

**ISSUES PAPER
IPSASs AND GFS REPORTING GUIDELINES**

This Issues Paper has been prepared by AASB staff with the intention of identifying the major issues and comments that could be addressed by the AASB in a submission to the International Public Sector Accounting Standards Board (IPSASB) in respect of the IPSASB Consultation Paper (CP) *IPSASs and Government Finance Statistics Reporting Guidelines* (October 2012).

Specific Matters for Comment in the CP

This section addresses the five Specific Matters for Comment (SMC) and one Preliminary View raised in the CP (see page 5 of the CP).

Specific Matter for Comment 1 (See Section 3 and Appendix B)

With respect to the summary in Table 2 of progress on reducing differences and the supporting detail in Appendix B:

- (a) Do you agree that the issues categorized as resolved (Category A in Table 2) are indeed resolved?
- (b) Are there further differences between IPSASs and GFS reporting guidelines that should be added to this list? If so, please describe these.

(a) Issues Categorised as Resolved

The basis on which issues have been listed in Table 2 as resolved appears to vary, with notes for some issues indicating that further work is either desired or possible. If further work is desired, then the issue does not appear to have been resolved satisfactorily. For some issues, this is a question of the appropriate extent of guidance. For example, issue A6 (defense weapons – capitalization and classification) states that more guidance is needed to remove differences that arise through different interpretations of IPSASs. But this is a matter of the level of detail (principles v. rules) appropriate in IPSASs as well as in GFS reporting guidelines. Nevertheless, the issue of more guidance on defence weapons is included in Table 2 as issue B5, so the issue is not hidden in the “issues resolved” part of the Table.

Some of the issues listed in Table 2 as resolved exhibit varying degrees of resolution. For example, issue A2 (investments in unquoted shares – measurement) notes that IPSAS 29 requires fair value where reliable, but cost otherwise. Appendix B (page 52 of the CP) states that fair value is used in the majority of cases, but when cost is used, that measurement basis is not consistent with the current market price basis in 2008 SNA. This aspect is not identified for further consideration in other parts of Table 2 and so is hidden from view. It is not clear on what basis the CP concludes that fair value is used in the majority of cases, which may understate the significance of the continuing difference.

Issue A8 (costs associated with R&D and other intangible assets) states that IPSAS 31 and 2008 SNA are aligned, but issue C6 states that there could be differences in practice under GFS. The details for issue A8 in Appendix B indicate that SNA treats research and development as a single category, so that research potentially might be capitalised, whereas under IPSAS 31 research is

always expensed. The issue, therefore, does not appear to have been resolved. This is separate from the issue of the definition of “research”, which is identified as a continuing difference under issue D12.

(b) Further Differences

Issues B6 and C1 address differences in measurement bases for assets, liabilities and net assets/equity. For example, issue B6 indicates that the IPSASB could consider whether to increase the use of current value measurement in IPSASs, to be more consistent with the current valuation basis applying generally under GFS. The discussion in Sections 5 and 6 and Appendix B also refer to improving the consistency of valuation guidance. However, the CP does not refer to the equity method of accounting, which is a special measurement basis applied to investments in associates and interests in jointly controlled entities under IPSASs 7 and 8. With its long history in accounting standards, the equity method deserves particular reference as a difference between IPSASs and GFS as it would need to be addressed separately to other measurement issues.

Australian Accounting Standard AASB 1049 *Whole of Government and General Government Sector Financial Reporting* identifies a range of differences between Australian GAAP and GFS requirements that do not affect measurement of key fiscal aggregates. For example, paragraph 44(b) refers to differences in consolidation eliminations for the whole of government financial statements. Such differences should also be addressed in Table 2 where they arise under IPSASs.

AASB 1049 also identifies differences between GAAP and GFS requirements for the Public Non-Financial Corporations (PNFC) and Public Financial Corporations (PFC) sectors. For example, paragraph 55(b) indicates that deferred tax assets and liabilities recognised by entities in the PNFC or PFC sectors are not recognised under GFS. Table 2 should also address deferred tax requirements even though they arise in a for-profit context under IAS 12 *Income Taxes* or other national standards.

Staff View

The above matters can be raised in a submission to the IPSASB. A more general point might be that the CP doesn't clearly indicate the types of GFS financial reports that the differences relate to, such as whole of government, general government sector, and other sector financial reports.

Specific Matter for Comment 2 (See paragraphs 4.11 to 4.17)

Do you agree that the IPSASB, in conjunction with the statistical community, should develop guidance on the development of integrated Charts of Accounts, which would include (i) an overview of the basic components of an integrated Chart of Accounts, and (ii) wider coverage such as that listed in paragraph 4.16 of this CP?

Staff View

The IPSASB could usefully develop guidance on integrated charts of accounts in conjunction with the statistical community, which has already published information on the topic. This should serve to assist governments and other public sector entities to adopt the accrual-based IPSASs and would be a useful addition to the IPSASB's Study 14 *Transition to the Accrual Basis of Accounting: Guidance for Governments and Government Entities*.

However, staff do not consider that the role of the IPSASB should extend to the “wider coverage” matters listed in paragraph 4.16 of the CP. In particular, project management and business case considerations (paragraph 4.16(b)) are best addressed through organisations that provide direct assistance to governments and other public sector entities in developing their public financial management systems. General guidance on integrated charts of accounts should identify broadly the benefits of integration (paragraph 4.16(a)), but any detail on this should be left to business case considerations. Examples of integrated charts of accounts (paragraph 4.16(c)) are likely to be voluminous and country-specific, and require updating whenever significant changes occur to IPSASs or to GFS reporting guidelines. Extracts of charts of accounts to illustrate the integration of IPSAS and GFS information requirements could be useful, but would be best provided through organisations that provide direct assistance in developing public financial management systems.

Specific Matter for Comment 3 (See paragraphs 5.2 to 5.4)

- (a) Do you think that the IPSASB should take a more systematic approach to reducing differences between IPSASs and GFS reporting guidelines?
- (b) If so, are there changes other than those listed in paragraph 5.4 which the IPSASB should consider adopting?

As an alternative to including GFS comparisons in all IPSASs (paragraph 5.4(e)), GFS comparisons, or more particularly differences, could be included in either a revised version of IPSAS 22 *Disclosure of Financial Information about the General Government Sector* or a replacement IPSAS. That Standard could address GFS matters more generally than just the GGS. This approach would mean that GFS information could be updated by the amendment of one IPSAS rather than the amendment of the particular IPSASs affected. This is the approach adopted by the AASB, with GFS differences and GFS-consistent options in Standards identified in AASB 1049 *Whole of Government and General Government Sector Financial Reporting* and not in other AASB Standards.

Staff View

The IPSASB should take a more systematic approach to reducing differences between IPSASs and GFS reporting guidelines.

The IPSASB should adopt the changes proposed in paragraphs 5.4(a) to (d), within the broad Conceptual Framework context of ensuring that general purpose financial statements provide useful information to users. The policy approaches proposed in paragraphs (a), (b) and (d) should be developed in conjunction with reconsideration of the IPSASB’s current document *Process for Reviewing and Modifying IASB Documents* (described in paragraph A20 of the CP), without giving undue emphasis to converging with GFS. Transaction neutrality remains an important consideration given the existence of both for-profit and not-for-profit entities within the public sector (and within GFS reports).

The staff support the approach in AASB 1049, i.e. including GFS information and related requirements in one Standard, rather than including GFS comparisons in each one, as proposed in paragraph 5.4(e).

Specific Matter for Comment 4 (See paragraphs 5.5 to 5.19)

Are there other areas where IPSAS changes could address GFS differences? Please describe these.

Paragraphs 5.5 to 5.19 consider the issues listed under part B (opportunities to reduce differences: IPSASs) of Table 2. Other areas where IPSASB changes could address GFS differences might arise in respect of the issues classified under part C (opportunities to reduce differences: GFS reporting guidelines), part D (differences that will need to be managed) or even part A (resolved issues).

As noted under Specific Matter for Comment 1, issue A2 (investments in unquoted shares – measurement) glosses over the use of cost measurement instead of fair value, which represents a difference with GFS. The IPSASB could consider updating IPSAS 29 for the change in IFRS 9 *Financial Instruments*, which requires such investments to be measured at fair value, with cost possibly adopted as a reasonable measure of fair value in some circumstances.

Some of the GFS differences in Table 2 are determined by reference to IASB Standards under the hierarchy in IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors* for determining accounting policies, since there is no corresponding IPSAS. Issue A3 (employee stock options) is regarded as resolved by reference to IFRS 2 *Share-based Payment*, and issue C2 (extractive industries) refers to IFRS 6 *Exploration for and Evaluation of Mineral Resources*. However, in jurisdictions where national standards on these topics are in place, the comparison with GFS might not be the same. If the IPSASB were to issue IPSASs corresponding to these IFRSs, then the GFS comparison on these topics would be the same for all entities reporting under IPSASs, which would improve the comparability of financial reports.

Issues D2 (recognition criteria) and D3 (measurement) both refer to additional disclosures, such as disclosure of valuations relevant to statistical reporting. However, paragraph 4.6 of the CP notes that current value estimates may be good enough for GFS reports without requiring potentially more costly fair value measurement in financial statements. This suggests that, in some cases, reconciling IPSAS and GFS information in IPSAS-compliant financial statements may be more appropriate than extending fair value requirements under IPSASs. Issue D4 (financial statement presentation) refers to reconciling IPSAS and SNA amounts, and could be considered in conjunction with proposals for additional or changed measurement requirements. As an example, the reconciliation of disclosed key fiscal aggregates between Australian GAAP and GFS requirements is required under AASB 1049.

Issue D8 (biological assets) refers to a difference in the timing of consumable biological assets being classified as inventory under IPSAS 27 and GFS. There may be scope for the IPSASB to reconsider that classification in conjunction with the IASB, since the IASB is currently progressing a limited project in relation to bearer biological assets.

Issue D11 (transactions between the central bank and government entities) could be considered by the IPSASB in conjunction with issue B2 (currency on issue/seigniorage). Internationally, there are different views as to whether central banks should be consolidated in whole of government financial reports or their treatment in sectoral information.

Staff View

In addition to raising the issues listed above, it would be appropriate to also comment on any of the proposals set out in paragraphs 5.5 to 5.19, even though there is no specific request for comment on these. For example, in respect of defence weapons (paragraph 5.13), the IPSASB should consider the level of detail that should be specified in IPSASs in terms of principles v. rules in responding to

requests for more guidance on their classification as property, plant and equipment, inventory or expenses. Some of the proposals would be affected by the comments above concerning reconciliation of amounts rather than remeasurement using fair values under IPSASs: paragraph 5.12 re inventory measurement and paragraph 5.15 re measurement generally.

Specific Matter for Comment 5 (See paragraphs 5.20 to 5.28 and page 39)

This CP describes three options concerning IPSAS 22: Option A, revisions to improve IPSAS 22; Option B, withdrawal of IPSAS 22 without replacement; and, Option C, replacement of IPSAS 22 with a new IPSAS.

- (a) Are there any further IPSAS 22 options that should be considered? If so, what are these?
- (b) Which one of the options do you consider that the IPSASB should consider adopting?

No further feasible options have been identified by AASB staff – “doing nothing” is not a viable option.

Staff View

Option C should be adopted by the IPSASB – replacing IPSAS 22 with a new IPSAS that adopts an integrated approach similar to that in AASB 1049. This would allow the GFS-related requirements to be collected in one IPSAS rather than scattered through the many IPSASs. Other IPSASs, such as IPSAS 1 *Presentation of Financial Statements*, would not be complicated by the need to specify GFS-related reporting requirements. Under this approach, just one IPSAS would need to be updated for GFS developments, instead of potentially having to update a number of IPSASs. That would be required even if other IPSASs merely included GFS comparisons as a matter of note.

Whereas paragraph 5.26 of the CP refers to the identification of GFS-aligned options, greater benefits would ensue from the replacement IPSAS requiring governments to adopt the GFS-aligned options. This could significantly reduce differences between IPSASs and GFS requirements.

Preliminary View 1 (See paragraphs 5.29 to 5.34)

The IPSASB should amend Study 14, *Transition to the Accrual Basis of Accounting: Guidance for Governments and Government Entities*, to include a chapter on IPSAS options that reduce differences with GFS reporting guidelines.

The IPSASB’s Preliminary View is based on its conclusion (paragraph 5.34) that the issue is one of guidance rather than a new requirement.

Staff View

The staff preference is to support the introduction of a new requirement through a replacement of IPSAS 22, as noted under SMC 5 above, with discussion of GFS-aligned options in the new IPSAS. However, that would not prevent the inclusion in Study 14 of discussion on the selection of options in IPSASs. It would certainly be appropriate to highlight such matters for governments considering the adoption of the accrual-based IPSASs.

Other Issues arising from the Consultation Paper?

Staff generally support the discussion in the CP. The principal issues considered by staff to arise from the CP are covered by the comments above in relation to the Specific Matters for Comment and the Preliminary View.

Do Board members have any other issues arising from the CP that have not been addressed above?

Questions for the Board

- Q1 Do members agree with the recommendations by staff on matters that should be addressed in a submission?
- Q2 Are there any other issues arising from the CP that members consider should be addressed in a submission?