

I. Introduction: General information about IPSASs and the IPSASB

1 The International Public Sector Accounting Standards Board

1.1 General information

The International Public Sector Accounting Standards Board (IPSASB) is the only global accounting standard setter for the public sector. The structures and processes that support the IPSASB's operations are facilitated and supported by the International Federation of Accountants (IFAC).

International Public Sector Accounting Standards, or IPSASs for short, govern the accounting by public sector entities. IPSASs are developed by the International Public Sector Accounting Standards Board (IPSASB). The IPSASB communicates in its pronouncement "The Applicability of IPSAS" (published in April 2016) as well as in the revised "Preface to International Public Sector Accounting Standards" which types of public sector entities it considers when developing an IPSAS or a Recommended Practice Guideline (RPG). The IPSASB is an independent board founded on the basis of the former Public Sector Committee (PSC) by the International Federation of Accountants (IFAC) to develop and publish the IPSASs.

The IFAC is a global organization for the accountancy profession. IFAC is comprised of over 175 members and associates in over 130 countries and jurisdictions, representing almost 3 million accountants in public practice, education, government service, industry, and commerce. It was founded in 1977 and is domiciled in New York. IFAC facilitates the work of the IPSASB, and the other independent standard-setting boards, both by contributions to the IPSASB's budget and by providing support in areas such as finance, human resources, and intellectual capital.

According to the bylaws of the International Federation of Accountants, its mission is as follows: "to serve the public interest by contributing to the development, adoption and implementation of high-quality international standards and guidance; contributing to the development of strong professional accountancy organizations and accounting firms, and to high-quality practices by professional accountants; promoting the value of professional accountants worldwide; and speaking out on public interest issues where the accountancy profession's expertise is most relevant."

The IFAC did not have this in mind when it established the PSC in 1986 as a standing technical committee. The PSC initially focused on preparing and publishing studies and research reports on (international) public sector accounting. In 2004, the PSC was renamed IPSASB. In November 2011, the Terms of Reference (ToR) of the IPSASB were extended. Henceforth, the IPSASB's purpose is not only to set standards for general purpose financial statements (GPFs), but also to take care of **general purpose financial reports** (GPFRs). GPFRs refer to all financial reports which are intended to meet the information needs of users who are unable to request the preparation of financial reports tailored to meet their specific information needs. The IPSASB now develops and issues, in the public interest and under its own authority, high-quality accounting standards and other publications for use by public sector entities around the world in the preparation of GPFRs. Since 2015, the adherence to public interest is monitored by the Public Interest Committee (PIC), which has been supported by the Consultative Advisory Group (CAG) since January 2016.

On 22 November 2011, the International Accounting Standards Board (IASB) and the IFAC announced an agreement to strengthen their cooperation in developing private and public sector accounting standards. The mutual agreement between the IASB and IFAC, in the form of a **Memorandum of Understanding** (MoU), reflects the IASB's and IFAC's view that "high-quality financial reporting standards contribute significantly to the effective functioning of capital markets and sound economic growth."

The agreement intends to strengthen the cooperation between the two boards, with the aim of committing to enhance initiatives of common and mutual interest. The IPSASB and IASB continue to hold regular liaison meetings, to update each Board on their respective work programs and to highlight financial reporting issues where alignment between the requirements of the IASB and the requirements of the IPSASB is necessary.

The IASB has observer status at the IPSASB meetings. The IASB also continues to provide input to specific IPSASB technical projects. In the medium to longer term, IASB and IFAC will mutually consult on projects where both parties are likely to benefit from consideration of both private sector and public sector perspectives.

1.2 Structure and organization of IPSASB

Members of the IPSASB can be nominated by any stakeholder, including IFAC member bodies and IPSASB members, IFAC's Forum of Firms, international organizations, government institutions, and the general public. The members of the IPSASB are nominated based on recommendations by the IFAC Nominating Committee. Based on these nominations, the appointments are then made by the IFAC Board, considering technical and professional criteria, as well as a geographic and gender balance.

The aim of RPGs is to provide guidance which represents good practice that public sector entities are encouraged to follow. However, entities can claim full compliance with IPSAS (standards) even if they do not follow the guidance of one or more RPGs. Studies shall provide advice on financial reporting issues in the public sector (e.g., Study 14 on “Transition to the Accrual Basis of Accounting: Guidance for Public Sector Entities”). They are based on research of best practices and most effective methods for dealing with accounting issues being addressed. In 2015 and 2016, staff of the IPSASB issued short non-authoritative papers on the treatment of *Sovereign Debt Restructurings* under IPSASs and on accounting aspects of the grant of a right to the operator model in IPSAS 32, *Service Concession Arrangements: Grantor*. Staff also issued a background paper on *Emissions Trading Schemes* following the decision to deactivate the project in light of IASB decisions on their related project on *Pollutant Pricing Mechanisms*.

The IPSASB may delegate responsibility for conducting the necessary research and drafting proposed standards and guidance to so-called **Task-based Groups** (TBGs), to individuals or to staff of the IPSASB. The TBGs are chaired by a member of the IPSASB. Depending on the topic, the sub-groups can also include non-members of the IPSASB or the IFAC (e.g., observers). In this case, the groups are called **Task Forces** (TFs). The work of the TBGs/TFs is usually focused on the creation of Consultation Papers (CPs) or Exposure Drafts (EDs), which are made available to the general public. The aim of TBGs and the TFs is to perform preparatory work for the board. Nevertheless, final responsibility for the projects lies with the IPSASB.

The publication of CPs and EDs is intended to give interested individuals, groups, public sector entities or their representatives the opportunity to submit comments (usually within a period of four to six months). This allows the groups affected by IPSASs to voice their opinion before the standards are approved and published by the IPSASB.

The observers of the IPSASB include organizations that have an interest in public sector financial reporting, such as the European Commission, Eurostat, the International Monetary Fund (IMF), the United Nations or the World Bank. Observers can ask for the right to speak, but they are not entitled to vote.

Besides financial and in-kind support from IFAC, the IPSASB also receives support (both direct financial and in-kind) from several external sources, such as the Asian Development Bank (ADB), the Chartered Professional Accountants of Canada (CPA Canada), the Accounting Standards Board of South Africa (ASB), the New Zealand External Reporting Board (XRB), the governments of Canada, New Zealand, and Switzerland as well as from the United Nations (UN) and the World Bank. Figure 1 shows the current structure and organization of the IPSASB.

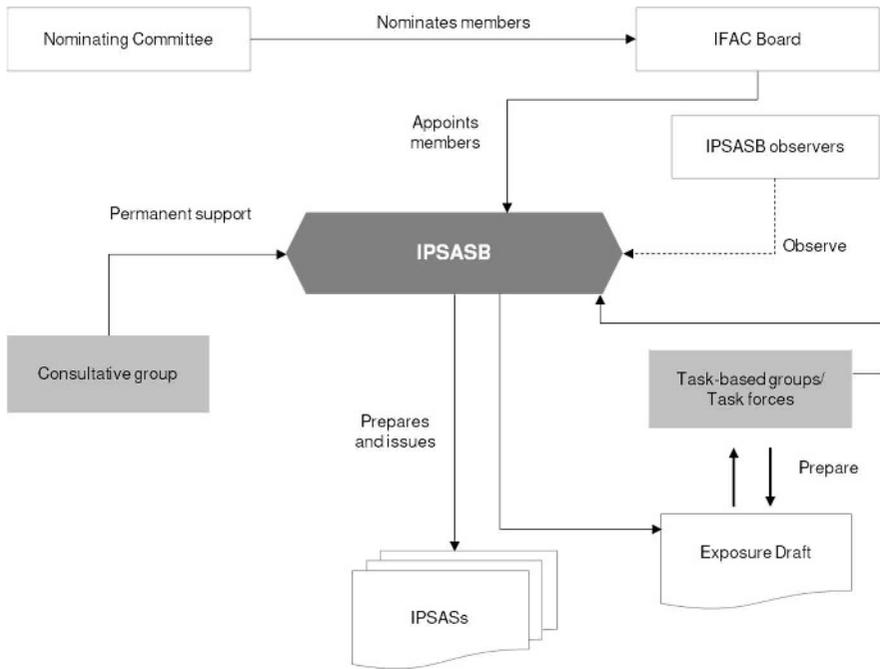


Figure 1: Structure and organization of the IPSASB

Following a public consultation of the Governance Review Group, the Public Interest Committee (PIC) was created in 2015 to ensure that the public interest is served by the IPSASB in its standard-setting activities. In 2016, the IPSASB Consultative Advisory Group (CAG) was established as an integral and important part of the IPSASB's formal process of consultation. This new governance and oversight structure is explained in more detail in Chapter 1.4.

1.3 Objectives of the IPSASB

The objective of the IPSASB is to serve the public interest by setting high-quality public sector accounting standards, facilitating the adoption and implementation of these standards and enhancing the quality and consistency of practice throughout the world to strengthen the transparency and accountability of public sector finances. Public interest in the pronouncement of IPSASs may arise, for example, from a national or supranational need to harmonize financial reporting of public sector entities.

It is also in the public interest to continue developing public sector accounting by means of the IPSASB standardization projects.

The IPSASB achieves these goals by:

- ▶ Developing, setting and issuing International Public Sector Accounting Standards (IPSASs) for use by public sector entities, including national, regional, and local governments, and related governmental agencies;
- ▶ Publishing Recommended Practice Guidelines (RPGs) that represents good practice that public sector entities are encouraged to follow;
- ▶ Issuing studies to provide advice on financial reporting issues in the public sector based on best practices and most effective methods for dealing with the issues being addressed;
- ▶ Issuing other papers and research reports to provide information that contributes to the body of knowledge about public sector financial reporting issues and developments,
- ▶ Encouraging governments and national standard setters to engage in the development of its standards by commenting on the proposals set out in its Exposure Drafts and Consultation Papers;
- ▶ Encouraging the adoption of IPSASs and the harmonization of national requirements with IPSASs; and
- ▶ Promoting their acceptance and compliance on an international scale with these standards.

More details on the current strategy and work plan are described in chapter 1.6 below.

1.4 Governance and oversight of the IPSASB

The need for public interest oversight had been recognized as a gap in the IPSASB's institutional framework ever since it was identified in the 2003-2004 *Likierman* review of the former Public Sector Committee that led to the establishment of the IPSASB with its enhanced focus on standard setting.

Responding to this gap, a number of the IPSASB's most important constituents established the Governance Review Group (GRG) in 2013. Following a public consultation, the GRG published its recommendations report in March 2015. Following this report, the Public Interest Committee (PIC) was formed as the single governance body with the OECD, the World Bank Group, IMF, and INTOSAI as its founding members.

As one of its first major actions, the PIC approved the foundational documents of the IPSASB, PIC, and CAG under the new governance regime. These include the IPSASB's revised ToR, Due Process and Working Procedures, and the PIC's ToR.

Public Interest Committee (PIC)

The PIC oversees the governance and standard-setting activities of the IPSASB to ensure that they follow the due process and reflect public interest. The body also oversees the CAG's work.

The PIC is comprised of individuals with expertise in public sector or financial reporting, and professional engagement in organizations that have an interest in promoting a high-quality and internationally-comparable financial function. It is currently co-chaired by the OECD and the World Bank. Members of the PIC have the right to attend, or be represented at, all meetings of the IPSASB and of the CAG.

Consultative Advisory Group (CAG)

The CAG was established in the first quarter of 2016. The IPSASB CAG is an integral and important part of the IPSASB's formal consultation process. The CAG provides advice on a range of areas relevant for setting standards in the public sector and provides a platform to facilitate the exchange of information between the IPSASB and specialists with detailed knowledge of the public sector, financial reporting and its requirements.

The CAG's objectives, scope of activities, membership and composition, and operating procedures are set out in its ToRs . The Chair of the IPSASB CAG may attend IPSASB meetings, or appoint a representative of a CAG member organization to attend. At the IPSASB meetings, the Chair of the IPSASB CAG, or an appointed representative, has the privilege of the floor at IPSASB meetings.

The CAG provides advice to the IPSASB on:

- ▶ The IPSASB's strategy, work program and agenda, including project priorities;
- ▶ Projects , including views on key technical issues or matters that may impede the adoption or effective implementation of IPSASs; and
- ▶ Other matters of relevance to the standard-setting activities of the IPSASB.

CAG's public interest perspective is particularly important. Rather than deliberate or re-deliberate technical matters, the CAG brings to the IPSASB's attention issues that might be overlooked as the IPSASB deals with complex technical issues. Particularly, the CAG may address key matters of principle, such as the public interest rationale for fair value accounting for financial instruments or whether the recognition of heritage items is justifiable. The value of the CAG's contributions strongly depends on the variety of perspectives, experiences and backgrounds of its members. The CAG comprises currently 22 members representing heterogenous stakeholder and user groups with a strong focus on preparers. In order to be fully transparent, like the IPSASB publications and papers, all CAG meeting papers as well as the most current membership list can be accessed under the IPSASB website under the flag "CAG" (www.ipsasb.org/CAG).

1.5 Members of the IPSASB

The IPSASB consists of 18 members – both from IFAC member bodies and public members – with experience and expertise in public sector financial reporting. All members are voluntary with the exception of the Chair, who has been partly remunerated since January 1, 2016. In recent years, IPSASB members increasingly consisted of representatives from ministries of finance, government audit institutions, public practice, and academia. All IPSASB meetings that are conducted to develop IPSASs or approve their publication are public.

Chair and Deputy Chair of the IPSASB

The current Chair, Ian Carruthers, became IPSASB Chair in January 2016, having served as a member since 2010. The Chair may ordinarily serve consecutive terms of 3 years each (as Chair or as a member for one or more terms preceding the appointment as Chair), for up to an aggregate of nine years. In exceptional circumstances, to be specified by the Nominating Committee, the Chair may serve for one additional consecutive term, for an aggregate term of twelve years.

The appointment as IPSASB Deputy Chair is considered a leadership position in support of the Chair and does not imply that the individual concerned is the Chair-elect. In January 2017, Angela Ryan from New Zealand succeeded Jeanine Poggiolini from South Africa as IPSASB Deputy Chair. In the event of a vacancy, the Deputy Chair shall assume the duties of Chair as acting Chair, having full power, authority and responsibility of the role of the Chair to manage the Board’s agenda and work program until the appointment of an interim or a new Chair. The current IPSASB Deputy Chair is Angela Ryan from New Zealand. Her term started in January 2017 and she succeeded Jeanine Poggiolini.

Table 1 shows the countries represented on the IPSASB:

▶ Australia	▶ Germany	▶ Romania
▶ Austria	▶ Italy	▶ South Africa
▶ Brazil	▶ Japan	▶ Switzerland
▶ Canada	▶ Nigeria	▶ United Kingdom
▶ China	▶ New Zealand	▶ United States of
▶ France	▶ Panama	America

Table 1: Countries represented at the IPSASB (as of January 2017)

As outlined above, most of the members of the IPSASB are either from ministries of finance/treasuries or from auditors generals/courts of audit. Only two members of the IPSASB are currently from a private sector audit firm.

Technical Advisors

IPSASB members may be accompanied at meetings by a technical advisor. A technical advisor, with the consent of the IPSASB member he or she advises, has the privilege of the floor and may participate in projects. Technical advisors are expected to possess the technical skills to participate in IPSASB debates and attend IPSASB meetings regularly to maintain an understanding of current issues relevant to their role.

Table 2 shows the organizations that have observer status:

- | |
|---|
| <ul style="list-style-type: none">▶ Asian Development Bank (ADB)▶ Chair of the IPSASB CAG▶ European Commission (EC)▶ Eurostat▶ International Accounting Standards Board (IASB)▶ International Monetary Fund (IMF)▶ United Nations (UN)▶ United Nations Development Programme (UNDP)▶ World Bank |
|---|

Table 2: Organisations that have observer status at IPSASB meetings (as of January 2017)

1.6 The strategy and work plan of the IPSASB

The IPSASB's current strategy has a single strategic objective of strengthening public financial management and knowledge globally through increasing adoption of accrual basis IPSASs by:

- ▶ Developing high-quality public sector financial reporting standards;
- ▶ Developing other publications for the public sector; and
- ▶ Raising awareness of IPSASs and the benefits of their adoption.

The strategy firmly positions the IPSASB's activities in the broader public financial management (PFM) landscape. The IPSASB is of the view that strong PFM leads to the efficient and effective delivery of public services. The aim of IPSASs is to facilitate credible and transparent financial reporting, which is in the public interest as it leads to improved public sector decision-making and facilitates citizens' ability to hold governments to account.

The design of the IPSASB's current strategy and work plan, as a result of the first public consultation in 2014, is determined by the following factors:

- ▶ Significance for the public sector;
- ▶ Urgency of the issue;
- ▶ Gaps in standards;

- ▶ International Financial Reporting Standard (IFRS) convergence; and
- ▶ Avoiding unnecessary differences to Government Finance Statistics (GFS).

The IPSASB's current work program reflects a need to address public sector-specific issues while also to maintain convergence with IFRSs.

Tables 3, 4 and 5 provide an overview of the completed, current and committed projects of the IPSASB:

Completed projects of the IPSASB from January 2014 to December 2016
<ul style="list-style-type: none"> ▶ Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities ▶ IPSAS 33, First-time Adoption of Accrual Basis IPSASs ▶ New suite of consolidation standards (IPSASs 34–38, Interests in Other Entities) ▶ RPG 3: Reporting Service Performance Information ▶ The Applicability of IPSASs ▶ IPSAS 39, Employee Benefits ▶ Impairment of Revalued Assets ▶ IPSAS 40, Public Sector Combinations

Table 3: Completed projects of the IPSASB (from January 2014 to December 2016)

Current projects of the IPSASB
<ul style="list-style-type: none"> ▶ Cash Basis IPSAS – Limited Scope Review ▶ Financial Instruments Update Project: Update to IPSAS 28-30 ▶ Heritage ▶ Leases ▶ Non-exchange Expenses ▶ Public Sector Measurement ▶ Public Sector Specific Financial Instruments ▶ Revenue ▶ Social benefits ▶ Strategy and Workplan Consultation

Table 4: Current projects of the IPSASB (as of August 2017)

Committed projects, not yet started
▶ Infrastructure Assets

Table 5: Committed projects (as of August 2017)

The IPSASB is currently working on the development of its next strategy and work plan for the period from 2019 to 2023. The IPSASB intends to publish a Consultation Paper in the first quarter of 2018 and to finalize the strategy and workplan in the second half of 2018.

2 International accounting standards for the public sector

2.1 Overview of international accounting standards for the public sector

The IPSASB develops IPSASs for financial statements prepared on both the accrual basis of accounting as well as for financial statements prepared on the cash basis of accounting.

IPSASs govern the recognition, measurement, presentation and disclosure requirements in relation to transactions and events in **GPFSS**. Such financial statements are characterized by the fact that they are issued for users who are unable to request financial information to meet their specific information needs.

In accordance to the IPSASB Conceptual Framework, **GPFRs** are a central component of, and support and enhance, transparent financial reporting by governments and other public sector entities. GPFRs are characterized by the fact that they not only comprise GPFSS, but also refer to **other financial reports** intended to meet the information needs of users who are unable to request the preparation of financial reports tailored to meet their specific information needs. GPFRs may include information about the past, present, and the future that is useful to users – including financial and non-financial quantitative and qualitative information about the achievement of financial and service delivery objectives in the current reporting period, and anticipated future service delivery activities and resource needs. More insights and information about the scope and content of GPFRs is given in IPSASB's Conceptual Framework. Typical examples for GPFRs beyond GPFSS are those

reports covered by IPSASB's Recommended Practice Guidelines (please see chapter IV for more details).

With respect to the development of accrual basis IPSASs, the IPSASB pursues the aim of convergence of IPSASs with IFRSs. In many cases, the International Financial Reporting Standards (IFRSs) are used as a starting point for developing new IPSASs. However, the IPSASB will adapt IFRSs only if the public sector has specific accounting requirements. Provided these specific requirements of the public sector are taken into account, the IPSASB seeks to retain the accounting treatment and original text of the IFRSs. The specific characteristics of the public sector, such as transactions without consideration (e.g., taxes and transfers), the provision of services as a public task and not for cash or profit-generating purposes, the requirements of Government Finance Statistics (GFS) or the importance of public budgeting, results in IPSASs dealing with accounting areas for which there is no corresponding IFRS. These IPSASs principally contain rules which are not covered, or only covered to a minor extent, by existing IFRSs.

In recent years, the alignment with GFS – in addition to to the convergence with IFRS – became a priority within IPSAS standard-setting. In 2014, the IPSASB defined the process for considering GFS reporting guidelines during the development of IPSASs and has issued a policy paper on that topic. The policy paper describes how the IPSASB considers the scope to reduce differences between IPSASs and GFS reporting guidelines during the development of its work plan, the development of new IPSASs, and revisions to existing IPSASs.

The year 2017 marks the twentieth anniversary of the IPSAS development program. Since 1997, the IPSASB has developed 40 IPSASs, as well as three RPGs, an IPSAS on reporting under the cash basis of accounting and, of course, the Conceptual Framework.

Table 6 provides an overview of the international accounting standards for the public sector (as of 31 August 2017) and the corresponding IFRSs:

IPSAS	Title	Corresponding IFRS
IPSAS 1	Presentation of Financial Statements	IAS 1
IPSAS 2	Cash Flow Statements	IAS 7
IPSAS 3	Accounting Policies, Changes in Accounting Estimates and Errors	IAS 8
IPSAS 4	The Effects of Changes in Foreign Exchange Rates	IAS 21
IPSAS 5	Borrowing Costs	IAS 23

IPSAS	Title	Corresponding IFRS
IPSAS 6	Consolidated and Separate Financial Statements (superseded by IPSASs 34-38)	IAS 27
IPSAS 7	Investments in Associates (superseded by IPSASs 34-38)	IAS 28
IPSAS 8	Interests in Joint Ventures (superseded by IPSASs 34-38)	IAS 31
IPSAS 9	Revenue from Exchange Transactions	IAS 18
IPSAS 10	Financial Reporting in Hyperinflationary Economies	IAS 29
IPSAS 11	Construction Contracts	IAS 11
IPSAS 12	Inventories	IAS 2
IPSAS 13	Leases	IAS 17
IPSAS 14	Events After the Reporting Date	IAS 10
IPSAS 15	Financial Instruments: Disclosure and Presentation (superseded by IPSASs 28-30)	IAS 32
IPSAS 16	Investment Property	IAS 40
IPSAS 17	Property, Plant and Equipment	IAS 16
IPSAS 18	Segment Reporting	IAS 14
IPSAS 19	Provisions, Contingent Liabilities and Contingent Assets	IAS 37
IPSAS 20	Related Party Disclosures	IAS 24
IPSAS 21	Impairment of Non-Cash-Generating Assets	No directly corresponding IFRS
IPSAS 22	Disclosure of Financial Information about the General Government Sector	No corresponding IFRS
IPSAS 23	Revenue from Non-Exchange Transactions (Taxes and Transfers)	No corresponding IFRS
IPSAS 24	Presentation of Budget Information in Financial Statements	No corresponding IFRS
IPSAS 25	Employee Benefits (will be superseded by IPSAS 39 by 1 January 2018)	IAS 19
IPSAS 26	Impairment of Cash-Generating Assets	IAS 36
IPSAS 27	Agriculture	IAS 41

IPSAS	Title	Corresponding IFRS
IPSAS 28	Financial Instruments: Presentation	IAS 32/IFRIC 2
IPSAS 29	Financial Instruments: Recognition and Measurement	IAS 39/IFRIC 9/ IFRIC 16
IPSAS 30	Financial Instruments: Disclosures	IFRS 7
IPSAS 31	Intangible Assets	IAS 38/SIC 32
IPSAS 32	Service Concession Arrangements – Grantor	Mirror to SIC 12
IPSAS 33	First-time Adoption of Accrual Basis IPSASs	IFRS 1
IPSAS 34	Separate Financial Statements	IAS 27 (amended 2011)
IPSAS 35	Consolidated Financial Statements	IFRS 10
IPSAS 36	Investments in Associates and Joint Ventures	IAS 28 (amended 2011)
IPSAS 37	Joint Arrangements	IFRS 11
IPSAS 38	Disclosure of Interests in Other Entities	IFRS 12
IPSAS 39	Employee Benefits	IAS 19 (issued 2011)
IPSAS 40	Public Sector Combinations	IFRS 3
Cash Basis IPSAS	Cash Flow Statements	No corresponding IFRS

Table 6: Overview of the International Public Sector Accounting Standards (as of 31 August 2017)

Table 7 provides an overview of the proposed IPSASs (Exposure Drafts - ED) as of end of August 2017:

Exposure Draft (ED)	Title	Corresponding IAS/IFRS
ED 61	Amendments to Financial Reporting under the Cash Basis of Accounting	No corresponding IFRS
ED 62	Financial Instruments	IFRS 9

Table 7: Overview of the Proposed IPSASs (Exposure Drafts) as of 31 August 2017

Table 8 provides an overview of the consultation papers (CPs) issued as of end of August 2017:

CP	Title	Corresponding IAS/IFRS
CP	Social Benefits	No corresponding IAS/IFRS
CP	Public Sector Specific Financial Instruments	No corresponding IAS/IFRS
CP	Financial Reporting for Heritage in the Public Sector	No corresponding IAS/IFRS
CP	Accounting for Revenue and Non-Exchange Expenses	IFRS 15

Table 8: Overview of the issued IPSAS CPs as of 31 August 2017

2.2 History of the International Public Sector Accounting Standards

The IPSASs are based on the work of the IFAC's PSC. This standing committee has been dealing with public sector accounting and audits since 1986. Its core tasks include the development of concepts to optimize the financial management and financial reporting of public authorities. In its early days, the PSC developed and promulgated a large number of guidelines, studies and research reports. However, these pronouncements did not play such an important role as IPSASs do today.

The standards project launched in 1997 marked a turning point in the work of the PSC. The purpose of the standards project was to formulate IPSASs aimed at improving the financial management and accounting of public authorities and harmonizing public accounting at international level. This project fundamentally changed the way the PSC saw itself; from then on it considered itself an independent committee for the standardization of public sector accounting and consequently changed its name to IPSASB in 2004.

The standard-setting activities started with converging IAS standards into the first 20 IPSASs, the core set of standards. In a second phase, the Board started dealing with public sector-specific issues and issued IPSAS 21 to IPSAS 24. The next phase was governed by the ambition to achieve convergence with IFRSs/IASs as of 31 December 2008, which was achieved with the approval of IPSAS 31, *Intangible Assets* at the end of 2009. In the following years, the IPSASB focused on the development of the Conceptual Framework, which was approved in September 2014. In parallel, important standards such as the one on "First Time Implementation" (IPSAS 33) and those dealing with consolidation (IPSASs 34-38; IPSAS 40) have been issued. Since then, the IPSASB focusses on closing major gaps in its literature, while maintaining IFRS convergence to the greatest extent possible.

The latest major step in the history of the IPSASB was made with the implementation of the new governance model of the IPSASB starting in 2015. The establishment of a new single-layer governance by incorporating the PIC in IPSASB's governance, and of an advisory framework by implementing the CAG, was a landmark achievement for the IPSASB and its global stakeholders.

2.3 Applicability of the International Public Sector Accounting Standards

IPSASs are currently intended to apply to **GPFs** of public sector entities. The public sector entities have to meet all the following criteria:

- ▶ They are responsible for the delivery of services to benefit the public and/or to redistribute income and wealth;
- ▶ They mainly finance their activities, directly or indirectly, by means of taxes and/or transfers from other level of government, social contributions, debt or fees; and
- ▶ They do not have a primary objective of making profits.

The primary objective of most public sector entities is to deliver services to the public, rather than to make profits and generate a return on equity for investors. Public sector entities generally include national and regional governments (e.g., state, provincial, territorial governments), local authorities (e.g., towns and cities) as well as related governmental entities (e.g., departments, programs, boards, commissions, agencies, social security funds, trusts, statutory authorities) and international governmental organizations.

In general, IPSASB's guidance, which deals with GPFs other than GPFs (e.g., RPG 1: *Reporting on the Long-term Sustainability of an Entity's Finances*), is not part of the set of IPSASs. An entity therefore has not to apply these RPGs to be in the position of claiming full compliance with IPSASs. Consequently, this type of guidance is called "Recommended Practice Guideline (RPG)" and not IPSASs.

The definition of a Government Business Enterprise (GBE) in IPSAS 1, *Presentation of Financial Statements*, has been deleted and replaced with the term "commercial public sector entities" and hence consequential amendments were made in both the IPSASs and RPGs. These amendments address constituents' concerns about the application of IPSASs to public sector entities and different interpretations of the GBE definition. IPSASs do not apply to commercial public sector entities which are profit-oriented. In addition, the IPSASB acknowledges the right of governments and national standard-setters to establish accounting standards and guidelines for financial reporting in their jurisdictions.

Table 9 provides a summary of the previous and future approach on the applicability of IPSASs:

	Previous approach	Future approach
Remit of IPSASB	<ul style="list-style-type: none"> IPSASB developed standards and other publications for use by public sector entities other than GBEs 	<ul style="list-style-type: none"> High-level description of characteristics of public sector entities for which IPSASs are designed
Definition of GBEs	<ul style="list-style-type: none"> Reliance on a formal definition of a GBE in IPSAS 1 	<ul style="list-style-type: none"> Deletion of the term GBE and its definition in IPSAS 1 The new term “commercial (public sector) entities” is now used when referring to GBEs
Scope of IPSAS/RPG	<ul style="list-style-type: none"> Scope section in each IPSAS and RPG provides that these pronouncements do not apply to GBEs Preface to IPSASs explains that GBEs apply IFRSs 	<ul style="list-style-type: none"> The scope section of each IPSAS and RPG has been amended by removing the paragraph that states that GBEs do not apply IPSASs Statement in Preface that explains that GBEs apply IFRSs is removed

Table 9: Overview of the previous and future approach on applicability of IPSAS

2.4 General purpose financial statements

Financial statements that are issued for users who are unable to request financial information to meet their specific information needs are referred to as GPFs. Examples of such users of financial statements are citizens, voters, their political representatives and other members of the general public. The term “financial statements” used here and in the standards covers all disclosures and notes that have been identified as components of the GPFs.

In addition to the GPFs, a public sector entity may prepare financial statements for other parties (such as executive committees, the legislature and other parties with supervisory functions) that can request financial information tailored to their needs. Such financial statements are referred to as “special purpose financial statements.” The IPSASB recommends that IPSASs also be adopted for special purpose financial statements where appropriate.

As shown above, the publications of the IPSASB mainly comprise standards and RPGs, in addition to studies and other publications. Only the IPSAS standards relate to the GPFs and are authoritative where an entity wants to make an unqualified statement of full compliance with IPSASs. RPGs are pronouncements that provide guidance on good practice in preparing GPFs that are not financial statements. Unlike IPSASs, RPGs do not provide guidance on the level of assurance (if any) to which information should be subjected.

Financial statements prepared on the accrual basis of accounting comprise a statement of financial position, a statement of financial performance, a cash flow statement and a statement of changes in net assets/equity. For financial statements prepared on the cash basis of accounting, the statement of cash receipts and payments is the primary component of the financial statements in addition to the accounting policies and explanatory notes.

2.5 Authority of the International Public Sector Accounting Standards

The IPSASB recognizes the right of governments and national standard setters to establish accounting standards and associated guidance within their jurisdictions. Its objectives are “to serve the public interest by developing high-quality public sector financial reporting standards and by facilitating the convergence of international and national standards, thereby enhancing the quality and uniformity of financial reporting throughout the world.” Thus, the IPSASB sees itself in a supportive function. Jurisdictions which decide to adopt IPSASs may use IPSASs as international best practice and use them in their own standard-setting processes as guidance. The GPFs of public sector entities may be governed by rules or laws in a jurisdiction. These rules may take the form of statutory reporting rules, directives or statements on accounting and/or accounting standards issued by governments, regulatory authorities and/or professional associations in the jurisdiction.

However, neither the IPSASB nor the accounting and audit profession can directly enforce compliance with IPSASs on their own. This means that IPSASs do not have an immediate binding effect for territorial authorities or other public sector entities.

However, the existing IPSASs can assist legislators and national standard setters in developing new standards or revising existing ones in order to achieve greater comparability of public sector entities’ financial statements at national and international level. The IPSASs can be of great help, especially for all jurisdictions that do not yet have accrual accounting standards for the public sector.

Emerging countries are also one of the main target groups for IPSASs. Financial institutions such as the International Monetary Fund, the World Bank or the Asian Development Bank play an important role as major donors and lending institutions for

these countries. Nowadays, the strategy of providing financial resources to emerging countries via these institutions is mostly focused on creating transparent and consistent financial reporting structures as a basis for further financial help in the future. Accordingly, financial aid by these institutions is often related to the implementation of reporting procedures and structures based on IPSASs. For example, the World Bank encourages borrowers to prepare their financial reports in accordance with IPSASs. Thus, the IPSASs have gained increasing importance as the only internationally accepted accounting framework for the public sector.

However, there is also an increasing demand for the adoption of IPSASs in the developed part of the world for compatibility and comparability reasons. The various processes of collection and reallocation of resources employed by different countries, such as within the European Union, create the need for transparency regarding allocation criteria and the use of these means — especially in times of limited financial resources. Given that IPSASs are the only internationally-accepted public sector accounting model, these standards were therefore a guideline for the member states in eastern Europe who have decided to establish a state-of-the-art accounting system following the destruction of the old political systems.

Yet also in established European countries like Germany, Italy or the Netherlands, the need to modernize budgeting and financial reporting systems is uncontested. The IPSASs could be regarded as a reference model for the reform of governmental accounting there. The European Commission's project to develop European Public Sector Accounting Standards (EPSASs) has assessed the suitability of IPSASs for the member states in 2013 and concluded that IPSASs are taken as a reference for potential EU-harmonised public sector accounts (see chapter III.2 for more details).

The IPSASB strongly recommends adopting IPSASs and harmonizing national requirements of public sector accounting and financial reporting with those of IPSASs. Some states and national standard setters have already developed generally-accepted accounting standards for the public sector in their jurisdiction. In many jurisdictions, however, public sector accounting is still highly fragmented, typically containing special rules for certain levels or areas.

The IPSASB believes that the application of IPSASs, together with a statement of compliance, significantly enhances the quality of GPFs prepared by public sector entities. In turn, this improves the basis for decisions on the appropriation of funds by public authorities, allowing for greater consistency, transparency and accountability.

2.6 IPSASs for accrual basis of accounting and cash basis of accounting

Due to their financial sovereignty, jurisdictions such as nations or states have the authority to decide on how they want to structure public sector accounting within their jurisdiction. Global surveys of professional services firms regularly show that countries often apply IPSAS-like standards at national/federal government level. This means that these countries have their own national accounting and financial reporting system but used the IPSASs as a blueprint or guideline.

Apart from that, mainly requirements relating to financial statistics have had an impact on public financial reporting to date. This impact is going to increase due to the enhancing trend toward alignment of statistical regulations, such as the IMF Statistics Department's Government Finance Statistics Manual 2014 (GFSM 2014), the System of National Accounts 2008 (2008 SNA) or the European System of Accounts (ESA 2010).

Public sector entities that keep their accounts in accordance with IPSASs can choose to use either accrual accounting or cash accounting. The IPSASB has decided to issue only one standard on the cash basis of accounting – the Cash Basis IPSAS. The application of this standard is still intended to build a stepping stone on the journey toward full accrual. Consequently, all other IPSASs are developed exclusively on the accrual basis of accounting – in line with the accounting concept applied in IFRSs.

This clearly reflects the IPSASB's preference for this basis of accounting. This preference seems to be increasingly mirrored by the accounting reality in the public sector globally. Accrual accounting is increasingly used at national/federal government level in all regions of the world. Even though cash basis accounting is still used, especially in Asia, Latin America and Africa, surveys have also shown that these regions share the most dynamic development and reform plans toward accrual accounting. The majority of countries in North America, Europe and Oceania have already moved to accrual-based accounting.

2.7 Background to the application of international accounting standards for the public sector

Internationally, the (New) Public Management movement has gained considerable importance in the public sector reform. One of the components of this new way of managing public affairs is the reform of public sector accounting and financial reporting. This new financial governance model for public sector organizations often entails reforms of their budgets. The accrual basis of accounting constitutes a major reform element in this context.

Table 10 provides an overview of major countries that have decided to introduce IPSASs or similar accounting standards or have already done so.

Austria	Japan	Peru
Brazil	Kenya	Portugal
Chile	Lithuania	Spain
China	New Zealand	Russia
Colombia	Nigeria	Switzerland
France	Morocco	Tanzania
Indonesia	Panama	Vietnam

Table 10: Overview of major countries that have decided to introduce IPSASs/similar accounting standards or have already done so

The IPSASB has also found that the public sector accounting practice in Australia, Canada, the UK and the United States is already largely in compliance with IPSASs. For example, Australia and UK use IFRSs as a basis for governmental accounting, but supplement them with IPSAS guidance where IFRS does not provide orientation.

The supranational organizations in Table 11 have also decided to introduce IPSASs. This is another fact underlining the growing importance of IPSASs.

- ▶ Council of Europe
- ▶ European Commission
- ▶ European Space Agency (ESA)
- ▶ European Organisation for the Exploitation of Meteorological Satellites (Eumetsat)
- ▶ OECD
- ▶ North Atlantic Treaty Organisation (NATO)
- ▶ Organisation for economic co-operation and development (OECD)
- ▶ United Nations system (including all its institutions, such as UNESCO, UNICEF, WFP, etc.)

Table 11: Overview of supranational organizations that have decided to introduce IPSASs or have already done so

In contrast to supranational organizations, which often adopt IPSASs directly, states have financial and legislative power and therefore tend to use this power to align their national accounting provisions to these standards instead of adopting them directly.

The adoption of international accounting standards ensures comparative and standardized information on finances and the economic situation of public sector entities across jurisdictions. Since IPSASs have been derived from IFRSs, they are able to build on an accounting basis that has been well established in the private sector over recent decades. This common basis ensures convergence in private and public sector accounting for comparable matters while at the same time allowing for divergence where rules specifically adapted to the public sector are required.

Because they are geared towards decision-making needs, the IPSASs provide the executive and legislature with a better basis for their decisions on the allocation of resources. The accrual basis IPSASs take account of operational performance indicators such as provisions or amortization and depreciation. This makes IPSASs a suitable basis for efficiency and effectivity-based public management. The accrual basis IPSASs can thus promote action guided by the principle of intergenerational equity and make a contribution to sustainable administrative action.

The IPSASB has the aim of creating high-quality international accounting standards for the public sector such that they ensure a fair presentation of the financial position, financial performance and cash flows of public sector entities (cf. IPSAS 1.27). In addition, they are intended to achieve transparency in the presentation of the financial position of public sector entities. Finally, they serve to enhance the accountability of the executive and legislature. The objective of accounting in accordance with IPSASs is to provide executives in the public sector with relevant information for decision-making, on the one hand, and to ensure accountability for the public funds and resources entrusted to the entity (cf. IPSAS 1.15), on the other. IPSASs can also make a significant contribution to the work of national standard setters. They can be of help to the authorities responsible for public sector accounting (e.g., a specially established standard setter) or the legislature when amending or revising national accrual basis standards.

2.8 Provisions for the transition from the cash basis to the accrual basis of accounting

The Cash Basis IPSAS can be considered as a stepping stone for the implementation of the accrual basis of accounting and a future implementation of the accrual basis IPSASs. The standard consists of two parts. The first part sets out the requirements for reporting under the cash basis of accounting. Part two of the standard contains encouraged additional disclosures. This part of the Cash Basis IPSAS is not mandatory and it recommends that public sector entities make voluntary disclosures on the accrual basis of accounting even if their financial statements are prepared using the cash basis of accounting. A public sector entity in transition from the cash basis to the accrual basis of accounting may want to include certain accrual basis disclosures in the financial statements during that phase.

The IPSASB itself facilitates the achievement of full compliance with the accrual basis IPSASs. In January 2015, the Board released IPSAS 33, *First-time Adoption of Accrual Basis IPSASs*. IPSAS 33 addresses the transition from either a cash basis, or an accrual basis under another reporting framework, or a modified version of either the cash or accrual basis of accounting to the accrual basis IPSASs. Summarizing and harmonizing the transitional provisions of specific existing standards, IPSAS 33 grants transitional exemptions to entities adopting accrual basis IPSASs for the first time. IPSAS 33 allows first-time adopters three years to recognize specified assets and

liabilities in order to give preparers sufficient time to develop reliable models for recognizing and measuring assets and liabilities during the transition period. These assets and liabilities include inventories, investment property, property, plant and equipment, defined benefit plans and other long-term employee benefits, biological assets and agricultural produce, intangible assets, service concession assets and the related liabilities, and financial instruments. More details on IPSAS 33 can be found in the detailed chapter about IPSAS 33.

In order to facilitate the adoption of IPSASs, the IPSASB has also prepared Study 14, *Transition to the Accrual Basis of Accounting: Guidance for Governments and Government Entities (Third Edition)*. This IPSASB study provides guidance on the transition from the cash to the accrual basis and it may also be useful for entities reporting on an accrual basis and considering the adoption of accrual basis IPSASs.

2.9 Procedures for developing accounting standards

To develop IPSASs, the IPSASB has established a due process that gives interested parties such as the IFAC member organizations, auditors and accountants, preparers of financial statements (including ministries of finance), standard setters and individuals the opportunity to submit their comments. In addition, IFAC has established the IPSASB CAG to discuss important projects, technical questions and priorities relating to the strategy and work plan.

The IPSASB provides the PIC with documentation supporting the application of due process for all new or revised IPSASs before their release. The PIC's consideration of due process may require the IPSASB to take further steps to address any concerns regarding the application of due process. The PIC does not review or consider technical or financial reporting matters agreed by the IPSASB. Such decisions are the responsibility of the IPSASB.

In setting its strategy and work plan, the IPSASB also obtains the PIC's advice on the appropriateness of the items on the work plan, and on the completeness of the strategy and work plan from a public interest perspective. The IPSASB adjusts its final work plan to reflect the public interest views of the PIC or explains to the PIC how it has taken into account its advice. The IPSASB also discusses progress on its strategy and work plan with the PIC on a regular basis.

Working procedures are the steps adopted by the IPSASB to facilitate the operation of due process ("rules of the road"), but are not themselves part of the due process. Working procedures may be modified in practice, where necessary, to respond to changes in circumstance. The PIC is informed of significant modifications in practice made to the working procedures and the basis for them.

The due process starts with a decision by the Board on whether a standard or other guidance should be developed on a certain matter. This decision is typically made within a work planning session at an IPSASB meeting. In general, the IPSASB agrees

to continue with a project based on a project brief, which is developed by the IPSASB staff. The Board then agrees on the project brief and sets a rough guideline for the further development of the standard. Depending on the project, the IPSASB will either choose to develop an ED directly or to start with a CP and subsequently develop the ED. In most cases, the projects are generally run by a TBG or a TF. Once the draft CP has been completed by the TBG/TF and IPSASB staff, the Board as a whole has a final discussion on the CP and approves it. Usually, the CP contains specific matters for comments (SMCs) on certain matters of the paper. All papers are made available to the general public on the website of the IPSASB and can be commented on by interested parties. Following the phase of exposure for comment and subsequent revision by IPSASB employees, an ED is presented to the Board for approval. Once the IPSASB has approved the ED, it is published and requests for comment are sought publicly. Based on the comments received, the IPSASB will revise the proposed standard and finally approve it as a standard. Occasionally, the IPSASB may reissue the ED as such (re-exposure) if there are any significant issues that have been changed due to constituents' comments.

At all stages described above, the projects are discussed with the CAG in order to receive as much input as possible. The CAG Chair attends the IPSASB meetings and ensures that the results of the CAG discussions are included in the Board's discussion. A detailed "report back mechanism" has been established to provide transparency on how the Board reflected on the CAG's input.

The IPSASB Chair and the IPSASB Technical Director provide the PIC with a summary of the application of due process for new or revised IPSASs before their release. The Chair of the CAG is responsible for advising the PIC on whether due process relating to the IPSASB's interaction with the CAG is being followed.

A majority of two thirds of the voting rights on the IPSASB is required for approval of CPs, EDs or standards. Each member of the IPSASB has one vote. Since January 2012, the vote can be exercised only by the appointed member, i.e., votes can no longer be delegated to other IPSASB members. The text of a pronouncement that is published by the IPSASB in English is deemed to be the approved version.

The general structure of an IPSAS is shown in Table 12:

<ul style="list-style-type: none">▶ Objective▶ Scope▶ Definitions▶ Accounting policies/content of the IPSAS▶ Transitional provisions▶ Effective date▶ Appendices▶ Basis for conclusions▶ Application/Implementation guidance (where appropriate)▶ Comparison with the corresponding IFRS (where appropriate)

Table 12: General structure of an IPSAS

2.10 Process for reviewing and modifying IASB documents

The IPSASB addresses public sector financial reporting issues in two different ways: on the one hand, the IPSASB develops public sector-specific IPSASs which have no equivalent IFRS. Typically, these IPSASs deal with issues that have not been comprehensively or appropriately dealt with in IFRSs or for which there is no related IFRS (e.g. IPSAS 23, *Revenues from Non-Exchange Transactions (Taxes and Transfers)* or IPSAS 24, *Presentation of Budget Information in Financial Statements*). On the other hand, the IPSASB develops IPSASs that are aligned with IFRSs by adapting them to the public sector context (e.g., IPSAS 13, *Leases* or IPSAS 16, *Investment Property*).

In order to have guidelines for the development of IPSASs through the adaptation of IASs/IFRSs, the IPSASB developed its “Process for Reviewing and Modifying IASB Documents” in October 2008. The IPSASB uses the analysis resulting from this process when developing the related IPSASB document to determine whether identified public sector issues warrant departures from the IASB document.

The process of reviewing IASB documents is ongoing and will be regularly assessed to determine whether any changes are needed to enhance the process.

2.11 Process for considering GFS reporting guidelines during development of IPSASs

Apart from convergence with IFRSs, the IPSASB aims to achieve alignment with GFS. The IPSASB's "process for considering Government Finance Statistics (GFS) reporting guidelines during the development of IPSASs" describes how the IPSASB considers scope to reduce differences between IPSASs and GFS during:

- a. the development of its work plan;
- b. the development of new IPSASs; and
- c. revisions to existing IPSASs.

Unnecessary differences between GFS reporting guidelines and IPSASs should therefore be avoided. This process aims to address both existing differences and possible future differences which could arise through the development of a new IPSAS to address a previously unaddressed financial reporting topic, or through revisions to an existing IPSAS. Since 2014, the IPSASB staff has prepared a GFS tracking table for each IPSASB meeting. The table provides an overview of the main differences between IPSAS and GFS recognition and measurement requirements. It includes assessments of whether differences can be resolved through adopting a GFS-aligned IPSAS option, differences needed to be addressed that could be resolved in the future through an existing IPSAS work-plan project, and differences needed to be addressed at present.

2.12 Current projects of the IPSASB

An overview of the IPSASB's projects as of August 2017 is provided below. The projects are ordered by maturity.

Update of IPSAS 28-30

In July 2014, the IASB completed the final phase of its response to the financial crisis with the publication of IFRS 9, *Financial Instruments*. IFRS 9 introduces a logical model for classification and measurement for financial instruments, a single, forward-looking 'expected loss' impairment model and a substantially-reformed approach to hedge accounting. The aim of IPSASB's project is to issue a revised IPSAS 29, *Financial Instruments: Recognition and Measurement* that is substantially converged with IFRS 9. It is expected that the additional amendments to IPSAS 28, *Financial Instruments: Presentation* and IPSAS 30, *Financial Instruments: Disclosures* are limited compared to the impact on IPSAS 29. The IPSASB approved an ED related to the update of IPSASs 28-30 in its June 2017 meeting. The ED 62, *Financial Instruments* was published on 24 August 2017. For more details on this ED, please see chapter VI.1.2.

Public Sector-Specific Financial Instruments

The main objective of the IPSASB's project is to define items considered to be public sector-specific financial instruments and to identify approaches to the recognition and measurement of such items. There are a number of important monetary items (which the IPSASB has labelled as "public sector-specific financial instruments") that are unique to the public sector and where IPSASs currently do not provide requirements or guidance on how to account for them. Such items relate to monetary authorities and include currency in circulation, monetary gold, and the IMF quota subscription and special drawing rights (SDRs). This lack of guidance was identified as a significant gap in the IPSASB's literature. In July 2016, the IPSASB published the CP, *Public Sector-Specific Financial Instruments*. For more details on this CP please see chapter VI.2.2.

Social Benefits

The delivery of social benefits to the public is the primary objective of most governments and accounts for a sizeable proportion of their expenditure. Governments and public sector entities usually provide constituents with social benefits in non-exchange transactions. However, IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets* excludes provisions related to social benefits in non-exchange transactions from its scope. Therefore, the objective of this project of the IPSASB is to develop a standard (or standards) that identify the circumstances and manner in which expenses and liabilities relating to certain government social benefits arise. The project will also consider how they should be recognized and measured in the financial statements. In July 2015, the IPSASB published the CP, *Recognition and Measurement of Social Benefits*. More details on this CP are provided in chapter VI.2.1.

Cash Basis IPSAS – Limited Scope Review 2015

From 2008 to 2010, the IPSASB performed a review of the Cash Basis IPSAS and identified a number of issues that turned out to be obstacles for the adoption of this standard. The primary objective of this project is now to make changes to the requirements of the Cash Basis IPSAS dealing with consolidation, external assistance and third party payments that will reduce obstacles to the adoption of the IPSASs. A secondary objective is to undertake a high level "housekeeping" review of the IPSASs to ensure that its requirements remain appropriate, including any requirements derived from the equivalent accrual basis IPSASs. In February 2016, the IPSASB published ED 61, *Amendments to Financial Reporting under the Cash Basis of Accounting (the Cash Basis IPSAS)*. For more details on this ED, please refer to chapter VI.1.1.

Heritage

The holding of heritage items is a unique feature of the public sector. Governments and public sector entities preserve heritage items on behalf of present and future generations. Users of general purpose financial reports may need information to a) hold entities accountable for the preservation of heritage items, and make decisions

on resources needed for heritage preservation. The objective of this IPSASB project is to improve financial reporting for heritage by public sector entities by considering the type of information that should be reported about heritage items and heritage-related responsibilities, including approaches to their recognition and measurement. The scope of this project is to provide more detailed requirements and guidance for the accounting and disclosure of heritage assets. In April 2017, the IPSASB published CP, *Financial Reporting for Heritage in the Public Sector*. More details on this CP are provided in chapter VI.2.3.

Leases

The IASB has published a new standard, IFRS 16, *Leases*. This standard requires that most leases needs to be brought on-balance sheet for lessees under a single model and eliminates the distinction between operating and finance leases. The objective of IPSASB's project is to issue a new IPSAS on leases which will be converged with IFRS 16, *Leases*, to the extent appropriate. The next step of the project is to issue an Exposure Draft of a proposed new IPSAS on leases.

Revenue and Non-Exchange Expenses

The IASB has recently issued IFRS 15, *Revenue from Contracts with Customers*, which will replace IAS 11, *Construction Contracts* and IAS 18, *Revenue*. IPSAS 9, *Revenue from Exchange Transactions* and IPSAS 11, *Construction Contracts* are based on the equivalent standards issued by the IASB. The IPSASB now intends to maintain convergence with IFRSs. The aim of the project is to develop one or more IPSASs covering revenue transactions (exchange and non-exchange) in IPSASs. New standards-level requirements and guidance on revenue are developed in order to amend or supersede requirements that are currently located in IPSAS 9, IPSAS 11, and IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*.

With regard to non-exchange expenses, there is no standard within IPSASB's literature that covers accounting for non-exchange expenses. The current IPSASB guidance for recognizing provisions and liabilities in respect of non-exchange transactions is provided in IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*. However, IPSAS 19 was the result of a convergence project and was not developed with non-exchange transactions in mind. The aim of IPSASB's project on non-exchange expenses is to develop a standard(s) that provides recognition and measurement requirements applicable to providers (or grantors) of non-exchange transactions, except for social benefits.

Revenue and non-exchange expenses are covered in one project as there are synergies in looking at non-exchange transactions from the grantor/donor as well as from the recipient side. The IPSASB approved the CP, *Accounting for Revenue and Non-exchange Expenses* in its June 2017 meeting. More details on this CP are provided in chapter VI.2.4.

Public Sector Measurement

The starting point for this project was the issuance of IPSASB's Conceptual Framework in 2014. The objectives of this project are to (a) issue amended IPSASs with revised requirements for measurement at initial recognition, subsequent measurement and measurement-related disclosure; (b) provide more detailed guidance on the implementation of replacement cost and cost of fulfillment and the circumstances under which these measurement bases will be used; and (c) address transaction costs, including the specific issue of the capitalizing or expensing of borrowing costs. It aims to address inconsistencies between existing IPSAS measurement requirements and the Conceptual Framework's approach to measurement. It also considers the use of "fair value" in IPSASs. The IPSAS definition of fair value is different from the definition in IFRS 13, *Fair Value Measurement*. The Conceptual Framework does not include fair value as an appropriate measurement basis for assets and liabilities in the public sector.

Emissions Trading Schemes

Public sector entities may be either participants in an emissions trading scheme (ETS) or – unlike private sector entities – administrators of an ETS. The aim of the IPSASB's project was to develop a standard(s) that provides requirements applicable to both administrators and participants in ETS. In 2017, the project was removed from IPSASB's work plan as the Board decided that the staff background paper on emissions trading schemes published in January 2017 is the final output from this project.

3 IPSASB's Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities

3.1 Background

The IPSASB initiated its Conceptual Framework (the Framework) project in 2006. While the Board had its main development activities between 2010 and 2014, it was originally a collaborative project with a number of national standard setters and similar authoritative bodies with responsibility for financial reporting by public sector entities in their jurisdictions. The objective of the project was to develop a public sector conceptual framework applicable to the preparation and presentation of financial statements for public sector entities.

From the outset of the project, the IPSASB's intention was not to simply interpret the IASB Framework for application to the public sector. While the IPSASB closely monitors the work of the IASB and other standard setters, the Framework had always

been a public sector-specific project. This approach was reaffirmed by the IPSASB in June 2013 when the IASB published its Discussion Paper DP 2013/1A, *Review of the Conceptual Framework for Financial Reporting*.

The IPSASB has developed the Framework in four phases. Table 13 outlines which chapters of the Framework were covered by each phase. Chapters 1 to 4 and 8 deal with concepts that are applicable to all matters that may be encompassed within the scope of GPFRs. Chapters 5 to 7 deal with concepts applicable to GPFs and do not apply to the more comprehensive areas of financial reporting outside financial statements.

Table 13 provides an overview of the different phases and the related chapters of the Framework.

Phase	Chapter in the Conceptual Framework
Phase 1 [^]	Chapter 1: Role and Authority of the Conceptual Framework Chapter 2: Objectives and Users of General Purpose Financial Reporting Chapter 3: Qualitative Characteristics Chapter 4: Reporting Entity
Phase 2 [*]	Chapter 5: Elements in Financial Statements Chapter 6: Recognition in Financial Statements
Phase 3 [*]	Chapter 7: Measurement of Assets and Liabilities in Financial Statements
Phase 4 [*]	Chapter 8: The Presentation of Information in General Purpose Financial Reports

[^] Project completed and related chapters were issued January 2013

^{*} Project completed and related chapters were issued October 2014

Table 13: Overview of the phases and the related chapters of the IPSASB Conceptual Framework

The Board has prioritized and devoted many of its resources to completing the Framework, leading to the approval of The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities at the IPSASB's September 2014 meeting and its publication on 31 October 2014. The Framework establishes the concepts that are to be applied in developing IPSASs and RPGs that are applicable to the preparation and presentation of GPFRs for public sector entities. It reflects key

characteristics of the public sector in its approach to elements of financial statements, the measurement of assets and liabilities, and the presentation of financial reports.

3.2 Key characteristics of the public sector

The Preface to the Framework outlines the characteristics of the public sector that the IPSASB considered while developing the Framework. It also clarifies that the Framework establishes the concepts that are to be applied in developing IPSASs and RPGs applicable to the preparation and presentation of GPFs of public sector entities. The Preface states that the public sector includes national and sub-national (regional, state/provincial, and local) governments and related governmental entities, as well as international public sector organizations. The primary objective of most public sector entities is the delivery of services to the public, rather than to make profits and generate a return on equity for investors. Consequently, the performance of such entities can only partially be evaluated through an examination of financial position, financial performance and cash flows.

Globally, the public sector varies considerably in both its constitutional arrangements and its methods of operation. However, the Preface highlights that governance in the public sector generally involves the 'holding to account' of the executive by a legislative body (or equivalent). IPSASs are developed to be applied across countries and jurisdictions with different political systems, different forms of government and different institutional and administrative arrangements for the delivery of services to constituents. Key characteristics that are unique to the public sector are:

- ▶ The volume and financial significance of non-exchange transactions
- ▶ The importance of the approved budget
- ▶ The nature of public sector programs and the longevity of the public sector
- ▶ The nature and purpose of assets and liabilities in the public sector
- ▶ The regulatory role of public sector entities
- ▶ The relationship with statistical reporting.

Standard setting for the public sector globally has to keep these key characteristics in mind, especially when assessing the applicability of private sector accounting solutions in convergence projects.

3.3 Role and authority of the Framework

The role of the Framework is to establish the concepts that underpin financial reporting by public sector entities that adopt the accrual basis of accounting. IPSASB applies these concepts in developing IPSASs and RPGs.

The Framework does not establish authoritative requirements for financial reporting, nor does it override the requirements of IPSASs or RPGs. Nevertheless, the

Framework can provide users with guidance in dealing with issues not dealt with by IPSASs or RPGs.

The Framework states that GPFRs are “intended to meet the information needs of users who are unable to require the preparation of financial reports tailored to meet their specific information needs.” GPFRs are likely to comprise multiple reports such as financial statements discussion and analysis (FSD&A), reports on service performance or the long-term sustainability of an entity’s finances. They encompass financial statements (including notes) and information that enhances, complements and supplements the financial statements. GPFSs are included within the scope of GPFRs. IPSAS 1 outlines what a complete set of financial statements comprises. According to the IPSASB, GPFRs encompass a more comprehensive scope of financial reporting than the financial statements.

The Framework supports the financial reporting by public sector entities that apply IPSASs. Therefore, it applies to GPFRs of national, regional, state/provincial and local governments. It also applies to the GPFRs of a wide range of other public sector entities such as government ministries, departments, programs, boards, commissions, agencies, public sector social security funds, trusts, and statutory authorities and international governmental organizations.

3.4 Objectives and users of general purpose financial reporting

The IPSASB defines the objective of financial reporting by public sector entities as “to provide information about the entity that is useful to users of general purpose financial reports for accountability purposes and for decision-making purposes.” Therefore, the IPSASB determined the objectives of financial reporting by reference to the users of GPFRs and their information needs. In accordance with this broad user focus, the IPSASB decided to refer to GPFRs, which will address a broader scope of financial reporting than just GPFSs. Like the IASB, the IPSASB underlines the importance of providing information for decision-making purposes. However, the IPSASB also identifies the need to provide information for accountability purposes. The IASB looks at stewardship as an aspect of decision-making.

Concerning the importance of accountability as a distinguishing feature of the IPSASB’s Framework, some respondents to the IPSASB’s public consultation on the Framework even advocated that accountability should be identified as the single or dominant objective of financial reporting by public sector entities.

With regard to the users of financial reports, the IPSASB states that “the GPFRs of public sector entities are developed primarily to respond to the information needs of service recipients and resource providers who do not possess the authority to require a public sector entity to disclose the information they need for accountability and decision-making purposes.” (see Conceptual Framework 2014 para 2.4). As citizens receive services from, and provide resources to, the government and other public

sector entities, they are defined as **primary users of GPFRs**. The IPSASB also acknowledges the legislature (or a similar body) and members of parliaments (or a similar body) as primary users of GPFRs, in their capacity as representatives of the interests of service recipients and resource providers. Although users such as analysts, media, financial advisors, public interest and lobby groups are subgroups of service recipients and resource providers, they are not considered as primary users of GPFRs (so-called "**other users**").

In contrast to the private sector, where the profit or returns motive is predominant, "the primary function of governments and other public sector entities is to provide services ... that enhance or maintain the well-being of citizens and other eligible residents." The public sector is characterized by services that are provided as a result of non-exchange transactions in a non-competitive environment. As a consequence, "governments and other public sector entities are accountable to those who provide them with resources and to those that depend on them to use those resources to deliver services during the reporting period and over the long-term." According to the IPSASB, the discharge of accountability obligations requires:

- ▶ The provision of information about the entity's management of resources entrusted to it for the delivery of services to constituents and others, and its compliance with legislation, regulation, or other authority that governs its service delivery and other operations;
- ▶ The provision of information about such matters as the entity's service delivery achievements during the reporting period, and its capacity to continue to provide services in future periods.

In the Basis for Conclusion, the IPSASB clarifies that monitoring the implementation of the approved budget represents the primary method by which the legislative exercises oversight, and citizens and their elected representatives hold the government's management financially accountable.

3.5 Qualitative characteristics

The IPSASB refers in its definition of qualitative characteristics (QCs) to GPFRs, the wider scope of financial reporting. Therefore, the QCs apply to all financial and non-financial information reported in GPFRs, including historical and prospective information, and explanatory information. According to the IPSASB, QCs are "the attributes that make information in GPFRs useful to users and support the achievement of the objectives of financial reporting." The IPSASB's approach to QCs is directly linked to the objectives of financial reporting.

Like the IASB, the IPSASB defines: (1) relevance, (2) faithful representation, (3) understandability, (4) timeliness, (5) comparability, and (6) verifiability as the QCs of information. However, while the IASB distinguishes **fundamental QCs** (which are relevance and faithful representation) and **enhancing QCs** (which are

understandability, timeliness, comparability and verifiability), the IPSASB did not implement such a hierarchy for its QCs.

Pervasive **constraints on information** included in GPFs are identified by the Framework as materiality, cost-benefit, and achieving an appropriate balance between the QCs. Information is considered to be material if its omission or misstatement could influence the discharge of accountability by the entity, or the decisions that users make on the basis of the entity's GPFs prepared for that reporting period. As financial reporting imposes costs, application of the cost-benefit constraint involves assessing whether the benefits of reporting information are likely to justify the costs incurred to provide and use the information. Finally, the QCs work together to contribute to the usefulness of information. The Framework provides the example that neither a depiction that faithfully represents an irrelevant phenomenon, nor a depiction that unfaithfully represents a relevant phenomenon, results in useful information. The aim would be to achieve an appropriate balance among the characteristics in order to meet the objectives of financial reporting.

3.6 Reporting entity

The IPSASB defines a public sector reporting entity as “a government or other public sector organization, program or identifiable area of activity that prepares GPFs.” Furthermore, the IPSASB's Framework also clarifies that a reporting entity does not have to have a legal identity.

The Framework does not specify which public sector entities should be identified as a reporting entity or a group reporting entity. The IPSASB derives the concept of the reporting entity from the objectives of financial reporting.

A public sector reporting entity may not consist of just one separate entity, but of two or more separate entities that present GPFs as if they are a single entity (group reporting entity). The IPSASB defines the key characteristics of a reporting entity, which could also be a group reporting entity, as follows:

- ▶ An entity that raises resources from, or on behalf of, constituents and/or uses resources to undertake activities for the benefit of, or on behalf of, those constituents;
- ▶ There are service recipients or resource providers that are dependent on GPFs of the entity for information for accountability or decision-making purposes.

The IPSASB does not provide guidance on the circumstances under which an entity is required to prepare and present consolidated financial statements. Instead, the IPSASB states that criteria for inclusion in a group reporting entity would be developed and fully explored at the level of the standards.

3.7 Elements in the financial statements

Chapter 5 of the Framework defines the elements used in financial statements and provides further explanations of the definitions. Chapter 6 defines recognition and provides the criteria for an element to be recognized in GPFS.

According to the Framework, elements serve to group the financial effects of transactions and other events into broad classes that share common economic characteristics. The IPSASB talks about building blocks that are used to create financial statements. The elements are used to record, classify and aggregate economic data and activity. They structure the data in a way that provides users with information that achieves the objectives and meets the qualitative characteristics of financial reporting.

The Board has defined six elements, as follows:

- ▶ Assets;
- ▶ Liabilities;
- ▶ Revenue;
- ▶ Expense;
- ▶ Ownership contributions;
- ▶ Ownership distributions.

An **asset** is defined as a “resource presently controlled by the entity as a result of a past event.” In this context, a resource is an item with service potential or the ability to generate economic benefits. “Service potential” is a concept that is specific to the public sector, and refers to the capacity to provide services that contribute to achieving the entity’s objectives. Service potential enables an entity to achieve its objectives without necessarily generating net cash inflows. Assets in the public sector that have service potential may include recreational, heritage, community, defense and other assets which are held by governments and other public sector entities and are used to provide services to constituents. The use and disposal of such assets may be restricted as many assets that have service potential are specialized in nature. The service potential or ability to generate economic benefits can arise directly from the resource itself or from the rights to use the resource.

A **liability** is defined as “a present obligation of the entity for an outflow of resources that results from a past event.” A present obligation may or may not be legally binding, and arises where an entity has little or no option to avoid an outflow of resources. A liability must have an outflow of resources from the entity for it to be settled. The Framework also clarifies that the obligation must be to an external party, otherwise it may not be considered a liability. For a liability to exist, it is not, however, essential to know the identity of the external party before the time of settlement. The counterparty might even be an undefined group of individuals. An entity cannot be obligated to itself, even where it has publicly announced an intention to behave in a certain way. The Framework states that for the implementation of a program or a service, an obligation

may be created by making a political promise (e.g., an electoral pledge), the announcement of a policy, or the introduction of a budget for a social policy program in parliament. In such contexts, the Framework clarifies that the early stages of implementation of such programs or services are unlikely to give rise to present obligations that meet the definition of a liability. However, in the later stages, e.g., when claimants meet the eligibility criteria for the service to be provided, this may give rise to obligations that meet the definition of a liability. The Framework indicates that entities need to consider the nature of the obligation in order to determine the point in time when an obligation gives rise to a liability. For example, the introduction or approval of a budget may lead to the identification of an obligation.

Another factor to consider when determining whether an economic phenomenon is a liability is whether the present obligation arises as a result of a past transaction or other obligating event, and whether it implies an outflow of resources from the entity. From a financial reporting perspective, it is essential to assess whether such commitments and obligations (including non-legally binding obligations) are present obligations and if they satisfy the definition of a liability.

Revenue and **expenses** are defined symmetrically. Revenue (expenses) is defined as “increases (decreases) in the net financial position of the entity, other than increases (decreases) arising from ownership contributions.” Revenue and expenses may arise from a wide range of transactions, such as exchange or non-exchange transactions, depreciation and erosion of service potential and ability to generate economic benefits through impairments. Revenue and expenses may arise from individual transactions or groups of transactions.

Surplus and **deficit** for the period are not defined as elements in the Framework. An entity's surplus or deficit for the period is defined as the difference between revenue and expenses presented in the statement of financial performance.

Ownership contributions (distributions) are defined as inflows (outflows) of resources to (from) an entity, contributed by (distributed to) external parties in their capacity as owners, which establish (return) or increase (reduce) an interest in the net financial position of the entity.

The Framework highlights that inflows of resources from owners (including inflows that initially established the ownership interest), and outflows of resources to owners in their capacity as owners need to be distinguished from revenue and expenses. For example, transactions where an entity transfers assets and liabilities to another public sector entity may fall into the definitions of ownership contributions or ownership distributions.

After an intensive debate during the review of responses to the CP and the ED, *Elements and Recognition in Financial Statements*, the Board concluded that deferred inflows and deferred outflows should not be recognized as separate elements. However, the Board accepted the view that certain economic phenomena which do

not meet the definition of the six elements may need to be recognized in the financial statements in order to meet the objectives of financial reporting. Such an approach acknowledges that there may be circumstances under which the six defined elements do not provide all of the information in the financial statements to meet the needs of users. Having accepted that, the Board decided that circumstances under which 'other resources' and 'other obligations' may be recognized will be determined at the level of the standards, and not in the Framework. The Board uses the overarching term 'other economic phenomena' in the introduction to Chapter 5 to describe such circumstances.

During the Board's discussion of the Framework, it decided that the concept of net assets is generally understood in accounting. Furthermore, the term only encompasses assets and liabilities (and not other economic phenomena). Therefore, the **net financial position** is considered to be a residual measure, defined as the difference between assets and liabilities after adding 'other resources' and deducting 'other obligations' recognized in the statement of financial position. As such, net financial position is not defined as an element. The Framework also states that the net financial position can be positive or negative.

3.8 Recognition in financial statements

In Chapter 6: Recognition in financial statements, the Framework defines recognition as the process of incorporating and including, in amounts displayed on the face of the appropriate financial statement, an item that meets the definition of an element and can be measured in a way that achieves the QCs.

While working on the Framework, the Board considered whether recognition criteria for elements should be integrated in the definitions of the elements. The Board was of the view that recognition should be a distinct stage in the financial reporting process and considered separately from the definitions of elements. Chapter 6 identifies the criteria for an element to be recognized in financial statements. The recognition criteria are:

- ▶ The item needs to meet the definition of an element;
- ▶ The item can be measured in a way that achieves the QCs.

When the item fulfills the recognition criteria, it must be recognized in the financial statements. As discussed above, in some circumstances an IPSAS may also specify that, in order to achieve the objectives of financial reporting, other resources or other obligations have to be recognized in the financial statements (even if they do not meet the definition of an element), provided that they can be measured in a way that meets the QCs. Recognition includes an assessment of uncertainty related to the existence as well as to the measurement of the element. The Framework underlines that, for an item to be recognized in the financial statements, it is necessary to attach a monetary value to the item. Given the fact that there may be uncertainty associated with the

measurement of amounts presented in the financial statements, the use of estimates becomes necessary. As the conditions that lead to uncertainty can change, recognition uncertainties need to be assessed at each reporting date.

3.9 Measurement of assets and liabilities in financial statements

When a public sector entity determines that a transaction, event or economic phenomenon must be recognized, the next step in the process is to assign a monetary value to the item for the financial statements. This entails choosing an appropriate measurement basis and ensuring that the measurement is sufficiently relevant and faithfully representative of the item. At the same time, an entity could face constraints from lack of information and other factors resulting in uncertainties associated with measurement of amounts to be presented in the financial statements. The objective of measurement, as set out in the Framework, is to identify concepts that will guide the IPSASB and preparers in selecting "those measurement bases that most fairly reflect the cost of services, operational capacity and financial capacity of the entity in a manner that is useful in holding the entity to account, and for decision-making purposes."

The Framework clarifies that, at a conceptual level, it is not possible to identify a single measurement basis that best meets the measurement objective for all types of assets and liabilities. Therefore, the Framework does not propose a single measurement basis (or combination of bases).

Measurement bases may result in either entry or exit values. For assets, entry values reflect the cost of acquisition. Historical cost and replacement cost are examples of entry values. Exit values reflect the economic benefits from sale or from use of the asset. Liabilities may also be classified in terms of whether they are entry or exit values. Entry values relate to the transaction under which an obligation is received or the amount received that an entity would accept to assume a liability. Exit values reflect the amount required to fulfill an obligation or the amount required to release the entity from an obligation.

Measurement bases that are entity-specific reflect the economic and current policy constraints that affect the possible uses of an asset and the settlement of a liability by a specific entity. Economic opportunities that are not available to other entities and risks that are not experienced by other entities may be reflected in entity-specific measures. Non-entity specific measures reflect general market opportunities and risks. The Framework clarifies that the decision on whether to use an entity-specific or non-entity specific measure is taken by reference to the measurement objective and the qualitative characteristics.

Certain measures may be classified according to whether they are observable in an open, active and orderly market. Measures that are observable in a market are likely

to be more understandable and verifiable than measures that are not observable. They may also be more faithfully representative of the phenomena they are measuring.

The Framework clarifies that, where cash flows will not take place for an extended period, the asset or liability needs to be discounted to reflect its value at the reporting date.

The Framework defines the following types of measurement bases for assets:

Historical cost

The concept of historical cost is not new. However, the Framework clarifies that, for public sector entities for which historical cost is used, "the cost of services reflects the amount of resources expended to acquire or develop assets consumed in the provision of services."

For assets acquired in an exchange transaction, historical cost provides information about the resources available to the acquirer to provide services in the future. It is a reasonable assumption that the value of the asset's service potential to the entity is at least equivalent to the cost of acquisition.

For assets acquired in a non-exchange transaction, market values may be better able to provide information about the resources available to the acquirer to provide services in the future than depreciated cost.

Current value measurements – market value, replacement cost, net selling price and value in use

The Board clarifies in this section of the Framework that current value measurements reflect the economic environment prevailing at the reporting date. The Board intentionally does not use the term "fair value" as this is defined by the IASB as an exit value (net selling price) in IFRS 13. It was the Board's view that, given the predominant objective of providing services, selling assets is not among the main classes of transactions within the public sector.

Market value

The use of market values permits a return on assets to be determined. However, public sector entities do not generally carry out activities with the primary objective of generating profits, and services are often provided in non-exchange transactions or on subsidized terms. Consequently, there may be limited relevance in market prices, except for financial assets such as commodities, currencies and securities where prices are publicly available.

Replacement cost (or optimized depreciated replacement cost)

The Framework states that this is the cost of replacing an asset's service potential, which differs from reproduction cost, which is the cost of acquiring an identical asset. Although, in many cases, the most economically-relevant replacement of the service

potential will be by purchasing an asset that is similar to that which is controlled, replacement cost is based on an alternative asset if that alternative would provide the same service potential but more cheaply. For financial reporting purposes, it is therefore necessary to reflect the difference in service potential between the existing and the replacement asset.

The appropriate service potential is that which the entity is capable of using or expects to use, having regard to the need to hold sufficient service capacity to deal with contingencies. Therefore, the replacement cost of an asset reflects reductions in required service capacity. For example, if an entity owns a school that accommodates 500 pupils but, because of demographic changes since its construction, a school for 100 pupils would be adequate for current and reasonably foreseeable requirements, the replacement cost of the asset is that of a school for 100 pupils.

In principle, replacement cost provides a useful measure of the resources available to provide services in future periods, as it is focused on the current value of assets and their service potential to the entity.

Net selling price

Net selling price is defined as "the amount that the entity can obtain from sale of the asset, after deducting the costs of sale."

The net selling price differs from the market value as it does not require an open, active and orderly market or the estimation of a price in such a market, and it includes the entity's costs of sale. It is therefore entity-specific and reflects constraints on sale. The potential usefulness of measuring assets at net selling price is that an asset cannot be worth less to the entity than the amount the entity could obtain on its sale. However, it is not appropriate as a measurement basis if the entity is able to use its resources more efficiently by employing the asset in another way, for example by using it in the delivery of services.

Value in use

This is defined as "the present value to the entity of the asset's remaining service potential or ability to generate economic benefits if it continues to be used, and of the net amount that the entity will receive from its disposal at the end of its useful life."

Value in use is an entity-specific value that reflects the amount that can be derived from an asset through its operation and its disposal at the end of its useful life. The value that will be derived from an asset is often greater than its replacement cost – it is also usually greater than its historical cost. Where this is the case, reporting an asset at its value in use is of limited usefulness as, by definition, the entity is able to secure equivalent service potential at replacement cost. Value in use is also not an appropriate measurement basis when the net selling price is greater than the value in use as, in this case, the most resource-efficient use of the asset is to sell it, rather than continue to use it.

Therefore, value in use is an appropriate measurement base where it is less than the replacement cost but greater than the net selling price. This means that an asset is not worth replacing, but the value of its service potential or ability to generate economic benefits is greater than its net selling price. Under such circumstances, value in use represents the value of the asset to the entity. Value in use is an appropriate measurement basis for the assessment of certain impairments, because it is used in the determination of the recoverable amount for an asset or group of assets.

In the public sector, most assets are held with the primary objective of contributing to the provision of services, rather than to the generation of a commercial return. Such assets are referred to as “non-cash-generating assets.” Because value in use for cash-generating assets is usually derived from expected cash flows, using the concept in such a context can be difficult. It may be inappropriate to calculate value in use on the basis of expected cash flows, because such a measure would not be faithfully representative of the value in use of such an asset to the entity. Therefore, it would be necessary to use replacement cost as a surrogate for financial reporting purposes.

Table 14 summarizes the different types of measurement bases for assets:

Measurement Basis	Entry or exit	Observable or unobservable in a market	Entity or non-entity specific	Common examples
Historical cost	Entry	Generally observable	Entity-specific	Office furniture and equipment, intangible assets*
Market value in open, active and orderly market	Entry and exit	Observable	Non-entity specific	Investments such as equity securities
Market value in inactive market	Exit	Dependent on valuation technique	Dependent on valuation technique	Financial instruments e.g., embedded derivatives
Replacement cost	Entry	Observable	Entity-specific	Infrastructure assets, e.g., railway tracks and sewage systems. Inventories distributed at no cost

Net selling price	Exit	Observable	Entity-specific	Inventories
Value in use**	Exit	Unobservable	Entity-specific	Infrastructure assets, e.g., sports stadiums. Assessing impairment of assets

* Depending on the accounting policy adopted, IPSAS 17 Property, Plant and Equipment and IPSAS 31 Intangible Assets allow an entity to choose between the cost or revaluation model

** For non-cash-generating assets the calculation of value in use may require the use of replacement cost as a surrogate.

Table 14: Different types of measurement bases for assets

The Framework defines the following types of *measurement bases for liabilities*:

Historical cost

The advantages and drawbacks of using the historical cost basis for liabilities are similar to those that apply to assets. Historical cost is appropriate where liabilities are likely to be settled at stated terms, i.e., it will be inappropriate for long-term liabilities. However, historical cost cannot be applied for liabilities that do not arise from a transaction, such as a liability to pay damages for a tort or civil damages. It is also unlikely to provide relevant information where the liability has been incurred in a non-exchange transaction, because it does not provide a faithful representation of the claims against the resources of the entity. Moreover, it is difficult to apply historical cost to liabilities that may vary in amount, such as those related to defined benefit pension liabilities.

Cost of fulfillment

This is "the costs that the entity will incur in fulfilling the obligations represented by the liability, assuming that it does so in the least costly manner."

Where fulfillment requires work to be done, for example, where the liability is to rectify environmental damage — the relevant costs are those that the entity will incur. This may be the cost to the entity of doing the remedial work itself, or the cost of contracting with an external party to carry out the work. However, the costs of contracting with an external party are only relevant when employing a contractor is the least costly means of fulfilling the obligation.

Where fulfillment will be made by the entity itself, the fulfillment cost does not include any surplus, because any such surplus does not represent a use of the entity's resources. Where the fulfillment amount is based on the cost of employing a contractor, the amount will implicitly include the profit required by the contractor, as

the total amount charged by the contractor will be a claim on the entity's resources. This is consistent with the approach for assets, where replacement cost would include the profit required by a supplier, but no profit would be included in the replacement cost for assets that the entity would replace through self-construction.

Cost of fulfillment is generally relevant for measuring liabilities. An exception may be where the entity can release itself from an obligation at a lower amount than cost of fulfillment. In this case, the cost of release is a more relevant measure of the current burden of a liability, just as, for an asset, the net selling price is more relevant when it is higher than the value in use.

In the case of liabilities assumed for a consideration, the assumption price is more relevant when it is higher than both cost of fulfillment and cost of release.

Market value

The advantages and disadvantages of market value for liabilities are the same as those for assets. Such a measurement basis may be appropriate, for example, where the liability is attributable to changes in a specified rate, price or index quoted in an open, active and orderly market. However, where the ability to transfer a liability is restricted and the terms on which such a transfer might be made are unclear, the case for market values (even if they exist) is significantly weaker. This is particularly true for liabilities arising from obligations in non-exchange transactions, because it is unlikely that there will be an open, active and orderly market for such liabilities.

Cost of release

"Cost of release" is used in the context of liabilities to refer to the same concept as "net selling price" in the context of assets. Cost of release refers to the amount of an immediate exit from the obligation. Cost of release is the amount that the creditor will accept in settlement of its claim, or that a third party would charge to accept the transfer of the liability from the obligor. Where there is more than one way of securing release from the liability, the cost of release is the lowest amount.

In some cases, there may be evidence of the price at which a liability may be transferred, such as in the case of some pension liabilities. Transferring a liability may be distinguished from entering into an agreement with another party that will fulfill the entity's obligation or bear all the costs stemming from a liability. For a liability to be transferred, it is necessary that all of the creditor's claims against the entity are extinguished. If this is not the case, then the liability remains a liability of the entity.

Assumption price

"Assumption price" is the term used in the context of liabilities to refer to the same concept as replacement cost for assets. Just as replacement cost represents the amount that an entity would rationally pay to acquire an asset, so assumption price is

the amount which the entity would rationally be willing to accept in exchange for assuming an existing liability. Exchange transactions carried out on arms-length terms will provide evidence of the assumption price, but this is not the case for non-exchange transactions.

In the context of an activity that is carried out with a view to profit, an entity will assume a liability only if the amount that it is paid to assume the liability is greater than the cost of fulfillment or release, i.e., the settlement amount. A consequence of stating performance obligations at the assumption price is that no surplus is reported at the time the obligation is assumed. A surplus or deficit is reported in the financial statements in the period when fulfillment (or release) takes place, as it is the difference between the revenue arising from satisfaction of the liability and the cost of settlement.

An entity may have a potential obligation that is larger than the assumption price. If the entity has to seek release from a contract, the other party to the contract may be able to claim compensation for losses that it will sustain, as well as the return of any amounts paid. However, provided that the entity can settle the obligation by fulfillment, it can avoid such additional obligations and it is representationally faithful to report the obligation at no more than the assumption price. This is analogous with the situation in which an asset will yield greater benefits than its replacement cost.

Table 15 summarizes the different types of measurement bases for liabilities:

Measurement Basis	Entry or exit	Observable or unobservable in a market	Entity or non-entity specific	Common examples
Historical cost	Entry	Generally observable	Entity-specific	Trade payables
Cost of fulfillment	Exit	Unobservable	Entity-specific	Rehabilitation costs
Market value in open, active and orderly market	Entry and exit	Observable	Non-entity specific	Derivative instruments
Market value in inactive market	Exit	Dependent on valuation technique	Dependent on valuation technique	Financial instruments, e.g., embedded derivatives
Cost of release	Exit	Observable	Entity-specific	Settlement of claims

Assumption price	Entry	Observable	Entity-specific	Financial guarantees
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Table 15: Different types of measurement bases for liabilities

3.10 Presentation in GPFs

Chapter 8 *Presentation of Information in General Purpose Financial Reports* of the Framework describes the concepts applicable to presentation in GPFs, including financial statements and additional information that enhances, complements and supplements the financial statements. With increasing emphasis on, and demand from constituents for, accountability of governments and public sector entities, information such as service performance reports and long-term fiscal sustainability reports will become increasingly important. Therefore, the guidelines that the presentation framework provides will help preparers in organizing information that would be useful to users.

Presentation is defined in the Framework as “the selection, location and organization of information that is reported in the GPFs.” Chapter 8 focuses on the comprehensive scope of financial reporting, but describes the concepts applicable to financial statements in greater detail. These decisions may result in the development of a new report, the movement of information between reports, the amalgamation of reports, or detailed decisions on information selection, location and organization related to information within a report.

Presentation can be considered as the final phase in the financial reporting process. The aim of presentation decisions is to provide information that supports the objectives and meets the qualitative characteristics of financial reporting. Decisions about information selection, location and organization are interlinked and are likely to be considered together.

Presentation in GPFs describes the concepts that are applicable to both financial statements and additional information that enhances, complements and supplements the financial statements. As such, Chapter 8 does not specify a list of factors that should be included in a financial statement or the notes.

The selection of information should reflect what information is reported: (a) in the financial statements; and (b) in GPFs outside the financial statements.

Users need information about the financial position, financial performance and cash flows of an entity. The information derived from the financial statements will enable users to identify the resources and claims on an entity and make informed assessments about the efficiency and effectiveness of an entity’s service delivery as well as its financial performance, liquidity and solvency.

In GPFRs, information is selected for *display* or *disclosure*. Information selected for display communicates the key messages in a GPFR. It should be concise and easy to understand so that users can focus on the key messages presented and not be distracted by too much detail. Displayed information is presented prominently, using techniques such as labelling, borders, tables or graphs to enhance its presentation. In GPFSs, information is displayed on the face of the statements as defined by IPSAS 1.

Disclosed information enhances the usefulness of displayed information by providing details that will help users to understand it better, including (a) the basis for the displayed information, such as applicable policies or methodology, (b) disaggregations of displayed information, and (c) items that share many, but not all, of the aspects of displayed information.

Information disclosed in the notes to the financial statements is considered necessary to a user's understanding of the financial statements. Notes disclosures generally have a clearly demonstrable relationship to the information displayed on the face of financial statements.

For information that needs to be displayed or disclosed, the Framework recommends that the following considerations be made:

- ▶ The objectives of the financial reporting;
- ▶ The qualitative characteristics and constraints on information included in GPFRs;
- ▶ The relevant economic, or other phenomena, for which information may be necessary.

Decisions about information selection involve information prioritization and summarization. In addition, the benefit to users of receiving the information is needed to justify the cost to entities of collecting and presenting that information. Information needs to be presented on a timely basis to enable users to hold management accountable and to inform users' decisions.

Information location

Information location decisions focus on the allocation of information between different reports and on locating information within a report. The location of information is essential as it has an impact on the achievement of the objectives of financial reporting. Location decisions can affect users' interpretation of information as well as its comparability. Location can convey the relative importance of information, the nature of the information, and link different items of information, or distinguish between information selected for display and for disclosure.

The Framework defines the following factors for allocating information between different reports:

- ▶ Nature of the information;
- ▶ Jurisdiction-specific factors;
- ▶ Linkages between information.

As described above, the Framework states that displayed information should be presented prominently in a report. This ensures that displayed information is not obscured by more detailed and extensive disclosed information. The location of information in the financial statements (GPFSSs) is intended to communicate a comprehensive financial picture of an entity. Displayed information is shown on the face of the respective statement and disclosed information is shown in the notes. Detailed information about an entity's financial position, financial performance and cash flows is provided through notes disclosures. For other GPFRs excluding GPFSSs, displayed information may either be located separately from disclosed information or located in the same area, but it should be distinguished from disclosed information by the style of its presentation.

Information organization

Information organization addresses the arrangement, grouping and ordering of information, which includes decisions about: (a) how information is arranged within a GPFR; and (b) the overall structure of a GPFR. Therefore, a range of decisions such as the use of cross-referencing, tables, graphs or item order is involved. The Framework states that the organization of information can affect users' interpretation.

Furthermore, information organization takes into account important relationships between information and whether it is for display or disclosure. Important relationships include, but are not restricted to: (a) enhancement; (b) similarity; and (c) shared purpose. Relationships may exist between information in different GPFRs, components within a GPFR, and parts of a single component.

Information organization mainly supports the achievement of the objectives of financial reporting and helps reported information meet the qualitative characteristics.

Information organization within the financial statements includes decisions about:

- ▶ The type and number of statements;
- ▶ Disaggregation of totals into meaningful subcategories;
- ▶ Ordering and grouping of items displayed within each statement;
- ▶ Identification of aggregates (additive and subtractive);
- ▶ Identification of other information.

Information disclosed in the notes to the financial statements is organized so that relationships to items reported on the face of the financial statements are clear.