



DATE: 6 FEBRUARY 2005
MEMO TO: MEMBERS OF IFAC IPSASB
FROM: PAUL SUTCLIFFE
SUBJECT: **CONVERGENCE OF IPSAS AND STATISTICAL REPORTING
BASES**

ACTION REQUIRED

The Board is asked to:

- **note** the agenda for March 2005 meeting of the International Task Force on Harmonisation of Public Sector Accounting (TFHPSA), and consider leadership of Working Group 1 of the TFHPSA.
- **review** the first draft Exposure Draft on Disclosure of Financial Information about the General Government Sector (GGS) and provide directions for further development;

AGENDA MATERIAL:

	Pages
12.2 Draft ED on Disclosure of Financial Information about the General Government Sector	12.5 – 12.36
12.3 Agenda for TFHPSA meeting in March 2005	12.37 - 12.38

BACKGROUND

March 2005 Meeting of the TFHPSA

The Agenda for the March meeting of the Task Force on Harmonisation of Public Sector Accounting (TFHPSA) including its Working Groups 1 and 2 (WG1 and WG2) is attached at Agenda item 12.3. Copies of the papers prepared for consideration at that meeting will be available on request.

The third day of the meeting will focus on WG1 issues, and therefore IPSASB matters. The WG1 and other members of the TFHPSA operate as the IPSASB's Project Advisory Panel (PAP) on Disclosure of Financial Information about the General Government Sector.

Ongoing membership of the Task Force and role in Working Group 1

The IPSASB Chair, Philippe Adhémar, is a member of the TFHPSA. The Chair of the TFHPSA, Ms Lucie Laliberté, is keen for there to be ongoing IPSASB involvement and possibly leadership of WG1. The Chair will provide a verbal update on any developments on IPSASB participation and leadership of WG1 at the forthcoming meeting.

Disclosure of Information about the General Government Sector in GPFS

At meetings during 2004, the Board considered a draft project brief prepared by staff and PAP views thereon. Members directed staff to prepare a first draft ED for consideration at this meeting, and provided directions for its content – (extract of minutes for November 2004 are attached).

A draft ED has been developed and is included for review at Agenda item 12.2. Members are requested to provide staff with directions for further amendments.

The specific matters for comment, proposed amendment to other IPSASs, and implementation guidance will be further developed after Board input.

This draft will be discussed by the PAP in March 2005 as part of the WG1 meeting.

Performance Reporting – Background and Current Status

At its March 2004 meeting, the PSC agreed that a performance reporting project to develop a comprehensive report of financial performance and distinguish between transactions and other economic flows should be activated. However, the PSC also noted that in the development of the performance reporting project it would need to:

- be cognizant of developments in the IASB’s project “Reporting Comprehensive Income”; and
- balance its twin objectives of converging with IASs/IFRSs and with statistical financial reporting bases.

In November 2004, the PSC/IPSASB deferred further action on the performance reporting progress pending progress by the IASB and the availability of sufficient IPSASB resources. Staff continue to monitor progress on the IASB project (now a joint project with the USA-FASB).

THE “MATRIX”- differences between IPSASs and statistical reporting bases

At meetings in 2004, the PSC considered a “matrix” developed by the members of WG1 which identifies differences between the requirements of IPSASs and GFS and ESA 95.

In November 2004, the PSC agreed that the matrix should be further developed and issued as a Research Report. The Research Report “International Public Sector Accounting Standards (IPSASs) and Statistical Bases of Reporting: An Analysis of Differences and Recommendations for Convergence” was issued in January 2005. While issued by the IPSASB, the Report reflects the views of its authors, not the IPSASB.

Paul Sutcliffe

PSC TECHNICAL DIRECTOR

EXTRACT OF MINUTES PSC MEETING NOVEMBER 2004

13. CONVERGENCE OF IPSASs AND STATISTICAL BASES

The Committee received and noted:

- Agenda for September 2004 meeting of the International Task Force on Harmonisation of Public Sector Accounting (TFHPSA) and Working Groups 1 and 2
- Draft Minutes of September TFHPSA meeting;
- Updated Project Brief on Disclosure of Financial Information about the GGS, including PAP comments and staff views; and
- Additional PAP comments on the GGS Project Brief.
- Paul Sutcliffe introduced the topic. He dealt first with the proposed Research Report “IPSASs and Statistical Bases of Reporting – differences and recommendations”:
- Noting the amendments that had been made by the authors since the PSC last reviewed the document at its March 2004 meeting;
- Identified final editorial and “synchronization” matters that needed to be dealt with; and
- Proposed that the PSC agree to its publication as a Research Report. The members agreed to its publication subject to finalization by the authors, out of session, and approved by the Chair. The Report is to make it clear that it reflects the views of the authors and not necessarily the PSC.

Members agreed to provide comments to Paul out of session.

Paul then provided members with a brief update on deliberations of the International Task Force on Harmonization of Public Sector Accounting (TFHPSA) at its last meeting in September 2004, noting that the Chair was a member of the Task Force but was unable to attend this meeting because of prior commitments. Paul noted that PSC member, Carmen Palladino, participated in the discussion of the TFHPSA and WG1.

Paul also noted that WG1 of the TFHPSA, together with the full TFHPSA, met for the best part of a full day to discuss the PSC project brief on General Government Sector Disclosures.

Paul noted that the TFHPSA was keen that the PSC chair WG1, which dealt with differences between accounting and statistical bases of reporting and which had initially developed the matrix which formed the basis of the Research Report on differences between IPSASs and statistical bases of reporting.

Members discussed the role and time commitment involved. The Chair requested that members advise him of their interest in participating in and/or chairing WG1. Ms Palladino expressed interest in participating in WG1.

Other members noted they would provide input to the Chair out of session.

Members noted the project brief and PAP responses thereto. Some members noted they continued to have misgivings about whether this project was appropriately a matter for GPFs. After a lengthy debate, members agreed that the project should proceed and reviewed the project brief and PAP and staff comments thereon in detail. Members agreed that a draft ED be prepared for the next meeting to reflect PAP views and staff comments thereon except that in respect of:

- Issue 1, the ED should deal with GGS disclosures in the context of only the accrual IPSASs at this stage. When an entity elects to make GGS disclosures, the question of whether it makes disclosures about the public non-financial corporations sector and the public financial corporations sector will be considered at a future PSC meeting;
- Issue 3, however disclosed, it should be made clear that the GGS disclosures can be no more prominent than the whole of government financial results;
- Issue 5, the value of the investment in other sectors should be represented as the value of the net assets of those other ~~segments~~sectors, even if this differed from the GFS approach. This was because the GGS disclosures were to effectively reflect a disaggregation of the IPSAS whole of government financial statements;
- Issue 8, in addition to a list of controlled entities that make up the GGS being required to be disclosed, any changes in the list from one period to the next and the reasons for the changes should also be required to be disclosed; and
- Issue 10, while a reconciliation should not be required, the draft should note that it would be useful and was not prohibited.

The draft ED was also to make clear that what comprised the GGS may differ from jurisdiction to jurisdiction, ~~onee~~—this may impact on what was reported and what was included in the public finance corporations (PFC) and public non-finance corporations (PNFC) sectors.

Action Required:

Finalize Research Report. Advise PSC Chair of interest in Chairing WG1 of TFHPSA and follow up with Chair of TFHPSA. Prepare first draft ED on GGS disclosures for consideration by PSC at its next meeting and circulate to PAP for comment.

Person(s) Responsible:

PSC Chair, Authors of Research Report, staff, PAP.

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Commenting on this Exposure Draft

This Exposure Draft of the International Federation of Accountants was prepared by the International Public Sector Accounting Standards Board. The proposals in this Exposure Draft may be modified in the final Standard in the light of comments received before being issued in the form of an International Public Sector Accounting Standard.

Comments should be submitted in writing so as to be received by Month XX 200X. E-mail responses are preferred. Unless respondents to Exposure Drafts specifically request confidentiality, their comments are a matter of public record once a Standard has been issued. Comments should be addressed to:

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**INTRODUCTION TO THE INTERNATIONAL PUBLIC
SECTOR ACCOUNTING STANDARDS**

The International Federation of Accountants' International Public Sector Accounting Standards Board (IPSASB) develops accounting standards for public sector entities referred to as International Public Sector Accounting Standards (IPSASs). The IPSASB recognizes the significant benefits of achieving consistent and comparable financial information across jurisdictions and it believes that the IPSASs will play a key role in enabling these benefits to be realized. The IPSASB strongly encourages governments and national standard-setters to engage in the development of its Standards by commenting on the proposals set out in Exposure Drafts.

The IPSASB issues IPSASs dealing with financial reporting under the cash basis of accounting and the accrual basis of accounting. The accrual basis IPSASs are based on the International Financial Reporting Standards (IFRSs), issued by the International Accounting Standards Board (IASB) where the requirements of those Standards are applicable to the public sector. They also deal with public sector specific financial reporting issues that are not dealt with in IFRSs.

This Exposure Draft proposes additional requirements for entities reporting under the accrual basis of accounting.

The adoption of IPSASs by governments will improve both the quality and comparability of financial information reported by public sector entities around the world. The IPSASB recognizes the right of governments and national standard-setters to establish accounting standards and guidelines for financial reporting in their jurisdictions. The IPSASB encourages the adoption of IPSASs and the harmonization of national requirements with IPSASs. Financial statements should be described as complying with IPSASs only if they comply with all the requirements of each applicable IPSAS.

Due Process and Timetable

An important part of the process of developing IPSASs is for the IPSASB to receive comments on the proposals set out in IPSAS Exposure Drafts from governments, public sector entities, auditors, standard-setters and other parties with an interest in public sector financial reporting. Accordingly, each proposed IPSAS is first released as an Exposure Draft, inviting interested parties to provide their comments. Exposure Drafts will usually have a comment period of four months, although longer periods may be used for certain Exposure Drafts. Upon the closure of the comment period, the IPSASB will consider the comments received on the Exposure Draft and

Item 12.2 *Draft ED Disclosure of Fin Info about the GGS*

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may modify the proposed IPSAS in the light of the comments received before proceeding to issue a final Standard.

Purpose of the Exposure Draft

The purpose of this exposure draft is to encourage the disclosure of information about the general government sector (GGs) in the general purpose financial statement of a government. It also prescribes the basis on which any such disclosures are to be made.

Request for Comments

Comments are invited on any proposals in this Exposure Draft by XXXX. The IPSASB would prefer that respondents express a clear overall opinion on whether the Exposure Draft in general is supported and that this opinion be supplemented by detailed comments, whether supportive or critical, on the specific issues in the Exposure Draft. Respondents are also invited to provide detailed comments on any other aspect of the Exposure Draft (including materials and examples contained in appendices) indicating the specific paragraph number or groups of paragraphs to which they relate. It would be helpful to the IPSASB if these comments clearly explained the issue and suggested alternative wording, with supporting reasoning, where this is appropriate.

Specific Matters for Comment

The IPSASB would particularly value comments on:

1. Whether the proposed definition of “general government sector” (GGs) in paragraph X is appropriate.
2. Whether it is appropriate to encourage the disclosure of financial information about the GGs in a general purpose financial statement (GPFS), prepared in accordance with International public Sector Accounting Standards (IPSASs).
3. Whether separate disclosure of the GGs of each level of government consolidated in a whole-of-government GPFS should be required if a government elects to disclose GGs information.
4. Whether there should be a separate standard on disclosure of information about the GGs, or whether the encouragement and related requirements proposed in this Standard should be included as an addition to IPSAS 1, “Presentation of Financial Statements”.

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5. Whether disclosure of the GGS under a cash basis IPSAS should also be developed.

TO BE DEVELOPED FURTHER AFTER IPSASB INPUT

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International Public Sector Accounting Standard

IPSAS XX

Disclosure of Financial Information about the General Government Sector

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- A. Amendments to Other IPSASs
- B. Qualitative Characteristics of Financial Information
- C. Basis for Conclusions
- D. Implementation Guidance

TO BE UPDATED AFTER TEXT AGREED

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International Public Sector accounting Standard XX, “Disclosures of Financial Information about General Government Sector” (IPSAS XX) is set out in paragraphs 1 – nn and the Appendix. All the paragraphs have equal authority. IPSAS XX should be read in the context of its objective, the Basis for Conclusions (if any), and the “Preface to the International Public Sector Accounting Standards”. IPSAS 3, “Accounting Policies, Changes in Accounting Estimates and Errors” provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

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International Public Sector Accounting Standard

IPSAS XX

Sector Reporting

Objective

1. The objective of this Standard is to encourage governments which present whole-of-government general purpose financial statements to provide information about the general government sector (GGS), and to prescribe disclosure requirements for those entities electing to make such disclosure.

Scope

2. **An entity which prepares and presents consolidated whole-of-government general purpose financial statements under the accrual basis of accounting shall apply this Standard in making disclosures about the general government sector (GGS).**
3. **A government reporting entity is encouraged to disclose information about the general government sector in whole-of-government consolidated financial statements, in accordance with the requirements of this Standard.**
4. Governments raise funds from taxes, transfers, and a range of non-exchange and exchange revenues to fund their service delivery activities. They operate through a variety of entities to provide goods and services to their constituents. Some entities are budget dependant entities. They rely on appropriations or allocations from budget to fund their service delivery activities. Other entities may undertake commercial activities. These are government business enterprises (GBEs). (GBE's are defined at paragraph 14 of this Standard.) They fund their activities from revenues derived from exchange transactions. They are not budget dependant, or substantially budget dependant entities. GBEs may have some degree of autonomy of operations, subject to the terms of their mandate and enabling legislation or other enabling authority.
5. General purpose financial statements (GPFs) for a government prepared in accordance with International Public Sector Accounting Standards (IPSASs) provide an overview of the assets controlled and liabilities incurred by the government, the cost of services provided by the government and the taxation and other revenues generated to fund the provision of those services. GPFs for a government which delivers services through controlled entities, whether budget dependant or not, are therefore consolidated financial statements.

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6. In some jurisdictions, financial statements for the government or sectors thereof may also be prepared in accordance with statistical bases (or models) of financial reporting (statistical reporting bases). These bases reflect requirements consistent with and derived from the system of National Accounts 1993 prepared by the United Nations. These statistical reporting bases focus on the provision of financial information about the general government sector (GGS). They may also provide information about the public financial corporations sector (PFC), the public non-financial corporations sector (PNFC) and the public sector as a whole. (The major features of the PFC and PNFC sectors are outlined at paragraphs 17 and 18 of this Standard.)
7. IPSAS 18 “Segment Reporting” requires the disclosure of certain information about the service delivery activities of the entity, and the resources allocated to support those activities, for accountability and decision making purposes. Segments reported in accordance with IPSAS 18 are not based on a distinction between budget dependent and commercial or market activities, as are the sectors reported under statistical reporting bases.
8. The disclosure of information about the GGS does not replace the need to make disclosures about segments in accordance with IPSAS 18. This is because information about the GGS alone would not provide sufficient detail to enable users to evaluate the entity’s past performance in achieving major service delivery objectives, if those objectives were achieved through non GGS entities. For example, identifying the GGS as a segment would not provide information about a government’s performance in achieving its telecommunication, healthcare or educational objectives where government corporations or quasi-corporations deliver service in the achievement of those objectives. Because the scope of the GGS is narrower than the whole-of-government, important information would be omitted if entities did not present segment information in respect of their whole-of-government financial statements.
9. The objectives of GPFSSs and financial statements prepared in accordance with statistical reporting bases differ in some respects. The objectives of GPFSSs are to provide information useful for decision-making and to demonstrate the accountability of the entity for the resources entrusted to it. The purpose of financial statements prepared consistent with statistical reporting models is to provide information suitable for analyzing and evaluating fiscal policy, especially the performance of the general government sector and the broader public sector of any country. However, GPFSSs and statistical reporting models also have many similarities in the treatment of transactions and events. For example, they adopt an accrual

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- basis of accounting, deal with similar transactions and events, and in some cases have a similar type of report structure.
10. In some jurisdictions, the disclosure of appropriate information about the GGS in a GPFS can support and enhance decision making and accountability of certain users of GPFSs. This Standard adopts the view that the disclosure of information about the GGS is consistent with enhanced transparency of financial reporting and will assist users of the financial statements to better understand:
 - (a) the resources allocated to support the budget dependant service delivery activities of the government, and the government's financial performance in delivery of those services;
 - (b) the relationship between the budget dependant sector of government and the GBE sector, and the impact each have on overall financial performance.
 11. In those jurisdictions where financial statements for the government are also prepared in accordance with statistical reporting bases and widely published, the disclosure of the GGS sector will form an useful link between IPSAS and statistical based financial statements. This will assist users in reconciling information presented in GPFS to information presented in government finance statistics.
 12. The compilation and presentation of GGS data which satisfy the qualitative characteristics of GPFSs and related audit requirements may add significantly to the workload of preparers and auditors in many jurisdictions, and may increase the complexity of the GPFS. This will be particularly so in jurisdictions where GGS disclosures are not currently made. In addition, in some jurisdictions users may not be dependant on GPFS for information about the GGS. As such, this Standard encourages, but does not require, the disclosure of information about the GGS. Therefore, whether or not disclosure of the information about the GGS will be made in GPFSs will be determined by the government or other appropriate authority in each jurisdiction. However, this Standard does require that when disclosures about the GGS are made in GPFSs, those disclosures are to be made in accordance with the requirement prescribed in this Standard. This will ensure that an appropriate representation of the GGS is made in GPFSs and that the disclosures about the GGS satisfy the qualitative characteristics of financial information including understandability, relevance, reliability and comparability.
 13. IPSASs generally apply to all public sector entities. However, it is only possible to disclose a meaningful representation of the GGS for a government at the whole-of-government level. Therefore, this Standard

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encourages application only by whole-of-government reporting entities which prepare general purpose financial statements under the accrual basis of accounting as prescribed by IPSASs. These reporting entities include national, state/provincial and local governments.

Definitions

14. **The following terms are used in this Standard with the meanings specified:**

The General Government Sector comprises all activities of a government other than those undertaken by government business enterprises.

Government Business Enterprise means an entity that has all the following characteristics:

- (a) **Is an entity with the power to contract in its own name;**
- (b) **Has been assigned the financial and operational authority to carry on a business;**
- (c) **Sells goods and services, in the normal course of its business, to other entities at a profit or full cost recovery;**
- (d) **Is not reliant on continuing government funding to be a going concern (other than purchases of outputs at arm's length); and**
- (e) **Is controlled by a public sector entity.**

Terms defined in other International Public Sector Accounting Standards are used in this Standard with the same meaning as in those other Standards, and are reproduced in the Glossary of Defined Terms published separately.

Government Business Enterprises

15. Government Business Enterprises (GBEs) include both trading enterprises, such as utilities, and financial enterprises, such as financial institutions. GBEs are, in substance, no different from entities conducting similar activities in the private sector. GBEs generally operate to make a profit, although some may have limited community service obligations under which they are required to provide some individuals and organizations in the community with goods and services at either no charge or a significantly reduced charge.
16. A GBE as defined in this standard is generally consistent with the notion of an institutional unit outside the GGS as defined in statistical reporting

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models. Under statistical reporting models those GBEs may be further classified as public non-financial corporations, being GBEs that trade in goods and services, or public financial corporations such as central banks and other government financial institutes that operate on a commercial basis.

Public Non-Financial Corporations Sector

17. Public Non-Financial Corporations (PNFCs) are those government entities that produce goods or non-financial services for the market. The public non-financial corporations sector is that portion of the consolidated whole of government entity that consists of GBEs other than public finance corporations. Included within this sector are entities such as publicly owned utilities. In any jurisdiction, there may be a number of PNFCs that are controlled by different public sector entities within the GGS.

Public Financial Corporations Sector

18. Public Financial Corporations (PFCs) are those government entities that are engaged principally in providing financial services for the market. The public financial corporations sector is that portion of the consolidated whole of government entity that consists of government business enterprises that are established to principally engage in financial intermediation. Included within this sector are banks, including central banks if they are GBEs, and entities such as treasury corporations that manage a government's cash flow on the financial markets.

General Government Sector

19. The general government sector as defined in statistical reporting models comprises the central operations of government and typically includes all those entities that have their operations funded directly by the government through the annual budget process. As such, the financing of these entities is sourced primarily from appropriation or allocation of the government's taxes, other non exchange revenue, dividends from GBEs and borrowings, rather than directly from the sale of goods or services on their own part. The GGS typically includes entities such as government departments, law courts, public educational institutions, public health care units and other government agencies. The GGS does not include government business enterprises whether PNFCs or PFCs.
20. Under statistical reporting models, financial statements prepared for the GGS do not include consolidation of controlled PNFCs, being GBEs that trade in goods and services and controlled PFCs such as central banks.

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Project Advisory Panel input will be sought on whether GBEs as defined in IPSASs correspond to PFC and PNFC sectors, and whether the GGS as defined in this ED corresponds to the GGS in statistical reporting models. At issue will be such matters as the treatment of non resident government units (and “foreign” GGS operations). Statistical reporting models define GGS as “The group of units consisting of all resident government units and all resident non-market nonprofit institutions that are controlled and mainly financed by resident government units”. Subject to that discussion further refinement of the definition of the GGS, or elaboration along the following lines, may be necessary.

In some jurisdictions there may not be an identical mapping of GBEs and the PFC and PNFC sectors. In such cases, additional refinements may be necessary to reflect the GGS as defined in statistical reporting models.

Accounting Policies

21. **General government sector information shall be disclosed in conformity with the accounting policies adopted for preparing and presenting the financial statements of the consolidated whole-of-government entity, except as required by paragraphs 22 and 23.**
22. **In presenting information about the general government sector, entities shall not eliminate transactions and balances between the general government sector and government business enterprises.**
23. **The general government sector shall recognize its investment in government business enterprises as an asset and shall account for those assets at the value of the net assets of its investees.**
24. This Standard encourages the disaggregation of the consolidated financial statements for a government to disclose information about the GGS as one sector of the “whole of government”. Consistent with the view that the GGS is to reflect a disaggregation of the whole of government GPFS, this standard requires entities that elect to make GGS disclosures to apply the same definitions, recognition, measurement and presentation rules that are applied when preparing the consolidated general purpose financial

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- statements, with one exception. That exception being that the requirements of IPSAS 6 “Consolidated Financial Statements and Accounting for Controlled Entities” are not applied in respect of GBEs controlled by the GGS.
25. IPSAS 6 requires controlling entities to prepare consolidated financial statements that consolidate controlled entities on a line-by-line basis. IPSAS 6 also contains a detailed discussion of the concept of control as it applies in the public sector and guidance on determining whether control exists for financial reporting purposes. Consistent with the requirements of IPSAS 6, GBEs, whether in the PNFC or PFC sector as defined in statistical reporting bases, are controlled entities.
 26. Financial statements prepared consistent with statistical reporting bases portray the impact of the general government sector on the public sector as a whole and, in the context of the System of National Accounts, on a national economy. Consistent with this objective, statistical reporting bases require the GGS financial statements to present public sector entities outside that sector as investments in other sectors. In addition, transactions of the GGS with entities in other sectors are not eliminated from the statement of government operations.
 27. To apply the IPSAS 6 requirement for consolidation to the GGS would result in the re-presentation of the consolidated whole-of-government financial statements, rather than the GGS financial statements.
 28. Therefore, in disclosing financial information about the GGS, balances and transactions between entities within the GGS are eliminated in accordance with IPSAS 6. However, balances and transactions between entities in the GGS and entities in other sectors are not eliminated.
 29. This Standard requires the GGS sector to recognize its investment in GBEs, whether in the PNFC or PFC sectors, at the value of the net assets of those entities. This will ensure that the GGS reflects a disaggregation of financial information reflected in the consolidated financial statements for the whole of government of which it is a part. Consistent with the GGS being a disaggregation of the consolidated whole of government financial statements, changes in the value of the net assets of those entities will be recognized in the same manner as they are recognized in the whole of government GPFS. This approach may differ from the valuation basis adopted in the statistical bases of reporting, which requires market value of assets and liabilities.
 30. **If general purpose financial statements consolidate different levels of government, information about the GGS at each level of government**

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shall be separately disclosed in accordance with the requirements of this Standard.

31. In some jurisdictions, national governments may control provincial and or local governments. Where, general purpose financial statements consolidate different levels of government, this standard requires the information about the GGS for each level of government to be separately disclosed. This disclosure is necessary for users to understand the relationship between the budget dependant activities of each level of government consolidated in the GPFS. It will also enable users to better understand the relationship between GPFS and the statistical basis financial reports in those jurisdictions.

Disclosures

32. **Disclosures made in respect of the GGS sector shall include at least disclosure of the following**
- (a) **Assets by major class, showing separately the investment in other sectors;**
 - (b) **Liabilities by major class;**
 - (c) **Net assets/equity;**
 - (d) **Total revaluation increments and decrements and other items of revenue and expense recognized directly in net assets/equity;**
 - (e) **Revenue by major class;**
 - (f) **Expenses by major class;**
 - (g) **Surplus or deficit;**
 - (h) **Cash flows from operating activities by major class;**
 - (i) **Cash flows from investing activities;**
 - (j) **Cash flows from financing activities;**
33. IPSAS 1 *Presentation of Financial Statements* (para 19) identifies a complete set of financial statements (under the accrual basis) as a statement of financial position, statement of financial performance, statement of changes in net assets/equity, cash flow statement and accounting policies and notes to the financial statements.
34. This standard requires disclosure of the major classes of assets, liabilities, revenues, expenses and cash flows reflected in the GPFSs. This will

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enable users to better understand the relationship of financial information presented for the GGS to the financial information presented for the whole of government. This Standard does not specify the manner in which the GGS disclosures shall be made. Jurisdictions electing to make GGS disclosures in accordance with this IPSAS may make such disclosures by way of note disclosure, separate columns in the primary financial statements, or otherwise as considered appropriate in their jurisdiction. However, the manner of presentation of the GGS disclosure shall be no more prominent than the whole of government GPFS prepared in accordance with IPSASs. The implementation guidance attached to this standard illustrates one presentation format. Implementation guidance is non-authoritative.

35. Statistical reporting bases require government expenditure to be disaggregated using the Classification of Functions of Government (COFOG). COFOG focuses on classification of expenses/expenditures. It does not specify a detailed classification basis for revenues. This standard does not require nor prohibit entities disclosing GGS information from presenting disaggregated GGS information consistent with COFOG classification basis. It is likely that in many jurisdictions, the COFOG classifications adopted in respect of the GGS disclosure will be similar to the classifications adopted in accordance with IPSAS 18 for segment disclosures for the whole of government reporting entity.
36. Entities will also make such additional disclosures as are necessary for users to understand the nature of the information presented.
37. **Entities preparing GGS disclosures shall disclose the significant controlled entities that are included in the GGS and any changes in those entities from the prior period, together with an explanation of the reasons why any such entity that was previously controlled is no longer controlled.**
38. This standard requires entities electing to disclose information about the general government sector to disclose a list of the significant controlled entities that are included in the GGS. IPSAS 6 currently requires entities preparing consolidated financial statements to disclose a list of the significant controlled entities that are included in the consolidation. Disclosure of which of the entities consolidated in the GPFS in accordance with IPSAS 6 are included in the GGS will assist users in developing an understanding of the relationship between IPSAS information and GGS information, and in better understanding the GGS information itself.
39. Similarly, disclosure of changes in the controlled entities included in the GGS will enable users to monitor the relationship between the whole of government and the GGS over time.

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Disclosure of information about the PFC and PNFC Sectors

40. This standard does not prohibit the disclosure of financial information about the PFC and PNFC sectors in GPFSs. However, when disclosures about these sectors are made in GPFSs, they are also to be made in accordance with the requirement prescribed in this standard.

IPSASB still to determine if disclosure of PFC and PNFC sectors to be encouraged

41. Statistical reporting models and IPSASs have many similarities in their treatment of particular transactions and events. However, but there are also differences. For example, statistical reporting models require entities to use market values for measuring all items, except loans, whilst IPSASs require or permit cost and current values; and IPSASs treat dividends as distributions while statistical reporting models treat them as expenses. In addition, statistical reporting models make a distinction between transactions and other economic flows that is not currently reflected in the GPFS presentation of transactions and events.
42. This standard does not require that there be a reconciliation of the GGS disclosures in the GPFS and the GGS disclosures under statistical reporting bases. This is because of concerns about the implications and practicability of such a requirement in all jurisdictions. However such a reconciliation is not precluded.

Effective Date

43. **An entity shall apply this International Public Sector Accounting Standard for annual periods beginning on or after Month XX, XXXX. Earlier application is encouraged. If an entity applies this Standard for an earlier period it shall disclose that fact.**
44. When an entity adopts the accrual basis of accounting, as defined by International Public Sector Accounting Standards, for financial reporting purposes, subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption.

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Appendix A

Amendments to Other IPSASs

To be updated following input from the March 2005 meeting

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Appendix B

IPSAS 1 Presentation of Financial Statements requires the development of accounting policies to ensure that the financial statements provide information that meets a number of qualitative characteristics. This Appendix is reproduced from Appendix 2 of IPSAS 1. It summarizes the qualitative characteristics of financial reporting.

Qualitative Characteristics of Financial Reporting

Qualitative characteristics are the attributes that make the information provided in financial statements useful to users. The four principal qualitative characteristics are understandability, relevance, reliability and comparability.

Understandability

Information is understandable when users might reasonably be expected to comprehend its meaning. For this purpose, users are assumed to have a reasonable knowledge of the entity's activities and the environment in which it operates, and to be willing to study the information.

Information about complex matters should not be excluded from the financial statements merely on the grounds that it may be too difficult for certain users to understand.

Relevance

Information is relevant to users if it can be used to assist in evaluating past, present or future events or in confirming, or correcting, past evaluations. In order to be relevant, information must also be timely.

Materiality

The relevance of information is affected by its nature and materiality.

Information is material if its omission or misstatement could influence the decisions of users or assessments made on the basis of the financial statements. Materiality depends on the nature or size of the item or error judged in the particular circumstances of its omission or misstatement. Thus, materiality provides a threshold or cut-off point rather than being a primary qualitative characteristic which information must have if it is to be useful.

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Reliability

Reliable information is free from material error and bias, and can be depended on by users to represent faithfully that which it purports to represent or could reasonably be expected to represent.

Faithful Representation

For information to represent faithfully transactions and other events, it should be presented in accordance with the substance of the transactions and other events, and not merely their legal form.

Substance Over Form

If information is to represent faithfully the transactions and other events that it purports to represent, it is necessary that they are accounted for and presented in accordance with their substance and economic reality and not merely their legal form. The substance of transactions or other events is not always consistent with their legal form.

Neutrality

Information is neutral if it is free from bias. Financial statements are not neutral if the information they contain has been selected or presented in a manner designed to influence the making of a decision or judgment in order to achieve a predetermined result or outcome.

Prudence

Prudence is the inclusion of a degree of caution in the exercise of the judgments needed in making the estimates required under conditions of uncertainty, such that assets or revenue are not overstated and liabilities or expenses are not understated. However, the exercise of prudence does not allow, for example, the creation of hidden reserves or excessive provisions, the deliberate understatement of assets or revenue, or the deliberate overstatement of liabilities or expenses, because the financial statements would not be neutral and, therefore, not have the quality of reliability.

Completeness

The information in financial statements should be complete within the bounds of materiality and cost.

Comparability

Information in financial statements is comparable when users are able to identify similarities and differences between that information and information in other reports.

Comparability applies to the:

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- comparison of financial statements of different entities; and
- comparison of the financial statements of the same entity over periods of time.

An important implication of the characteristic of comparability is that users need to be informed of the policies employed in the preparation of financial statements, changes to those policies and the effects of those changes.

Because users wish to compare the performance of an entity over time, it is important that financial statements show corresponding information for preceding periods.

Constraints on Relevant and Reliable Information

Timeliness

If there is an undue delay in the reporting of information it may lose its relevance. To provide information on a timely basis it may often be necessary to report before all aspects of a transaction are known, thus impairing reliability. Conversely, if reporting is delayed until all aspects are known, the information may be highly reliable but of little use to users who have had to make decisions in the interim. In achieving a balance between relevance and reliability, the overriding consideration is how best to satisfy the decision-making needs of users.

Balance between Benefit and Cost

The balance between benefit and cost is a pervasive constraint. The benefits derived from information should exceed the cost of providing it. The evaluation of benefits and costs is, however, substantially a matter of judgment. Furthermore, the costs do not always fall on those users who enjoy the benefits. Benefits may also be enjoyed by users other than those for whom the information was prepared. For these reasons, it is difficult to apply a benefit-cost test in any particular case. Nevertheless, standard-setters, as well as those responsible for the preparation of financial statements and users of financial statements, should be aware of this constraint.

Balance between Qualitative Characteristics

In practice a balancing, or trade-off, between qualitative characteristics is often necessary. Generally the aim is to achieve an appropriate balance among the characteristics in order to meet the objectives of financial statements. The relative importance of the characteristics in different cases is a matter of professional judgment.

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Appendix C**Basis for Conclusions**

This appendix gives the IPSASB's reasons for supporting or rejecting certain solutions related to the accounting for revenue from non-exchange transactions. It also identifies circumstances in which the requirements of this IPSAS depart from the requirements of IAS 18 and the reasons for such departure. This Appendix does not form part of the Standard.

Introduction

- C1. Government Finance Statistics Manual 2001 (GFSM 2001), the European System of Accounts 1995 (ESA 95), the ESA95 Manual on Government Deficit and Debt (EMGDD) and the System of National Accounts 1993 (SNA 93) require governments to publish comprehensive information about the "General Government Sector" (GGS). GFSM 2001, ESA 95, EMGDD and SNA 93 define the GGS as "The group of units consisting of all resident government units and all resident non-market nonprofit institutions that are controlled and mainly financed by resident government units".
- C2. Current International Public Sector Accounting Standards (IPSASs) do not require entities to disclose information about the GGS in their general purpose financial statements. IPSASs require entities to prepare general purpose financial statements that include information about all the resources controlled by the reporting entity and prescribe rules for consolidation of all controlled entities. IPSAS 18 *Segment Reporting* also requires entities to identify segments and present information about those segments.
- C3. Some governments prepare, present and widely publish both general purpose financial statements and statistical information about the financial characteristics and performance of the public sector.
- C4. Working Group I (WG1) of the Task Force on Harmonization of Public Sector Accounting (TFHPSA) recommended that the PSC consider explicitly allowing/encouraging the disclosure of financial information about the GGS, as defined in GFSM 2001, in whole of government general purpose financial statements. WG1 also recommend that the PSC specify rules to be followed by a government electing to disclose GGS information in its general purpose financial statements. WG1 argued that the presentation of GGS financial information is important as a means of facilitating the convergence of international public sector accounting. Members of WG1 and others also argued that users of financial reports of public sector entities are confused by differences between statistical and

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accounting reporting bases and that there is significant benefit in better explaining those differences and in converging treatments of similar transactions and events to the extent possible.

- C5. The PSC was persuaded by the arguments of WG1, particularly for those jurisdictions that do or may publish for national or other governments both general purpose financial statements in accordance with IPSASs and financial information in accordance with statistical reporting bases. Accordingly it agreed to action the project. The IPSASB was also of the view that the disclosure of such information would assist users in better understanding the relationship between the commercial and non-commercial activities of the government. However, the IPSASB was not persuaded that the benefits of making such disclosures were significantly greater than their benefits in those jurisdictions where financial statements prepared in accordance with statistical reporting models were not routinely prepared and made publicly available. As such, the IPSASB was not prepared to make these disclosures mandatory for all jurisdictions.

Consolidation and Disaggregation

- C6. The same accounting policies as those adopted for the consolidated financial statements are to be adopted in making GGS disclosures, except that the requirements of IPSAS 6 “Consolidated Financial Statements and Accounting for Controlled Entities” are not applied in respect of government business enterprises (GBEs).
- C7. Under statistical reporting models, financial statements prepared for the GGS do not include consolidation of public non-financial corporations (PNFCs) being government controlled entities that trade in goods and services, and public financial corporations (PFCs) such as central banks that operate on a commercial basis.
- C8. The application of IPSAS 6 to the PFC and PNFC sectors would result in the representation of the consolidated whole of government financial statements rather than the GGS. The requirement to apply all other accounting policies adopted in the GGS reflects the IPSASB’s view that the information disclosed about the GGS is a disaggregation of the whole of government financial statements. The requirement that the investment in the PFC and PNFC is measured at the net assets of entities in these sectors is also consistent with the presentation of the GGS as a disaggregation of the whole of government financial statements.

Segment Reporting

- C9. IPSAS 18 “Segment Reporting” requires the separate disclosure of specified information about significant activities or groups of activities for

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purposes of evaluating the part performance of the entity in achieving its objectives and for decision making purposes. IPSAS 18 does not distinguish between exchange and non exchange transactions and events. Rather its focus is on the disclosure of the revenues, expenses, assets and liabilities assorted with the delivery of major services or groups of services, whether these services are delivered by budget dependent entities of the government or GBEs. This objective is not served by the disclosure of GGS. Accordingly, the IPSASB is of the view that a government electing to disclose information of the GGS needs also to disclose information about segments.

- C10. Statistical reporting bases adopt a specific classification basis for disclosure of additional information about the GGS: the classification of functions of government (COFOG). The IPSASB is of the view that the COFOG may be applied to disclose additional information about the GGS. The IPSASB also notes that in some cases a COFOG classification may be adopted to disclose information at the whole of government level.

Reconciliation

- C11. Statistical reporting models and IPSASs have many similarities, but there are also differences in approaches taken to the definition, recognition, measurement, classification and presentation of elements of the financial statements. Consequently, the information disclosed about the GGS in accordance with this Standard may differ in content and form from that presented under statistical reporting models.
- C12. The IPSASB considered whether those governments which elect to disclose information about the GGS in accordance with this Standard should be required to disclose a reconciliation of the GGS disclosures in the GPFS and the GGS disclosures under statistical reporting bases. The IPSASB concluded that such a reconciliation should not be required at this stage. This was because of concerns about the implications and practicability of such a requirement in all jurisdictions which may elect to make such disclosures. These include for example whether:
- The timing of compilation of IPSAS and statistical information is such that a reconciliation could be completed within the time frame necessary for the general purpose financial reports to be audited and “signed off” in accordance with legislative requirements or requirements of the IPSASs;
 - The inclusion of such a requirement would trigger an audit of the reconciliation and may also trigger an audit of the statistical financial reports themselves; and

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- The reporting entity would be required to remeasure and reclassify assets, liabilities, revenues and expenses in accordance with the requirements of the statistical reporting models, and whether this would discourage disclosure of the GGS information.

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Comparison with GFSM 2001

International Public Sector Accounting Standard IPSAS XX, “Revenue from Non-Exchange Transactions” deals with the recognition of revenue from non-exchange transactions in the public sector. The main differences between IPSAS XX and International Accounting Standard IAS 18 (Year), “Revenue” are as follows:

-
-
-
-
-

***IMPLEMENTATION GUIDANCE – ILLUSTRATIVE FINANCIAL
STATEMENT STRUCTURE***

This guidance is illustrative only and does not form part of the standards. The purpose is to illustrate the application of the standards and to assist in clarifying their meaning. Other formats of presentation may be equally appropriate.

GOVERNMENT A – EXTRACT OF FINANCIAL STATEMENTS**Note X: General Government Sector (GGS) Disclosures**

The following disclosures are made for the general government sector (GGS). They reflect the accounting policies adopted in the consolidated financial statements except that the consolidation requirements have been varied in accordance with the requirements of IPSAS XX “Disclosure Of Financial Information about the General Government Sector” in respect of the requirements of IPSAS 6 “Consolidated Financial Statements and Accounting for Controlled Entities” as applied to GBEs controlled by the GGS.

The GGS comprises all central government ministries and other budget dependent entities. These entities are:

Ministry of x

y

z.

During the reporting period, activities related to the postal service, previously undertaken by the ministry of communications, have been reconstituted on a commercial basis and are no longer included in the financial information presented for the GGS.

**GGs – STATEMENT OF FINANCIAL POSITION FOR THE GGS –
AS AT 31 DECEMBER 20X2**

(in thousands of currency units)

	20X2	20X2	20X1	20X1
ASSETS				
Current assets				
Cash and cash equivalents	X		X	
Receivables	X		X	
Inventories	X		X	
Prepayments	X		X	
Investment in other sectors	X		X	
Other investments	<u>X</u>		<u>X</u>	
		X		X
Non-current assets				
Receivables	X		X	
Investments	X		X	
Infrastructure, plant and equipment	X		X	
Land and buildings	X		X	
Other non-financial assets	<u>X</u>		<u>X</u>	
		X		X
Total assets		<u><u>X</u></u>		<u><u>X</u></u>
LIABILITIES				
Current liabilities				
Payables	X		X	
Short-term borrowings	X		X	
Current portion of borrowings	X		X	
Provisions	X		X	
Employee benefits	X		X	
		X		X
Non-current liabilities				
Payables	X		X	
Borrowings	X		X	
Provisions	X		X	
Employee benefits	X		X	
Other liabilities	<u>X</u>		<u>X</u>	
		X		X
Total liabilities		<u><u>X</u></u>		<u><u>X</u></u>
Net assets		<u><u>X</u></u>		<u><u>X</u></u>
NET ASSETS/EQUITY				
Reserves	X		X	
Accumulated surpluses/(deficits)	<u>X</u>		<u>X</u>	
		X		X
Total net assets/equity		<u><u>X</u></u>		<u><u>X</u></u>

**STATEMENT OF FINANCIAL PERFORMANCE FOR THE GGS -
FOR YEAR ENDED 31 DECEMBER 20X2
(ILLUSTRATING THE CLASSIFICATION OF EXPENSES BY FUNCTION)**

(in thousands of currency units)

	20X2	20X1
Revenue		
Taxes	X	X
Fees, fines, penalties and licenses	X	X
Revenue from other sectors	X	X
Transfers from other government entities	X	X
Other revenue	X	X
Gains on sale of property, plant and equipment	X	X
Total revenue	<u>X</u>	<u>X</u>
Expenses		
General public services	X	X
Defense	X	X
Public order and safety	X	X
Education	X	X
Health	X	X
Social protection	X	X
Housing and community amenities	X	X
Recreational, cultural and religion	X	X
Economic Affairs	X	X
Environmental protection	X	X
Other Expenses	X	X
Finance costs	X	X
Share of surplus of associates	X	X
Total expenses	<u>X</u>	<u>X</u>
Surplus/(deficit) for the period	<u>X</u>	<u>X</u>

**STATEMENT OF CHANGES IN NET ASSETS/EQUITY OF THE GGS -
FOR THE YEAR ENDED 31 DECEMBER 20X2**

(in thousands of currency units)

	Revaluation Reserve	Translation Reserve	Accumulated Surpluses/ (Deficits)	Total
Balance at 31 December 20X0	X	(X)	X	X
Surplus on revaluation of property	X			X
Deficit on revaluation of investments	(X)			(X)
Currency translation differences		(X)		(X)
<hr/>				
Net gains and losses not recognized in the statement of financial performance	X	(X)		X
Net surplus for the period			X	X
<hr/>				
Balance at 31 December 20X1	X	(X)	X	X
Deficit on revaluation of property	(X)			(X)
Surplus on revaluation of investments	X			X
Currency translation differences		(X)		X
<hr/>				
Net gains and losses not recognized in the statement of financial performance	(X)	(X)		(X)
Net deficit for the period			(X)	(X)
<hr/>				
Balance at 31 December 20X2	X	(X)	X	X
<hr/> <hr/>				

**CASH FLOW STATEMENT FOR THE GGS -
FOR YEAR ENDED 31 DECEMBER 20X2**

(in thousands of currency units)

	20X2	20X1
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts		
Taxation	X	X
Sales of goods and services	X	X
Grants	X	X
Interest received	X	X
Other receipts	X	X
Payments		
Employee costs	(X)	(X)
Superannuation	(X)	(X)
Suppliers	(X)	(X)
Interest paid	(X)	(X)
Other payments	(X)	(X)
Net cash flows from operating activities	<u>X</u>	<u>X</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of plant and equipment	(X)	(X)
Proceeds from sale of plant and equipment	X	X
Proceeds from sale of investments	X	X
Purchase of foreign currency securities	(X)	(X)
Net cash flows from investing activities	<u>(X)</u>	<u>(X)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from borrowings	X	X
Repayment of borrowings	(X)	(X)
Dividend from other sectors to government	(X)	(X)
Net cash flows from financing activities	<u>X</u>	<u>X</u>
Net increase/(decrease) in cash and cash equivalents	X	X
Cash and cash equivalents at beginning of period	<u>X</u>	<u>X</u>
Cash and cash equivalents at end of period	<u><u>X</u></u>	<u><u>X</u></u>

TASK FORCE ON HARMONIZATION OF PUBLIC SECTOR ACCOUNTING

Working Group II: Input To SNA Review

March 2-3-4, 2005 (OECD, Paris, La Muette, (room 4) 2 rue André Pascal, 75016)

Draft Agenda

The intent is to present the three first topics (in bold) in the form of papers to the first AEG Summer 2005

Date and time	Topic	Documents	Discussion Leader
Wednesday 2 March			
9.30 a.m.	Opening remarks / Update since the September 2004 meeting		Lucie Laliberté
10 a.m.	Recording of tax and tax credits (working team C)	Paper by J-P Dupuis	Jean-Pierre Dupuis
10.45 a.m.	Coffee break		
11.00 a.m.	Recording of tax (continued)		
12.30 p.m.	Lunch		
2: p.m.	Delineation of government / public and private sector (working team A)	Paper	Tulsi Ram
Thursday 3 March			
9.30 a.m.	Contingent liabilities and government guarantees (working team D)	Paper by Pierre Sola	
10.45 a.m.	Coffee break		
11 am	Earnings from equity investment (working team B)	Paper by Philippe de Rougemont	
12.30 p.m.	Lunch		
2 p.m.	Earnings from equity investment (working team B) (continued)		
3:00 p.m.	Coffee break		
3.15	Privatisation and restructuration units (working team E) of which: - Special Purpose Vehicles - Public/Private Partnership - Privatization - Other related issues	Paper by Sage De Clerck	

**ASK FORCE ON HARMONIZATION OF PUBLIC SECTOR ACCOUNTING
(TFHPSA)**

Friday, March 4, 2005 (OECD, Paris, La Muette, room 4)

Draft Agenda (continued)

Time	Topic	Documents	Discussion Leader
9.30 a.m.	Summary of discussions of WG II		Jean-Pierre Dupuis
9.45 a.m.	Annex on the Public Sector	Annotated Outline by John Pitzer	Lucie Laliberté
10.45 a.m.	Coffee break		
11.00 a.m.	Annex on the Public Sector (continued)		
12.00	Information on other issues		
12.30 p.m.	Lunch		
2.00 p.m.	Working Group I	Working Group I Report	Paul Sutcliffe / P. Adhémar
4.00 p.m.	Coffee break		
4.15 p.m.	Work Program for 2005-6		Lucie Laliberté