Current status of standard-setting of International Public Sector Accounting Standards (IPSAS) and priority areas for further development

Presented by

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IPSAS and Accrual Accounting: A Fly in the Ointment?

Ian Ball
Chairman, CIPFA International

Geneva, November 2015
Accrual accounting, financial management and fiscal policy formation

The New Zealand case

“There is nothing so practical as a good theory”

Kurt Lewin

The Greek case

“As a result of these implicit restructurings the headline debt burden of 180% of GDP in 2015 vastly overstates the effective debt burden.”

Paul de Grauwe,
Professor of International Economics,
London School of Economics
The NZ experience: Where did it start?

If the Government wishes to have a public sector capable of producing high quality advice, and managing its own affairs on a basis comparable with private sector efficiency, major changes in the nature of administration are essential. Some fundamental changes to the systems of financial management, performance assessment and pay fixing are imperative.

Key reform concepts:

- “Performance”
- Accountability
- Integrated management system
Accountability Framework

MINISTER

PERFORMANCE
SPECIFICATION

DECISION
AUTHORITY

INCENTIVES
ON BEHAVIOR

PERFORMANCE
INFORMATION

CHIEF EXECUTIVE
Integrated Management System
Performance defined

- “Owner” / “purchaser” distinction
- Inputs / outputs / outcomes
- “Crown” / department distinction
“Ownership”

- Objectives and scope of business
- Strategy – especially products/outputs
- Financial performance
- Capital maintenance, including financial capital
- Risks
The “Purchase” Framework

**INPUTS**

Direct costs
- Personnel
- Travel
- Stores

Indirect costs
- Overheads

**OUTPUTS**

Driver training
Road traffic research
Vehicle inspections

**OUTCOMES**

- Reduction in road deaths
- Speed of transport
- Pollution
“Ownership” and “Purchase”

- Measured quite differently
  - Financial statements key to ownership performance
  - Service performance statements for purchase performance
- May be traded off against one another
- Purchase performance normally has greater political significance
- Need accrual accounting to measure both
New Zealand Named Third World's Most Prosperous Nation Ahead of Australia, UK, US

By Reissa Su | November 3, 2014 7:07 PM EST

Despite facing the challenges of location, small domestic market and productivity, New Zealand continues to improve as a result of the government’s commitment to sound financial management.
Compatible with social progress…

New Zealand scored high in the Social Progress Index for personal rights and freedom, internet access and school enrolment. Photograph: NZ Tourism board
Operating Balance ($m) 1994 - 2015
Government Net Worth ($m) 1994 - 2015
What success really means to New Zealand...
Fiscal Policy and Financial Statements

A balance-sheet approach to fiscal policy

By: Kemal Dervis

Current fiscal-policy debates should not focus on simplistic headline numbers. To strengthen public accounts, both conservatives and progressives should start promoting a long-term balance-sheet-oriented approach to policymaking, ensuring that the debates are based on relevant data. Otherwise, the wrong policies – and, with them, anemic GDP growth and sluggish job creation – will continue to prevail.
The objective of accrual accounting for government financial reports in China is to provide reliable underlying government financial information for the achievement of sustainable development of public finance...

Ministry of Finance, The People’s Republic of China
Bailout Fund Boss Says Current Greek Debt Analysis ‘Meaningless’

I hear there’s a broad debate out there on debt reduction. I’m not convinced that this is necessary. One should remember that the official sector is providing financing to Greece on a very long-term basis: the average maturity of the second program is 30 years. Interest rates are extremely low because they are our funding costs plus a few basis points added, and when you calculate that in net present value terms, that’s the equivalent of a huge haircut. From the Greek perspective there’s a huge grant element in the financing we provide without any budgetary cost for our member states, of course. And it comes from long maturities, low interest rates and the fact that even some of the interest rates are deferred—we have deferral on interest payment for ten years as part of the second program. When you add all of that up it’s a huge grant element. And that’s economically the equivalent of a haircut. I think people have to do their homework and look at it that way. That can go a long way.
Greece’s debt pile: is it really unsustainable?

Ferdinando Giugliano, Economics Correspondent | January 25, 2015

Whatever government emerges after Greece’s parliamentary election, Athens will soon lock horns with its international creditors over its mountain of public debt, which stands at about 175 per cent of gross domestic product.

Eurozone governments have already made commitments to further debt relief for Athens, as long as it sticks to reform and austerity. Alexis Tsipras, leader of the leftwing, anti-austerity Syriza, wants to go much further and cut Greece’s debt pile by a third, arguing that the burden is “unsustainable”.

But is it?

Other eurozone governments, who hold directly or via the European Financial Stability Facility, approximately two-thirds of Athens’ €317bn liabilities, are more sceptical. They argue that Greece has already benefited from two rounds of relief that have significantly cut the burden of the debt.

The terms on Greece’s debt pile have become progressively more manageable. The maturity on the bilateral loans provided by eurozone member states in May 2010 has been extended to 2041 and the interest rate cut from between 300 and 400 basis points over the three-month Euribor rate, to just 50.
Greece's creditors publish stark debt analysis as Syriza faces bail-out rebellion

Lenders voice 'serious concerns' about Greece's huge debt mountain, which is projected to only get back to a sustainable level in 2030

New analysis prepared by the country's European lenders projected that Greece's debt share would rise to 201pc of gross domestic product (GDP) next year

By Szu Ping Chan

5:27PM BST 13 Aug 2015
Good accounting is good economics…

Accounting

Accrual basis means a basis of accounting under which transactions and other events are recognized when they occur (and not only when cash or its equivalent is received or paid). Therefore, the transactions and events are recorded in the accounting records and recognized in the financial statements of the periods to which they relate. The elements recognized under accrual accounting are assets, liabilities, net assets/equity, revenue, and expenses.  

(IPSAS 1)

National Income Statistics

1.101 Flows shall be recorded on an accrual basis; that is, when economic value is created, transformed or extinguished, or when claims and obligations arise, are transformed or are cancelled. …

20.171 Accrual accounting records flows at the time economic value is created, transformed, exchanged, transferred or extinguished. It is different from cash recording …

1.85 Stocks are the holdings of assets and liabilities at a point in time. …

1.86 … Stocks are recorded for all assets within the system’s boundaries; that is, for financial assets and liabilities and for non-financial assets …

1.114 … Balance sheets present stocks of assets and liabilities and net worth.  (ESA 2010)
Similarities, differences and cooperation...

**Similarities:**
- Accrual basis
- Seek to reflect economic reality
- Substance over form

**Differences**
- Purpose?
  - Aggregate fiscal management
  - Accountability
- Due process
- Level of detail
- Focus on limiting
- Auditability
DEBT REORGANIZATION

by Richard Shepherd and Andrew Kitili
Statistics Department
International Monetary Fund

6. A basic principle in the statistical treatment of debt reorganizations is that any debt instrument, whose terms and conditions have been changed by agreement between the creditor and debtor, should be considered extinguished and a new debt instrument created reflecting the new terms and conditions. The difference between the value of the new instrument compared with the old instrument is recorded as a capital transfer, if agreed debt forgiveness is involved.
### Overview of Greece Government Debt (1 of 2)

*(Euros, Billions; as of 31 December 2013)*

<table>
<thead>
<tr>
<th></th>
<th>Maastricht</th>
<th>IPSAS/IFRS</th>
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<tbody>
<tr>
<td>Concessionary Loans</td>
<td>€ 212</td>
<td>€ 60</td>
</tr>
<tr>
<td>Rescheduled Securities</td>
<td>63</td>
<td>20</td>
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<tr>
<td>Non-Revalued Debt</td>
<td>44</td>
<td>44</td>
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<tr>
<td>Gross Debt</td>
<td>€ 319</td>
<td>€ 124</td>
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<tr>
<td>Financial Assets</td>
<td>NA</td>
<td>91</td>
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<tr>
<td>Net Debt</td>
<td>NA</td>
<td>€ 33</td>
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<tr>
<td>Percent of GDP</td>
<td>175%</td>
<td>18%</td>
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</tbody>
</table>

Source: EC AMECO Online and Eurostat databases. Net Debt calculated as Maastricht debt, adjusted according to IPSAS/IFRS which were required for concessionality and rescheduling, less all financial assets which excludes receivables.
### Sources of Differences in Debt Data

#### Debt Instrument Coverage

**Australia: Debt Instruments (in percent of GDP)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Securities Other than Shares</th>
<th>Loans</th>
<th>Selling Debt Instruments</th>
<th>Currency and Deposits</th>
<th>Special Drawing Rights (SDRs)</th>
<th>Other Accounts Payable</th>
<th>Insurance Technical Reserves</th>
<th>Total Debt (% of GDP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>7.1</td>
<td>4.2</td>
<td>4.2</td>
<td>8.3</td>
<td>8.9</td>
<td>5.3</td>
<td>3.8</td>
<td>17.1</td>
</tr>
<tr>
<td>2005</td>
<td>6.8</td>
<td>4.2</td>
<td>4.2</td>
<td>8.3</td>
<td>8.9</td>
<td>5.3</td>
<td>3.8</td>
<td>16.5</td>
</tr>
<tr>
<td>2006</td>
<td>6.0</td>
<td>3.7</td>
<td>3.7</td>
<td>8.4</td>
<td>8.9</td>
<td>5.3</td>
<td>3.8</td>
<td>17.4</td>
</tr>
<tr>
<td>2007</td>
<td>6.0</td>
<td>3.8</td>
<td>3.8</td>
<td>7.6</td>
<td>8.4</td>
<td>5.1</td>
<td>4.0</td>
<td>15.7</td>
</tr>
<tr>
<td>2008</td>
<td>5.1</td>
<td>4.0</td>
<td>4.0</td>
<td>8.3</td>
<td>8.4</td>
<td>5.1</td>
<td>4.0</td>
<td>15.0</td>
</tr>
<tr>
<td>2009</td>
<td>5.1</td>
<td>4.0</td>
<td>4.0</td>
<td>8.3</td>
<td>8.4</td>
<td>8.2</td>
<td>4.0</td>
<td>18.2</td>
</tr>
<tr>
<td>2010</td>
<td>5.1</td>
<td>4.0</td>
<td>4.0</td>
<td>8.3</td>
<td>8.4</td>
<td>6.6</td>
<td>4.0</td>
<td>19.6</td>
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<tr>
<td>2011</td>
<td>5.1</td>
<td>4.0</td>
<td>4.0</td>
<td>8.3</td>
<td>8.4</td>
<td>6.6</td>
<td>4.0</td>
<td>18.5</td>
</tr>
<tr>
<td>2012</td>
<td>5.1</td>
<td>4.0</td>
<td>4.0</td>
<td>8.3</td>
<td>8.4</td>
<td>7.4</td>
<td>4.0</td>
<td>26.5</td>
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</tbody>
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**Note:** Magnitude of Pension Liabilities

Source = Government Finance Statistics Yearbook (GFSY)
The “silly fixation” with debt…

May 28, 2015 4:24 pm

Tories wrong to buy votes with housing

“Only a silly fixation with public debt rather than the public sector’s balance sheet masks the scale of the transfers.”
Financial Position – a two country comparison

<table>
<thead>
<tr>
<th></th>
<th>UK</th>
<th>NZ</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt</td>
<td>65</td>
<td>46</td>
</tr>
<tr>
<td>Total Assets</td>
<td>80</td>
<td>112</td>
</tr>
<tr>
<td>Liabilities</td>
<td>191</td>
<td>78</td>
</tr>
<tr>
<td>Net Worth</td>
<td>-111</td>
<td>34</td>
</tr>
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</table>
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