IPSAS - The international financial reporting standards for the public sector

Andreas Bergmann, Chair IPSASB

30 May 2013

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
IPSASB has created a full suite of standards

• Direct vs. indirect adoption
  – Same can be observed for IFRS

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
IPSASB has created a full suite of standards

- Terminology
- Guidance for Public S.
- Issues of the Public S.
- Examples from the PS

IFRS (Private Sector)

IPSAS (Public Sector)
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
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
• 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

But implementation cost is substantial
Urgent need for an integrated system

- Budgeting
- Accounting
- Audit
- Governmental Financial Statistics
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)
• 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
But return is easily higher than cost
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 be 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

• Visit our webpage http://www.ipsasb.org/
• Or contact us by e-mail:
  Chair IPSASB: andreasbergmann@ifac.org
  Technical Director: stepheniefox@ifac.org