

DATE: SEPTEMBER 29, 2006
TO: COUNCIL
FROM: PHILIPPE ADHÉMAR
CHAIR, IPSASB
SUBJECT: REPORT FROM THE IPSASB

Section 1 Introduction

- 1.1 This report outlines major achievements of IFAC's International Public Sector Accounting Standards Board (IPSASB) since my last Council report of October 7, 2005.
- 1.2 Since my last report, the IPSASB has met three times;
 - November 29 – December 2, 2005, Cape Town, South Africa;
 - March 21-24, 2006, Tokyo, Japan; and
 - July 3-7, 2006, Paris, France.
- 1.3 Future 2006/7 meetings are scheduled for:
 - November 7-10, 2006, Norwalk, Connecticut, USA;
 - March 22-23, 2007, Accra, Ghana;
 - July 3-6, 2007, Montreal, Canada; and
 - November, 2007, (location to be determined)

Section 2 Key Achievements for 2006 – Strengthening the Future

- 2.1 The IPSASB's objective is to be accepted as the international accounting standards setter for the public sector. During the period there were some major milestones achieved that made progress towards that goal.
- 2.2 *UN adoption of IPSASs* - A major boost to IFAC's public sector standard setting program came with the announcement that the General Assembly of the United Nations (UN) has approved a financial management reform program that calls for the adoption of International Public Sector Accounting Standards (IPSASs) by the UN (see IFAC press release dated September 5, 2006) This will apply to all the 48 organizations of the UN Group.. The adoption of IPSASs by a body such as the United Nations is viewed as a major initiative in enhancing the profile of the IPSASB and it is hoped that this will generate momentum for other similar organizations.
- 2.3 *Commitments for funding* - Continued efforts at securing external funding for the IPSASB have been successful and culminated in a commitment from the Canadian government to provide funding of US\$200,000 per year for the next 5 years (see IFAC press release dated September 6, 2006). Further, the Canadian Institute of Chartered Accountants has agreed to provide, at its expense, a dedicated professional to support the IPSASB as well as physical space for a new IFAC office in Toronto Canada as the headquarters of the IPSASB. Additional staff support will also be provided by the Chinese Ministry of Finance. The additional resources are significant in strengthening the IPSASB's capacity to deal with its priorities. IPSASB is very

grateful for the support shown and hopes this serves as an example for other jurisdictions. In addition, the EC has committed resources for the employee benefits project and the Asian Development Bank continues to provide funding over the next three years.

- 2.4 ***Refocused objectives and workplan*** - The increased funding is significant in that it fundamentally changes the resources of the IPSASB with respect to staffing and will allow the Board to complete an enhanced workplan over the next few years. At its meeting in Paris, the IPSASB agreed that the long term objectives and work program of the IPSASB should focus on four broad areas of work priorities:
- Development of a public sector conceptual framework;
 - Development of other public sector specific projects (including convergence with statistical bases of reporting where appropriate);
 - IFRS convergence; and
 - Other projects and activities including promotion and communication.
- 2.5 ***Collaboration with National Standard Setters*** - Further efforts in strengthening the priorities and workplan of IPSASB have been achieved with enhanced collaboration with other National Standard Setters (NSSs). At the IPSASB July 2006 meeting, we met NSSs and other similar organizations from Argentina, Australia, Canada, France, Israel, Malaysia, Italy, the Netherlands, New Zealand, Spain, South Africa, Switzerland, the United Kingdom and the United States of America, and representatives from the Federation des Experts Comptables Europeens, the international Task Force on Harmonization of Public Sector Accounting and Eurostat. The objective was to discuss the potential for collaborative projects for the development of a conceptual framework for the preparation and presentation of public sector financial statements, as well as guidance on financial reporting for Public Private Partnerships/Service Concession Arrangements by public sector entities.
- 2.6 The meeting was extraordinarily successful with agreement that the IPSASB should take leadership on these projects, with NSSs providing task force members and some technical help. Commitments were received or discussed specifically from the Governmental Accounting Standards Board (GASB) in the United States, the UK Accounting Standards Board and the New Zealand Financial Reporting Standards Board. In addition staff attended a meeting of National Standard Setters in September where additional collaborative efforts were discussed and the importance of this on an ongoing basis emphasized.
- 2.7 ***Public Board members added*** - Three public members were added to the IPSASB commencing with the March 2006 meeting. These members are the first public members appointed to the IPSASB and represent another stage in the implementation of the recommendations of the independent review panel chaired by Sir Andrew Likierman. These recommendations have now been almost fully implemented.

Section 3 Building on the Past - Outputs Completed during 2006

- 3.1 In 2006, the IPSASB focused its resources on progressing its ambitious work program and made significant progress in a number of regards. In total, 4 new IPSASs plus a revised preface were approved along with 4 EDs, a consultation paper and an information paper. The following provides a summary of progress during the year.

- 3.2 **Revenue from Non-Exchange Transactions (Including Taxes and Transfers)** – Progress on this project during the year was significant. ED 29 was approved in November 2005 (issued January 2006). Recognition and measurement of revenue from non-exchange transactions has not previously been addressed by international financial reporting standards. As the first public sector specific standard developed by the Board, the ED is ground breaking and represents the culmination of three and a half years of intensive work by the IPSASB, a Steering Committee and IPSASB technical staff. Support has been significant, such that the Board anticipates that a final IPSAS will be approved in November 2006.
- 3.3 **Other documents** – Other items approved for publishing include:
- 3.3.1. New IPSAS, Disclosure of Financial Information about the General Government Sector, specifies disclosure requirements for governments which elect to present financial information about the general government sector in their consolidated financial statements. It will apply for annual reporting periods commencing on or after January 1, 2008.
- 3.3.2. Revised Preface to International Public Sector Accounting Standards, which clarifies that the paragraphs in bold type and plain type in IPSASs have equal authority. This amendment only applies to IPSASs issued or reissued from the date of issue of the revised Preface.
- 3.3.3. Three new IPSASs on the general improvements project. In total the Board proposes amendments to eleven IPSASs, to converge with amendments made to related IFRSs that were amended as part of the IASB's general improvements project. In July 2006, improvements to the following IPSASs were approved:
- IPSAS 1, Presentation of Financial Statements;
 - IPSAS 3, Accounting Policies, Changes in Accounting Estimates and Errors; and
 - IPSAS 4, The Effects of Changes in Foreign Exchange Rates.
- 3.3.4. ED 24 Financial Reporting Under the Cash Basis of Accounting – Disclosure Requirements for Recipients of External Assistance proposes amendments to the Cash Basis IPSAS to include both required and encouraged disclosures of external assistance by recipients. The IPSASB in association with the OECD and the Eastern and Southern African Association of Accountants General, intends to field test the requirements proposed in the ED before development of a final IPSAS.
- 3.3.5. ED 30 Impairment of Cash Generating Assets that is harmonized with IAS 36, "Impairment of Assets" to the extent appropriate for the public sector.
- 3.3.6. ED 31 Employee Benefits based on IAS 19, "Employee Benefits" with modifications where necessary to reflect public sector circumstances (public sector issues include accounting for public sector performance schemes, state plans providing employee benefits, and composite social security schemes);
- 3.3.7. Consultation Paper (CP), Accounting for Heritage Assets Under the Accrual Basis of Accounting, was issued in February 2006 with comment closing date of 30 June 2006. It incorporates a discussion paper issued by the United

Kingdom's Accounting Standards Board. Though the CP's proposals do not necessarily reflect the IPSASB's views, they suggest potential solutions to challenges likely to be faced by many jurisdictions reporting on the accrual basis or in the process of moving to it. The ultimate objective of this work is to eventually develop recognition, measurement and disclosure requirements for heritage assets, considering the responses to the CP; and

3.3.8. Information Paper - The Road to Accrual Accounting in the United States of America which:

- outlines the US public sector experience in moving to accrual accounting;
- notes the development of administrative arrangements for standards setting at all levels of US government;
- highlights key factors shaping the standards-setting structure; and
- provides input on the federal government reporting model.

Section 4 Work in Progress

4.1 As noted the Board identified four broad areas of priority for the future. Much of the current workplan dovetails with these priorities and additional decisions will be made with a focus on these areas. The following is a summary of various items currently in process:

4.2 **Conceptual Framework:** The IPSASB will lead a collaborative project on the development of a conceptual framework for public sector financial reporting in conjunction with participating national standards setters and similar organizations (NSSs). Details will be agreed by the IPSASB in consultation with the NSS prior to formal initiation of the project later in 2006. It is expected that some staff support and possibly other resources will be provided by NSSs.

4.3 The joint IASB-FASB project revising the Framework for Financial Reporting is being done only from the perspective of 'for-profit' entities. (The IASB has indicated that it may return to consider not-for-profit perspectives at some time in the future). Matters addressed so far may have far reaching implications for the not-for-profit sectors and the IPSASB's IFRS convergence program. Particular concerns have been raised already about the objectives of financial reporting and a lack of emphasis on stewardship and accountability. In addition, NSSs are concerned about potential divergence between the IASB project and the work that IPSASB conducts and plans on encouraging both Boards to work together to avoid differences at such a fundamental level.

4.4 **Public Private Partnerships (PPPs) / Service Concession Arrangements:** The IPSASB and NSS agreed to initiate a collaborative research project on financial reporting of PPPs by both grantors and operators.

4.5 The IASB-International Financial Reporting Interpretation's Committee (IFRIC) is developing authoritative guidance on accounting for some arrangements by only the private sector operator of the concession. The IPSASB project will focus on financial reporting by public sector entities which are grantors in such arrangements, but will also consider the implications for operators of such arrangement. The project will take into account the IFRIC's work. A sub-committee will be formed to address the

project. Again this will be a collaborative project with NSSs providing some staff support.

- 4.6 ***Social Policy Obligations*** - This project addresses both pensions and non-pension social policy obligations. The IPSASB will consider these issues in November 2006 with a view to approving an ED dealing with all of these social policy obligations. Like non-exchange revenues, this project is significant from the perspective that it addresses a public sector specific issue and therefore moves the Board forward in achieving one of its objective of issuing public sector specific standards.
- 4.7 ***Presentation of Budget Information in Financial Statements*** - The IPSASB has reviewed a draft IPSAS and given staff directions to now prepare two separate drafts for scheduled approval at the November 2006 meeting;
- one to amend the cash basis IPSAS; and
 - a separate IPSAS for the accruals basis.
- 4.8 ***General Improvements Project*** - The IPSASB will be reviewing the remaining eight of the eleven improved IPSASs in November 2006 – they are:
- IPSAS 6, “Consolidated and Separate Financial Statements” (revised title)
 - IPSAS 7, “Investments in Associates” (revised title)
 - IPSAS 8, “Interests in Joint Ventures” (revised title)
 - IPSAS 12, “Inventories”
 - IPSAS 13, “Leases”
 - IPSAS 14, “Events After the Reporting Date”
 - IPSAS 16, “Investment Property”
 - IPSAS 17, “Property, Plant and Equipment”

Section 5 Other Matters

- 5.1 ***Translation*** - As part of the progress towards the goal of being recognized as the international public sector accounting standard setter, we continue to make IPSASs available in French and Spanish. The translation method is intended to avoid translation differences between IPSASs and the equivalent IFRS. The translated IPSASs were published on the IFAC website and in paper form in October 2005. IPSASs are also being translated into many other languages by national accounting bodies and other organizations
- 5.2 ***Communication*** - The IPSASB members and staff promote the IPSASs through a variety of presentations at conferences, symposiums and seminars, or press interviews. IPSASB also conducts a seminar with the local profession when it meets outside New York, and meets with local area consultative group members to discuss the IPSASB work program and key projects. These meetings have been successful in raising the profile of both IFAC and the IPSASB. As the priority of the IPSASB now includes a dedicated focus on promotion and communication, staff will be preparing a detailed communication plan for the Board’s review in the future to address specific outputs related to communication that will contribute to the Board’s ultimate outcome of being recognized as the international public sector accounting standard setter.

- 5.3 *Office location and staffing* - Effective August 31, 2006 the IPSASB Technical Director, Paul Sutcliffe, retired from this full-time position, though Paul remains half-time as a Senior Advisor to the IPSASB with responsibility for project work. On behalf of the Board I thank Paul for his contribution to the IPSASB and IFAC and wish him well. Stephenie Fox was appointed as IFAC's new IPSASB Technical Director effective September 5, 2006.
- 5.4 As of September, 2006, a new IPSASB headquarters was established in Toronto Canada located within the offices of the Canadian Institute of Chartered Accountants. That office will house the Technical Director, a new Technical Manager (already appointed to Toronto) with two additional staff expected by 2007, one seconded from the Chinese Ministry of Finance, the other provided by the CICA. The IPSASB also has one staff member in each of the United Kingdom (Bristol) and New York along with Paul Sutcliffe half-time in Melbourne.
- 5.5 As noted, the United Nations General Assembly voted in June 2006 to adopt IPSASs as the basis for the preparation and presentation of financial reports by UN system reporting entities. The UN has done some research on which governments around the world adopt, or have indicated their intention to adopt IPSASs with approximately 40 countries adopting or indicating plans to do so. More are considering the move.
- 5.6 In addition to the UN, the following international institutions are understood to have adopted IPSASs or converge national standards with IPSASs:
- European Commission;
 - IFAC;
 - North Atlantic Treaty Organisation; and
 - Organisation for Economic Cooperation and Development (OECD)

Section 6 Conclusion

- 6.1 The IPSASB continues to work hard to develop robust financial reporting standards for public sector entities and it is gratifying that so many countries and international organizations are moving to adopt IPSASs as the basis for preparing their general purpose financial statements. The decision by the UN General Assembly may prompt many of the member states to adopt IPSASs for their own financial statements.
- 6.2 I urge you to continue to support the work of the IPSASB, and to assist us in the promotion of the IPSASs and sound financial reporting by governments around the world.
- 6.3 This will be my last report to Council as Chair of the IPSASB. I wish to thank my fellow Board members, IFAC/IPSASB staff, and our constituents for their support and professionalism during my tenure – it has been a very rewarding experience. I wish the same enriching experience to my successor.