

25 March 2012

To: New Zealand Institute of Chartered Accountants  
New Zealand External Reporting Board  
New Zealand Accounting Standards Board  
New Zealand IPSASB Consultative Group  
Financial Reporting Council

From: Ken Warren – IPSASB Member

### **IPSASB MEETING – March 2013**

#### **Introduction**

The first IPSASB meeting for 2013 was held in Abu Dhabi, United Arab Emirates, on 11-14 March. It was hosted by the Abu Dhabi Accountability Authority (ADAA). This report provides an overview of the meeting and strategic matters. The appendix records progress on the conceptual framework and other technical topics.

#### **Outreach**

Prior to the meeting there was an outreach session with the ADAA. This included various presentations about IPSASB, the IPSASB's current work programme, the work of the ADAA and a panel discussion.

In 2008, the Abu Dhabi Government approved applying the International Public Sector Accounting Standards (IPSASs) as a formal basis of accounting when preparing the Abu Dhabi Government Consolidated Financial Statements and the Financial Statements of all Government entities in Abu Dhabi. ADAA's preparation of the consolidated Financial Statement of the Government of Abu Dhabi is currently based on the Cash Basis IPSAS. A number of public sector entities also apply accrual IPSASs.

#### **Membership**

Three of the four new members were present:

- Robert Dacey (USA). Mr Dacey has previously been an observer on behalf of the International Organisation of Supreme Audit Institutions (INTOSAI). He is the chief accountant with the US Government Accountability Office (GAO);
- Guohua Huang (China). Dr Huang has previously served as a technical advisor and is deputy director of the Treasury Department of the Ministry of Finance of the People's Republic of China; and
- Guy Piolé (France). Mr Piolé is a senior member of the French Court of Auditors.

Ms Datuk Wan Selamah (Malaysia), the Accountant General of Malaysia, the other new member, was unable to attend. Masud Mazzafar was also absent.

Ian Mackintosh, the IASB observer, was unable to attend.

#### **Oversight and Governance**

The Monitoring Group (MG) met at the end of February and formally considered the proposal that the Public Interest Oversight Board (PIOB) assume oversight of the IPSASB. This proposal has been around for some time and was publicly consulted on last year. The IPSASB has been advised that the MG has decided not to extend the PIOB's mandate to cover the IPSASB. This appears to be due to

capacity concerns, both in terms of ability to take on extra work responsibilities and the need for public sector expertise, and also a concern that the PIOB should retain its focus on auditing matters.

Therefore, IFAC will need to pursue a separate form of governance for the IPSASB. There are good and bad aspects to this. PIOB oversight would have been easier to initiate, given that the PIOB is already in existence and has established processes for oversight of other IFAC standard setting Boards. On the plus side it does give the IPSASB the opportunity to develop an oversight process that is tailored to its work and its constituents. Although it is early days the World Bank and the IMF have already been proactive and are forming a group of interested parties to develop an oversight proposal and to consult on that proposal. Given the long-standing support of the World Bank and the IMF for the work of the IPSASB, the IPSASB is delighted to have the assistance of these bodies in moving forward to address oversight. I would hope that oversight bodies of national public sector accounting standard setters play a role in this process. I'll have more to report following the next meeting.

### **Europe and Adoption of IPSASs**

As part of the reforms to the economic and fiscal governance in the European Union, in November 2011 the European Council called for an assessment of the suitability of IPSASs for European Union member states.

The Statistical Office of the European Union (Eurostat) has just issued a report assessing the suitability of the IPSAS for member states. The report concludes that, "even if IPSAS cannot be implemented in EU member states as it stands currently, the IPSAS standards represent an indisputable reference for potential development of European Public Sector Accounting Standards (EPSAS), based on a strong EU governance system." The Eurostat report is available at: [http://epp.eurostat.ec.europa.eu/portal/page/portal/government\\_finance\\_statistics/government\\_accounting](http://epp.eurostat.ec.europa.eu/portal/page/portal/government_finance_statistics/government_accounting)

Advantages of developing standards based on IPSASs included:

- currently IPSASs are the only set of international public sector standards;
- many member states already have reference to IPSASs in setting their standards; and
- the extent to which IPSASs are currently converged with IFRSs might facilitate consolidation of GBEs.

As part of this project Ernst & Young undertook a survey of current accounting practices in EU member states. The report on this survey provides a useful summary of existing practice and gives some idea of the scale of the implementation effort that will be required. The report on the survey is also available at the above link.

The report puts forward the benefits of harmonisation, and of accrual accounting. The report makes starkly clear the difficulty in achieving any form of harmonisation in Europe given the current heterogeneity of accounting systems employed. However, discussions are continuing. Next steps that are proposed are a Conference on EPSAS on 29-30 May 2013, further public consultation, the establishment of a Working Group/Task Force of EU member states on EPSAS, and development of a further road map with more detailed steps to be taken, including legislative initiatives.

### **Funding**

The Board noted that the External Reporting Board had increased its financial contribution to the IPSASB this year and expressed its appreciation for this support.

### **Strategy and Work Planning**

At the December 2012 meeting the IPSASB had a preliminary discussion on responses to its work programme consultation regarding which new projects it should commence in 2013-2014. The

IPSASB discussed an analysis of respondents' comments on the work programme consultation. The Board noted that it has very limited capacity over the next two years to initiate new projects. There is capacity for two or three projects to commence, with only one new project commencing this year. The Board will make a decision on this at the next meeting. The Board gave the Chair a mandate to discuss, with the IASB, the possibility of working together on Emissions Trading Schemes.

### **Meeting Overview**

The meeting agenda was as follows.

- Agenda item 2: Conceptual Framework
- Agenda item 3: Criteria for Pronouncements
- Agenda item 4: Reporting on the Long-Term Sustainability of Public Finances
- Agenda item 5: Financial Statement Discussion and Analysis
- Agenda item 6: Government Business Enterprises
- Agenda item 7: Update of IPSASs 6-8
- Agenda item 8: Public Sector Combinations
- Agenda item 9: First-time Adoption of Accrual IPSASs 2013-2014
- Agenda item 10: Strategy and Work Planning

The agenda papers are available at <http://www.ifac.org/public-sector/meetings>. Progress on each of the agenda items is discussed in the Appendix to this report.

The IPSASB is still very much in Framework development mode. At this meeting we considered a draft Preface (item 2A) and an ED on Presentation (item 2B). The EDs on Elements and Measurement are still out on consultation (comments on these EDs are due to the IPSASB by 30 April).

### **Next Meeting**

The next meeting will be held from 17 to 20 June 2013, in Toronto. The September meeting will also be in Toronto, and the December meeting will be in Ottawa.

## Progress on Conceptual Framework and other Technical Matters

### Agenda Item 2: Conceptual Framework

The IPSASB is still intending to finalise the Framework in the first half of 2014. This is of course dependent on whether the IPSASB can resolve issues raised by respondents in a timely manner. It is also assuming that the IPSASB does not decide to revisit issues as a result of the IASB's work.

Although the IASB is still in the process of considering issues to be included in a Discussion Paper (scheduled to be released mid-2013) some areas where there could be differences between the two frameworks include:

- dealing with control as a recognition criterion rather than in the definition of an asset; and
- not requiring the occurrence of a past event in the definition of assets and liabilities.

There was quite a lot of discussion at the meeting about how best to monitor the IASB's work and to get the IASB engaged in the IPSASB's work. Options discussed included IPSASB staff providing a presentation on the IPSASB's work and IASB staff providing a presentation to IPSASB (following the release of the IASB's Discussion Paper). These suggestions will be followed up by staff. The Board noted that the IPSASB's Framework project is not a convergence project (and that issues such as the identification of accountability as an objective of financial reporting should remain), but that the IPSASB should avoid unnecessary and inexplicable differences between its Framework and that of the IASB.

### Agenda Item 2A: Conceptual Framework Preface

The IPSASB considered a draft *Preface to the Conceptual Framework* for publication. The matters in the *Preface* were originally issued for comment in an ED entitled *Key Characteristics of the Public Sector with Potential Implications for Financial Reporting* (issued April 2011). Members consider that the *Preface* will fulfil an important role in providing context for the IPSASB's decisions. Because the IPSASB would like to provide links between the *Preface* and some of its final decisions it has decided to defer finalisation of the *Preface* until nearer the end of the project. Staff will make the changes agreed at the meeting and make this available for interim review by members.

Key matters to be considered in revising the draft are:

- Clarify that although there is considerable overlap between involuntary transfers and non-exchange revenue, they are not the same thing. Some exchanges can be compulsory, and some non-exchange transactions can be voluntary.
- The discussion of going concern needs to note that in practice, governments in financial difficulties may be technically insolvent but they rarely cease to exist. Some discussion of negative equity is appropriate and the discussion should note that negative equity may, if not properly managed, have adverse consequences.
- The discussion about whether laws and regulations always have economic substance needs to be revised.

### Agenda Item 2B: Conceptual Framework – Presentation

The IPSASB considered and approved the ED *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Presentation in General Purpose Financial Reports*. This will be the final ED to be issued in the Framework project.

This has been a challenging topic for the IPSASB and successive drafts have moved to an ever higher level approach. For example, an earlier intention to give examples of presentation objectives has been dropped, and indeed, even the term presentation objectives has been dropped. The ED

acknowledges to some extent that despite this area needing development, it has not made significant advances, and one matter on which comment is sought is how the proposals in the ED should be extended. Key ideas in the ED are:

- Description of Presentation: Presentation is the selection, location and organisation of information that is displayed and disclosed in General Purpose Financial Reports (GPFRs).
- Aim of Presentation: The aim of presentation is to provide information that (a) effectively contributes towards (i) the objectives of financial reporting and (ii) the applicable financial reporting objectives, and (b) achieves the QCs while taking into account the constraints.
- Information should be displayed or disclosed.
  - Description of Display: Information selected for display communicates the key messages necessary to achieve a report's objective(s). Displayed information provides an overview of the economic or other phenomena about which a report provides information.
  - Description of Disclosure: Disclosed information makes displayed information more useful by providing detail that will help users to understand the displayed information, including (i) the basis for the displayed information, such as applicable policies or methodology, (ii) disaggregations of displayed information, (iii) items that share many, but not all, of the aspects of displayed information (for example disclosures on contingencies), and, (v) further information necessary to achieve a report's presentation objective(s).
- Decisions on the selection, location and organisation of information should be made in response to the needs of users .... and applicable objectives ....
  - Information Selection: The objective(s) applicable to the financial statements will guide detailed information selection decisions for the financial statements.
  - Information Location: Information location within a report should ensure that displayed information is given appropriate prominence and is not obscured by more detailed and extensive disclosed information. Information should be included in a particular report where the information is necessary for the achievement of the report's objective(s). Factors relevant to decisions about whether information should be included in the financial statements or another report include linkage, nature and preparation.
  - Information Organisation: Information organisation in GPFRs should aim to make clear important relationships between items. Related information should be linked through the use of (a) consistent headings, (b) presentation order, and/or (c) other methods appropriate to the relationship and type(s) of information. Important relationships include, but are not restricted to, those of enhancement, similarity and shared purpose.

There were a number of changes agreed to the document but they were mainly drafting matters, including the reorganisation of material within the document.

Bear in mind that the above summary condenses an entire ED into a few bullet points. The bullet points above don't do the topic justice. Please, when it comes out, have a look at the ED and let us know what you think.

### **Agenda Item 3: Criteria for Pronouncements**

As the IPSASB has moved into establishing guidance and requirements for topics that are broader than the financial statements it has increasingly come up against the issue of whether to establish authoritative requirements or non-authoritative guidance (or something in between). The three topics where this has been an issue to date are service performance reporting, long-term sustainability and financial statement discussion and analysis.

Having regard to the agenda papers, the Board considered three possible types of pronouncements being:

- authoritative pronouncements (IPSASs) which deal with aspects of General Purpose Financial Statements (GPFs);
- pronouncements dealing with aspects of GPF which are not components of the financial statements; and
- non-authoritative pronouncements referred to as Recommended Practice Guidelines (RPGs).

There were a range of views expressed. Some members supported the three types of pronouncements proposed in the agenda papers. Others felt that there should be only two categories of pronouncements: (i) IPSASs dealing with matters that are critical to the financial statements and (ii) RPGs dealing with all other topics.

Another view was a mandatory pronouncement would be appropriate when guidance is required on an aspect of reporting to meet user needs, as identified in the Conceptual Framework. Such mandatory pronouncements dealing with broader scope GPF could either be provided in a separate category of standard or a limited scope IPSAS.

Following considerable discussion the IPSASB noted that guidance on general purpose financial reporting (as opposed to GPFs) is required in some cases and that in the long term there may be standards on some of these topics. However, in the short term the IPSASB agreed that guidance on such issues should be issued by way of RPGs. This means that for the next few years anyway, IPSASs will be restricted to aspects of the financial statements.

#### **Agenda Item 4: Reporting on the Long-Term Sustainability of Public Finances**

The IPSASB was comfortable, in the light of its earlier discussion on types of pronouncements, that an RPG is appropriate for this topic. This is a developing area of reporting and it is difficult to establish a clear cut-off point for the types of reports covered by the guidance. The existence of the RPG will hopefully lead to good disclosure of assumptions and harmonise practice in a broad sense.

There were a couple of issues that meant that we did not approve the document at this meeting. One of the key issues discussed by the IPSASB was how to address fiscal drag. Not surprisingly there are a few different ways that are used in various fiscal reports and differing opinions on whether adjustments for fiscal drag fall within current policy or not. The IPSASB's solution to this issue was to require projections to be based on current legislation or regulation, with departures as appropriate. The text on "departures as appropriate" will explain that an entity needs to take a step back and do a reality check.

The other key issue concerned the three definitions proposed for debt capacity, service capacity and revenue vulnerability. The intention had been to make it clear that each dimension is assessed whilst holding the other variables constant. Members considered that the definitions were cumbersome and decided to instead explain that an entity considers these three dimensions (service, revenue and debt), together with an explanation of how each dimension is assessed. Each dimension has two aspects: capacity and vulnerability). Because of the drafting implications for the RPG, approval of the document will be sought at the next meeting. There will be interim review between meetings.

The Treasury has published formal statements of the possible future fiscal position twice before, in 2006 and 2009, as required by the Public Finance Act (under the 2004 amendment). The next long-term fiscal statement is due out shortly. The report will test fiscal sustainability over the next 40 years through a series of projections, capturing trends, risks and uncertainties flowing from population ageing and other drivers. The Treasury has set up an external panel to challenge its work

and provide suggestions on how to improve its analysis. I expect that we will be able to assert compliance with the forthcoming RPG.

#### **Agenda Item 5: Financial Statement Discussion and Analysis**

The agenda included a draft IPSAS on this topic. The key unresolved issue was whether the IPSASB should issue a mandatory standard or some other form of pronouncement. Following the IPSASB's earlier discussion on types of pronouncements, this document will now be developed as an RPG. This will affect the way in which the document is presented but not the proposals.

The biggest discussion otherwise was on reporting on objectives and risks and whether this discussion should be limited to financial objectives and financial risks or whether it should be broader. Despite agreeing to limit financial statement analysis and discussion to the financial statements, the Board noted that the financial statements may be affected by different kinds of risks and agreed that any discussion of strategies should be consistent with the discussion of risks and with the contents of the financial statements.

A revised document, in the form of a draft RPG, will be brought back to the IPSASB for approval in June.

#### **Agenda Item 6: Government Business Enterprises**

The project brief as approved back in 2011 was "consider whether the current definition of GBEs is appropriate and whether the IPSASB's current view that GBEs apply IFRSs rather than IPSASs in their separate GPFRs, but are consolidated at the whole of government level, is appropriate." Since then work has commenced on the update of IPSASs 6 to 8 and the issue of whether there should be any exemptions from the general consolidation requirement is being considered in that project.

I am keen for this project to address whether the current requirement in IPSAS 6 regarding uniform accounting policies is appropriate with respect to the consolidation of GBEs. This issue has been a hot topic in New Zealand recently, being our "mixed group" issue.

The project is at an early stage, the staff member was not present, and no decisions were made. However, some direction was given for the project to consider the purpose or use that would be made of any definition, with an alternative approach being to note that the IPSASB standard setting is aimed at entities that are more service oriented than profit oriented, that operate in non-market more than in market activities, and/or tend to have less rather than more interaction with capital markets, with the precise delineation being a matter for jurisdictions and their own public sector management arrangements.

#### **Agenda Item 7: Update of IPSASs 6 to 8**

The IPSASB reviewed drafts of EDs based on IAS 27 *Separate Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures*. It also discussed a couple of key issues. The key issues were whether there should be any exemptions from the consolidation requirements in the ED based on IFRS 10 *Consolidated Financial Statements* and how to limit the disclosures regarding structured entities to the types of entities where they would be most useful.

With regard to separate financial statements the Board agreed to retain the ability to use the equity method, as currently permitted by IPSAS 6, *Consolidated and Separate Financial Statements*.

The IPSASB did not come to any conclusions on consolidation exemptions or the suitability of various presentation and accounting options for various categories of entities. The IPSASB requested further discussion of these issues in June, including the possibility of an exemption for investment entities and the presentation of information on statistical subsectors.

With regard to structured entities the IPSASB agreed that the IASB definition of structured entities could inappropriately apply to a number of structured entities. The IPSASB considered a proposal to limit the disclosure requirements to profit-oriented structured entities but decided that this could be too limiting. The IPSASB noted that the AASB is currently considering an alternative approach to this issue which would focus on arrangements where an entity has obtained rights in a way that differs from the usual way in which public sector entities obtain rights. The IPSASB agreed to consider this alternative approach further.

#### **Agenda Item 8: Public Sector Combinations**

The IPSASB considered responses on the Consultation Paper issued last year. The focus at this meeting was on the scope of the project and issues relating to combinations of entities under common control.

The IPSASB did not make any decisions on this topic at this stage. It will consider respondents' comments further at the next meeting.

#### **Agenda Item 9: First-time Adoption**

The IPSASB considered first-time adoption proposals in relation to IPSAS 21 and IPSAS 26 dealing with impairment, IPSAS 23 *Revenue from Non-Exchange Transactions (Taxes and Transfers)*, IPSAS 25 *Employee Benefits* and IPSAS 32 *Service Concession Arrangements: Grantor*.

Consistent with its decisions at earlier meetings, the IPSASB agreed to propose three year grace periods for recognition of certain items such as the liability for defined benefit plans and non-exchange revenue, but for statements using such exemptions to be referred to as being "in transition to IPSASs" rather than in compliance with IPSASs.

In addition, the IPSASB is proposing to permit concessions in relation to comparatives and other disclosures regarding prior periods and to permit the use of deemed cost in some situations (similar to IFRS 1 *First-time Adoption of International Financial Reporting Standards*).

A draft ED will be considered at the next meeting.