

*Proposed International Public Sector Accounting Standard  
– accrual basis*

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Disclosure of Financial  
Information about the  
General Government Sector



International Federation  
of Accountants

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## COMMENTING ON THIS EXPOSURE DRAFT

This Exposure Draft was approved for issue by the International Public Sector Accounting Standards Board (IPSASB). 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 (IPSAS).

Comments should be submitted in writing so as to be received by February 10, 2006. E-mail responses are preferred. All comments will be considered a matter of public record. 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 accrual basis of accounting and the cash 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.

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

## **Background**

Statistical bases of financial reporting such as the System of National Accounts 1993 (SNA 93), Government Finance Statistics Manual 2001 (GFSM 2001) and the European System of Accounts 1995 (ESA 95) require governments to publish

financial information about the general government sector (GGS). For statistical purposes, the GGS comprises government controlled entities primarily engaged in non-market activities. The GGS is sometimes described as comprising those entities that fulfill the core functions of government as their primary activity.

Current IPSASs require entities to prepare general purpose financial statements (GPFs) that include information about all the resources controlled by the reporting entity, and prescribe rules for consolidation of all controlled entities. IPSASs do not require public sector entities to disclose information about the GGS in their GPFs.

Some governments prepare, present and widely publish both GPFs and statistical information about the financial characteristics and performance of the public sector. Working Group 1 (WG1) of the Task Force on Harmonization of Public Sector Accounting (TFHPSA) recommended that the IPSASB consider explicitly allowing/encouraging the disclosure of financial information about the GGS, as defined in GFSM 2001, in whole-of-government GPFs.

This Exposure Draft proposes requirements for application by whole-of-government reporting entities which elect to disclose information about the GGS and prepare financial statements under the accrual basis of accounting as prescribed by IPSASs.

## **Purpose of the Exposure Draft**

The purpose of this Exposure Draft is to prescribe the basis on which the information about the GGS is to be disclosed in the general purpose financial statements of a government which elects to make such disclosure. It does not require that such disclosures be made.

## **Request for Comments**

Comments are invited on any proposals in this Exposure Draft by February 10, 2006. 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 requirements for the disclosure of financial information about the GGS should be included in GPFs prepared in accordance with IPSASs, and if yes, whether such disclosures should be allowed, encouraged or required. The

proposed Standard prescribes the basis on which the disclosure of information about the GGS is to be made by those entities which elect to make such disclosures. It does not require, encourage or prohibit such disclosures (see paragraph 2).

2. Whether the proposed definition of the GGS in paragraph 14 is appropriate.
3. Whether the proposed treatment of investments in public corporations in the GGS disclosure is appropriate. The proposed Standard requires that the investment be presented as an asset at the carrying amount of the net assets of its investees (see paragraph 24).
4. Whether a government which elects to disclose information about the GGS should be required or encouraged to separately disclose information about the GGS of each level of government consolidated in its whole-of-government GPFSS (see paragraph 32).
5. Whether a reconciliation to the statistical reporting basis should be required. The proposed Standard notes that such a reconciliation may be presented, but does not require it (see paragraph 45).
6. Whether there should be a separate IPSAS on disclosure of information about the GGS, or whether the requirements proposed in this Standard should be included as an addition to IPSAS 1, "Presentation of Financial Statements" for governments which elect to disclose information about the GGS.
7. Whether requirements for disclosure of the GGS under a cash basis IPSAS should also be developed.

EXPOSURE DRAFT  
DISCLOSURE OF FINANCIAL INFORMATION ABOUT  
THE GENERAL GOVERNMENT SECTOR

**INTERNATIONAL PUBLIC SECTOR ACCOUNTING  
STANDARD XX — DISCLOSURE OF FINANCIAL  
INFORMATION ABOUT THE  
GENERAL GOVERNMENT SECTOR**

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International Public Sector Accounting Standard XX, “Disclosure of Financial Information about the General Government Sector” (IPSAS XX) is set out in paragraphs 1 – 47 and the Appendices. All the paragraphs have equal authority. IPSAS XX should be read in the context of its objective, the Basis for Conclusions, and the “Preface to the International Public Sector Accounting Standards”. IPSAS 1, “Presentation of Financial Statements” provides a basis for selecting and applying accounting policies in the absence of explicit guidance.



## INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD IPSAS XX — DISCLOSURE OF FINANCIAL INFORMATION ABOUT THE GENERAL GOVERNMENT SECTOR

### Objective

1. The objective of this Standard is to prescribe disclosure requirements for governments which elect to present information about the general government sector (GGS) in whole-of-government general purpose financial statements (GPFSs). The disclosure of appropriate information about the GGS can enhance the transparency of financial reports, and provide for a better understanding of the relationship between the market and non-market activities of the government and between GPFSs and statistical financial reporting bases.

### Scope

2. **An entity that prepares and presents consolidated whole-of-government general purpose financial statements under the accrual basis of accounting and elects to disclose financial information about the general government sector shall do so in accordance with the requirements of this Standard.**
3. Governments raise funds from taxes, transfers, and a range of non-market and market activities to fund their service delivery activities. They operate through a variety of entities to provide goods and services to their constituents. Some entities rely primarily on appropriations or allocations from taxes or other government revenues to fund their service delivery activities, but may also undertake additional revenue generating activities. Other entities may generate their funds primarily or substantially from commercial activities. These include government business enterprises (GBEs) as defined at paragraph 14 of this Standard.
4. GPFSs 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. GPFSs for a government which delivers services through controlled entities, whether primarily dependent on the government budget to fund their activities or not, are consolidated financial statements.
5. In some jurisdictions, financial statements and budgets for the government, or sectors thereof, may also be prepared in accordance with statistical bases of financial reporting (statistical reporting bases). These bases reflect

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requirements consistent with, and derived from, the System of National Accounts 1993 (SNA 93) prepared by the United Nations. These statistical reporting bases focus on the provision of financial information about the GGS. The GGS encompasses those non-profit entities which undertake non-market activities and rely primarily on appropriations or allocations from the government budget to fund their service delivery activities (hereafter referred to as non-market entities or activities). The statistical reporting bases may also provide information about the corporations sector of government which primarily engages in market activities (the public financial corporations (PFC) sector and the public non-financial corporations (PNFC) sector) and the public sector as a whole. (The major features of the PFC and PNFC sectors are outlined at paragraphs 18 and 19 of this Standard.)

### **Segment Reporting**

6. 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. Unlike the sectors reported under statistical reporting bases, segments reported in accordance with IPSAS 18 are not based on a distinction between market and non-market activities.
7. 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 will not provide sufficient detail to enable users to evaluate the entity's past performance in achieving major service delivery objectives, when those objectives are achieved through non-GGS entities. For example, identifying the GGS as a segment will not provide information about a government's performance in achieving its telecommunication, healthcare or educational objectives where government corporations or quasi-corporations deliver services related to 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.

### **Statistical Reporting Bases**

8. The objectives of GPFs and financial statements prepared in accordance with statistical reporting bases differ in some respects. The objectives of GPFs are to provide information useful for decision-making and to demonstrate the accountability of the entity for the resources entrusted to it and which it controls. The purpose of financial statements prepared in accordance with statistical reporting bases is to provide information suitable for analyzing and evaluating fiscal policy, especially the performance of the GGS and the broader public sector of any country. In addition, although

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statistical reporting bases may be described in accounting terms, they might differ in important ways from the underlying financial accounting system from which most of the GFS statistics will be derived. However, GPFSSs and statistical reporting bases also have many similarities in the treatment of transactions and events. For example, they adopt an accrual basis of accounting, deal with similar transactions and events, and in some respects have a similar type of report structure.

9. In some jurisdictions, the disclosure of appropriate information about the GGS in GPFSSs can support and enhance the decision-making of, and accountability to, users of those statements. For example, 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 service delivery activities by the GGS, and the government's financial performance in delivery of those services; and
  - (b) the relationship between the GGS (which is sometimes described as comprising those entities that fulfill the core functions of government as their primary activity) and the corporations sectors, and the impact each have on overall financial performance.
10. In those jurisdictions where financial statements for the government are prepared in accordance with statistical reporting bases and widely published, the disclosure of information about the GGS sector in GPFSSs will form a useful link between GPFSSs and statistical based financial statements. This will assist users in reconciling information presented in GPFSSs to information presented in statistical based financial statements. Exposure Draft 27, "Presentation of Budget Information in Financial Statements" (ED 27) requires that GPFSSs include a comparison of budget and actual amounts on a basis consistent with that adopted for the budget. Where government budgets are prepared for the GGS rather than the whole-of-government, financial information about the GGS disclosed in accordance with this Standard will be relevant to the comparisons required by ED 27.

### **Accounting Policies**

11. 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. The compilation and presentation of GGS data which satisfy the qualitative characteristics of GPFSSs and related audit requirements may add significantly to the workload of preparers and auditors in many jurisdictions, and may increase the complexity of the GPFSSs. This will be particularly so in jurisdictions where financial statements based on, or which incorporate,

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GGs disclosures in accordance with statistical bases of financial reporting are not currently prepared. In addition, in some jurisdictions users may not be dependent on GPFs for information about the GGS. In those jurisdictions, the costs involved in preparing and presenting GGS disclosures as part of the GPFs may be greater than their benefit. Therefore, this Standard allows, but does not require, the disclosure of information about the GGS. Whether or not disclosure of information about the GGS will be made in GPFs will be determined by the government or other appropriate authority in each jurisdiction.

12. This Standard requires that when disclosures about the GGS are made in GPFs, those disclosures are to be made in accordance with the requirements prescribed in this Standard. This will ensure that an appropriate representation of the GGS is made in GPFs and that 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 specifies requirements for application only by whole-of-government reporting entities which prepare GPFs under the accrual basis of accounting as prescribed by IPSASs. These reporting entities may 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 the general government as defined in statistical reporting bases.

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.

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*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.

**General Government Sector**

16. Under statistical reporting bases the public sector comprises the general government sector (GGS), the public financial corporations (PFC) sector and the public non-financial corporations (PNFC) sector. Additional subgroups within these sectors may be identified for statistical analytical purposes.
17. The GGS is defined in the SNA 93 as consisting of all resident central, state and local government units, social security funds at each level of government, and non-market non-profit institutions controlled and mainly financed by government units. Under statistical reporting bases, the GGS encompasses the central operations of government and typically includes all those resident non-market non-profit entities that have their operations funded primarily by the government and government entities. As such, the financing of these entities is sourced primarily from appropriation or allocation of the government's taxes, dividends from government corporations, borrowings and other revenues. 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 PFCs or PNFCs. Disclosure of GGS information will be made in those jurisdictions where strengthening the link between IPSAS and statistical based financial statements is considered useful and relevant to users of GPFSSs. Governments electing to make GGS disclosures will therefore need to ensure that the information included in the GPFSSs is consistent with the definition of GGS, and any interpretations thereof, adopted for statistical reporting purposes in their jurisdiction.

*Public Financial Corporations Sector*

18. The PFC sector comprises resident government controlled financial corporations, quasi-corporations and non-profit institutions which primarily engage in financial intermediation and the provision of financial services for

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the market. Included within this sector are government controlled banks, including central banks, and other government financial institutions that operate on a market basis.

*Public Non-Financial Corporations Sector*

19. The PNFC sector comprises resident government controlled non-financial corporations, quasi-corporations and non-profit institutions that produce goods or non-financial services for the market. Included within this sector are entities such as publicly owned utilities that trade in goods and services.
20. Statistical reporting bases define:
  - (a) Corporations as legal entities created for the purpose of producing goods and services for the market;
  - (b) Quasi-corporations as enterprises that are not incorporated or otherwise legally established but function as if they were corporations; and
  - (c) Non-profit institutions as legal or other entities which produce or distribute goods and services but which do not generate financial gain for their controlling entity.
21. A GBE as defined in this Standard has similar characteristics to a public corporation or public quasi-corporation as defined in statistical reporting bases. However, there may not be an identical mapping of GBEs and the PFC and PNFC sectors.

**Accounting Policies**

22. **Financial information about the general government sector 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 23 and 24.**
23. **In presenting financial information about the general government sector, entities shall not apply the requirements of IPSAS 6, "Consolidated Financial Statements and Accounting for Controlled Entities" in respect of entities in the public financial corporations and public non-financial corporations sectors.**
24. **The general government sector shall recognize its investment in the public financial corporations and public non-financial corporations sectors as an asset and shall account for that asset at the carrying amount of the net assets of its investees.**
25. This Standard reflects the view that the consolidated financial statements of a government which elects to disclose information about the GGS are to be

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“disaggregated” to present the GGS as one sector of the “whole-of-government”. Consistent with this view, this Standard requires that the same definitions and the same recognition, measurement and presentation requirements that are applied when preparing the consolidated GPFs are also applied to the GGS disclosures, with one exception. That exception being that the requirements of IPSAS 6 are not applied in respect of the relationship of the GGS sector with entities in the PFC and PNFC sectors.

26. IPSAS 6 requires controlling entities to prepare 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, entities in the PFC and PNFC sectors as defined in statistical reporting bases are controlled entities of the jurisdiction(s) reflected in the GPFs.
27. Financial statements prepared consistent with statistical reporting bases portray the impact of the GGS on the public sector as a whole and, in the context of the SNA 93, on a national economy. Consistent with that focus, statistical reporting bases require the GGS financial statements to present public sector entities outside that sector as investments in other sectors. In addition, under statistical reporting bases, transactions of the GGS with entities in other sectors are not eliminated from the statement of government operations or a similar statement.
28. To apply the IPSAS 6 requirements 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.
29. 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.
30. This Standard requires the GGS sector to recognize its investment in entities in the PFC or PNFC sectors at the carrying amount of the net assets of those entities. This will ensure that the GGS disclosures reflect a disaggregation of financial information presented 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 carrying amount of the net assets of those entities will be recognized in the same manner as they are recognized in the whole-of-government GPFs.
31. Statistical bases of reporting require all assets and liabilities (except loans) to be revalued to market value at each reporting date. IPSASs include different measurement requirements, and require or permit cost and current values for

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certain classes of assets and liabilities. They do not require all assets and liabilities to be revalued to market value. Therefore, the measurement of assets and liabilities in the GGS disclosures in the GPFSS, including the investment in the PFC and PNFC sectors, may differ from the measurement basis adopted in statistical bases of reporting.

**Further Disaggregation**

32. In some jurisdictions, national governments may control provincial and/or local governments and, consequently, GPFSS will consolidate different levels of government. If GPFSS consolidate different levels of government, further disaggregation of the consolidated financial statements may occur in accordance with the requirements of this Standard to separately disclose information about the GGS at each level of government.
33. This further disaggregation is not required by this Standard. However, it may be presented to further assist users to better understand the relationship between the GGS activities of each level of government consolidated in the GPFSS, and the relationship between GPFSS and the statistical basis financial reports in those jurisdictions.

**Disclosures**

34. **Disclosures made in respect of the general government 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) **Net surplus or deficit;**
  - (h) **Cash flows from operating activities by major class;**
  - (i) **Cash flows from investing activities; and**
  - (j) **Cash flows from financing activities.**

**The manner of presentation of the general government sector disclosures shall be no more prominent than the whole-of-government general purpose financial statements prepared in accordance with International Public Sector Accounting Standards.**



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35. IPSAS 1 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.
36. This Standard requires disclosure of the major classes of assets, liabilities, revenues, expenses and cash flows reflected in the financial statements. This will 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 Standard 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 disclosures will be no more prominent than the whole-of-government GPFs prepared in accordance with IPSASs.
37. Statistical reporting bases require government expenses to be disaggregated and disclosed by classes based on either the economic nature of the expenses or by the Classification of Functions of Government (COFOG). This Standard does not require nor prohibit entities disclosing GGS information from presenting disaggregated GGS information classified by economic nature or consistent with the COFOG classification basis. It is likely that in many jurisdictions, the COFOG classifications adopted in respect of the GGS disclosures will be similar to the classifications adopted in accordance with IPSAS 18 for segment disclosures for the whole-of-government reporting entity.
38. Entities will also make such additional disclosures as are necessary for users to understand the nature of the information presented.
39. **Entities preparing general government sector disclosures shall disclose the significant controlled entities that are included in the general government sector and any changes in those entities from the prior period, together with an explanation of the reasons why any such entity that was previously included in the general government sector is no longer included.**
40. This Standard requires entities electing to disclose information about the GGS, to disclose a list of the significant controlled entities that are included in the GGS. IPSAS 6 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

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between IPSAS information and GGS information, and in better understanding the GGS information itself.

41. 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.

**Reconciliation to the Whole-of-Government General Purpose Financial Statements**

42. **The general government sector disclosures shall be reconciled to the consolidated whole-of-government general purpose financial statements showing separately the amount of the adjustment to each equivalent item in those financial statements.**
43. This Standard requires the amounts disclosed in respect of the GGS to be reconciled to their equivalent amounts in the whole-of-government GPFSS. Entities will present separately the adjustment in the amount of the asset investment in PFC and PNFC sectors determined in accordance with paragraph 24 and adjustments to each of the items disclosed separately in accordance with paragraph 34. In addition, entities may, but are not required to, disclose separately the amount of the adjustment to each item attributable to the PFC and the PNFC sectors. This reconciliation will enable the government to better discharge its accountability obligations by demonstrating the relationship between the amounts of each item controlled by the GGS with the total amount of that item.

**Reconciliation to Statistical Reporting Bases**

44. Statistical reporting bases and IPSASs have many similarities in their treatment of particular transactions and events. However, there are also differences. For example, in addition to differences in the measurement basis for assets and liabilities outlined in paragraph 31 above, statistical reporting bases treat dividends as expenses while IPSASs treat them as distributions. Statistical reporting bases also make a distinction between transactions and other economic flows for presentation of financial information that is not currently reflected in the GPFSS presentation of financial information, and focus on particular measures relevant for analysis of fiscal policy such as net lending/borrowing and cash surplus/deficit.
45. This Standard does not require that there be a reconciliation of the GGS disclosures in the GPFSS and the GGS disclosures under statistical reporting bases. This is because of concerns about the practicability, and the costs and benefits, of such a requirement in all jurisdictions. However, the inclusion of such a reconciliation by way of note disclosure is not precluded.

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## **Effective Date**

46. **An entity that elects to disclose financial information about the general government sector shall apply this International Public Sector Accounting Standard for annual financial statements covering periods beginning on or after MM DD, YYYY. Earlier application is encouraged. If an entity applies this Standard for a period beginning before MM DD, YYYY it shall disclose that fact.**
47. 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. In accordance with the requirements of IPSAS 1, the disclosure of comparative information is not required for the reporting period in which this Standard is first applied.

## Appendix A

### Amendments to Other International Public Sector Accounting Standards

*The amendments in this appendix shall be applied for annual financial statements covering periods beginning on or after MM DD, YYY. If an entity applies this Standard for an earlier period, these amendments shall be applied for that earlier period.*

- A1. In IPSAS 18, "Segment Reporting", paragraph 24 is amended to read as follows:
24. ...However, in some cases an entity's internal reporting to the governing body and the senior manager may be structured to aggregate and report on a basis which distinguishes revenues, expenses, assets and liabilities related to budget-dependent activities from those of trading activities, or which distinguishes budget-dependent entities from GBEs. Reporting segment information in the financial statements on the basis of only these segments is unlikely to meet the objectives specified for this Standard. This is because these segments are unlikely to provide information that is relevant to users about, for example, the performance of the entity in achieving its major operating objectives. IPSAS XX, "Disclosure of Financial Information about the General Government Sector" includes requirements for governments which elect to disclose financial information about the general government sector (GGS) as defined in statistical reporting bases. The GGS comprises those entities and activities that have their operations funded primarily by the government through the annual budget process.
- A2. Amendments to IPSAS 1, "Presentation of Financial Statements" will be necessary if IPSAS 1 is to be updated to include requirements for governments which elect to disclose information about the general government sector, rather than issuing a separate IPSAS to deal with this matter.

## Appendix B

### Qualitative Characteristics of Financial Reporting

*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 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.

#### 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.

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*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:

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

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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.

## **Implementation Guidance – Illustrative Financial Statement Structure**

*This guidance accompanies, but is not part of, IPSAS XX.*

### **GOVERNMENT A – EXTRACT OF FINANCIAL STATEMENTS**

*Extract from the Notes to the Financial Statements*

**Note: 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 respect of the public financial corporations (PFCs) sector and public non-financial corporations (PNFCs) sector. In accordance with the requirements of IPSAS XX, “Disclosure of Financial Information about the General Government Sector”, PFCs and PNFCs are not consolidated in the GGS disclosures. The investment in PFCs and PNFCs are presented as a single line item measured at the carrying amount of the net assets of the investees.

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.



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

(in thousands of currency units)

	GGS		PFC and PNFC		Eliminations		Total W-of-G	
	20X2	20X1	20X2	20X1	20X2	20X1	20X2	20X1
<b>ASSETS</b>								
<b>Current assets</b>								
Cash and cash equivalents	X	X	X	X	(X)	(X)	X	X
Receivables	X	X	X	X	(X)	(X)	X	X
Inventories	X	X	X	X			X	X
Prepayments	X	X	X	X	(X)	(X)	X	X
Investment	X	X	X	X			X	X
Other current assets	X	X	X	X			X	X
	X	X	X	X	(X)	(X)	X	X
<b>Non-current assets</b>								
Receivables	X	X	X	X	(X)	(X)	X	X
Investments	X	X	X	X			X	X
Investment in other sectors	X	X			(X)	(X)		
Other financial assets	X	X	X	X	(X)	(X)	X	X
Infrastructure, plant and equipment	X	X	X	X			X	X
Land and buildings	X	X	X	X			X	X
Intangible assets	X	X	X	X			X	X
Other non-financial assets	X	X	X	X			X	X
	X	X	X	X	(X)	(X)	X	X
<b>TOTAL ASSETS</b>	X	X	X	X	(X)	(X)	X	X
	X	X	X	X	(X)	(X)	X	X
<b>LIABILITIES</b>								
<b>Current liabilities</b>								
Payables	X	X	X	X	(X)	(X)	X	X
Short-term borrowings	X	X	X	X			X	X
Current portion of borrowings	X	X	X	X			X	X
Provisions	X	X	X	X			X	X
Employee benefits	X	X	X	X			X	X
Other current liabilities	X	X	X	X	(X)	(X)	X	X
	X	X	X	X	(X)	(X)	X	X
<b>Non-current liabilities</b>								
Payables	X	X	X	X	(X)	(X)	X	X
Borrowings	X	X	X	X			X	X
Provisions	X	X	X	X			X	X
Employee benefits	X	X	X	X			X	X
Other liabilities	X	X	X	X	(X)	(X)	X	X
	X	X	X	X	(X)	(X)	X	X
<b>TOTAL LIABILITIES</b>	X	X	X	X	(X)	(X)	X	X
	X	X	X	X	(X)	(X)	X	X
<b>NET ASSETS</b>	X	X	X	X	(X)	(X)	X	X
	X	X	X	X	(X)	(X)	X	X
<b>NET ASSETS/EQUITY</b>								
Reserves	X	X	X	X	(X)	(X)	X	X
Accumulated surpluses/ (deficits)	X	X	X	X	(X)	(X)	X	X
	X	X	X	X	(X)	(X)	X	X
<b>TOTAL NET ASSETS/ EQUITY</b>	X	X	X	X	(X)	(X)	X	X
	X	X	X	X	(X)	(X)	X	X

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**STATEMENT OF FINANCIAL PERFORMANCE FOR THE GGS -  
FOR YEAR ENDED 31 DECEMBER 20X2**

(in thousands of currency units)

	GGs		PFC and PNFC		Eliminations		Total W-of-G	
	20X2	20X1	20X2	20X1	20X2	20X1	20X2	20X1
<b>Revenue</b>								
Taxes	X	X			(X)	(X)	X	X
Fees, fines, penalties	X	X	X	X	(X)	(X)	X	X
Revenue from other sectors	X	X	X	X	(X)	(X)		
Transfers from other governments	X	X	X	X			X	X
Other operating revenue	X	X	X	X	(X)	(X)	X	X
<b>Total operating revenue</b>	X	X	X	X	(X)	(X)	X	X
<b>Expenses</b>								
General public services	X	X					X	X
Defense	X	X					X	X
Public order and safety	X	X	X	X			X	X
Economic affairs	X	X					X	X
Environmental protection	X	X	X	X	(X)	(X)	X	X
Housing and community amenities	X	X	X	X	(X)	(X)	X	X
Health	X	X	X	X			X	X
Recreational, cultural and religion	X	X					X	X
Education	X	X	X	X	(X)	(X)	X	X
Social protection	X	X	X	X	(X)	(X)	X	X
<b>Total operating expenses</b>	X	X	X	X	(X)	(X)	X	X
<b>Surplus/(deficit) from operating activities</b>	X	X	X	X	(X)	(X)	X	X
Finance costs	X	X	X	X			X	X
Gains on sale of property, plant and equipment	X	X	X	X			X	X
<b>Total non-operating revenue/(expenses)</b>	X	X	X	X	(X)	(X)	X	X
<b>Net surplus/(deficit) for the period</b>	X	X	X	X	(X)	(X)	X	X

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

(in thousands of currency units)

	GGS			PFC and PNFC	Elimin- ations	Total W-of-G
	Revalu- ation Reserve	Trans-lation Reserve	Accumu- lated Surpluses/ (Deficits)			
Balance at 31 December 20X0	X	(X)	X	X	X	X
Surplus on revaluation of property	X			X		X
Deficit on revaluation of investments	(X)			(X)	X	(X)
Currency translation differences		(X)		(X)		(X)
Net gains and losses not recognized in the statement of financial performance	X	(X)		X	(X)	X
Net surplus for the period			X	X	(X)	X
Balance at 31 December 20X1	X	(X)	X	X	(X)	X
Deficit on revaluation of property	(X)			(X)	X	(X)
Surplus on revaluation of investments	X			X	(X)	X
Currency translation differences		(X)		X		X
Net gains and losses not recognized in the statement of financial performance	(X)	(X)		(X)	(X)	(X)
Net deficit for the period			(X)	(X)	(X)	(X)
Balance at 31 December 20X2	X	(X)	X	X	(X)	X

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

(in thousands of currency units)

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

## **Basis for Conclusions**

*This Basis for Conclusions accompanies, but is not part of, the proposed International Public Sector Accounting Standard.*

### **Introduction**

- BC1. The System of National Accounts 1993 (SNA 93), Government Finance Statistics Manual 2001 (GFSM 2001), the European System of Accounts 1995 (ESA 95), and the ESA 95 Manual on Government Deficit and Debt (EMGDD) all require governments to publish financial information about the general government sector (GGS). For statistical purposes, the GGS comprises government controlled entities primarily engaged in non-market activities. The GGS is sometimes described as comprising those entities that fulfill the core functions of government as their primary activity. The GGS does not include public corporations, even when all the equity of such corporations is owned by the government or government entities.
- BC2. Current International Public Sector Accounting Standards (IPSASs) do not require entities to disclose information about the GGS in their general purpose financial statements (GPFs). IPSASs require entities to prepare GPFs 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.
- BC3. Some governments prepare, present and widely publish both GPFs and information about the financial characteristics and performance of the public sector prepared in accordance with statistical bases of financial reporting.
- BC4. Working Group I (WG1) of the Task Force on Harmonization of Public Sector Accounting (TFHPSA) recommended that the International Public Sector Accounting Standards Board (IPSASB), then named the Public Sector Committee (PSC), consider explicitly allowing or encouraging the disclosure of financial information about the GGS as defined in statistical reporting bases in whole-of-government GPFs. WG1 also recommended that the IPSASB specify rules to be followed by a government electing to disclose GGS information in its GPFs. WG1 expressed the view that:
- (a) users of financial reports of public sector entities are confused by differences between statistical and 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; and

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- (b) the presentation of GGS financial information is important as a means of facilitating the convergence of international public sector accounting.

BC5. The IPSASB was persuaded by the arguments of WG1, particularly for those jurisdictions that publish for national or other governments, both GPFSs in accordance with IPSASs and financial information in accordance with statistical reporting bases. The IPSASB was also of the view that the disclosure of such information would assist users in better understanding the relationship between the market and non-market activities of the government. However, the IPSASB was not persuaded that the benefits of making such disclosures were significantly greater than their costs in those jurisdictions where financial statements prepared in accordance with statistical reporting bases were not routinely prepared and made publicly available. As such, the IPSASB was not prepared to make these disclosures mandatory for all jurisdictions.

BC6. This Standard specifies requirements for application only by whole-of-government reporting entities. This is because it is only possible to disclose a meaningful representation of the GGS for a government at the whole-of-government level. In some jurisdictions, national governments may control provincial and or local governments. The IPSASB is of the view that where this occurs, the GPFSs may be further disaggregated to separately disclose information about the GGS for each level of government. Such disclosure is likely to assist users to better understand the relationship between the GGS activities of each level of government. However, in some jurisdictions, such disclosures may impose additional pressure on the accounting system and those responsible for data collection and aggregation, and it is not clear that the benefits of such disclosure for users of the GPFSs will exceed their cost. Therefore, this Standard does not require entities that elect to disclose information about the GGS to also disclose separately information about the GGS of each level of government consolidated in the GPFS. However, such disclosures are not precluded.

### **Consolidation and Disaggregation**

BC7. Statistical reporting bases and IPSASs have many similarities in their treatment of particular transactions and events. However, there are also differences. For example, statistical bases:

- (a) require all assets and liabilities (except loans) to be revalued to market value at each reporting date. IPSASs include different measurement requirements, and require or permit cost and current values for certain classes of assets and liabilities;

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- (b) treat dividends as expenses while IPSASs treat them as distributions;
- (c) make a distinction between transactions and other economic flows for presentation of financial information. IPSASs do not currently make a similar distinction; and
- (d) focus on the presentation of financial information about the GGS and other sectors of the public sector as separate components and, in this context, adopt the same rules for recognition and measurement as are adopted for presentation of the rest of the economy to ensure consistency of the macro-economic totals. Under statistical reporting bases, 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. The IPSASs focus on consolidated financial statements which present financial information about all the assets, liabilities, revenues, expenses and cash flows controlled by the entity.

BC8. The IPSASB is of the view that while disclosure of information about the GGS may be made in GPFSS, such disclosure is in the nature of a disaggregation of the whole-of-government financial statements. This is a similar perspective that is adopted for disclosure of segment information in accordance with IPSAS 18. Accordingly, the same accounting policies as those adopted for the consolidated financial statements are to be adopted in making GGS disclosures with one exception as noted below.

BC9. The IPSASB is of the view that when GGS disclosures are made in GPFSS, the requirements of IPSAS 6, "Consolidated Financial Statements and Accounting for Controlled Entities" should not be applied in respect of public financial corporations and public non-financial corporations. This is because the application of IPSAS 6 to the PFC and PNFC sectors would result in the re-presentation of the consolidated whole-of-government financial statements rather than the GGS. This would defeat the purpose of the disclosure of GGS information as a bridge between financial statements prepared in accordance with IPSASs and those prepared in accordance with statistical bases of financial reporting.

### **Segment Reporting**

BC10. IPSAS 18 requires the separate disclosure of certain information about significant activities or groups of activities for the evaluation of the 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, or market and non-market activity

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of government. Rather, its focus is on the disclosure of the revenues, expenses, assets and liabilities associated with the delivery of major services or groups of services – whether these services are delivered by the GGS of the government or by PFCs and PNFCs. The objective of segment reporting is not achieved by the disclosure of information about the 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.

- BC11. Statistical reporting bases present information about expenses or expenditure of the government classified either by economic nature or the functions of government (COFOG). Either of these classification bases 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**

- BC12. The information disclosed about the GGS in accordance with the requirements of this Standard may differ in content and form from that presented under statistical reporting bases.
- BC13. 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 was concerned that such a requirement may impose significant costs on the preparer, and that those costs may be greater than the benefits in some jurisdictions. This would then discourage governments which might otherwise elect to make such disclosures. Of particular concern to the IPSASB in this respect was, for example, whether the:
- (a) timing of compilation of GPFSs and statistical information is such that a reconciliation could be completed within the timeframe necessary for the general purpose financial statements to be audited and “signed off” or “authorized for issue” in accordance with legislative requirements and/or requirements of the IPSASs;
  - (b) 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
  - (c) entity may be required to remeasure and reclassify assets, liabilities, revenues and expenses in accordance with the requirements of the statistical reporting bases, and whether this would discourage disclosure of the GGS information.



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- BC14. On balance, the IPSASB concluded that such a reconciliation should not be required at this stage. However, the IPSASB was of the view that a reconciliation of the GGS disclosures presented in accordance with the requirements of this Standard to the equivalent items in the general purpose financial statements prepared in accordance with the requirements of IPSASs was consistent with enhanced transparency, was not onerous and would be useful to users. The disclosure of a reconciliation of the GGS disclosures presented in accordance with the requirements of this Standard and the GGS disclosures presented under statistical reporting bases is not prohibited.



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