

IPSASB

## IPSASs: State of the Art

**Ian Carruthers**

IPSASB Chair

EGPA Workshop, Modena  
6<sup>th</sup> May 2016

# IPSASs: State of the Art – Session outline

- IPSASB background
- Standard setting approach
- New governance and advisory arrangements
- Work plan 2016 onwards
- Debt crisis challenges
- Successful implementation

## IPSASB Strategic Objective - 2015 onwards

Strengthening public financial management and knowledge globally through increasing adoption of accrual-based IPSASs by:

- Developing high-quality financial reporting standards
- Developing other publications for the public sector
- Raising awareness of the IPSASs and the benefits of their adoption

## The IPSAS Board and its outputs

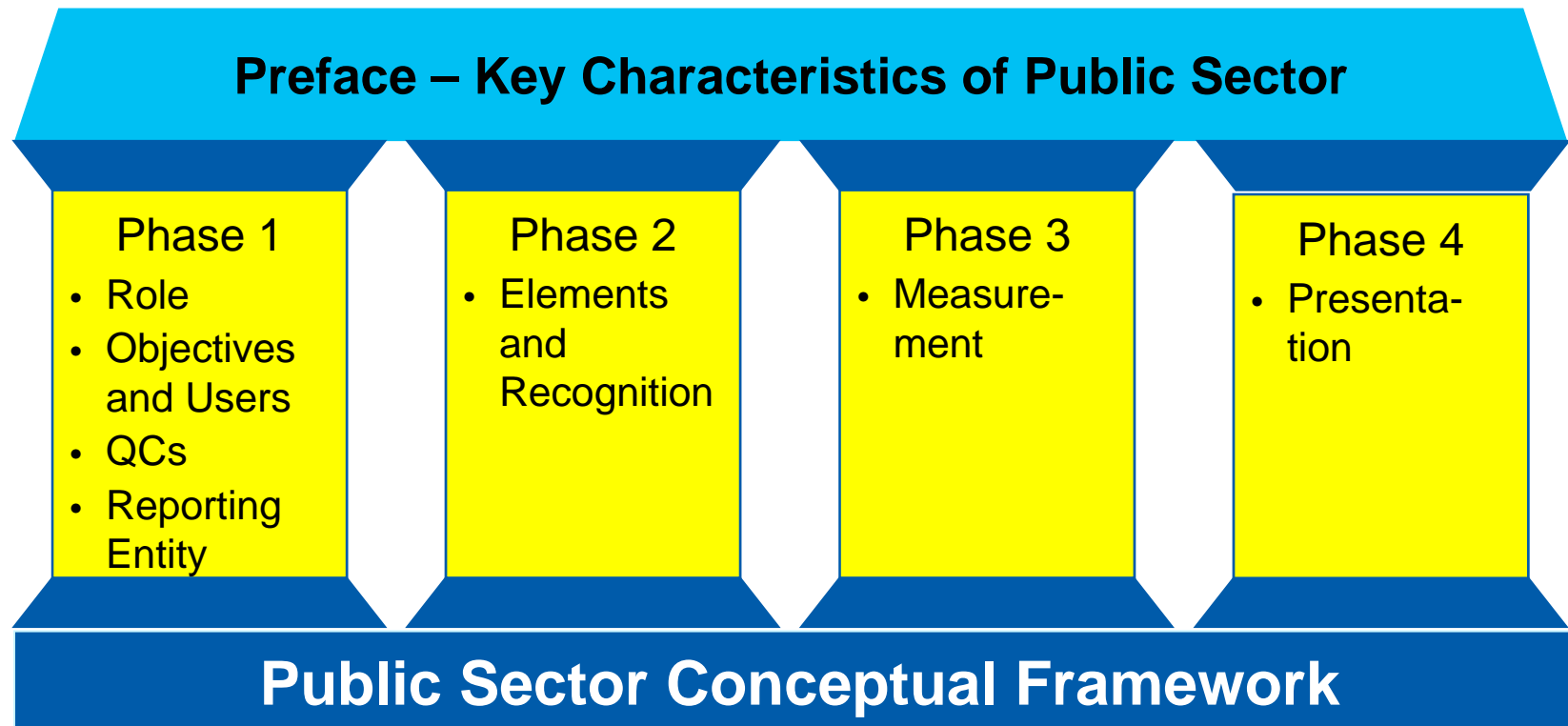
- Independent Standard Setting Board under auspices of IFAC
- Remunerated Chair (75% WTE)
- 17 other volunteer board members from around world
- Sets standards for Public Sector Entities
- Funding by IFAC (approx 50%) and voluntary contributions from Governments and observer organizations
- 34 IPSASs (accrual basis) covering main areas of government activity, 1 cash basis standard as 'stepping stone' to accrual
- 3 Recommended Practice Guidelines (RPGs)
- Public Sector Conceptual Framework

# Public Sector Conceptual Framework (1)

## Preface - Characteristics of the Public Sector that influence Public Sector Accounting



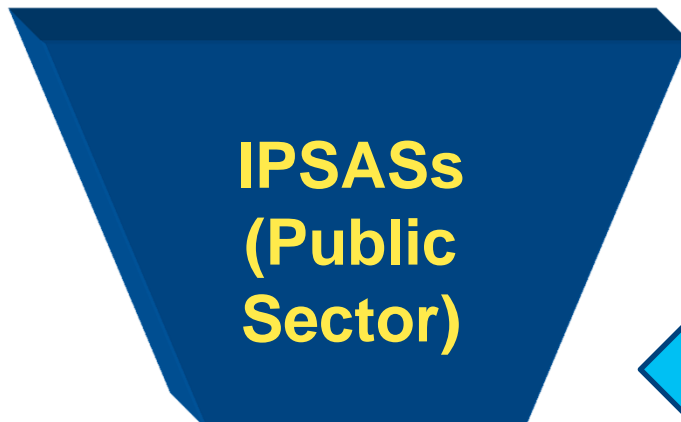
# Public Sector Conceptual Framework (2)



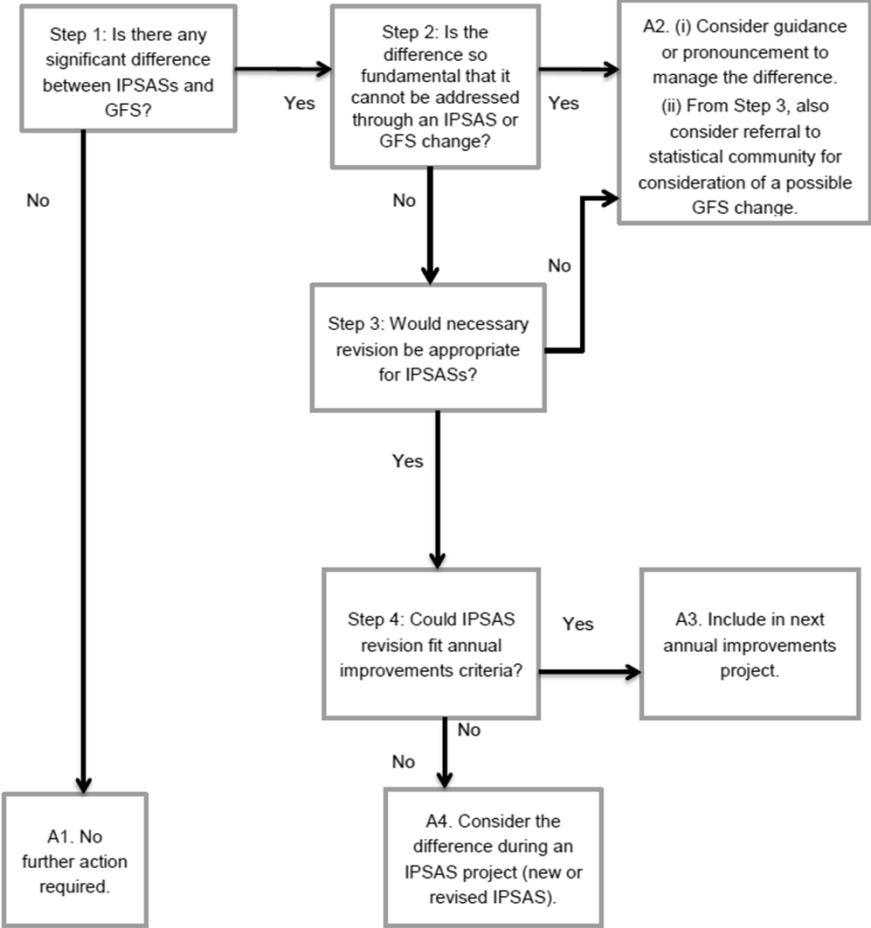
# IPSASs: Convergence with IFRSs



- Terminology
- Public sector guidance
- Public sector issues
- Public sector examples



# IPSASs: Process for considering GFS guidelines





# Governance and Advisory Arrangements (1)

## Public Interest Committee (PIC)

### Oversee governance & standard-setting activities

- World Bank, IMF, OECD, INTOSAI co-chairs
- 3 meetings to date
- Reviewed and advised on:
  - *Appointments of:*
    - *IPSASB Chair & Inaugural CAG Chair*
    - *Members: IPSASB & CAG*
  - *IPSASB & CAG Terms of Reference*
  - *IPSASB due process*
- Final Standards – due process application:
  - *Applicability of IPSASs & Improvements to IPSASs 2015*

## Governance and Advisory Arrangements (2)

### Consultative Advisory Group (CAG)

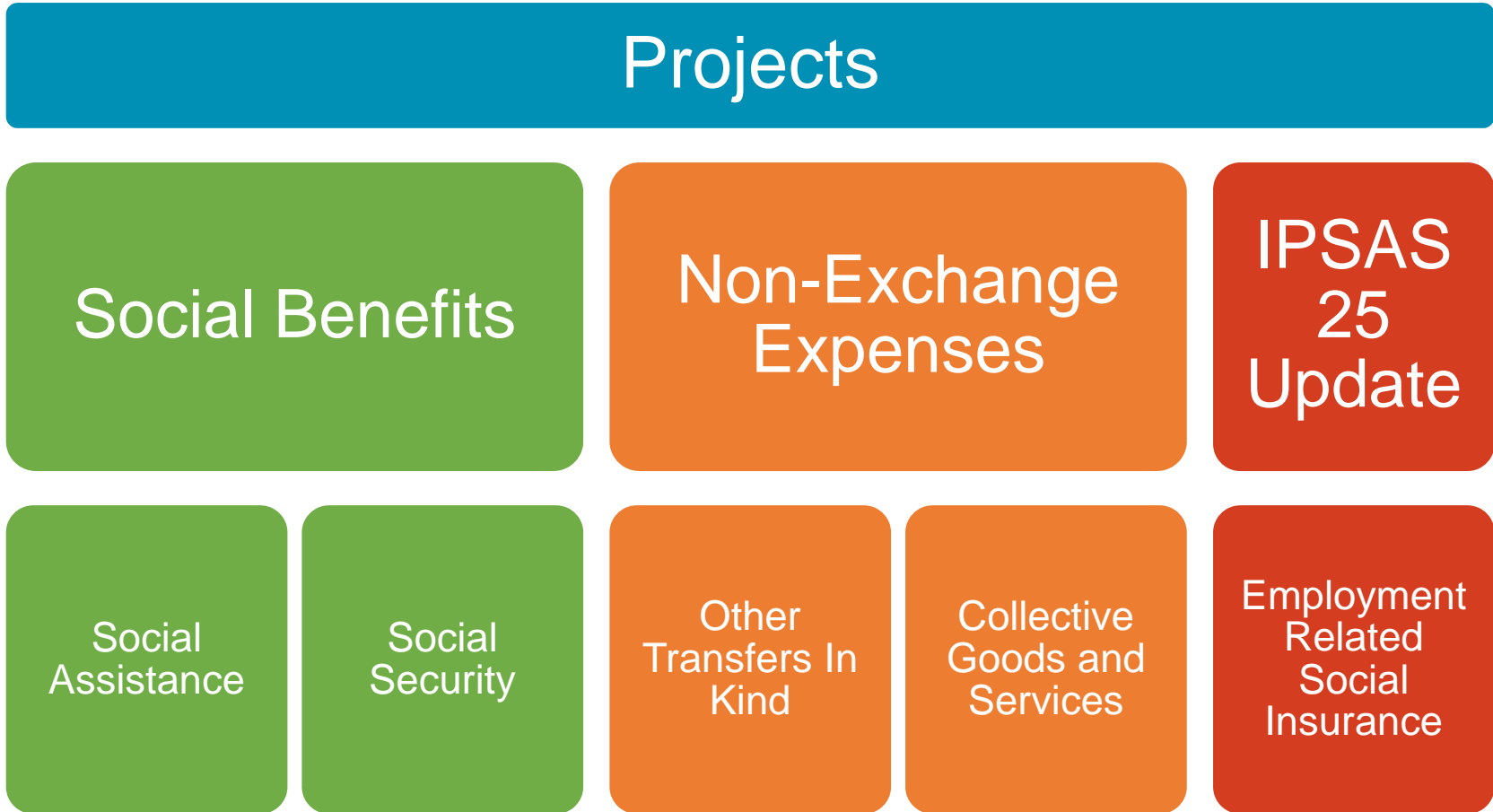
#### Advise IPSASB on key project issues, strategy, work plan

- Inaugural Chair & Members appointed
- Composition:
  - 50% – *Preparers/Users*
  - *Audit organizations – Including Forum of Firms Representative*
  - *Economic development and regulatory organizations*
  - *Regulatory organizations*
  - *Professional Accountancy Bodies*
  - *Individuals*
- Initial meeting June 2016 in Toronto, Canada

## Work programme 2016 onwards – Key projects

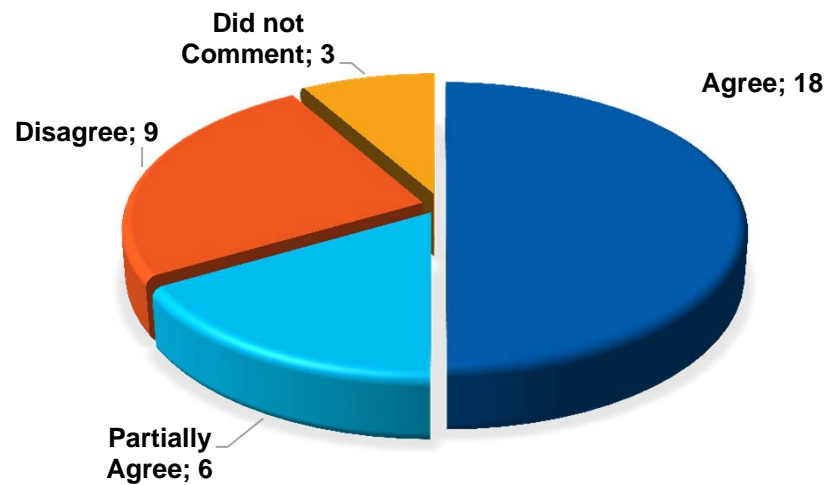
Project	Public sector specific	IFRS convergence
Social Benefits	X	
Revenue & Non-Exchange Expenditure	X	X
Financial Instruments	X	X
Heritage	X	
Public Sector Measurement (not yet started)	X	
Infrastructure Assets (not yet started)	X	
Leases (just started)		X

# Narrower scope of current project

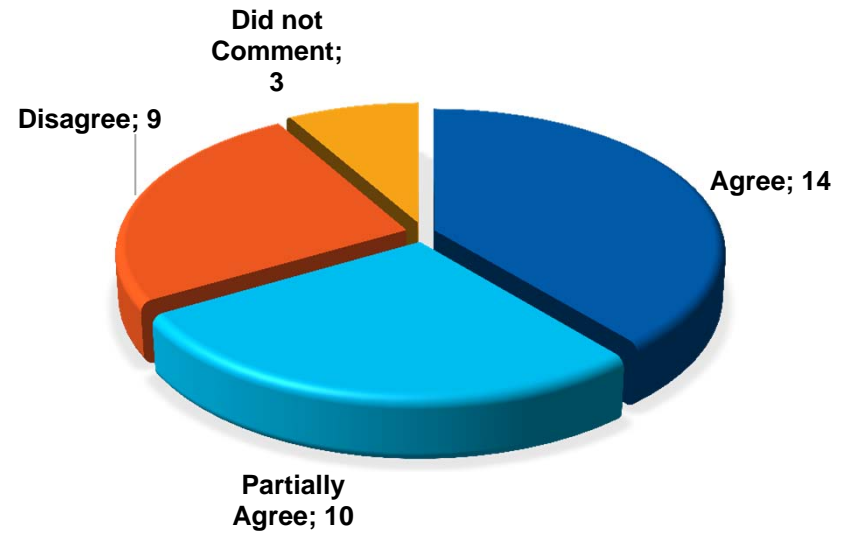


# CP responses on scope and definitions

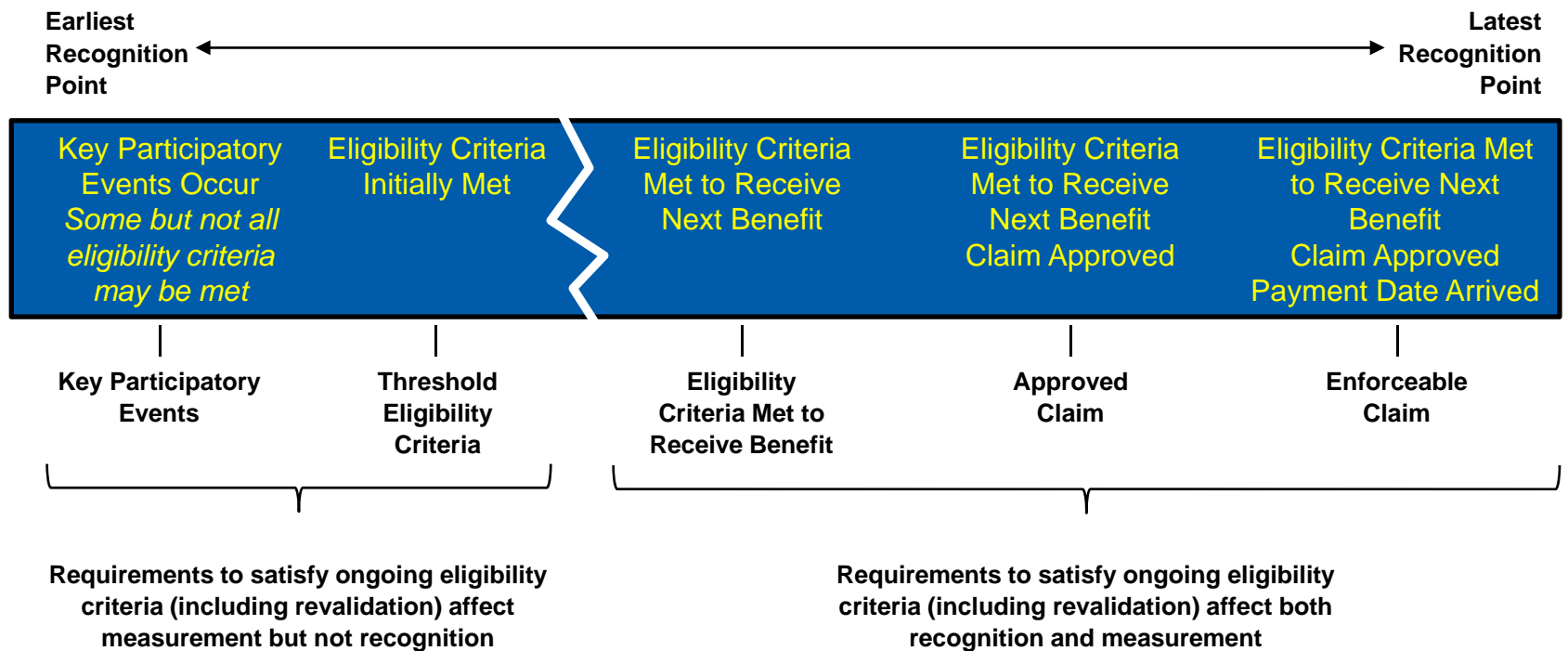
Do you agree with the proposed scope?



Do you agree with the definitions?



# Obligating event approach: Potential recognition points



## Revenue and Non-Exchange Expenditure

- Single CP to address need for symmetry in approach between revenue and expenditure (e.g. grants)
- Assessment of extent that IFRS15 performance obligation approach can be applied to public sector revenues
- ‘Residual’ non-exchange revenue standard as successor to IPSAS 23?
- More guidance on key tax revenue recognition issues?
- Key debate about application of CF Elements definitions
- Non-exchange expenses outside Social Benefits project – collective goods and service (e.g. Defence)
- Consistency / links with Social Benefits and existing IPSASs

## Heritage (1)

- Provide requirements and guidance to replace provisional guidance in IPSAS 17 – no asset recognition requirement
- CP as initial step despite original 2006 CP
- Proposed Heritage Items definition:

*Heritage items are items that, because of their rarity, importance and/or significance, are expected to be held for the benefit of present and future generations and preserved indefinitely. They are preserved for many different reasons including, and not limited to, their architectural, agricultural, artistic, cultural, environmental, historical, natural, scientific or technological importance.*



## Heritage (2)

- Categories considered based on UNESCO Conventions
  - Cultural property
  - Underwater cultural heritage
  - Intangible cultural heritage
  - Cultural and natural heritage
- Discussion in terms of CF asset and liability definitions
- CF used to develop proposals on recognition, measurement and disclosure
- December 2016 CP approval

# Public Sector Measurement (1): CF Measurement Bases

<b>Assets</b>	<b>Liabilities</b>
Historical Cost	Historical Cost
Current Value measures <ul style="list-style-type: none"><li>• Market Value</li><li>• Replacement Cost</li><li>• Net Selling Price</li><li>• Value in Use</li></ul>	Current Value measures <ul style="list-style-type: none"><li>• Market Value</li><li>• Cost of Fulfilment</li><li>• Cost of Release</li><li>• Assumption Price</li></ul>

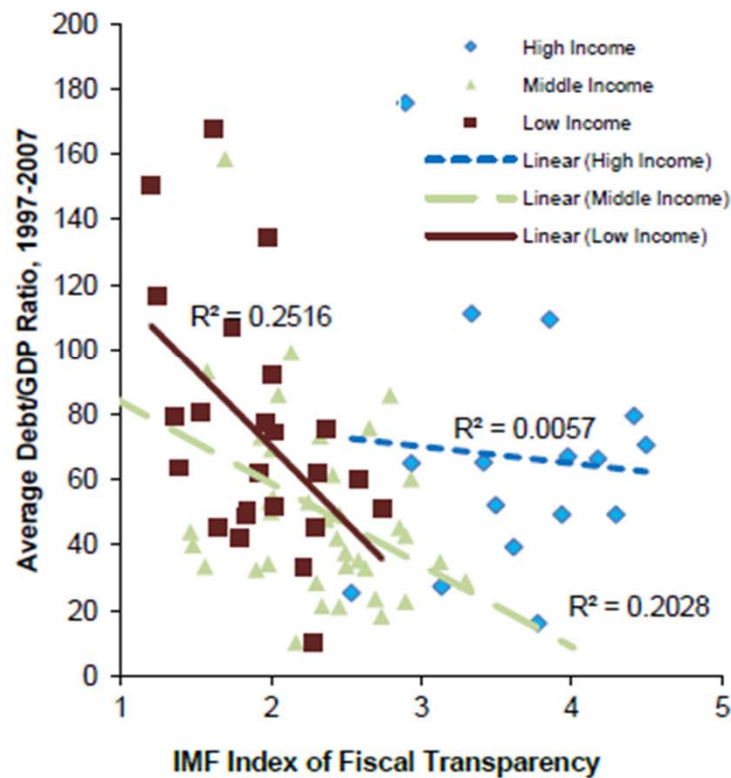
## Public Sector Measurement (2)

- Combined impact on IPSASs of CF and IFRS 13:
  - Measurement requirements not consistent with CF
  - Fair value references inconsistent with IFRS 13
- Other key issues:
  - Further Implementation Guidance needed?
  - Transaction costs treatment (including borrowing costs)
  - Consistency with GFS and IVSC guidance
- Preliminary analysis stage before deciding further steps
- Task Force to include GFS and IVSC representatives

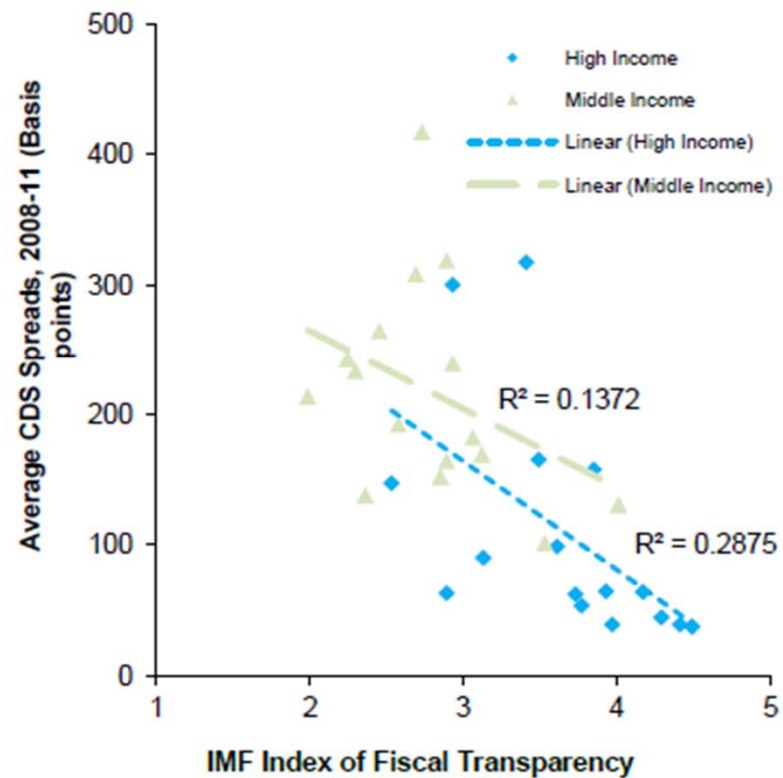
# IMF: Transparency has a real impact

- Less debt and lower interest rates

a. Fiscal Transparency & Government Debt



b. Fiscal Transparency & CDS Spreads



# IMF: Transparency supports fiscal management

- Fiscal risks:
  - Government financial reporting responsible for increase of government debt during financial crisis:
    - incomplete information (23%)
    - underestimating likelihood and impact of economic shocks (37%)
  - Off-balance sheet items critical including:
    - State owned enterprises (if there is no consolidation ...)
    - PPP (if not accounted for)
  - Current value measurement and impairment testing important
- Adherence to IPSAS/GFSM2014 critically important
  - Alignment of IPSAS/GFS – e.g. as planned under EPSAS

## Fiscal risks same as key implementation issues

- Fiscal risks
  - Consolidation of SoEs
  - Budget vs. actual
  - Financial guarantees
- Key issues implementing IPSAS
  - Consolidation: IPSASs (34-38) – no temporary control exemption
  - Non-Exchange Revenues (Transfers/Taxes): IPSAS 23
  - Budget information: IPSAS 24
  - Financial instruments: IPSASs 28-30
    - Financial guarantees covered
    - Staff paper on sovereign debt restructurings
    - Securitisation guidance to be provided in IPSAS 29 update
  - Asset register: IPSAS 17 → not difficult, but high workload

## IPSASB Study 14: Accrual reform periods

- Short (1-3 Years) – strong political support; few entities
- Medium (4-6 years) – increased preparation and implementation time
- Long – (6+ years) – risk of ‘reform fatigue’

## IPSASB Study 14: Accrual implementation Success features

- Clear mandate
- Political commitment – major project
- Commitment of central entities and key officials
- Use of legislation
- Effective project management structure
- Adequate technological capacity and information systems;  
and
- Adequate resources (human and financial)



## Questions, Discussion & Further Information



- Visit our webpage <http://www.ipsasb.org/>
- Or contact us by e-mail :  
IPSASB Chair: [iancarruthers@ipsasb.org](mailto:iancarruthers@ipsasb.org)  
Technical Director: [johnstanford@ipsasb.org](mailto:johnstanford@ipsasb.org)