash-Generating Assets”.	Members from Canada, South Africa and United States of America	September 2004	October 2004 and Ongoing
21. Prepare draft Exposure Draft on comparisons of actual to budget (ex-post reporting).	Consultant and PSC Staff	September 2004	October 2004 and ongoing
22. Prepare Project Brief on reporting budget forecast data as a general purpose financial statements (or note) for consideration in 2005.	PSC Staff	October 2004 and ongoing	October 2004 and ongoing
23. Make presentation to OECD Forum.	Consultant	July 2004	July 2004

Action Required	Person(s) Responsible	Date Due	Date Completed
24. Update draft exposure draft "Accounting for Development Assistance" based on PAP comments for consideration at next PSC meeting. Consultant and PSC staff to meet to refine technical and format issues.	Consultant and PSC Staff	September 2004	September 2004
25. Prepare final draft Project Brief for Project on reporting of General Government Sector information.	PSC Staff	September 2004	October 2004
26. Prepare draft Occasional Paper/Research Report from the Matrix of Differences between IPSAS/GFSM 2001/ESA 95 for consideration at the November 2004 meeting.	Chair, Betty Gruber, Robert Keys.	September 2004	October 2004
27. Update the eleven IPSASs for review at future PSC meetings based on the decision made on the IPSAS/IFRS Harmonization Strategy.	PSC Staff	July 2004 and ongoing	September 2004
28. Finalize the submission on IASB ED IAS 19 and circulate to members for approval out of session.	PSC Staff	July 2004	July 2004
29. Prepare IASB update for the PSC New Delhi meeting in November 2004.	PSC Staff	October 2004	October 2004
30. Present PSC views to the IFAC Board.	PSC Chair and Technical Director	July 2004	July 2004
31. Prepare Action Plan for implementing recommendations of the Review Panel and present to November IFAC Board meeting	PSC Chair and Technical Director	November 2004	October 2004
32. Finalize the remaining nominations to the Consultative Group and invite all ex-members of the PSC to join the Consultative Group.	PSC Secretariat.	August 2004 and ongoing	September 2004 and ongoing
33. Draft Public Sector Perspectives (PSPs) on International Standards on Auditing (ISAs) and circulate to PSC, forward final PSPs to IAASB.	PSP Subcommittee, PSC Secretariat	August 2004 and ongoing.	September 2004 and ongoing



**INTERNATIONAL FEDERATION
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DATE: 1 OCTOBER 2004
MEMO TO: MEMBERS OF THE IFAC PUBLIC SECTOR COMMITTEE
FROM: PHILIPPE ADHÉMAR
SUBJECT: **CHAIRMAN'S REPORT**

ACTION REQUIRED

The Committee is asked to:

- **note** the Chairman's Report.

CHAIRMAN'S REPORT

Since the last PSC meeting in March 2004, I have been involved in the following:

- Attended the IFAC Board meeting immediately following the July PSC meeting and advised the Board of the PSC's views on the Recommendations. I circulated a report on the Board's deliberations following the Board meeting. That report is included at Agenda item 16.
- As requested by the Board, the PSC Technical Director and I have prepared an Action Plan for implementation of the Review Panel's Recommendations as agreed by the Board. That Action Plan, together with draft IPSASB Terms of Reference and revised Preface has been distributed to PSC members for discussion at the forthcoming meeting.
- Reviewed and agreed PSC Update 12, including providing additional input on the translation of the French translation thereof.
- Prepared letter thanking Mr. Jay Karia for his support in arranging the PSC meeting, seminar and round table discussions in July 2004.
- Submitted a report to the IFAC Council on PSC activities during 2004. A copy of that report is attached at item 4.2.
- Reviewed and agreed a media release regarding the Spanish translation of IPSASs.
- Reviewed the draft funding proposal for use in securing funds for the PSC to ensure it co-ordinates with the Board's decisions on the Review Panel Report.
- Reviewed the July and August 2004 monthly financial statements prepared in respect of the Standards Program.
- Provided responses to communicators from the Ukraine Treasury Officials regarding membership of the PSC.
- Participated in development of the program for the seminar in New Delhi and the items for discussion with the Consultative Group.

- Reviewed and agreed the Agenda and schedule for the November 2004 PSC meeting.
- Presented an update on the PSC's work program to the International Colloquium on Financial Management for National Governments in September 2004 in Boston.
- Presented an update on the PSC and participated in discussions of the application of IPSASs in Europe at a European Union/FEE Conference in September.
- Reviewed a project proposal of the Professional Accountants in Business (PAIB) Committee of IFAC regarding Business Planning Guidelines for Small/Medium Enterprises and Practices, and noted that it had limited applicability in the public sector. Therefore PSC would not be involved. A copy of the project proposal is available from staff.
- Reviewed three project proposals of the Ethics Committee dealing with auditor rotation, whistle blowing and guidance to accountants in government. Clearly the third proposal is very relevant. I wrote to Norbert Vogelpoth to see if he was available to participate in a Task Force. Members will recall that Norbert has previously represented the PSC on an Ethics Committee project.
- Agreed to participate in a meeting to discuss additional funding sources for the PSC in late September/Early October. I will provide a verbal update at the forthcoming PSC meeting.

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DATE: September 9, 2004

TO: COUNCIL

FROM: Philippe Adhémar
CHAIR – Public Sector Committee

SUBJECT: Report 2004

Section 1 – Introduction

- 1.1. This report outlines the activities of the IFAC Public Sector Committee (PSC) since November 2003, and details of activities planned for 2005.
- 1.2. This is my first report to the Council as Chair of the PSC. As I noted in my first report to the Board in July of this year, I am honored to have been asked to serve as Chair of this important committee. I look forward to working more closely with the PSC Members and Staff over the remaining two years of my term as Chair.
- 1.3. Since the last PSC report to the Council, dated September 2003, the PSC has met three times: November 2003 in Berlin, Germany, March 2004 in Buenos Aires, Argentina and July 2004, in New York, USA. The PSC will also meet in November 2004 in New Delhi, India, immediately prior to the Council meeting.
- 1.4. The PSC plans to meet three times in 2005: March 14 – 17 in Oslo, Norway, July in New York (or another location), and December in Cape Town, South Africa.

Section 2 – Public Sector Committee Strategy and Objectives

- 2.1. The PSC's Objective is to be accepted as the international accounting standards setter for the public sector. To that end, the PSC engages in an extensive technical and promotional program. I will also take this opportunity to provide information about some of the strategic issues faced by the PSC in the last year.

External Review

- 2.2. The Board, in consultation with the PSC, commissioned an independent review of the PSC, chaired by Sir Andrew Likierman of the United Kingdom. The Review Panel provided its report to the Board and PSC in July, acknowledging the effective contribution of PSC activities to global public sector financial reporting and proposing several recommendations. The PSC discussed the Review Panel's report at its July meeting. I presented the PSC's views to the Board meeting in July of this year, when the Board considered the Review Panel's report. The PSC supported the majority of the Review Panel recommendations. The Board also agreed with the majority of the Review Panel recommendations and directed the PSC Technical Director, Paul Sutcliffe, and I to develop an action plan to implement those recommendations it had accepted. This action plan will be provided to the IFAC Board for consideration at its November 2004 meeting.
- 2.3. In order to implement the Board's decisions on the Review Panel recommendations, the PSC's terms of reference and the "Preface to International Public Sector Accounting Standards" will need to be amended. Drafts of these have been prepared and included with the action plan provided to the Board. Implementing the Board decisions in relation to the Review Panel recommendations will present significant opportunities and challenges for the PSC for the years ahead.

Funding

- 2.4. In addition to the resources provided by IFAC and IFAC's member bodies, the PSC has received funding to support its standard setting program from the World Bank, the Asian Development Bank, International Monetary Fund (IMF), the Multi-Lateral Development Bank Group, and the Public Expenditure and Financial Accountability (PEFA) Program.
- 2.5. Current funding arrangements for the PSC standards setting program are due to expire at the end of 2004. As indicated in my report to the IFAC Board in July, at our current level of activity, the PSC has funding for the standard setting program until June 2005. After that time the PSC must secure additional funding, either from external funders or from IFAC, or modify the technical work program that has been established.
- 2.6. The World Bank, Asian Development Bank and the IMF have Observers on the PSC with full rights of the floor. The PSC also provides each funder with an annual report on how the PSC has utilized the resources provided by the funder, and a progress report on the PSC's work program.
- 2.7. During 2004, we met with the World Bank, IMF, Inter American Development Bank and the Fédération des Experts Comptables Européens (FEE) on various occasions to discuss the future of the PSC's work program, and to discuss the possibilities for future funding.. A funding proposal has been developed and has been updated in the context of the outcomes of the External Review.. At its July meeting, the IFAC Board agreed actions to help fund the PSC's technical program.

Promotion of IPSASs and Management of Key Relationships

- 2.8. A key component of the PSC's promotional strategy has been to meet in proximity to its constituents and to promote, and participate in, round table discussions and seminars with these constituents. While demanding on the time of the Chair, members and on staff resources, these meetings have been most successful in raising the profile of IFAC and the PSC amongst constituents in the various regions. For example:
- 2.8.1. When the PSC met in Berlin, Germany in November 2003, the Institut der Wirtschaftsprüfer (IDW) conducted a major seminar for public sector accountants, attended by approximately 150 delegates from various parts of Germany – several PSC Members made presentations on the first day of this seminar;
- 2.8.2. Before the PSC meeting in Buenos Aires in March 2004, the Federación Argentina de Consejos Profesionales de Ciencias Económicas (FACPCE) and the PSC co-hosted a major seminar for public sector accountants attended by some 200 delegates from various levels of government in Argentina, Bolivia and Brazil. As a direct consequence of the PSC meeting in Buenos Aires, the FACPCE established a Public Sector Committee for the Argentine profession;
- 2.8.3. During the PSC meeting in New York in July 2004, the PSC met with key accounting professionals from the United Nations to discuss the implementation of accrual accounting in the United Nations System;
- 2.8.4. The PSC will conduct a seminar in conjunction with its meeting in Delhi (to be co hosted by the World Bank and the Institute of Chartered Accountants in India – for public sector accountants in India, Afghanistan, Bangladesh, Bhutan, Maldives, Nepal, Pakistan and Sri Lanka.). The Institute of Chartered Accountants in India anticipates that approximately 800 people will attend the seminar; and
- 2.8.5. In 2005 the PSC plans to host seminars in Oslo (in conjunction with the Norwegian Federation of Accountants) and South Africa (in conjunction with the South African Institute of Chartered Accountants – for public sector accountants in Southern Africa).
- 2.9. The PSC also promotes its work program and the International Public Sector Accounting Standards (IPSASs) by participating in international conferences such as the Annual Colloquium on Financial Management for National Governments, hosted by the Treasury Board of Canada and the US Treasury, and the OECD Annual Accrual Accounting and Budgeting Symposium. Members also participate in many seminars all over the world.
- 2.10. As Chair of the PSC I am a member of the International Accounting Standards Board's (IASB's) Standards Advisory Council and attend its meetings. This provides an excellent opportunity to provide input to the IASB work program. Additionally, PSC staff monitor the IASB's work program and update the PSC at each meeting. The IASB also has an Observer to the PSC who has full rights of the floor. The current Observer is Mr. Warren McGregor, a member of the IASB. These contacts with the

IASB have facilitated our objective of harmonizing IPSASs with International Financial Reporting Standards (IFRSs) where appropriate.

- 2.11. An international Task Force on Harmonization of Public Sector Accounting (TFHPSA) has been formed to examine the extent to which the accounting and statistical reporting requirements for public sector entities can converge. The PSC Chair and/or Technical Director are participants. This task force assists the PSC forge strong links with statistical reporting agencies.
- 2.12. After each meeting, PSC staff prepare a "PSC Update" newsletter, which is circulated via e-mail and the IFAC website to PSC constituents. Updates issued in April and August 2004 have been made available in English, French and Spanish. We have had a positive response to this initiative and I believe that it will greatly expand the audience for PSC documents generally.

Balancing the Demands Made of the Committee

- 2.13. There are a number of competing demands made of the PSC's time and resources. Balancing these demands is a challenge that faces the Committee constantly. In light of the Review Panel recommendations, at its July 2004 meeting, the PSC discussed and agreed its priorities as follows:
 - 2.13.1. First Priority: Addressing public sector specific financial reporting issues, such as accounting for social policies of governments, accounting for taxation revenue and budget reporting;
 - 2.13.2. Second Priority: Harmonization of IPSASs with the IFRSs issued by the IASB; and
 - 2.13.3. Third Priority: Harmonization of IPSASs with the statistical reporting standards used by governments where appropriate.
- 2.14. The PSC workplan has been redeveloped in the context of these revised priorities.

Section 3 – Key achievements for 2004

- 3.1. There is increasing recognition of IPSASs. This is demonstrated by the increasing interest in the IPSASs being shown by organizations such as the World Bank, which now includes IPSASs among the accounting standards acceptable to it for financial reporting by borrowers. Additionally, an increasing number of governments and international organizations are adopting IPSASs for financial reporting, or are harmonizing their own standards with IPSASs.
- 3.2. Significant progress has been made on:
 - 3.2.1. Public sector specific projects including:
 - 3.2.1.1. Accounting for the social policies of governments;
 - 3.2.1.2. Revenue from non-exchange transactions (including taxes and transfers);

- 3.2.1.3. Budget Reporting;
 - 3.2.1.4. Accounting for development assistance; and
 - 3.2.1.5. Impairment of non-cash-generating assets.
- 3.2.2. Updating IPSASs for changes made to IFRSs by the IASB's General Improvements Project, however a significant amount of work remains to be done.
- 3.2.3. The translation of IPSASs 1 – 20, the Cash Basis IPSAS and the Glossary. The Spanish translation of these IPSASs has been completed and I anticipate that the French translation will be complete by the time of the Council meeting. I anticipate that Spanish and French PSC Handbooks will be produced in 2005. Member bodies also continue to translate IPSASs into other languages.
- 3.3. The PSC has further strengthened its relationships with the public sector financial reporting community and with the statistical reporting community.
- 3.4. Finally, the PSC's consultative group is continuing to evolve and strengthen. At recent PSC meetings we have had a growing number of consultative group members present, and the Consultative Group has provided significant feedback on key projects on the PSC's agenda.

Section 4 – Outputs completed during 2004

- 4.1. Documents completed since the last PSC report to the Council include:
- 4.1.1. IPSAS 21, "Impairment of Non-Cash-Generating Assets" has been approved, but not yet published. Its application date will be the same as the IPSASs that comprise the PSC's IPSAS General Improvements Project (see paragraph 5.2 below).
 - 4.1.2. "Glossary of Defined Terms: IPSAS 1 to IPSAS 20."
 - 4.1.3. Occasional Paper Number 7, "The Governmental Accounting System in Argentina."
 - 4.1.4. Study 14, "Transition to the Accrual Basis of Accounting, 2nd Edition." This edition is available in electronic form only.
 - 4.1.5. Research Report, "Budget Reporting," this document was issued in June 2004.
 - 4.1.6. The following two ITC's were published and represent the first stage of developing IPSASs for public sector specific issues. They are major milestones in the PSC's second phase of standard setting:
 - 4.1.6.1. "Accounting for Social Policies of Governments;" and
 - 4.1.6.2. "Revenue from Non-Exchange Transactions (Including Taxes and Transfers)."

- 4.2. The PSC currently prepares Public Sector Perspectives (PSPs) on pronouncements of the International Auditing and Assurance Standards Board. Since the last report to the Council, PSPs have been prepared on:
- 4.2.1. ISQC 1, “Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements;”
 - 4.2.2. ISA 220, “Quality Control for Audits of Historical Financial Information;”
 - 4.2.3. ISA 600, “The Work of Related Auditors and Other Auditors in the Audit of Group Financial Statements; and the Audit of Group Financial Statements;” and
 - 4.2.4. ISA 700, “The Independent Auditor’s Report on a Complete Set of General Purpose Financial Statements.”

Section 5 – Work in progress

- 5.1. At its November 2004 meeting the PSC will commence consideration of responses to the ITCs “Accounting for Social Policy Obligations of Governments” and “Revenue from Non-Exchange Transactions (Including Taxes and Transfers).”
- 5.2. The PSC has made significant progress on its IPSAS General Improvements Project to update nine of the existing twenty accrual basis IPSASs for improvements made to IFRSs by the IASB, however significant work remains to be done and this is in progress.
- 5.3. The PSC has appointed a sub-committee to develop an IPSAS on “Impairment of Cash-Generating Assets”, to be considered at the next PSC meeting. It is anticipated that this IPSAS would replace a provision in IPSAS 21 that requires entities to apply IAS 36 in accounting for impairments of cash-generating assets.
- 5.4. The PSC is finalizing a Research Report, to be published by the PSC, which is based on the work of the TFHPSA. This Research Report will identify the differences between statistical reporting frameworks and the IPSASs, with a view to recommending to statistical bodies and the PSC, steps to be taken to eliminate any unnecessary differences.
- 5.5. The PSC is considering a project brief which deals with disclosures of general government sector information in general purpose financial statements. The project comes under the umbrella of the third priority of the PSC, convergence of IPSASs and statistical reporting requirements.
- 5.6. The PSC is developing an Exposure Draft of an IPSAS that proposes requirements for reporting actual financial information against budgeted financial information.
- 5.7. The PSC plans to issue an exposure draft on accounting for development assistance under the cash basis of accounting”. This ED will propose that entities receiving such assistance make standardized disclosures about that assistance in their general purpose financial statements. The adoption by entities of the final IPSAS is intended to replace

the extensive and heterogeneous reporting requirements currently placed on borrowers by different lenders.

5.8. The IAASB and International Organization of Supreme Audit Institutions (INTOSAI) have agreed that INTOSAI will provide public sector input on IAASB projects in the course of development to ensure that any public sector issues are addressed in the IAASB pronouncement. The PSC strongly supports this approach. This will mean that Public Sector Perspectives (PSPs) on IAASB pronouncements will no longer be necessary. INTOSAI began this task at the beginning of 2004, however projects underway at that time will still require PSPs to be prepared. The PSC has prepared PSPs on the following IAASB projects that are currently awaiting approval by the IAASB:

5.8.1. ISA 320, "Audit Materiality;" and

5.8.2. ISA 540, "Audit of Accounting Estimates."

Section 6 – Planned activities for 2005

6.1. The PSC has developed an extensive workplan for 2005 and beyond. A number of these activities involve progressing matters that are already under development, whilst others involve commencing work on new projects. The ability of the PSC to progress its workplan is dependent on the resources it has available to it.

6.2. In 2005 the PSC will move to develop exposure drafts or IPSASs on the following projects:

6.2.1. "Accounting for the Social Policy Obligations of Government".

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

6.2.3. Accounting for development assistance under the cash basis of accounting.

6.2.4. An omnibus exposure draft proposing amendments to the "Preface to International Public Sector Accounting Standards" and nine of the existing twenty IPSASs to harmonize them with similar amendments made by the IASB.

6.2.5. Reporting of actual financial information against budgeted financial information.

6.2.6. Reporting of General Government Sector information in the general purpose financial statements of the whole of government.

6.3. To the extent that these exposure drafts are issued early in 2005, the PSC will consider any responses to these exposure drafts late in 2005.

6.4. The PSC will continue to monitor revisions made by the IASB to the IFRSs and to consider the effect of any revisions on existing IPSASs. The PSC will also review extant and new IFRSs for which there is no equivalent IPSAS and determine the appropriate strategy for dealing with these IFRSs.

- 6.5. In collaboration with the Governmental Accounting Standards Board in the USA, the PSC plans to prepare an occasional paper examining financial reporting at the federal, state and local levels of government in the United States.
- 6.6. The PSC plans to undertake a review of the implementation of the Cash Basis IPSAS.
- 6.7. The PSC will consider its strategy in relation to a number of public sector specific financial reporting issues including:
 - 6.7.1. Accounting for heritage assets.
 - 6.7.2. Accounting for public-private sector arrangements for the development of infrastructure and other assets.
 - 6.7.3. A conceptual framework for the public sector.

Section 7 – Conclusions

- 7.1. The PSC faces many challenges and opportunities in the future, following the external review recommendations, particularly the implications of:
 - 7.1.1. Establishing the PSC as the International Public Sector Accounting Standards Board (IPSASB); and
 - 7.1.2. Bringing the IPSASB within the oversight responsibilities of the Public Interest Oversight Board.
- 7.2. Furthermore, the funding for the PSC's standard setting program is not secure, and is therefore a major issue. The PSC also needs to promote the IPSASs as well as develop its technical program. It also needs strike a balance between developing IPSASs on public sector specific financial reporting issues, and harmonizing with IFRSs and statistical reporting standards.
- 7.3. The Multi-Lateral Development Banks including the World Bank, Asian Development Bank and InterAmerican Development Bank have been strong supporters of the work of the PSC, and have been actively promoting the work of the PSC in developing nations and emerging economies. These organizations consistently stress to the PSC how important it is to back up the technical program with promotional work such as seminars, and that these should take place in these developing nations. By meeting in these countries the PSC is able to take the opportunity to involve key members of the governments and help promotion of the IPSASs.
- 7.4. The PSC continues to receive numerous requests for training in the implementation of IPSASs. Many requests come from organizations or member bodies in developing economies, whose resources are as constrained as those of the PSC. The requests received cannot be serviced only by the seminars held in conjunction with PSC meetings. Servicing these requests for training will be an ongoing challenge for the PSC.



**INTERNATIONAL FEDERATION
OF ACCOUNTANTS**

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DATE: 17 SEPTEMBER 2004
MEMO TO: MEMBERS OF THE IFAC PUBLIC SECTOR COMMITTEE
FROM: JERRY GUTU
SUBJECT: SECRETARIAT'S REPORT

ACTION REQUIRED

The Committee is asked to:

- receive and note a report from the Secretariat;
- receive and note a report on IFAC Technical Committees; and
- receive and confirm address details in the Members' Correspondence Distribution List.

AGENDA MATERIAL:

	Pages
5.2 Report on IFAC Technical Committees	5.3
5.3 Members' Correspondence Distribution List	5.15

SECRETARIAT REPORT

For your information, as Secretariat to the Public Sector Committee (PSC) I have been involved in the following matters since the last International Federation of Accountants (IFAC) PSC meeting in New York, July 5 – 7, 2004:

- Preparations and arrangements for November PSC meeting in New Delhi and the March 2005 meeting in Oslo, Norway;
- Seeking replacements and new appointments for the remaining nominations to the Consultative Group;
- Liaison with IFAC Committees including International Auditing and Assurance Standards Board (IAASB), Education, PAIB, Compliance, TAC and Ethics including coordinating drafting and submission of PSPs to IAASB;
- Liaison with constituents translating PSC work including IPSASs for an update. These include constituents from Latin America, Japan, China, Indonesia, Arab countries, Russia and Switzerland;
- Various other secretarial and support issues including responses to queries on PSC work on standards, guidelines, studies, updating the Network list and CDL; and
- Liaison and coordination with Matthew Bohun, who is taking over my role in New York on October 12, 2004.

IFAC COMMITTEES' LIAISON REPORT

The Committee is asked to note the activity reports of the other IFAC Committees summarized below under this item.

Transnational Audit Committee (TAC)

TAC Audit Quality Initiatives

The TAC is developing projects in accordance with its work plan. Projects included under its audit quality initiative include providing feedback to the IAASB on its proposed representation letters project, and a study of restatements.

Other projects include:

- Transparency disclosures
- Forum of Firms (FoF) branding proposals
- Development of a Global Master File

Input into Standard Setting

The TAC periodically provides input to the IAASB, Ethics Committee and other IFAC task forces preparing standards. Forum of Firms (FoF) members have been requested to supply candidates to IASB projects.

Next Meetings

- September 22 Europe
- September 23 Europe (FoF)
- November 30 North America

Ethics Committee

The Committee met September 20-21, 2004 and the following decisions were made during the meeting:

Proposed Revision of Code of Ethics

The Committee approved revisions to the Code of Ethics. The Committee agreed that, because of these revisions and the proposed revisions to the independence requirements, the complete Code would be re-exposed for comment. However, respondents would be asked to comment only on the revised independence requirements.

Independence – Conforming Amendments

The Committee approved for exposure proposed changes to the independence requirements in the Code to conform to the new IAASB assurance framework.

Project Proposals

The Committee approved three project proposals:

- *Independence requirements* – The project will revisit the part of the Code that deals with independence requirements. These requirements were issued in November 2001 with an effective date for assurance reports issued after December 31, 2004. Information on member body and firm implementation will be used to revisit the subject.
- *Ethics Guidance for Members in Government* – The project will consider how the independence requirements for public accountants in public practice apply to public accountants in government who perform assurance engagements. In addition, it will consider whether Section C of the Code should contain any specific guidance for professional accountants in government.
- *Guidance for Professional Accountants in Business When Encountering Fraud or Illegal Acts* – The project will develop additional ethical guidance for professional accountants in business when encountering fraud or illegal acts.

Due Process and Operating Procedures

The Committee discussed and approved:

- Planning Committee Terms of Reference; and
- Due Process and Operating Procedures for the Ethics Committee.

Next meeting

The next meeting of the Committee is scheduled to be held on February 14-15, 2005 in New York, USA.

Professional Accountants in Business Committee (PAIB) [formerly Financial Management Accounting Committee (FMAC)]

The Professional Accountants in Business (PAIB) Committee Meeting was held in New York from September 13 – 15, 2004. Highlights of the meeting were as follows:

Articles of Merit

This is an annual awards scheme for the ten best articles published in member body journals or websites judged to have made a distinct and valuable contribution to the advancement of the field of finance and management. Downloads from the IFAC website continue to be numerous and the Committee would like to encourage more entrants. The latest booklet has recently been published and may be downloaded free-of-charge from IFAC's website <http://www.ifac.org/store>. Print copies may also be obtained from the website at a cost.

Business Planning

As previously reported, the purpose of this project is to publish guidelines for professional accountants in business on how to develop and implement planning in SMEs. The Malaysian Institute of Accountants has provided the necessary technical resources for this project and, subject to clarification on some issues, these guidelines should be available early in 2005.

Theme Booklet: The Roles of Professional Accountants in Business

The objective of the 2004 theme booklet is to demonstrate the variety of work carried out by professional accountants in business and the many ways in which professional accountants add

value. Robert Bruce, a leading accountancy journalist, was commissioned to conduct a number of interviews with professional accountants in a variety of roles throughout the world. Themes of ethics/integrity and views on continuing professional education will be highlighted. The interview process is now complete and it is planned to publish in November 2004.

A number of suggestions for a theme booklet for 2005 were proposed. The Chair and the Technical Manager will discuss this at a meeting to be held later this year.

Management Accounting Concepts

International Management Accounting Practice Statement (IMAPS) 1 entitled 'Management Accounting Concepts' was perceived by many of IFAC's constituents to be somewhat complex. The Committee, therefore, undertook to produce a summarized version which would also include latest thinking on what constituted management accounting.

A paper prepared by the Chair was considered and it was agreed that some suggested changes be incorporated with a view to publishing either later this year or earlier next year.

Publications Strategy

The Committee prepared a comprehensive publications strategy and plan designed to be in line with the IFAC publications strategy and will publish its 2005 plan in December 2004.

Resource Center

The proposal is to develop a web based resource that would bring together quality information produced by IFAC member bodies along with other supportive resources and community features. Anne-Marie Ellison, the project leader, reported on progress made since the previous meeting and a live demonstration of one possible solution was provided by a prospective supplier.

The next immediate steps are:

- To issue an Invitation to Tender to prospective suppliers;
- To prepare a business case to be presented at the upcoming IFAC Board meeting; and
- To prepare a taxonomy for the project.

Corporate Code of Conduct

At the previous meeting of the Committee in March 2004 a project to heighten the awareness of the need for a corporate code of ethical conduct and to provide guidance to the professional accountant in business on how to develop and administer a high quality corporate code of ethical conduct was approved. At that time a steering group was formed and they continue to work on the project in close consultation with the IFAC Ethics Committee. A draft discussion document for approval by the steering group will be prepared by CMA Canada by the end of December 2004.

Narrative Reporting

A meeting was held in London last April when over 20 representatives from member bodies described the work that they were currently engaged on in this area.

Whilst there was no standard definition of ‘narrative reporting’ in a recent survey of UK practice, Deloitte used the following definition:

“...includes all the information contained within the annual report except the statutory financial statements. Examples of narrative items therefore include the Chairman’s statement, the directors’ report, the Operating and Financial Review (OFR), and remuneration, corporate governance and environmental reports” (Source: “From Carrots to Sticks – A Survey of Narrative Reporting in Annual Reports”).

This definition is in a UK context and in many jurisdictions the definition would include the Management Discussion and Analysis (MD&A).

A report on the possible project had been put to the IFAC Board at its previous meeting. The Board supported it with some caveats about resources and the relationship with the IASB. It was agreed that at the moment the PAIB Committee should continue to carry out research on investor requirements in this field, liaise with the IASB and continue to inform the Board.

Sustainability

The PAIB Committee and the IAASB are working together on a research project in conjunction with member bodies and have established a Sustainability Panel of Experts. This Panel will serve in an advisory capacity to IFAC committees and boards and it will encourage the involvement of the international profession on sustainability issues. Representatives of the IAASB attended part of the meeting and areas of mutual interest in sustainability were discussed. It was agreed that Paul Thompson, newly recruited to the IFAC technical staff, would:

- Research PAIB related sustainability issues and find out what is being done in this area internationally with a view to identifying where PAIB could add unique value, probably on the measurement aspects of sustainability;
- Liaise with IAASB on assurance aspects of sustainability;
- Liaise through the Panel of Experts with GRI on the reporting elements of sustainability.

All member bodies were encouraged to continue with any development work being undertaken on the topic in their own countries and to liaise with Paul Thompson on this. Additionally the committee is interested in the availability of case studies. Any suitable case studies to be sent to PaulThompson@ifac.org.

Training and Education

The Iranian Institute of Certified Accountants (IICA) has recently successfully progressed from being a member body who concentrated solely on the needs of members in practice to one which now also addresses the needs of members in business. It was agreed that a comparative study be undertaken between TMUD Expert Accountants’ Association of Turkey, who also wished to make this ‘leap’, and IICA. The results would then be compared with the ICAEW model. All of this with a view to assisting IFAC member bodies wishing to address the needs of members who work in business through training and education.

Roles and Responsibilities producing and using Robust and Reliable Financial Statements

A fundamental element in the rebuilding of public confidence in financial reporting is expanding the role of the professional accountant in business in producing robust and reliable financial statements. A project was proposed to examine, clarify and consider the impact of the PAIB of their emerging roles and responsibilities in the preparation and communication of financial information to stakeholders, including regulatory authorities and capital markets.

It was agreed that further work should be undertaken to clarify how this project should be progressed.

CFOs in Emerging Economies

A paper which considered the role of CFOs in emerging economies was considered and after discussion a small project team will redefine the project.

Position Papers

Position papers had been prepared prior to the meeting on:

- Better Budgeting;
- The Role of the CFO in Business Planning for SMEs;
- Knowledge Management;
- Evaluating effective Internal Controls; and
- PAIB Committee Focus on the Public Sector.

It was agreed that the first four of these should be progressed further.

With regard to the public sector, the Committee was required to include matters of possible interest to the public sector when initiating projects and to examine the possibility of case studies.

Request for Input

Rather than doing a full survey of member bodies this year it was decided to request some limited information from them regarding their priorities. Robin Mathieson was asked by the Committee to produce some further analysis of the results. Three breakout groups were formed during the meeting to review the outputs of the 'Request for Input' and develop strategic positioning to either supplement the existing PAIB program and initiatives or highlight topics requiring further work by PAIB.

Standards

A discussion, attended by Ian Ball, the IFAC Chief Executive, was held on the above topic with a view to considering whether the PAIB Committee should produce standards as part of its remit. A project team led by IMA was set up to prepare a position paper for consideration by the Committee.

Terms of Reference and Due Processes

A presentation on revised Terms of Reference and Due Processes was given by Paul Thompson. Prior to the meeting a paper had been circulated and all were asked to comment on this paper prior to a redraft.

Future Meetings

The next PAIB Committee meeting will take place in Hong Kong. Provisional dates set are April 18 – 20, 2005.

Written proposals were invited from Turkey in respect of the September 2005 meeting and from the UK in respect of the March 2006 meeting. A written proposal has already been received from Royal NIVRA to host the March 2007 meeting. Other proposals are welcomed.

Education Committee

The Education Committee is focusing on the following projects:

International Education Standards for Professional Accountants

In early May 2004, the Committee issued IES 7, Continuing Professional Development (CPD): A Program of Lifelong Learning and Continuing Development of professional Competence, following the release of the first International Education Standards for Professional Accountants (IES) in October 2003. IES 7 emphasizes the profession's commitment to serving the worldwide public interest and presents CPD as a key means of meeting this commitment. The standard prescribes mandatory CPD for all members of the profession regardless of their work domain. It also calls on IFAC member bodies to facilitate access to CPD opportunities and resources to assist professional accountants in meeting their responsibility for lifelong learning. All IFAC member bodies are expected to comply with the standard from January 1, 2006.

Assessment Methods

The Committee commissioned a research project by Robert Gordon University, Aberdeen Scotland to explore the range of methods of assessing competence through the education and training process, and recommend the best approaches for the different aspects of the process. The Committee has used this research to develop guidance for member bodies, educators, and other interested parties, to be released by December 2004. This is an area of great interest for many member bodies and will assist them in meeting the Education Standards.

Education for Specialist areas

The pre-qualification Education Standards released in October 2003 focus on the knowledge, skills, and values required of all professional accountants, concentrated at the general entry level. Many member bodies already offer, and others are considering offering, education and training in specialist areas. The Committee is working to develop general guidance as to how to go about considering and implementing specialist classes of membership.

Ethics Education Project

The Committee has commissioned research on Ethics Education for Professional Accountants, led by Dr Philomena Leung of Deakin University, Australia. The objective of this project is to update and reissue the guidance the Committee issued in November 1992 IEG 10, "Professional Ethics for Accountants: The Educational Challenge and Practical Application", and provide guidance to support the implementation of IES 4, "Professional Values, Ethics and Attitudes". The IFAC Ethics' statements and Code of Ethics have been substantially revised since the issue of IEG 10 and therefore it is somewhat urgent we undertake a serious review and update.

Significant progress will be made on this project during 2004 and it is planned formal documentation and practical guidance and tools will be issued in 2005.

Audit Education

The Committee is developing an International Education Standard on education and training for auditors. This Standard will prescribe specific requirements for the education and training of professional accountants working in audit, including transnational audit work. This project is progressing at pace with the final draft anticipated to be approved in early March 2005 for issue as an Exposure Draft. Consultation and input is to be sought from the Transnational Auditors Committee (TAC) and the IAASB. This standard will have significant consequences to many IFAC member bodies, but the Committee, and indeed the global profession, is receiving consistent messages that a minimum benchmark is needed for the education/training of auditors, and this standard aims to address this need.

Education for Specialist areas

The pre-qualification Education Standards released in October 2003 focus on the knowledge, skills, and values required of all professional accountants, concentrated at the general entry level. Many member bodies already offer, and others are considering offering, education and training in specialist areas. The Committee is working to develop general guidance as to how to go about considering and implementing specialist classes of membership.

CPD Guidance

The Committee is working to develop a series of frequently asked questions and answers to assist member bodies as they work to revise their CPD policies and programs to comply with IES 7. The Committee also plans to make available examples of CPD policies, procedures and tools.

Future projects

In 2005, the Committee will consider proposals to develop further guidance in the following areas:

Practical experience – guidance to support IES 5, *Practical Experience Requirements*

Information Technology for Professional Accountants – proposal to update IEG 11

Mutual recognition and equivalency of qualifications

- Other necessary guidance to assist the implementation of IES 1 to 7

UNCTAD

The Committee will continue to work with UNCTAD (United Nations Conference on Trade and Development) and other relevant groups on matters relating to education. The Committee has agreed to form a joint project team with UNCTAD to review programs which have been developed based on the UNCTAD Model Curriculum.

Promotional Activities

The promotion of the International Education Standards and the Committee's ongoing work program will continue in various forums, including links with the regional accountancy organizations, international accounting academic forums, international conferences and other

Item 5.2 *Report on IFAC Technical Committees*

PSC New Delhi November 2004

opportunities as appropriate. Greater emphasis on engaging with regulators, governments, accrediting agencies, and other key players in the delivery and management of accounting education is a key priority for the Committee in the short term.

IFAC Reforms

The Committee is working towards implementation of many of the reforms, approved by Council in November 2003. The Committee is working to establish a Consultative Advisory Group (CAG), and held its first public meeting in August 2004.

Future meetings of Education Committee

The Education Committee will meet during the first week of March 2005.

International Auditing and Assurance Standards Board

Significant developments relating to IFAC's International Auditing and Assurance Standards Board (IAASB) since June 2004 have been as follows:

Proposed 8th Directive of the European Union & IAASB CAG Meeting

IAASB members from the EU issued a comment letter to the EC on matters in the proposed EU 8th Directive.

At the IAASB CAG meeting held on June 7 & 8, 2004, CAG members from the EC provided an update on the 8th Directive and discussed possible implications for the IAASB. It was noted that:

- The Directive is currently at the First Read stage, and it is expected that a declaration of agreement by Member States on a modified text should be made by around December 2004;
- The process, parties involved and exact timeline to be followed by the EU parliament in approving the modified Directive is presently unknown.
- It is likely that the Directive will be approved by mid-2005, followed by an 18-month implementation period by Member States. Accordingly, a January 2007 date for adoption of ISAs is the best estimate at this time.
- An "ISA plus" model will be permitted; however only "plusses" that respond to specific legal or jurisdiction requirements will be considered acceptable.
- Matters that are still being considered by the EC include (a) how the ISA endorsement process will be implemented – the development of an infrastructure for endorsement and the review of ISAs might possibly occur concurrently with the 18-month Member State implementation activities; (b) how to deal with the references to ISQC 1 and the IFAC Code of Ethics within ISAs; and (c) how to carry out the translations program.

IFAC's Ethics Committee is in the process of establishing a consultative advisory group. The chair, vice chair and staff member of IFAC's Ethics Committee participated in a discussion with the IAASB's CAG. It is clear that there will be overlap in membership, and it was agreed that the IAASB's CAG and Ethics' CAG should hold meetings on consecutive days.

At the IAASB CAG meeting, it was confirmed that Mr David Damant, experienced leader in the global investment community, has accepted appointment as CAG Chair. Mr Damant will attend future IAASB and IAASB Steering Committee meetings.

CAG considered a first draft of its proposed terms of reference.

CAG members also discussed and provided feedback on a number of ongoing IAASB projects.

Status of the Public Interest Oversight Board

The Chair of the PIOB has recently been elected and he is Mr Stavros Thomadakis from Greece. Mr Thomadakis, a financial economist by training, is currently a professor at the University of Athens and was formerly Chair of the Capital Markets Commission of Greece. It is anticipated that the PIOB will hold its first meeting before the end of this year. There are no other new major developments, and the other members of the PIOB are yet to be announced.

First-Time Adoption of IFRS

IAASB Staff, with the assistance of staff from a number of professional accountancy bodies, national standard setters, and audit firms, has completed a series of key questions and answers in a document entitled “First Time Adoption of IFRSs – Guidance for Auditors on Reporting Issues” to help auditors address reporting issues arising from the first-time adoption of International Financial Reporting Standards (IFRSs). The paper was issued earlier this month on IFAC’s website and is available for download.

Sustainability Reporting

A meeting was held in May between IAASB member Roger Simnett, IAASB Staff and Chair of the Global Reporting Initiative to explore liaison initiative and other meetings scheduled in June. Coordination with IFAC Public Accountants in Business Committee was underway so that there is one IFAC-wide initiative to address sustainability reporting.

In July 2004, the IFAC Board agreed to one panel of experts being set up to advise both IAASB and PAIB on technical issues. The panel, to comprise up to 15 members, will not have authority to issue documents in its own right, but will be expected to:

- Respond to technical matters referred to it by the IAASB or PAIB; and
- Be proactive in keeping IAASB and PAIB informed of relevant technical matters and making appropriate recommendations.

The IAASB’s Steering Committee, at its September 2004 meeting, debated whether this panel of experts should be chaired by a member of the IAASB and concluded that, because the panel would have a wider remit than originally anticipated, it would be preferable if its Chair were not selected from the IAASB.

Liaison Activities

IAASB Chairman met with IASB Chairman, Sir David Tweedie on May 27, 2004. Matters that were discussed included the IASB due process and how IASB Staff dealt with commentators’ responses to exposure drafts, the IAASB’s Clarity project and the IASB’s approach to the clarity of the IASB’s Standards, the IASB’s future work program, and the possibility of obtaining the

IASB's comments on the IAASB's latest draft of the proposed revised Estimates auditing standard.

IAASB representatives held a conference call on June 3, 2004. Discussions included:

- An update on the initiative to review IAASB's due process and considerations of enhancements thereto. IOSCO was supportive of changes that may help enhance due process and responsiveness to respondents' comments to exposure drafts.
- Exploring the possibility of holding telephone conferences with IOSCO to explain how IOSCO's comments on exposure drafts have been dealt with (especially those that the IAASB task forces are not proposing to accept) before the IAASB debates the issue.
- An update on the Clarity project. While generally supportive of the direction being taken on clarifying language and terminology, IOSCO's was generally not in favor of the proposed split of the Standards.

Other Matters of Interest

Mr N.D. Gupta was appointed as IFAC liaison to the IAASB.

The Wong Report on the challenges and successes of implementing international standards has been completed and has recently been issued on IFAC's website. The IAASB's Steering Committee, at its September 2004 meeting, took note of the report's recommendations as they relate to the IAASB's standards and will consider these recommendations in the development of an international convergence policy statement.

The IAASB/Ethics Joint Committee has developed a proposed revised definition for "network firm;" however, members from smaller networks are concerned with the definition and the matter is being discussed with them.

IAASB September 2004 Meeting

The IAASB approved for issue the exposure draft of the proposed Policy Statement "Clarifying Professional Requirements in International Standards Issued by the IAASB." Together with this exposure draft, the IAASB also issued a consultation paper, "Improving the Clarity and Structure of IAASB Standards and Related Considerations for Practice Statements," to seek public comments on clarifying professional requirements in, and the structure of, IAASB's pronouncements. Both documents have a 3-month comment period ending on December 31, 2004.

The IAASB also approved for issue the exposure draft of the proposed revised ISA 230, "Audit Documentation," with a 4-month comment period ending on January 31, 2005.

The Chair of the IAASB's CAG, Mr David Damant, and the IFAC liaison to the IAASB, Mr N.D. Gupta, both attended their first IAASB meeting as observers with speaking rights.

Projects that were debated at this meeting with a view to issuing final standards at the December 2004 IAASB meeting included audit materiality, accounting estimates and the auditor's report.

Projects under development include the revision of standards on: group audits; the review of interim financial information; modifications to the auditor's report; communications of audit matters with those charged with governance; related parties; management representations; and special purpose auditors' reports.

Future Meetings

The following IAASB meetings have been scheduled for the next 12 months:

- December 6 – 10, 2004 (New Orleans)
- March 7 – 11, 2005 (Lima)
- June 13 – 17, 2005 (Rome)
- September 12 – 16, 2005 (New York)

Compliance Advisory Panel (CAP)

IFAC Membership Compliance Program

Assessment of the Regulatory and Standard-Setting Framework

To date, over 95 responses have been received from member bodies. The Compliance staff is in the process of reviewing responses to ensure all areas requiring clarification and additional information have been identified. Once all matters have been addressed, staff will be in a position to agree the final response with the member body and prepare the response for posting to IFAC's website.

Staff will continue pursuing non-respondents in an effort to understand why they have not submitted a response (lack of resources, the possibility that they did not receive the response etc).

Although it is not possible to form conclusions based on initial reviews of the responses, staff have noted the following with respect to section 8 on public sector accounting standards:

- Many member bodies did not provide responses to this section and staff have assumed this is because the member body is not directly involved with public sector accounting standards in its country; and
- Where responses were provided, the public sector accounting standards were usually set by a government body / the government and not the national accounting standards setting body.

The CAP will be meeting on October 11 to discuss the progress to date with respect to responses received.

Compliance Self-Assessment

As indicated in staff's previous update, the second part of the assessment process involves the completion of a self-assessment questionnaire by each member body. The information obtained from the Assessment of the Regulatory and Standard-Setting Framework will assist in ensuring that the aspects of the self-assessment questionnaire are completed by the most relevant member body where there is more than one member body in a country. The questionnaire is in the process of being developed and the questionnaire will be issued in late 2004 or early 2005.

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