

**UNCTAD-Intergovernmental Working Group of Experts on
International Standards of Accounting and Reporting**

**Workshop on the practical implementation of International Public Sector
Accounting Standards**

Tuesday, 3 November 2015
Room XVIII, Palais des Nations, Geneva
Morning Session

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

Presented by

Ian Ball
Chair

Chartered Institute of Public Finance and Accountancy

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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.*

Source: The Treasury, Government Management; Briefing to the Incoming Government, 1987 Vol. 1.



Public Finance Act 1989

Public Act 1989 No 44
Date of assent 26 July 1989
Commencement see section 1(2), (4)

Contents

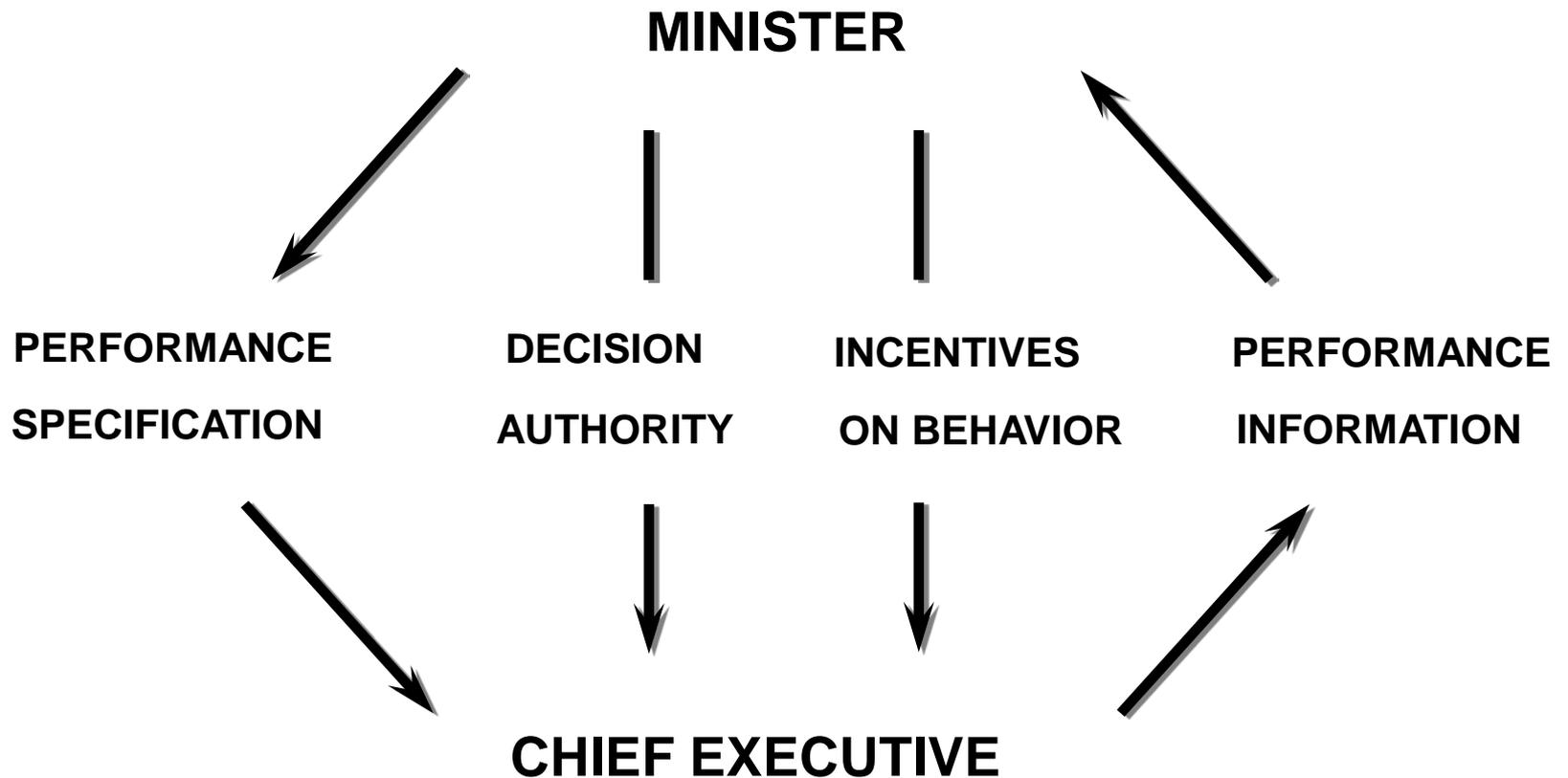
1	Title (<i>Repealed</i>)	10	Appropriation limited by period
1A	Short Title and commencement	11	Expenses or payments authorised other than by Appropriation Act
2	Purpose	12	Timing of first Appropriation Act for financial year
3	Interpretation		<i>Information requirements for appropriations</i>
3A	Act to bind Crown	13	Estimates and other supporting information must be presented with first Appropriation Bill
3AA	Power to amend Schedule 4	14	Content of Estimates
	Meaning of generally accepted accounting practice (<i>Repealed</i>)	15	Other supporting information for first Appropriation Bill
	Part 1	16	Supplementary Estimates must be presented with Supplementary Appropriation Bill
	Appropriations	17	Content of Supplementary Estimates
	<i>Requirement for appropriations</i>		Part 2
4	Expenses or capital expenditure must not be incurred unless in accordance with appropriation or statutory authority		Banking and investment
5	Public money must not be spent unless in accordance with statutory authority		<i>(Repealed)</i>
6	Authority to spend public money	18	Minister must consult on proposal to change format or content of information presented with Appropriation Bills
7	Separate appropriation required for types of expenses and capital expenditure		
8	Appropriation limited by amount		
9	Appropriation limited by scope		
9A	Supplementary Estimates (<i>Repealed</i>)		
9B	Power of Secretary to obtain information (<i>Repealed</i>)		

Note
Changes authorised by section 17C of the Acts and Regulations Publication Act 1989 have been made in this reprint.
A general outline of these changes is set out in the notes at the end of this reprint, together with other explanatory material about this reprint.
The Public Finance Act 1989 is administered in the Treasury.

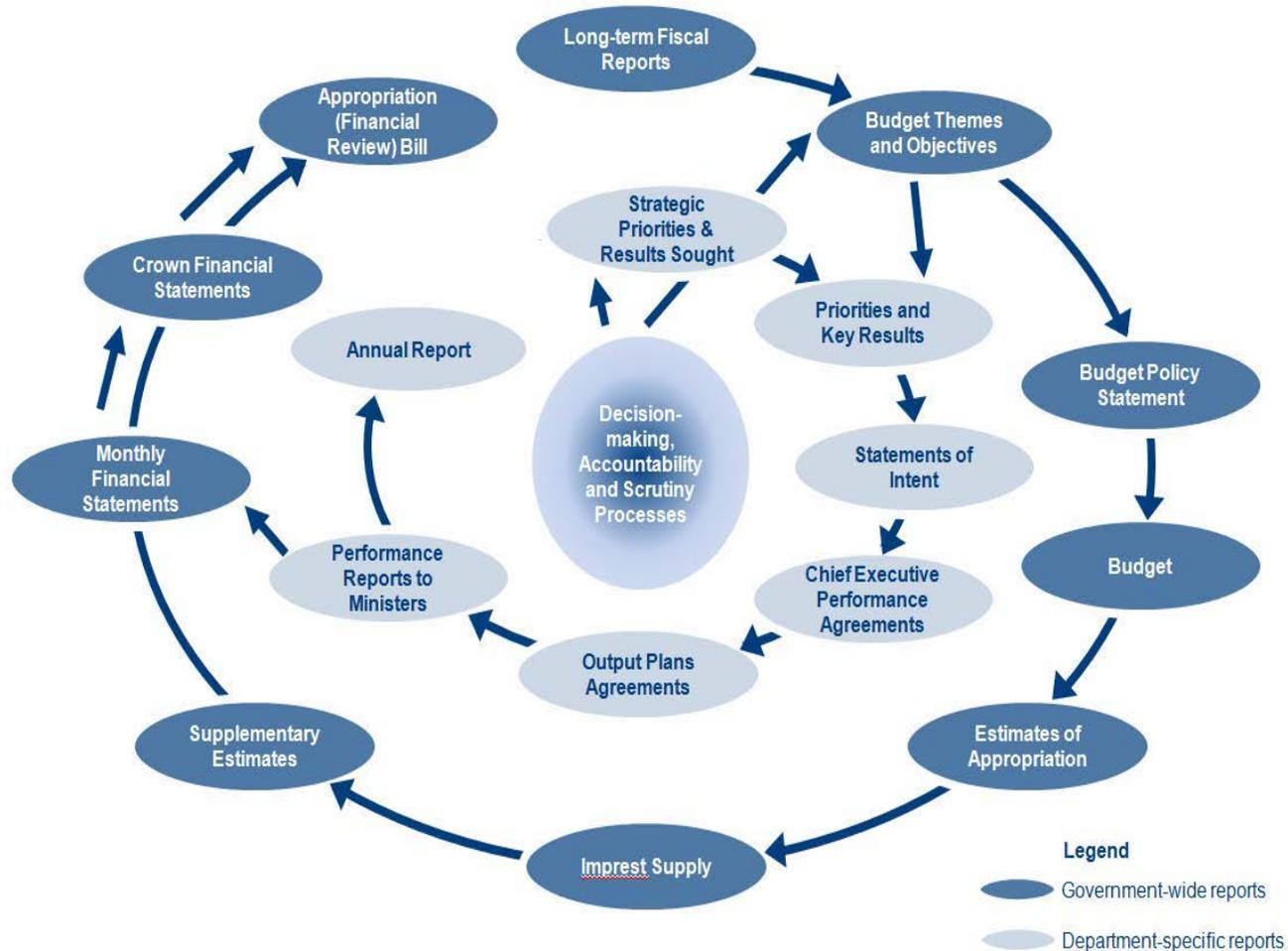
Key reform concepts:

- “Performance”
- Accountability
- Integrated management system

Accountability Framework



Integrated Management System



Performance defined

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

“Ownership”

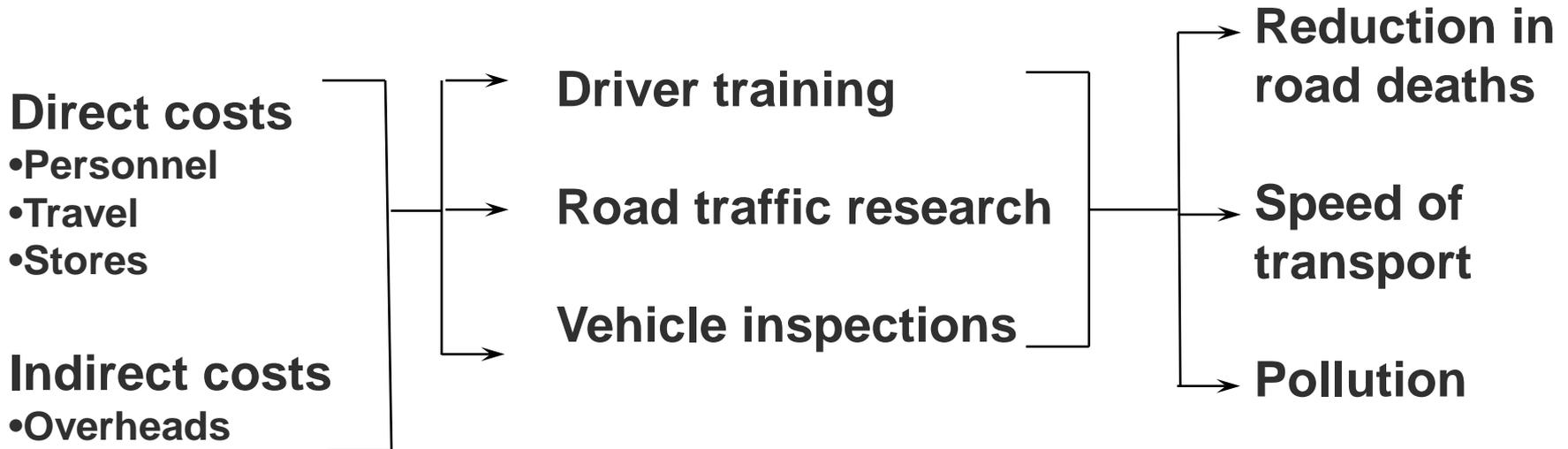
- Objectives and scope of business
- Strategy – especially products/outputs
- Financial performance
- Capital maintenance, including financial capital
- Risks

The “Purchase” Framework

INPUTS

OUTPUTS

OUTCOMES



“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

And 26 Years on...

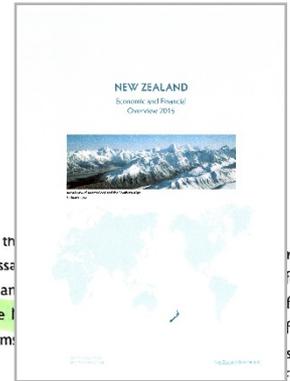


1. Nominal GDP per capita converted to USD at current PPPs. The OECD aggregate is weighted by the population.
Source: OECD, National Accounts Database. [StatLink !\[\]\(7f8d804c6d199749d3dd53592a5ca12b_img.jpg\) http://dx.doi.org/10.1787/888933219972](http://dx.doi.org/10.1787/888933219972)

New Zealand is enjoying a strong, broad-based economic expansion

Economic growth has been around 3% over the past three years (except when a drought temporarily depressed growth in 2013) (Table 1).

- This expansion has been driven mainly by a large increase in the terms of trade, the post-2011 earthquake reconstruction in Canterbury, and construction activity in Auckland (Figure 3).
- Net immigration has increased to record rates of around 1.1% of the total population per



Finance Act 1989, which provides that the Government may from time to time, if it appears necessary in the public interest to do so, raise a loan from any source or Government, either within or outside New Zealand, on such terms and conditions as the Minister deems fit.

Public Sector Financial Management

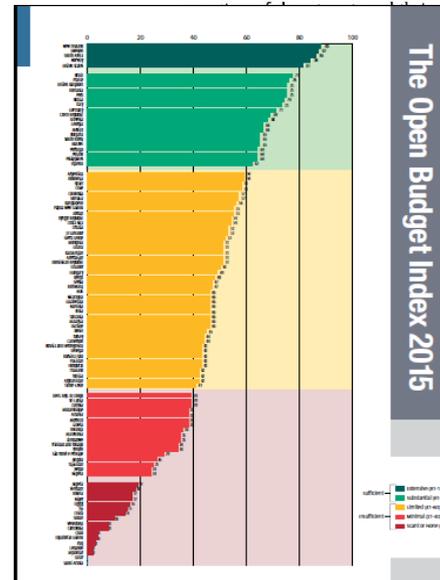
In 1994, the fiscal deficit in New Zealand was eliminated after 10 years of difficult political decision-making and management reform. Reform of the public sector financial management system was an integral component of this. New Zealand's public sector financial management system is now underpinned by two key pieces of legislation, the State Sector Act 1988 and the Public Finance Act 1989, which incorporates the provisions of the previous Fiscal Responsibility Act 1994.

State Sector Act 1988. This Act defines the responsibilities of chief executives and the accountability to Ministers.

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In addition, the ex ante information disclosures required by the Public Finance Act (disclosures required by the Crown Entity statute for SOEs).

From 1991, government departments have been required to disclose their financial performance to Ministers.



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.

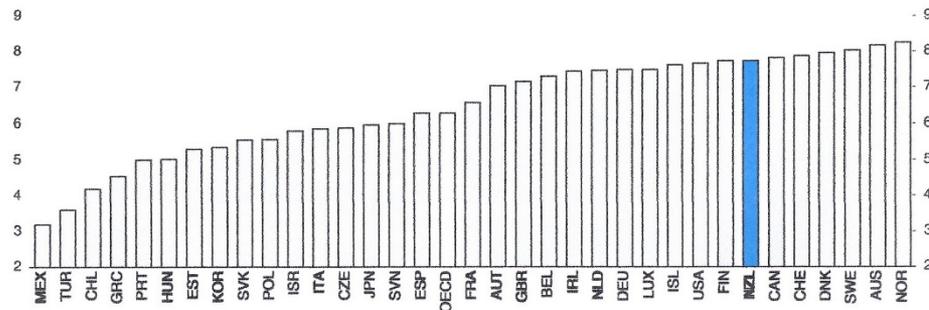
Compatible with social progress...



ASSESSMENT AND RECOMMENDATIONS

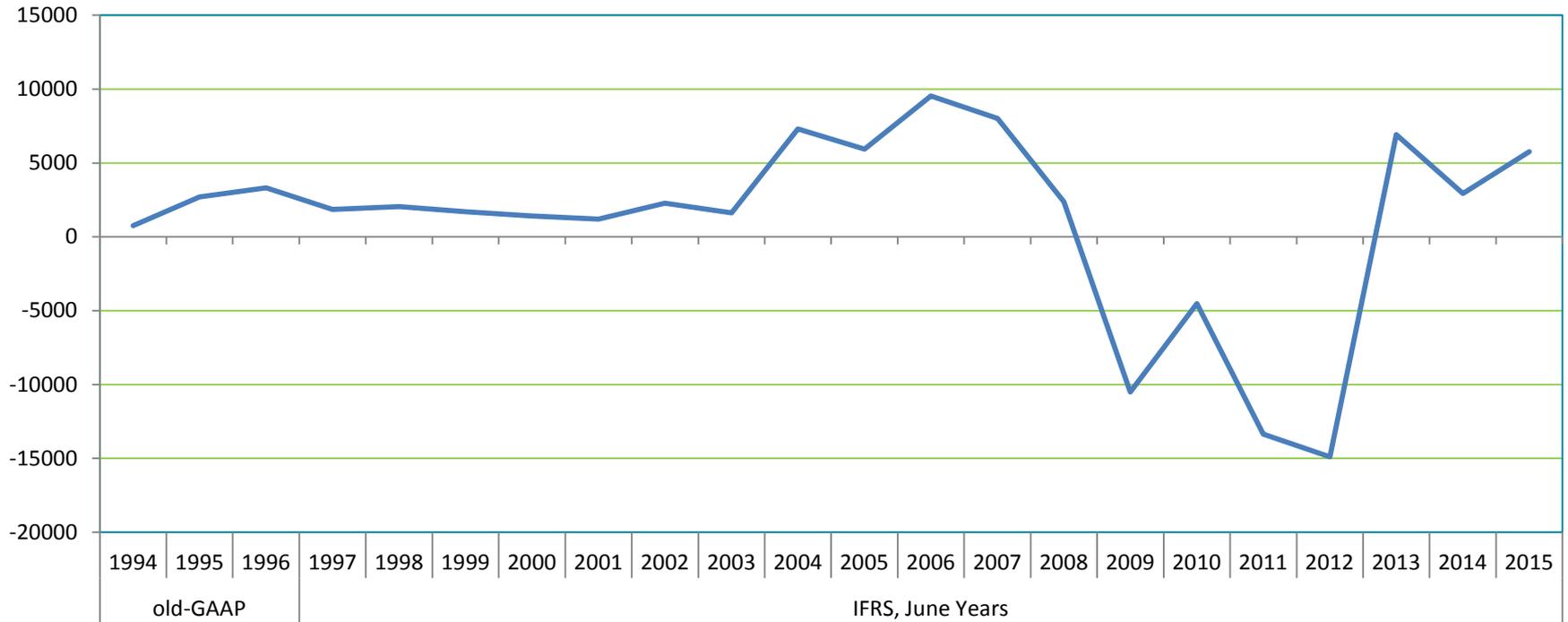
Figure 1. **Better Life Index, 1 2015 edition**²

A. Index summary

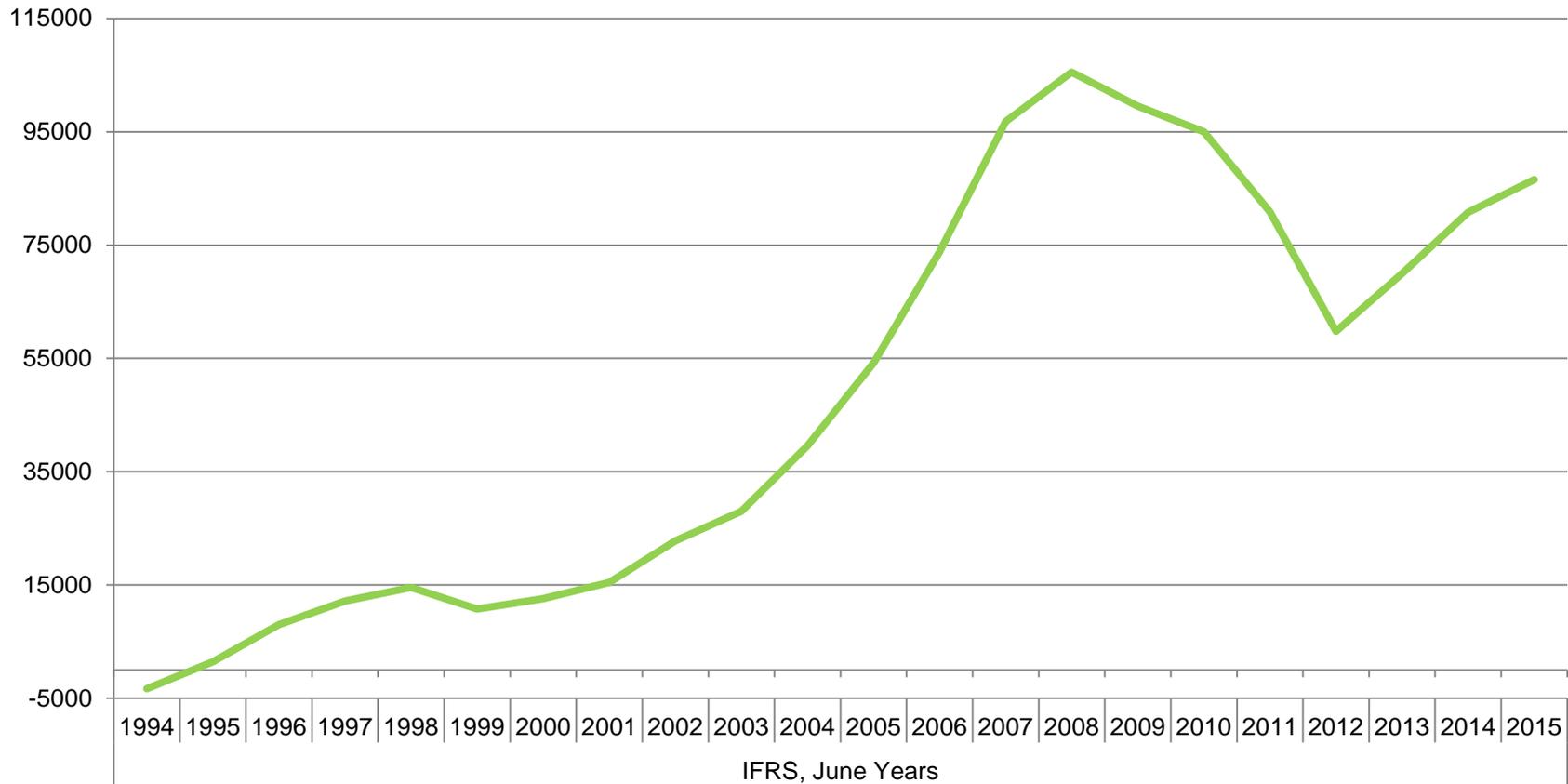


New Zealand scored high in the Social Progress Index for personal rights and freedom, internet access and school enrolment. Photograph: NZ Tourism board

Operating Balance (\$m) 1994 - 2015



Government Net Worth (\$m) 1994 - 2015



What success really means to New Zealand...



Fiscal Policy and Financial Statements

The Government Finance Statistics Manual 2001 (GFSM 2001),¹ an internationally recognized statistical reporting framework, is aimed at helping national authorities to strengthen their capacity to formulate fiscal policy and monitor fiscal developments. The *GFSM 2001* supports the balance sheet approach to analyzing economic policy by bringing together stocks and flows in a transparent and consistent framework.

<http://www.brookings.edu/res>

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.

Accrual Accounting and Fiscal Policy

*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

Regling on Greek Debt

Bailout Fund Boss Says Current Greek Debt Analysis ‘Meaningless’



Bloomberg News

Klaus Regling attends the Asian Development Bank’s annual meeting in New Delhi on May 3.

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.

FINANCIAL TIMES

EU ECONOMY

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.

Telegraph

14 August 2015

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. ...*

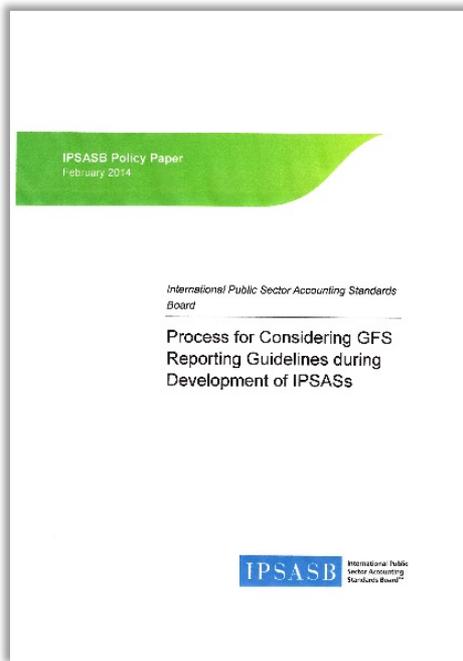
1.86 *... Stocks are recorded for all assets within the system's boundaries; that is, for financial assets and liabilities and for non-financial assets ...*

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



How to report a debt reorganization...

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)

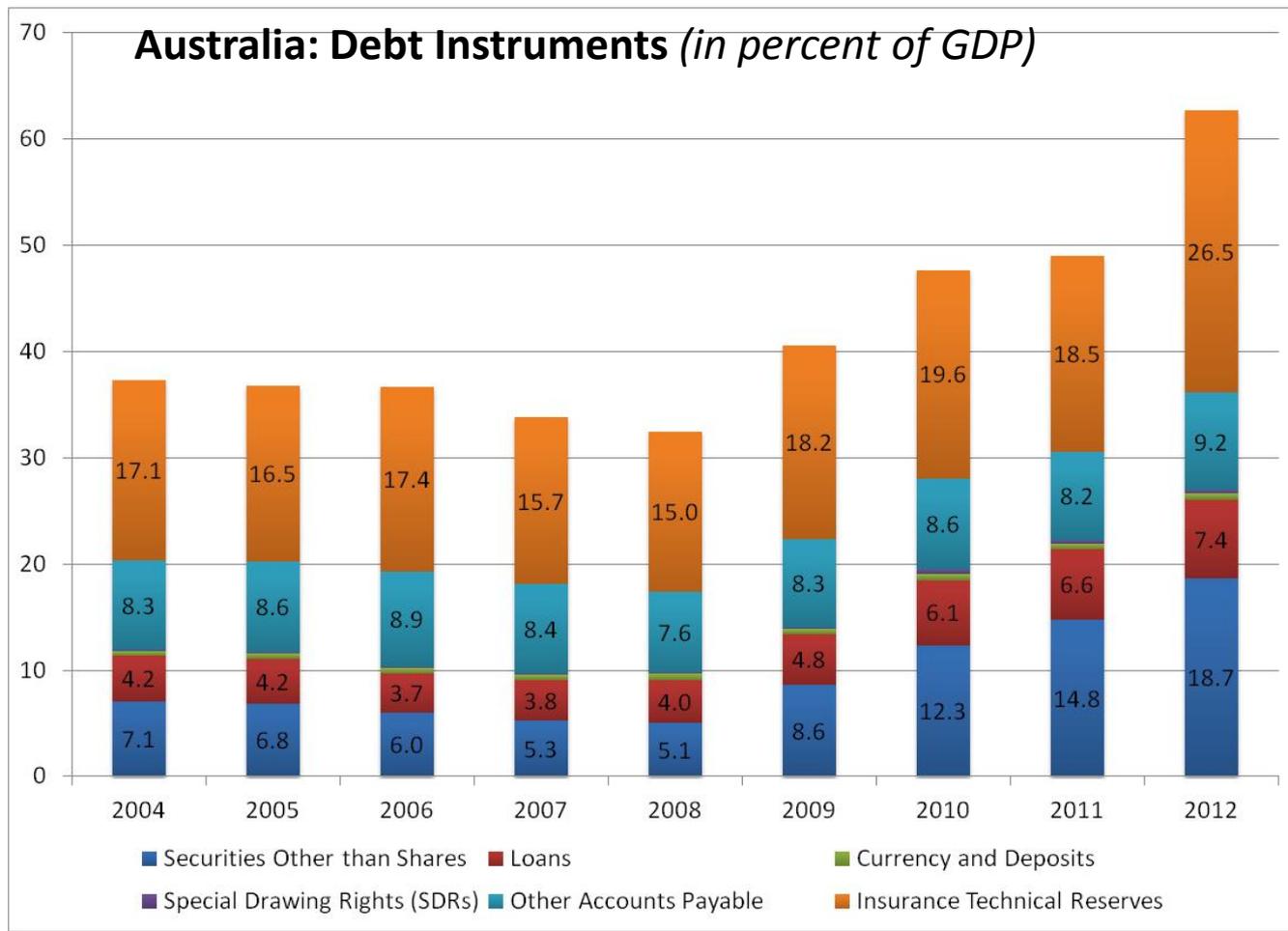
	<u>Maastricht</u>	<u>IPSAS/IFRS</u>
Concessionary Loans	€ 212	€ 60
Rescheduled Securities	63	20
Non-Revalued Debt	44	44
Gross Debt	<u>€ 319</u>	<u>€ 124</u>
Financial Assets	NA	91
Net Debt	NA	<u>€ 33</u>
Percent of GDP	175%	18%

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.

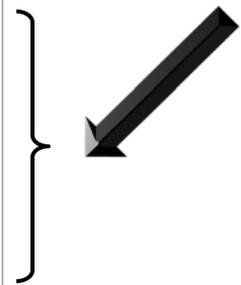


Sources of Differences in Debt Data

Debt Instrument Coverage



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

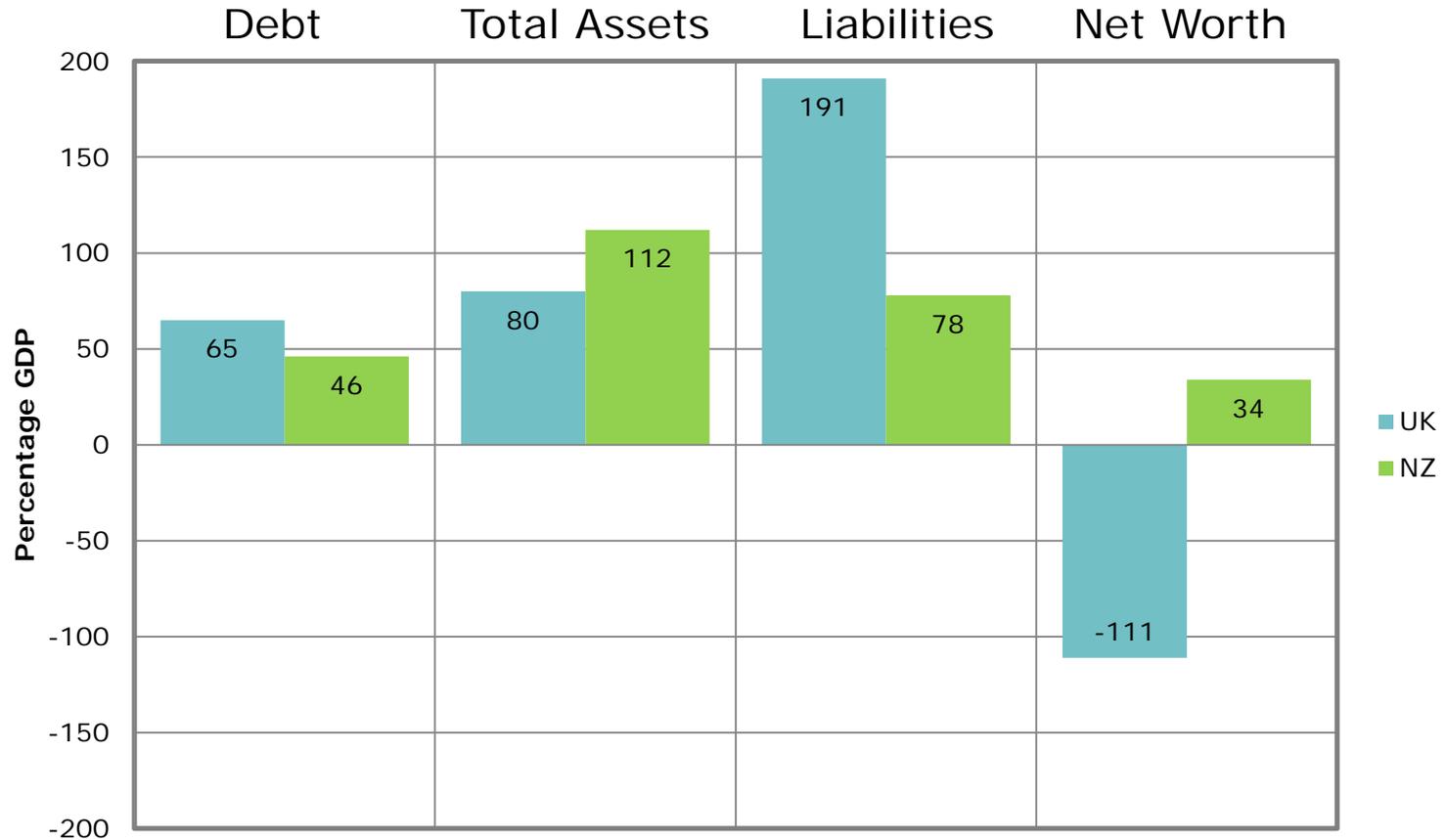


Martin Wolf



“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



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Geneva, November 2015

