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IPSAS - The international financial reporting standards for the public sector

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European Commission

“Towards implementing European Public Sector Accounting Standards"

Overview

- IPSASs are the international financial reporting standards for public sector
- IPSASB
- Why accrual accounting and reporting matters
- Challenges, cost and return of implementation

IPSASB has created a full suite of standards

- 32 Standards approved (accrual basis) covering all main areas of government activity, 1 cash basis standard
- The standards are designed for Public Sector entities other than Government Business Enterprises (which should use IFRS), i.e. IPSASs are for non-commercial organizations
  - International governmental organizations
  - National governments, including controlled entities such as ministries or agencies
  - Subnational governments, including controlled entities

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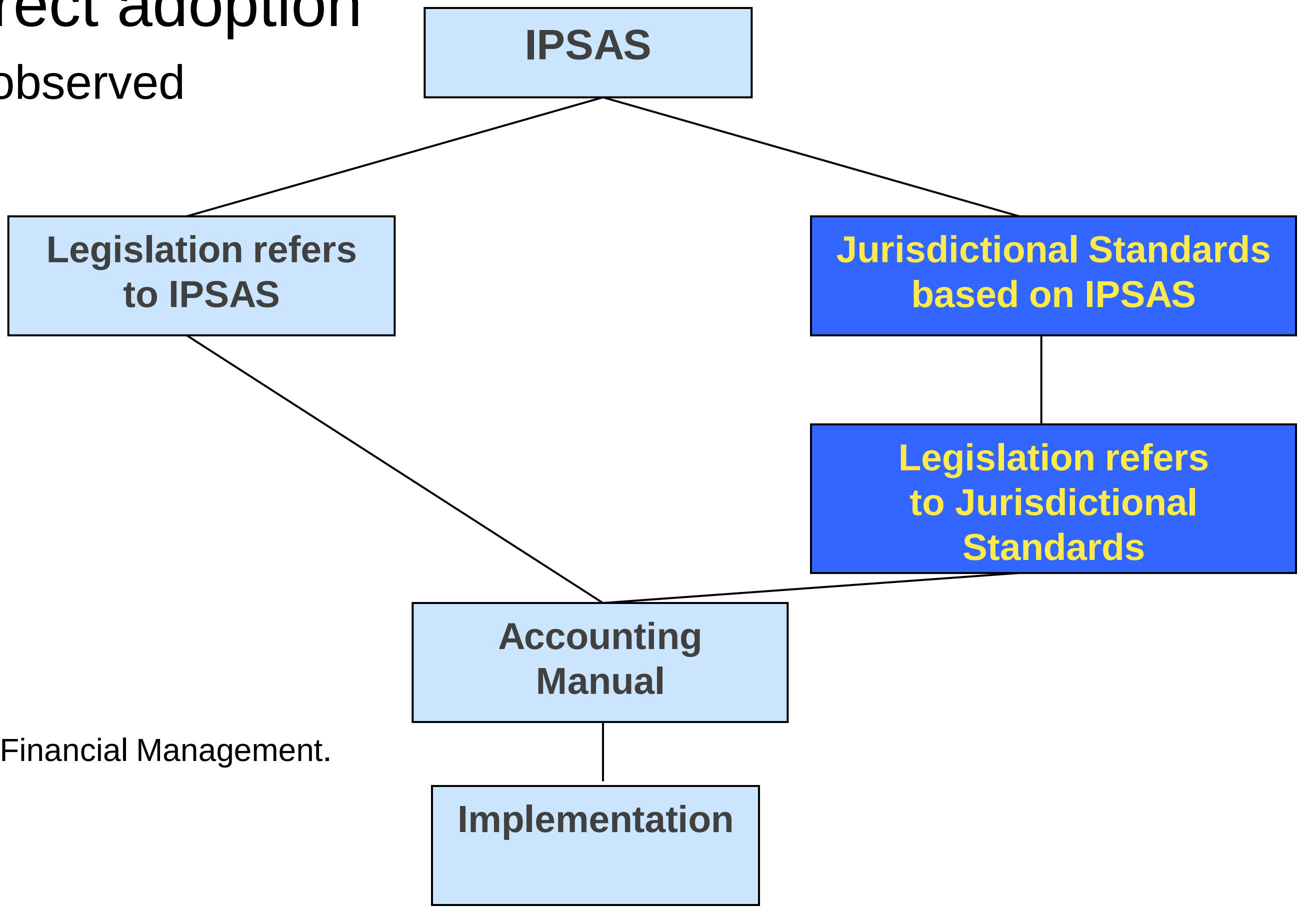
- Direct vs. indirect adoption
  - Same can be observed for IFRS



Source:
Bergmann, A: Public Sector Financial Management. FT Prentice Hall, 2009.

IPSASB has created a full suite of standards

- «Transaction Neutral Approach»: If transaction is the same in private and public sector, the accounting should be the same
  - Substantial convergence of all relevant IFRS at December 31, 2009 with IFRSs at December 31, 2008

- Standards include sector specific standards where transactions are specific to the public sector
  - Disclosure of Information about the GGS (Financial Statistics)
  - Revenues from Non-Exchange Transactions (Transfers and Taxes)
  - Presentation of Budget Information
  - Service Concession Arrangements: Grantor

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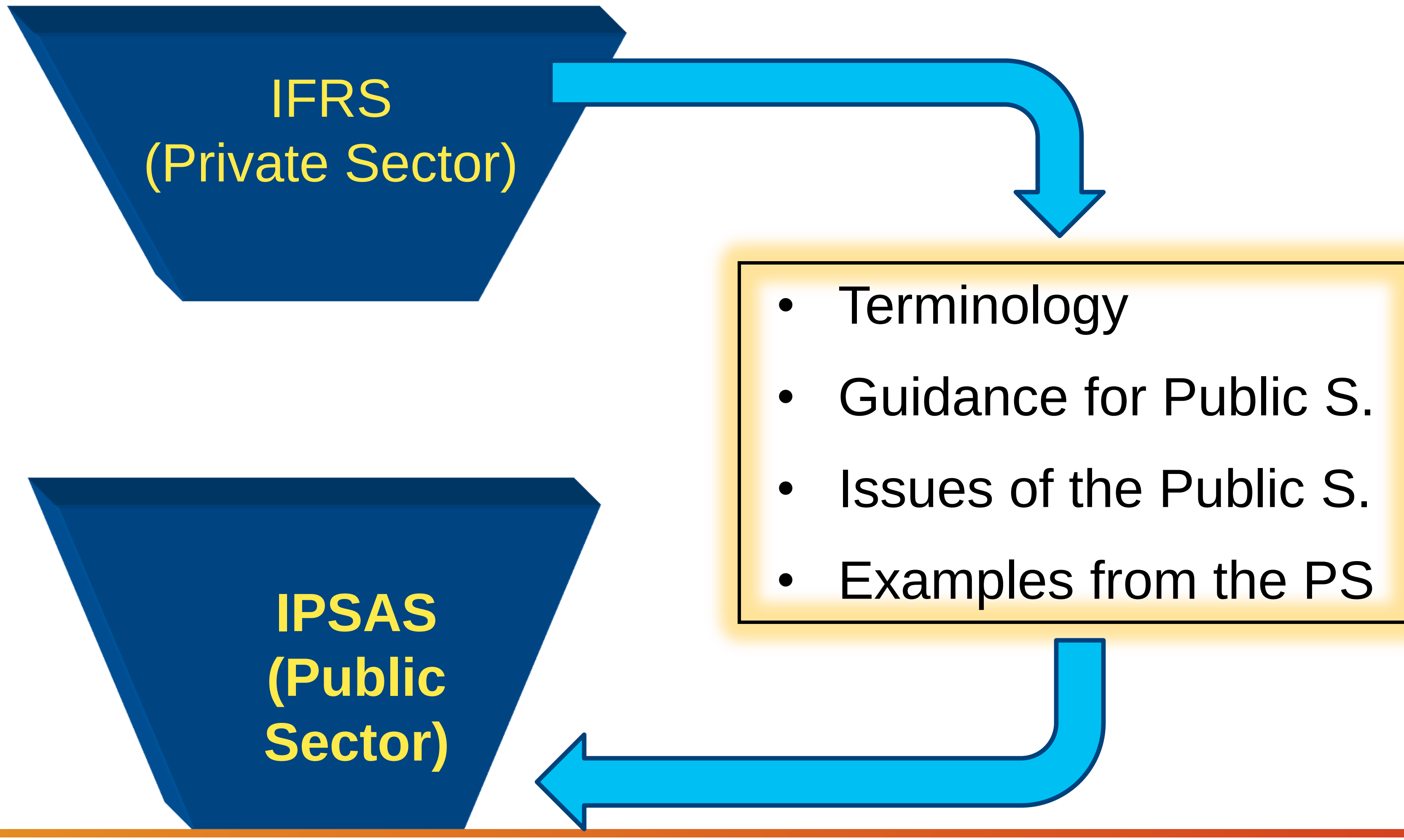


Public sector is different: Key characteristics

- Volume and Significance of *Non-Exchange* transactions such as Taxes and Transfers, or the provision of goods and services in a non-market environment
- Importance of *Budget*
- Nature of PPE: To *provide goods/services* – not cash generation, often *very specific nature*
- Responsibility for *Heritage*
- *Longevity* of public sector entities
- *Regulatory* role of government
- Ownership or control of rights to *natural resources*
- *Statistical reporting*

Key characteristics require accrual accounting

- Public sector assets, liabilities, revenues and expenses need to be accounted for – completely!
- Contingent liabilities need to be disclosed
- Economic value comes through service potential, not cash generation – but there are no «easy and quick» solutions such as bankruptcy, they still need to finance their activities

- GFS Analytic Framework is on accrual basis

- Citizens and other resource providers want accountability
- Decision makers need a reliable basis for their decisions

And who is IPSAS Board?

- Independent Accounting Standards Setter under IFAC
- Governance is the same as for other independent standard setters (e.g. IAASB), except for the lack of a public interest oversight board
- 18 members, thereof 6 from Europe, 14 from Public Sector, 2 from NPO, 2 from firms
- 10 international organizations with observers status, including IMF, World Bank, EC DG BUDG, Eurostat
- 8 staff, mainly based in Toronto/Canada
- Diverse funding by IFAC (approx 50 percent) and various Voluntary Contributions from Governments and Observers

IPSASB Strategic Themes

- Development of Public Sector Conceptual Framework
- Public Sector Critical Projects (public sector specific, maintenance of alignment with IFRS, alignment with GFS/statistical accounting)
- Communications and promotion including adoption and implementation

Governance not a strategic theme, but an area for discussion, consultation and change

IPSASB Workplan Consultation

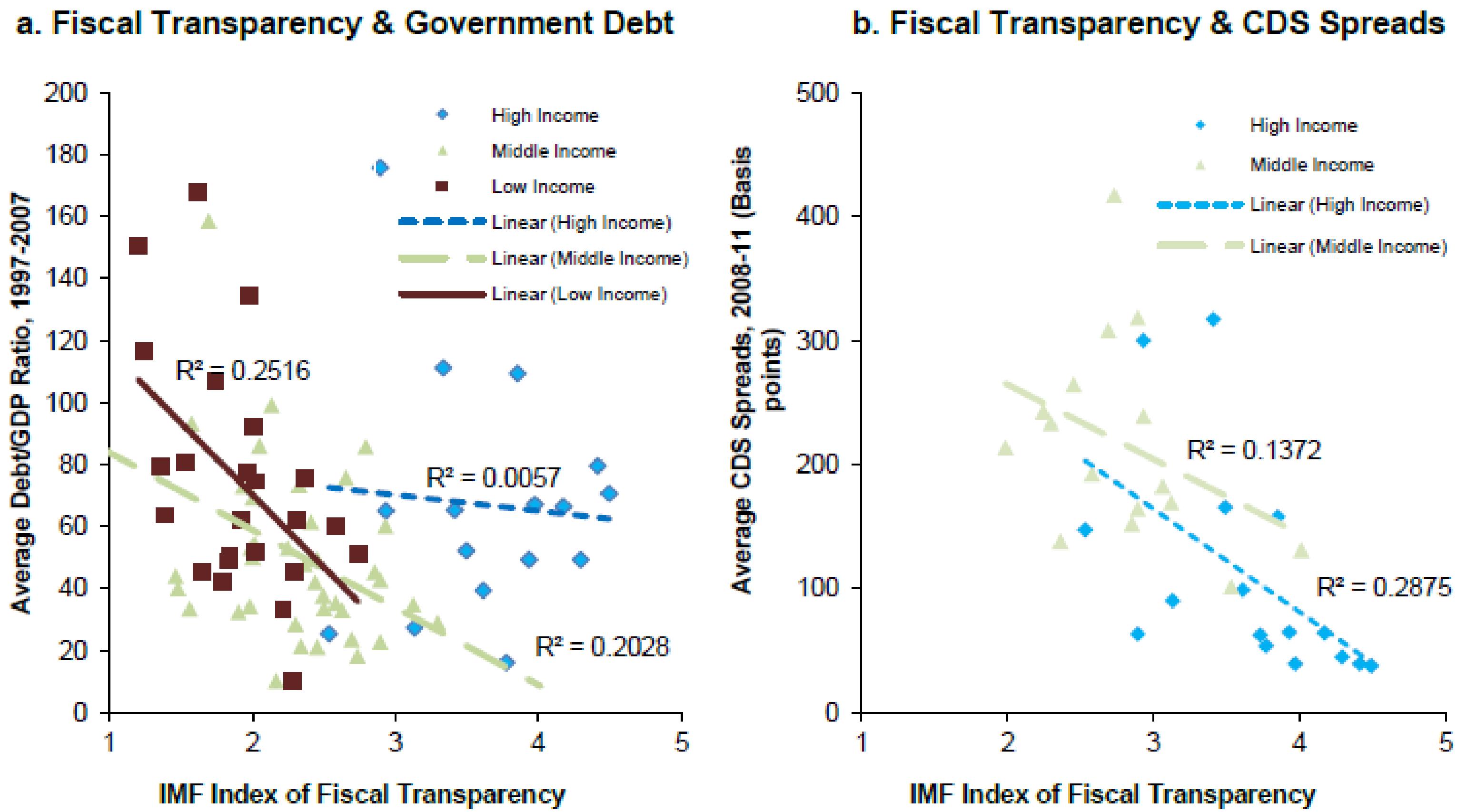
- Result
  - Complete current projects, including Conceptual Framework, as quickly as possible
  - As for new projects:
    - Project on Social Benefits achieves clearly the highest and most global score
    - Others with strongly positive feedback include Emissions Trading Schemes – possibly as a joint project with IASB

Government Financial Reporting is relevant

- IMF-FAD addressing issue of transparency in a comprehensive paper
  - Fiscal transparency does matter
  - Harmonization of Accounting and Statistics needed
  - ROSC initiative should be followed up
- Eurostat Report
  - IPSASs as undisputable reference for EPSASs
  - Alignment with GFS is an emphasis
  - Risk of "IPSAS light" and of a backward step for those on IFRS/IPSAS (e.g. UK, Spain, Czech Rep., Slovakia, Austria, Baltic countries, Malta)
- G20 Finance Ministers press release February 2013
  - Strengthening government balance sheet → looking at financial reporting to improve debt management

Government Financial Reporting is relevant

- Less debt and lower interest rates



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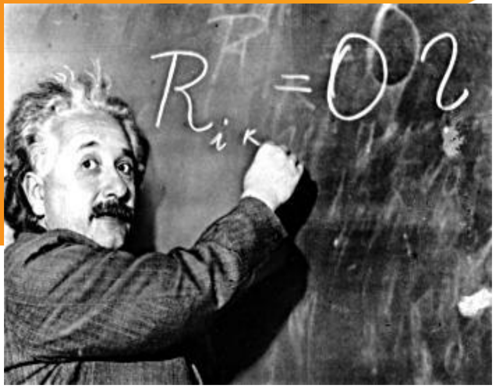
Government Financial Reporting is relevant



- Significant correlation between PEFA indicator (PI25) and overall PEFA performance (Vany, 2010)
- Main advantages:
  - Financial planning
  - Financial control, debt, investment and liquidity management
  - Reliable base for audit

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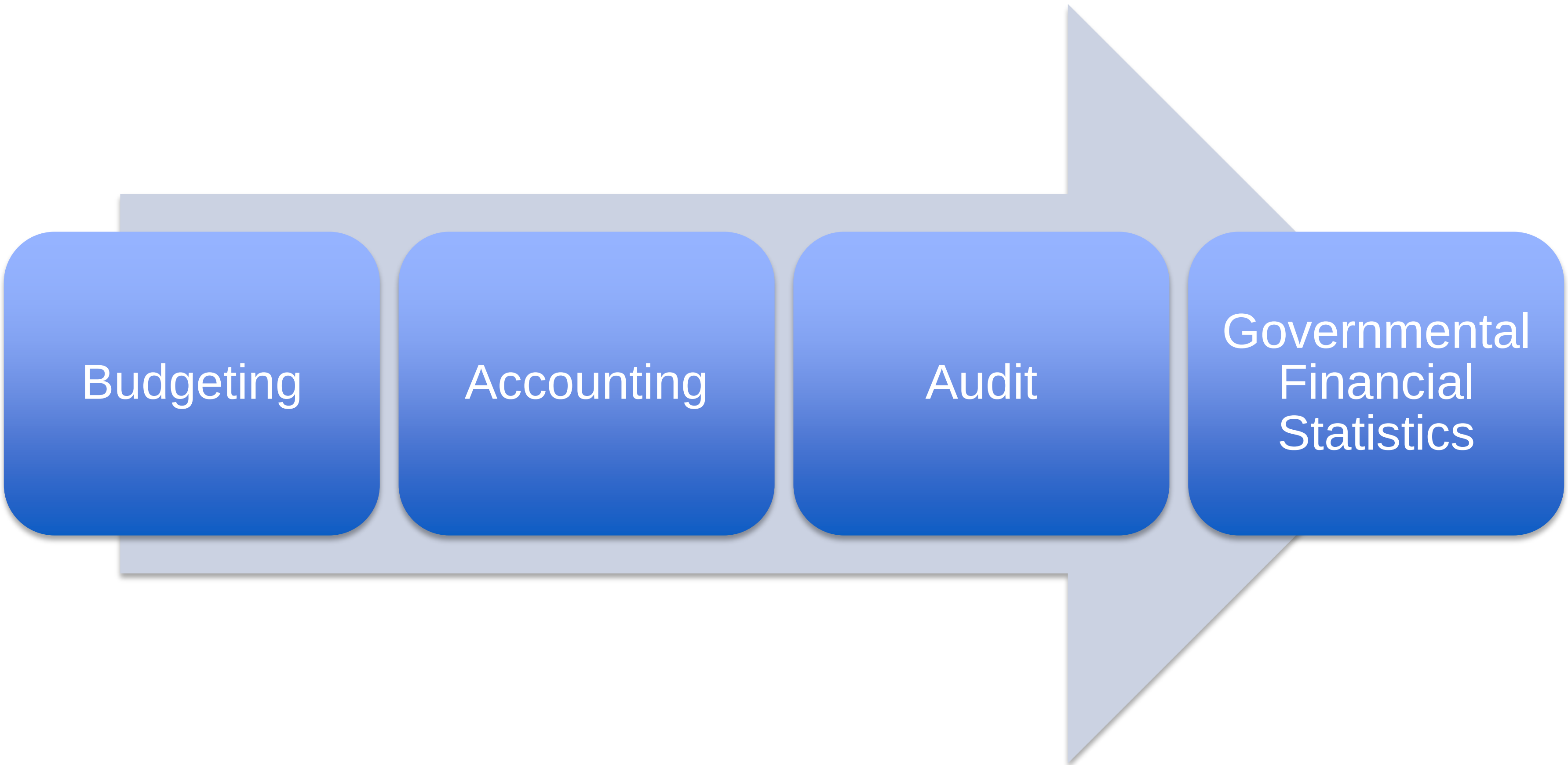
But implementation cost is substantial

- Implementation of IPSASs require
  - Normative change: Legislative basis, endorsement of standards, development of operational guidance («manual»)
  - Configuration of IT/ERP-Systems
  - Collection and verification of data, especially in areas not accounted for previously (e.g. asset register)
  - Verification/audit

Urgent need for an integrated system



Urgent need for an integrated system

- Project cost depends largely on package (i.e. with/without IT, coming from pure cash, modified …)
- Projects unavoidably takes several years
- Project cost is several million EUR
- Example: Federal government of Switzerland
  - coming from modified cash and replacing entire IT
  - ~40m EUR over 7 years in total (~0.01% of annual budget spread over 7 years)

But return is easily higher than cost

- Direct returns to projects: Assets «found», risks identified – easily add up to about half of the project cost
- Returns from accrual reporting:
  - Debt management policy can identify non-bond types of debt more easily and limit/reduce that; debt «shifting» is effectively prevented
  - Assets are more actively managed, leading to disinvestment or better usage
  - Lower interest rates (e.g. State of Geneva -0.5%/Hiler 2012)
  - Accrual accounting (A) assists debt breaks/fiscal rules (F) as it keeps track and helps to prevent «workarounds», especially Financial Instruments

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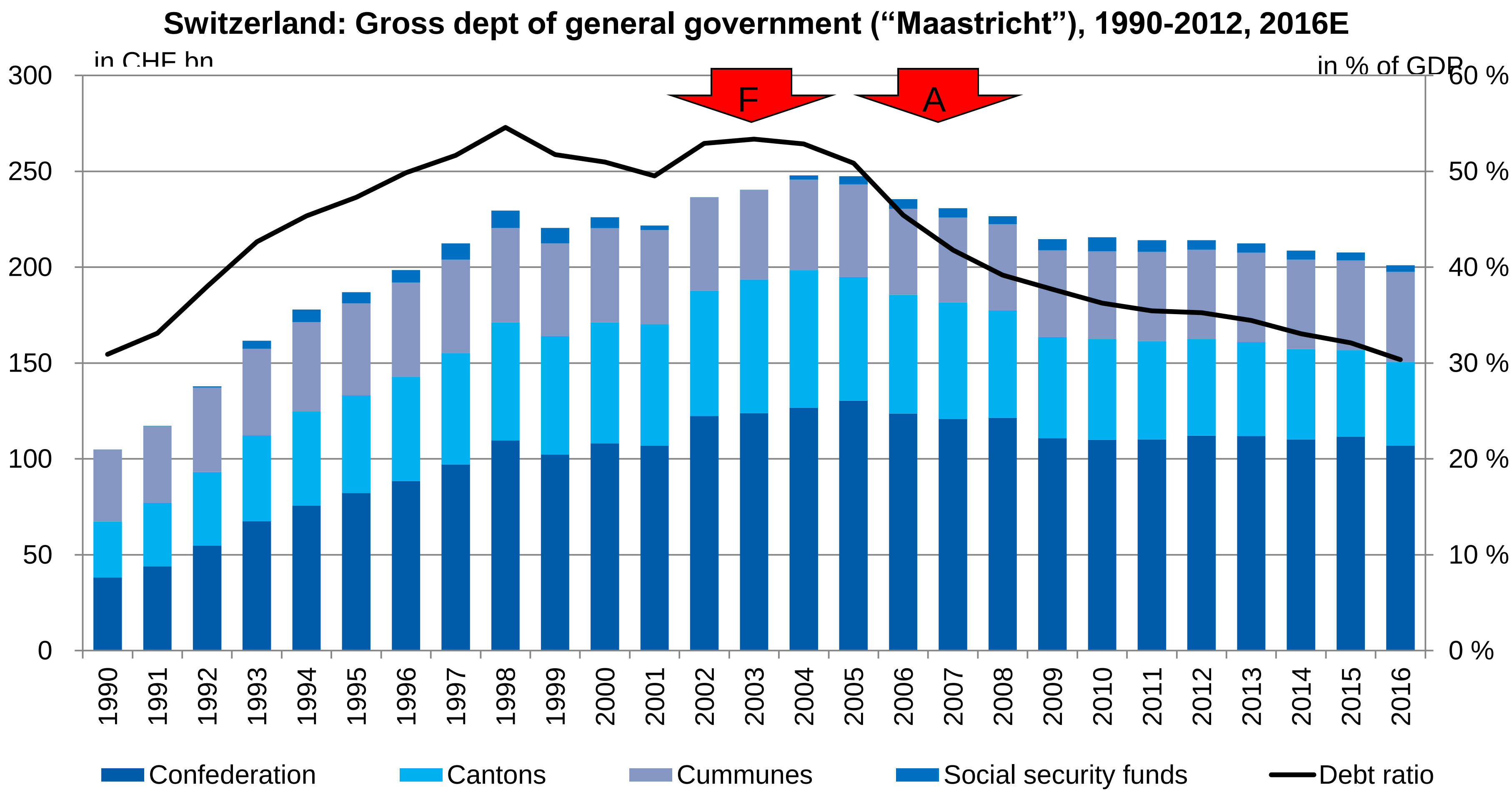

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Conclusion

- IPSASs are a full suite of standards, designed for the public sector
- They are set by an independent, international standard setter with substantial European membership
- They can implemented directly or – more likely – indirectly through standards set at jurisdictional level, e.g. EPSAS
- Time and cost required for implementation are substantial – but returns are higher

Questions Discussion & Further Information

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