Agenda item 4. Review of current developments in international standards of accounting and reporting in the public and private sectors

Presented by

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International Public Sector Accounting Standards Board

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IPSASB Update 2019

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Assistant Commissioner
Government Accountancy Sector
Commission on Audit
Republic of the Philippines

UNCTAD-ISAR 36th Session
Geneva
1st November 2019
In 2018 25% of governments reported on accrual......

Source: IFAC / CIPFA
International Public Sector Financial Accountability Index
Data from 150 countries
......within 5 years 65% will report on accrual

Source: IFAC / CIPFA
International Public Sector
Financial Accountability Index
Data from 150 countries
Changes will increase IPSAS usage and influence:
Raising IPSASB’s profile and stakeholder expectations

2018 – 37 governments

- International Public Sector Accounting Standards (IPSASs) adopted directly: 16
- IPSASs adopted indirectly via national standards: 5
- National standards using IPSAS as a reference point: 9
- National standards based on IFRSs: 2
- Other national financial reporting standards: 2

2023 – 98 governments

- International Public Sector Accounting Standards (IPSASs) adopted directly: 31
- IPSASs adopted indirectly via national standards: 24
- National standards using IPSAS as a reference point: 27
- National standards based on IFRSs: 14
- Other national financial reporting standards: 2

4 Regional Roundtables

<table>
<thead>
<tr>
<th>Region</th>
<th>Location</th>
<th>Partner(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Latin-America</td>
<td>Brasilia, Brazil</td>
<td>Federal Accounting Council, National Treasury, Brazilian Accounting Foundation</td>
</tr>
<tr>
<td>Europe</td>
<td>Brussels, Belgium</td>
<td>Accountancy Europe</td>
</tr>
<tr>
<td>Asia</td>
<td>Manila, Philippines</td>
<td>Asian Development Bank</td>
</tr>
<tr>
<td>Africa</td>
<td>Addis Ababa</td>
<td>African Union</td>
</tr>
</tbody>
</table>

In total...
- Attendees: 384
- Organizations: 300+
- Countries: 108

4 Regional Roundtables
Strengthening Public Financial Management (PFM) globally through increasing adoption of accrual-based IPSAS.

This Strategic Objective will be delivered through two main areas of activity both of which have a public interest focus:

**Delivering Global Standards:**
Developing and maintaining IPSAS and other high-quality financial reporting guidance for the public sector.

**Inspiring Implementation:**
Raising awareness of IPSAS and the benefits of their adoption.

2019-2023 Strategy and Work Plan:
Delivering Global Standards. Inspiring Implementation.
2019-23 Strategy and Work Plan: Delivering Global Standards

Theme A: Setting standards on public sector specific issues

Theme B: Maintaining IFRS alignment

Theme C: Developing guidance to meet users’ broader financial reporting needs

Theme A
- Natural Resources
- Conceptual Framework – limited-scope review

Theme B
- Annual improvements
- Limited scope projects

Theme C
- Actively monitor developments
- No specific projects currently

Mid-period review 2021
2019-23 Strategy and Work Plan: Inspiring Implementation

Theme D and E

- Build relationship with and support actors in PFM landscape
- Raise awareness of IPSAS and benefits of their adoption
- Update of Study 14: Transition to the Accrual Basis of Accounting: Guidance for Public Sector Entities.

Mid-period review 2021
IPSASB Update
Strong progress during last year

### 3 Final Approvals
- 2019-23 Strategy and Work Plan
- IPSAS 42, *Social Benefits*
- plus ‘Improvements to IPSAS 2018’

### 3 Exposure Drafts
- Collective and Individual Services and Emergency Relief (ED 67)
- ‘Improvements to IPSAS 2019’ (ED 68)
- Public Sector Specific Financial Instruments (ED 69)

### Consultation Paper
- Measurement

....and considerable work on:
- Revenue
- Transfer Expenses
- Leases
# IPSASB Update

## Active projects

<table>
<thead>
<tr>
<th>Project</th>
<th>Public sector specific</th>
<th>IFRS alignment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>- IFRS 15 aligned (replacing IPSAS 9 &amp; 11)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- IPSAS 23 update</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-Exchange Expenses</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>- Transfer Expenses</td>
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<td></td>
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<tr>
<td>- Collective and Individual Services (IPSAS 19 amends)</td>
<td>ED 67</td>
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<tr>
<td>Measurement</td>
<td>CP/[ED]</td>
<td>✓</td>
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<tr>
<td>Heritage</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Infrastructure Assets</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Leases</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Financial Instruments (Public Sector Specific)</td>
<td>✓</td>
<td>IPSAS 41</td>
</tr>
</tbody>
</table>
## IPSASB Update
### Planned position at December 2019

<table>
<thead>
<tr>
<th>Project</th>
<th>Public sector specific</th>
<th>IFRS alignment</th>
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<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Revenue With Performance Obligations (IFRS 15 aligned)</td>
<td>ED 70, ED 71</td>
<td>✓</td>
</tr>
<tr>
<td>- Revenue Without Performance Obligations (IPSAS 23 update)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Non-Exchange Expenses</strong></td>
<td>ED 72 IPSAS</td>
<td>✓</td>
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<tr>
<td>- Transfer Expenses</td>
<td></td>
<td></td>
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<tr>
<td>- Collective and Individual Services (IPSAS 19 amends)</td>
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<tr>
<td><strong>Measurement</strong></td>
<td>CP/[ED]</td>
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<tr>
<td><strong>Infrastructure Assets</strong></td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td><strong>Leases</strong></td>
<td>??</td>
<td>??</td>
</tr>
<tr>
<td><strong>Financial Instruments (Public Sector Specific)</strong></td>
<td>ED 69 IPSAS 41</td>
<td></td>
</tr>
</tbody>
</table>
IPSASB Research Topics

• Projects selected for research / scoping in advance of mid-period Work Plan consultation (H1 2021):
  – Discount rates
  – Differential reporting
  – Presentation of financial statements in the public sector
  – Tax expenditures
• IPSASB to facilitate rather than undertake research itself
• Research ‘facilitation’ approach discussed at June 2019 Board meeting and Public Sector Standard Setters Forum
• Initial discussion of research topics at Forum
• Research / Scoping to be completed by mid 2020 for Autumn 2020 Board discussions on Work Plan consultation document
• Volunteers needed to lead or participate in research groups!
IPSAS Strategy Implementation
Building partnerships and stakeholder profile

3 Regional Roundtables

**Latin-America**
- **Location:** Brasilia, Brazil
- **Partners:** Federal Accounting Council, National Treasury, Brazilian Accounting Foundation
- **Date:** August 19, 2019

**Asia**
- **Location:** Manila, Philippines
- **Partner:** Asian Development Bank
- **Date:** October 9, 2019

**Africa**
- **Location:** Addis Ababa
- **Partner:** African Union
- **Date:** October 16, 2019
IPSASB Conceptual Framework (CF)  
Limited-scope review scoping issues

- IPSASB CF approved September 2014 - No review timeline
- IASB finalized its CF project in March 2018
- Key changes in updated IASB CF:
  - Acknowledgement of Prudence in context of neutrality in Faithful Representation QC
  - Finalization of element definitions
  - Unit of account
  - Measurement
    - Significantly revised approach to Measurement
    - High level distinction between Historical Cost and Current Value
    - Current Value measures identified: Fair Value, Value-in-use (assets) and Fulfilment Value (liabilities) and Current Cost
  - Capital maintenance
IPSASB Conceptual Framework: Issues encountered in practice

**Elements**
- Use of term non-legally-binding obligation (Revenue)
- Need for other resources and other obligations in light of Revenue project

**Measurement**
- Very oblique reference to fair value in Measurement chapter (Financial Instruments)
- Relationship between Fair Value (IFRS 13) and Market Value

**Qualitative Characteristics**
- Non-demarcation of fundamental and enhancing characteristics
IPSAS Strategy Implementation
Theme A: New project - Natural Resources

Why is accounting for Natural Resources an important public sector issue?

Government Finance Statistics

• GFSM 2014 requires recognition and measurement of natural resources
• 2018 IMF Fiscal Monitor (natural resources assets equal to 38% of GDP)

Lack of guidance in IPSAS

• Important issue for resource rich countries
• Important scoping phase of the project—links with Conceptual Framework, IPSAS, IFRS 6, *Exploration for and Evaluation of Mineral Resources*, and GFS
IPSAS Strategy Implementation
Theme A: New project - Natural Resources

Key scoping question: What should the scope of the IPSAS Natural Resource project be?
IPSAS Strategy Implementation
Theme A: New project - Natural Resources

Recognition

- Is there a resource?
- Presently controlled?
- Past event?

Natural resource asset

Measurement

- Can the resource be reliably measured?
- Constraints / Qualitative Characteristics
### Initial feedback from research and scoping considerations:

- What are the accounting issues and financial reporting objectives for natural resources?
- How to keep the scope manageable – focus on the specific public sector challenges related to financial reporting
- Further thinking needed on the public sector relevance of IFRS 6, *Exploration for and Evaluation of Mineral Resources*
- Broad group of interested stakeholders with high expectations that extend beyond financial reporting. Very important to clearly communicate at the outset what the project aims to achieve
### Revenue projects: Context
**Categorization of transactions**

<table>
<thead>
<tr>
<th>Current classification</th>
<th>Non-Exchange</th>
<th>Exchange</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CP Revenue</strong></td>
<td><strong>Category A</strong></td>
<td><strong>Category B</strong>*</td>
</tr>
<tr>
<td><strong>Characteristics</strong></td>
<td>No performance obligations or stipulations</td>
<td>Enforceable agreements, with performance obligations or stipulations to use or consume resources in a particular way; and/or other agreements requiring resources to be used over a specified period of time</td>
</tr>
<tr>
<td><strong>Examples</strong></td>
<td>Taxes, transfers</td>
<td>Funding to deliver a specified number of vaccinations to the public</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Sale of goods or services on commercial terms</td>
</tr>
</tbody>
</table>

* Whether Category B transactions are considered to be exchange or non-exchange can differ depending on how the characteristics of the transaction are interpreted.
ED 70, *Revenue with Performance Obligations* (aligned with IFRS 15, *Revenue from Contracts with Customers*)

- Replaces IPSAS 9, *Revenue from Exchange Transactions*, & IPSAS 11, *Construction Contracts*
- Accounting approach developed from IFRS 15 includes additional guidance for public sector
- Transactions in scope of ED 70 are those that have performance obligations, defined as: *a promise in a binding arrangement with a purchaser to transfer to the purchaser or third-party beneficiary either:*
  - *A good or service (or bundle of goods or services) that is distinct; or*
  - *A series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the purchaser or third-party beneficiary*
ED 70 - IFRS 15-aligned IPSAS
‘Revenue With Performance Obligations’

- IFRS 15-aligned core text
- Definitions ‘stretched’ to include binding arrangements, but clear link to IFRS 15 definitions
- Transaction ‘filter’ mechanism:
  - Step 1: Binding arrangement?
  - Step 2: Performance obligation?
- Public Sector Application Guidance (mainly on Steps 1 and 2)
- IFRS 15 examples reviewed for public sector
- Additional public sector examples developed
Revenue Projects: Decisions made

ED 71, *Revenue without Performance Obligations*

- Update IPSAS 23 – to address application issues and interface with new IFRS 15-aligned standard
- ED 71, includes:
  - Transactions that do not arise from a binding obligation (e.g. taxes and fines) – maintain IPSAS 23 approach
  - Transactions arising from a binding arrangement that include a present obligation which is not a performance obligation (e.g. transfers)
- Guidance included for capital transfers
- Services in kind – maintain IPSAS 23 approach
Difference between Performance Obligation and Present Obligation

- ED 70 – Performance Obligation
- ED 71 – Present Obligation

**Performance obligation** specifically defined in ED 70, must include:
- A transfer of goods or services to a purchaser or third-party beneficiary
- Goods or services must be distinct

**Present obligation** is broader:
- Terms of the arrangement set out how the revenue recipient must act or perform in a certain way – no explicit requirement to transfer goods or services to purchaser or third-party beneficiary
ED 71 – Updated IPSAS 23
‘Revenue Without Performance Obligations’

Does the inflow give rise to an item that meets the definition of an asset?
- No: Do not recognize an increase in an asset, consider disclosure.
- Yes:
  Does the inflow satisfy the criteria for recognition as an asset?
    - No: Do not recognize an increase in an asset, consider disclosure.
    - Yes:
      Does the inflow result from a contribution from owners?
        - No:
          Does the transaction arise from a binding arrangement?
            - No:
              Use updated IPSAS 23 (ED71) and recognize an asset and recognize revenue.
            - Yes:
              Use IPSAS XX (ED70), Revenue with Performance Obligations
        - Yes:
          Are there performance obligations?
            - Yes:
              Use IPSAS XX (ED70), Revenue with Performance Obligations
            - No:
              Are there other present obligations related to the inflow?
                - Yes: Review as other present obligations are satisfied
                - No: Review as other present obligations are satisfied

Use updated IPSAS 23 (ED 71) – Recognise an asset and:
- A liability to the extent that the other present obligations have yet to be satisfied; and
- Revenue to the extent that a liability is not also recognised.
ED 71 Pattern of Revenue Recognition

- Transactions arising from binding arrangements without performance obligations – revenue recognized in accordance with terms of the arrangements, as:
  1. ‘Enforceable actions’ set out in the arrangements
  2. ‘Eligible expenditure requirements’ set out in the arrangements

- Key IPSASB tentative ED 71 decision - Capital transfers to be accounted for consistent with other transactions arising from binding arrangements without performance obligations
Inspiring Implementation—Advocating the benefits of accrual in strengthening PFM

In order to maximize the benefits of accrual-based information, it should be used for as many purposes as possible:
## Inspiring Implementation

**IFAC Study 14 – Transition to the Accrual**

<table>
<thead>
<tr>
<th>Activity</th>
<th>IPSASB</th>
<th>PAOs</th>
<th>Governments</th>
<th>Consultants / Contractors</th>
<th>Supranational &amp; Regional Organizations</th>
<th>Auditors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Promoting adoption</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
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</table>

**Supporting IPSAS implementation**

<table>
<thead>
<tr>
<th>Activity</th>
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<th>Consultants / Contractors</th>
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<th>Auditors</th>
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</thead>
<tbody>
<tr>
<td>Financial Support</td>
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<td>✓</td>
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<tr>
<td>Capacity Development</td>
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<td>✓</td>
<td></td>
<td>(✓)</td>
<td>(✓)</td>
<td></td>
</tr>
<tr>
<td>Technical Guidance</td>
<td>✓</td>
<td>(✓)</td>
<td>✓</td>
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<td></td>
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<tr>
<td>Practical Guidance</td>
<td>(✓)</td>
<td>✓</td>
<td></td>
<td>✓</td>
<td>(✓)</td>
<td></td>
</tr>
<tr>
<td>Continuing Professional Development</td>
<td></td>
<td>✓</td>
<td></td>
<td>✓</td>
<td>(✓)</td>
<td></td>
</tr>
</tbody>
</table>

(✓) Not primary role, but potential for influence and/or involvement.
Inspiring Implementation
Promoting Adoption and Supporting Implementation.

What’s planned?
Inspiring Implementation
What is Study 14?

Study 14-Transition to the Accrual Basis of Accounting: Guidance for Public Sector Entities

• Part I: Introduction
  • Managing the process
  • Skills assessment and training
• Part II: General financial reporting issues
• Part III: Elements
• Part IV: Specific topics

Link Study 14: https://www.ifac.org/system/files/publications/files/IPSASB-study-14-3e.pdf
Inspiring Implementation
IPSASB Study 14: Important tool for IPSAS adopters/implementers

Feedback from various constituents highlights issues for consideration in modernizing/updating Study 14, including:

- Need for a clarified scope and mandate for Study 14
- How to manage key success factors related to an IPSAS adoption and implementation project:
  - Political commitment (including resources)
  - Key officials (buy-in by decision makers)
  - Legislation (political announcements and implementation)
- Adequate resources:
  - IT / information systems
  - Human resources / training
  - Financial support
- Effective project management
- Housekeeping – Update with current IPSAS literature
- Paper based guidance format limiting – technology could make more dynamic
Inspiring Implementation
Study 14 – Update proposals

What will be considered in the Study 14 update?

- Audience
- User-friendliness
- Linkages and context
- Implementation topics and examples

How will issues be considered/addressed?

- Consultation with Study 14 users / IPSAS stakeholders
- Establishing a virtual project Working Group / Task Force
- Ensuring consistency with IPSAS literature and on-going projects

What might an updated Study 14 include:

- Short introductory document and an interactive web portal
Thank you!

Please take the time to submit formal comments to IPSASB Consultations

The IPSASB needs your input!