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**International Standards of Accounting and Reporting**  
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Item 4 of the provisional agenda

## **Review of current developments in international standards of accounting and reporting in the public and private sectors**

**Note by the UNCTAD secretariat**

### *Executive summary*

For more than three decades, through the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting, Member States of the United Nations have been contributing to efforts aimed at promoting high-quality reporting by enterprises around the world. Enterprises that present reliable and internationally comparable reports on their financial performance stand a better chance of attracting investment from domestic and international investors. In this regard, the International Financial Reporting Standards and the International Public Sector Accounting Standards play a key facilitating role. In this note, a review of current developments in both the International Financial Reporting Standards and the International Public Sector Accounting Standards, since the thirty-fifth session of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting in 2018, is presented. How financial reporting agenda is impacted by sustainability and developments related to Sustainable Development Goal corporate reporting is also discussed. The main issues concerning the consolidation of public sector financial reports and the preparation of whole-of-government accounts are also addressed.



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## I. Introduction

1. International trade and investment require internationally comparable data on enterprise performance. To address the issue, in October 1982, the Economic and Social Council of the United Nations established the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting. Since then, the Intergovernmental Working Group of Experts has become an open and inclusive forum of the United Nations that has been contributing over three decades towards harmonization and comparability of enterprise reporting in member States as a means to facilitate an enabling investment and business climate, sustainable and inclusive growth and, more recently, assessment of the private sector contribution to implementation of the 2030 Agenda for Sustainable Development.

2. In particular, the Intergovernmental Working Group of Experts has been assisting countries in building and strengthening national regulatory, institutional and human capacity to enable enterprises in their respective jurisdictions to produce high-quality reports that meet the needs of capital providers and other decision-makers. Among other factors, this has been achieved through application of the Accounting Development Tool, developed and launched by UNCTAD in 2012. The Accounting Development Tool contains references to the international standards, codes and best practices in the area of enterprise reporting. Key components of the Tool are the International Financial Reporting Standards (IFRS) and the International Public Sector Accounting Standards (IPSAS).

3. The Intergovernmental Working Group of Experts has deliberated on issues of practical implementation of IFRS and IPSAS at many sessions and, at its thirty-fifth session, held on 24–26 October 2018, requested that, at its thirty-sixth session, the UNCTAD secretariat review current developments in international standards of accounting and reporting in the public and private sectors.

4. Accordingly, the UNCTAD secretariat has prepared this background document with a view to facilitating discussions on the topic. Chapter II contains a review of recent developments with respect to IFRS and considers issues related to the evolution of sustainability/Sustainable Development Goal reporting and how they impact the financial reporting agenda. Similarly, chapter III provides a review of IPSAS, with chapter IV including considerations for the consolidation of public sector financial statements and preparation of whole-of-government accounts. In chapter V, questions that delegates may wish to consider for discussion are outlined.

5. This note builds on work done for the thirty-fifth session of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting.<sup>1</sup> It would be useful to read the note in conjunction with that work for more background information and context.

## II. Review of current developments in International Financial Reporting Standards

6. This chapter provides an overview of current developments on IFRS, with a brief discussion on linkages between financial reporting and sustainability reporting at the end.

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<sup>1</sup> TD/B/C.II/ISAR/86; UNCTAD, 2019, *International Accounting and Reporting Issues: 2018 Review* (United Nations publication, Sales No. E.19.II.D.3, Geneva).

## A. Conceptual Framework for Financial Reporting

7. An important development for the International Accounting Standards Board (IASB) in 2018 was the publication of a revised Conceptual Framework for Financial Reporting.<sup>2</sup> The purpose of the Conceptual Framework is threefold: (a) to assist the IASB in developing IFRS based on consistent concepts, resulting in financial information that is useful to investors, lenders and other creditors; (b) to assist preparers of financial reports in developing consistent accounting policies for transactions or other events when no IFRS applies or an IFRS allows a choice of accounting policies; and (c) to assist all parties in understanding and interpreting IFRS. IASB released the revised Conceptual Framework in March 2018 effective immediately for IASB and the IFRS Interpretations Committee. For other parties and preparers who develop an accounting policy based on the Conceptual Framework, the revised Conceptual Framework is effective for periods beginning on or after 1 January 2020.<sup>3</sup>

### 1. Updates on practical implementation of recently issued International Financial Reporting Standards

#### *International Financial Reporting Standards 9, financial instruments*

8. IASB issued IFRS 9, financial instruments, in July 2014. The standard has been effective since 1 January 2018. For equity instruments, other than those held for trading and contingent consideration recognized in a business combination, the IASB has introduced an irrevocable option at inception on an instrument-by-instrument basis. Studies have addressed the effect of IFRS 9. One example is the European Commission's request to the European Financial Reporting Advisory Group to investigate the potential effects on long-term investments in equity instruments of the requirements of IFRS 9.<sup>4</sup>

#### *International Financial Reporting Standards 15, revenue from contracts with customers*

9. IFRS 15, revenue from contracts with customers, addresses how and when a company reporting under IFRS will recognize revenue and present associated disclosures. The standard provides a single, principles-based five-step model for the recognition of all contracts with customers. IASB issued IFRS 15 in May 2014. The standard applies to reporting periods beginning on or after 1 January 2018. In April 2016, IASB issued clarifying amendments with the same effective date as the standard itself. The Financial Reporting Council of the United Kingdom of Great Britain and Northern Ireland published a thematic review to help companies improve the quality of their corporate reporting in relation to IFRS 15 (and IFRS 9, financial instruments). Examples of the findings of the Financial Reporting Council's thematic review of IFRS 15 include the impact of IFRS 15 on accounting policies. The report, among other things, highlights that poor descriptions were provided of when revenue is recognized, including reliance on vague language, for example, regarding when control is transferred from the seller to the buyer.<sup>5</sup>

#### *International Financial Reporting Standards 16, leases*

10. IFRS 16, leases, is effective for periods beginning on or after 1 January 2019. Adoption of IFRS 16 will result in the recognition of substantially more lease obligations

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<sup>2</sup> The Conceptual Framework is primarily a tool to help IASB develop IFRS based on consistent concepts. It is also a useful document for companies, investors and others involved in financial reporting. IASB, 2018, Conceptual Framework for Financial Reporting, project summary. Available at <https://www.ifrs.org/-/media/project/conceptual-framework/fact-sheet-project-summary-and-feedback-statement/conceptual-framework-project-summary.pdf>.

<sup>3</sup> Ibid.

<sup>4</sup> For relevant reference materials and reports by the European Financial Reporting Advisory Group, see <https://www.efrag.org/Activities/1606201553344223/EFRAG-Research-Project-Equity-Instruments---Impairment-and-Recycling> (accessed 16 August 2019).

<sup>5</sup> See Financial Reporting Council, 2018, IFRS 15 thematic review: Review of interim disclosures in the first year of application, available at <https://www.frc.org.uk/getattachment/1d8558b8-73bf-4a13-bec7-9c350bfcc1ba/IFRS-15-thematic-report-2-November-2018-v2.pdf>.

on the balance sheet. With the new requirements, in many cases, the lessee will recognise equal amounts of leased assets (also called “right of use” assets) and lease liabilities upon initial recognition of the lease. The lease liability represents the present value of the future lease payments discounted using an appropriate rate. This calculation resembles that for finance leases, as previously required by the superseded International Accounting Standard (IAS) 17, leases. The IFRS Foundation has issued guidance materials with illustrative examples on the application of IFRS 16.<sup>6</sup> The CFA Institute issued a paper<sup>7</sup> in 2019 that reviews recent lease disclosures of selected companies (including companies that follow either IFRS or the generally accepted accounting principles used in the United States of America) to highlight what investors should focus on. Disclosures will be critical to understanding the key assumptions underlying the calculation of a lease obligation, such as the discount rate used.

*International Financial Reporting Standards 13, fair value measurement*

11. At the end of 2018, the IASB published *Post-implementation Review of IFRS 13 Fair Value Measurement*.<sup>8</sup> The project report concludes that IFRS 13 is working as intended. In particular, (a) the information required by IFRS 13 is useful to users of financial statements and (b) some areas of IFRS 13 present implementation challenges, largely in areas requiring judgement.

## 2. International Financial Reporting Standards with a future effective date and other projects

*International Financial Reporting Standards 17, insurance contracts*

12. IFRS 17, insurance contracts, is effective for periods beginning on or after 1 January 2021, with earlier application permitted as long as IFRS 9 and IFRS 15 are also applied.

13. Insurance contracts combine features of both a financial instrument and a service contract. Also, many insurance contracts generate cash flows with substantial variability over a long period. IFRS 17, thus:

(a) Combines current measurement of the future cash flows with the recognition of profit over the period that services are provided under the contract;

(b) Presents insurance service results, including presentation of insurance revenue) separately from insurance finance income or expenses;

(c) Requires an entity to make an accounting policy choice of whether to recognize all insurance finance income or expenses in profit or loss or to recognize some of that income or expenses in other comprehensive income.

14. IASB is presently proposing targeted amendments to IFRS 17 to respond to concerns and challenges raised by stakeholders. IASB published the *Exposure Draft: Amendments to IFRS 17* for proposed amendments to IFRS 17 in June 2019.<sup>9</sup> The effective date of IFRS 17 could be deferred in view of the proposed amendments.

<sup>6</sup> See <http://efrag-website.azurewebsites.net/Assets/Download?assetUrl=%2Fsites%2Fwebpublishing%2FMeeting%20Documents%2F1605130941352768%2FIFRS%2016%20Presentation.pdf&AspxAutoDetectCookieSupport=1> (accessed 10 July 2019).

<sup>7</sup> The CFA Institute report usefully highlights the main difference between the generally accepted accounting principles of the United States and IFRS 16 in their treatment of lessee accounting. For the generally accepted accounting principles, the Financial Accounting Standards Board’s Accounting Standards Update 2016-02, Leases (Topic 842), permits two different lease treatments: finance leases and operating leases. IFRS 16, leases, requires lessees to recognize all leases as finance leases. See CFA Institute, 2019, *Leases: What Investors Need to Know about the New Standard*, p. 5.

<sup>8</sup> Available at <https://www.ifrs.org/-/media/project/pir-ifs-13/published-documents/pir-ifs-13-feedback-statement-dec-2018.pdf>.

<sup>9</sup> Available at <https://www.ifrs.org/-/media/project/amendments-to-ifs-17/ed-amendments-to-ifs-17.pdf?la=en>.

*International Financial Reporting Standards 3, business combinations*

15. The principal premises in IFRS 3, business combinations, are that an acquirer measures the cost of the acquisition at the fair value of the consideration paid; allocates that cost to the acquired identifiable assets and liabilities on the basis of their fair values; allocates the rest of the cost to goodwill; and recognizes any excess of acquired assets and liabilities over the consideration paid (a “bargain purchase”) in profit or loss immediately. The acquirer discloses information that enables users to evaluate the nature and financial effects of the acquisition.

16. In this respect, IASB issued *Definition of a Business (Amendments to IFRS 3)* aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The amendments are effective for business combinations with an acquisition date on or after the beginning of the first annual reporting period beginning on or after 1 January 2020.<sup>10</sup>

*Interest rate benchmark reform*

17. In response to requests from the Group of 20, regulators are preparing to replace the widely used interbank offered rate (IBOR).<sup>11</sup> This action prompted an IASB research project in 2018 to look at possible effects of IBOR reform on financial reporting.

18. In May 2019, IASB released *Exposure Draft: Interest Rate Benchmark Reform*, embedding proposed amendments to IFRS 9 and IAS 39.<sup>12</sup>

*Cost of fulfilling a contract*

19. *Exposure Draft: Onerous Contracts – Cost of Fulfilling a Contract* issued by IASB (2018) proposes to amend IAS 37, provisions, contingent liabilities and contingent assets.<sup>13</sup> The amendments specify the costs an entity includes in determining the cost of fulfilling a contract for the purpose of assessing whether a contract is onerous. There are, however, no new requirements for companies to disclose information about onerous contracts.

*Financial instruments with characteristics of equity*

20. In June 2018, IASB published a discussion paper that considered improvements in classifying financial instruments as liabilities or equity.<sup>14</sup> The paper more specifically addressed how companies issuing financial instruments should classify them in their financial statements.

21. IASB brings forth that challenges in classifying financial instruments can result in diverse accounting in practice, which in turn makes it difficult for investors to assess and compare companies’ financial position and performance. In addition, investors are calling for better information, particularly about equity instruments.

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<sup>10</sup> For relevant documents, see <https://www.ifrs.org/issued-standards/list-of-standards/ifrs-3-business-combinations/> (accessed 10 July 2019).

<sup>11</sup> As described by Deloitte, IBORs “... are interest reference rates, such as LIBOR, EURIBOR and TIBOR that represent the cost of obtaining unsecured funding, in a particular combination of currency and maturity, and in a particular interbank term lending market” (see <https://www.iasplus.com/en/news/2019/05/ibor-reform>; accessed 10 July 2019]). In June 2018, IASB decided to add to its active research agenda a research project to assess the effects on financial reporting of a potential discontinuation of IBORs.

<sup>12</sup> Available at <https://www.ifrs.org/-/media/project/ibor-reform/ed-ibor-reform-may-19.pdf>.

<sup>13</sup> Available at <https://www.ifrs.org/-/media/project/onerous-contracts-cost-of-fulfilling-a-contract-amendments-to-ias-37/ed-onerous-contracts-december-2018.pdf>.

<sup>14</sup> See <https://www.ifrs.org/projects/work-plan/financial-instruments-with-characteristics-of-equity/comment-letters-projects/dp-fice/> (accessed 10 July 2019).

*Disclosure Initiative: Principles of Disclosure*

22. In March 2019, the IFRS Foundation published a document summarizing work by IASB on the research project, *Disclosure Initiative: Principles of Disclosure*.<sup>15</sup> IASB has completed four projects as part of the Disclosure Initiative:

(a) Amendments to IAS 1. In December 2014, IASB published amendments to IAS 1, presentation of financial statements, to remove barriers to the exercise of judgement. These amendments became effective for annual periods beginning on or after 1 January 2016.<sup>16</sup>

(b) Amendments to IAS 7. In January 2016, IASB published amendments to IAS 7, statement of cash flows, to improve disclosure of changes in liabilities from financing activities. These amendments became effective for annual periods beginning on or after 1 January 2017.

(c) Materiality Practice Statement. IASB published IFRS Practice Statement 2, *Making Materiality Judgements*, in September 2017. The Materiality Practice Statement contains non-mandatory guidance to help entities make materiality judgements when preparing IFRS general purpose financial statements.

(d) Definition of material (amendments to IAS 1, presentation of financial statements, and IAS 8, accounting policies, changes in accounting estimates and errors). IASB published these amendments in October 2018. The amendments define material as: “Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity”.<sup>17</sup> The amendments will become effective for annual periods beginning on or after 1 January 2020. IASB was prompted to make the amendment in response to findings that some preparers were encountering difficulties in making judgements on whether information was material for inclusion in financial statements.

23. In October 2017, the IFRS Foundation published *Better Communication in Financial Reporting: Making Disclosures More Meaningful*.<sup>18</sup> The report provides case studies to illustrate how some companies have already improved communication in their financial statements.

### 3. Other projects

#### *International Financial Reporting Standards for small and medium-sized enterprises*

24. The IFRS for small and medium-sized enterprises is a standard tailored for small companies. It focuses on the information needs of lenders, creditors and other users of small and medium-sized enterprise financial statements who are interested primarily in information about cash flows, liquidity and solvency.<sup>19</sup> The IFRS for small and medium-sized enterprises standard is aimed at companies that are not listed on a stock exchange.

25. The IFRS for small and medium-sized enterprises standard was initially published in July 2009. IASB completed a first comprehensive review of the IFRS for small and medium-sized enterprises standard in 2015. Since then, a number of IFRSs have been issued, including IFRS 9, financial instruments; IFRS 13, fair value measurement; IFRS 15,

<sup>15</sup> IASB, 2018, *Disclosure Initiative: Principles of Disclosure*. Available at <https://www.ifrs.org/-/media/project/disclosure-initiative/disclosure-initiative-principles-of-disclosure/project-summary/di-principles-of-disclosure-project-summary.pdf?la=en> (accessed 10 July 2019).

<sup>16</sup> See <https://www.ifrs.org/projects/2014/disclosure-initiative-amendments-to-ias-1/> (accessed 10 July 2019).

<sup>17</sup> See <https://www.ifrs.org/news-and-events/2018/10/iasb-clarifies-its-definition-of-material/> (accessed 20 August 2019).

<sup>18</sup> Available at <https://www.ifrs.org/-/media/project/disclosure-initiative/better-communication-making-disclosures-more-meaningful.pdf>.

<sup>19</sup> The standard is approximately 250 pages long; available at <https://www.ifrs.org/issued-standards/ifrs-for-smes/> (accessed 10 July 2019).

revenue from contracts with customers; and IFRS 16, leases. IASB is in the process of developing a request for information focused on obtaining views on whether and, if so, how to update the IFRS for small and medium-sized enterprises standard and amendments not currently incorporated into the IFRS for small and medium-sized enterprises standard.

26. Two other important consultation documents IASB plans to publish, respectively, in 2019 and 2020 are on goodwill and impairment and on rate-regulated activities.<sup>20</sup>

#### *Financial reporting and sustainability reporting*

27. Over the past three years, the UNCTAD Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting has been engaged in promoting further harmonization of sustainability reporting including with a view to supporting the Sustainable Development Goal monitoring and review mechanism. In particular, Sustainable Development Goal 12, sustainable consumption and production in its target 12.6 encourages companies, especially large and transnational companies, to adopt sustainable practices and to integrate sustainability information into their reporting cycles. Sustainable Development Goal indicator 12.6.1 requires data on the number of companies publishing sustainability reports. To facilitate implementation of these activities, UNCTAD recently published *Guidance on Core Indicators for Entity Reporting towards Implementation of the Sustainable Development Goals*.<sup>21</sup>

28. The 2030 Agenda and Sustainable Development Goal reporting increasingly impact developments in financial reporting. For example, in April 2019, at the Climate-Related Financial Reporting Conference in Cambridge, the United Kingdom, in a speech titled “What sustainability reporting can and cannot achieve,” the Chair of IASB brought forward the importance of sustainability reporting and addressed how it relates to financial reporting.<sup>22</sup>

29. The IASB Chair noted that IASB was working to improve broader financial reporting through, for example, its management commentary project. The Practice Statement (management commentary) is being updated and will focus more on intangibles and include requirements for companies to report on sustainability issues, including climate change, if those issues impact their businesses in a material way.<sup>23</sup>

30. In July 2017, the Task Force on Climate-related Financial Disclosures of the Financial Stability Board issued a report on climate-related financial risk disclosure, which indicates climate-related risk as a non-diversifiable risk that affects nearly all industries. The report also provides a framework on how entities can conduct materiality assessments for the disclosure of sustainability information in their financial reports.<sup>24</sup>

31. A related initiative is the Corporate Reporting Dialogue,<sup>25</sup> a platform convened by the International Integrated Reporting Council<sup>26</sup> to promote greater coherence, consistency and comparability between corporate reporting frameworks, standards and related

<sup>20</sup> See <https://www.ifrs.org/projects/work-plan/goodwill-and-impairment/> and <https://www.ifrs.org/projects/work-plan/rate-regulated-activities/> (accessed 10 July 2019).

<sup>21</sup> UNCTAD, 2019 (United Nations publication, Sales No. E.19.II.D.11, Geneva).

<sup>22</sup> Available at <https://www.ifrs.org/news-and-events/2019/04/speech-iasb-chair-on-sustainability-reporting/> (accessed 10 July 2019).

<sup>23</sup> As an example, Directive 2014/95/EU of the European Union lays down the rules on disclosure of non-financial and diversity information by large companies. The directive amends accounting directive 2013/34/EU. Companies are required to include non-financial statements in their annual reports from 2018 onwards (see [https://ec.europa.eu/info/business-economy-euro/company-reporting-and-auditing/company-reporting/non-financial-reporting\\_en](https://ec.europa.eu/info/business-economy-euro/company-reporting-and-auditing/company-reporting/non-financial-reporting_en); accessed 10 July 2019).

<sup>24</sup> Available at <https://www.fsb-tcfd.org/wp-content/uploads/2017/06/FINAL-2017-TCFD-Report-11052018.pdf>.

<sup>25</sup> See <https://corporatereportingdialogue.com/publication/sdgs-and-the-future-of-corporate-reporting/> (accessed 10 July 2019). Participants in the Corporate Reporting Dialogue include the Carbon Disclosure Project, Climate Disclosure Standards Board, Global Reporting Initiative, International Accounting Standards Board, International Integrated Reporting Council, International Organization for Standardization and Sustainability Accounting Standards Board.

<sup>26</sup> See <https://integratedreporting.org/corporate-reporting-dialogue/> (accessed 10 July 2019).



requirements. In a paper, released in March 2019 through the Corporate Reporting Dialogue platform, the Sustainable Development Goals and the future of corporate reporting are addressed.<sup>27</sup> How corporate reporting can illustrate which Sustainable Development Goals are relevant to a company's business model is identified, enabling both companies and investors to focus on the Sustainable Development Goals most likely to impact financial performance. The importance of driving integration of financial and non-financial information is also articulated in the paper. In July 2019, the Corporate Reporting Dialogue published another paper in which the importance of transparency and accountability in the frameworks of participants of the dialogue is highlighted. In the report, it is noted that transparency and accountability form a common foundation and facilitate bigger-picture effects, such as enhanced decision-making by capital markets and others.<sup>28</sup> The UNCTAD secretariat has prepared a separate background note with a more detailed discussion on Sustainable Development Goal reporting by companies for the thirty-sixth session of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (TD/B/C.II/ISAR/89).

### III. Review of current developments on International Public Sector Accounting Standards

32. In public sector accounting research, adoption has been described as a process that incorporates requirements of international standards (such as IPSAS) in local regulation.<sup>29</sup> It can entail the coexistence of different sets of standards; for example, local regulation can embed IPSAS requirements. Over time, a convergence process would see accounting requirements converging towards the same principles. The process of convergence can be carried out by step-by-step implementation of changes of international standards into a local context. Convergence can take place between IPSAS, on the one hand, and local accounting and financial reporting requirements, on the other, within the public sector. Convergence can also take place within a country context, between various levels of reporting (for example, central Government versus municipalities).

#### 1. Updates on recently issued International Public Sector Accounting Standards

33. The IPSAS Board strategy and work plan 2019–2023 sets out the Board's work and priorities through this five-year period.<sup>30</sup>

34. The IPSAS Board released an updated IPSAS–IFRS alignment dashboard as of June 2019.<sup>31</sup> The dashboard indicates the extent of alignment between individual IPSAS and the corresponding IFRSs. The IPSAS Board updated the alignment dashboard in January 2019 to include IPSAS 42, social benefit.<sup>32</sup>

<sup>27</sup> International Integrated Reporting Council, 2019, The Sustainable Development Goals and the future of corporate reporting, available at <http://integratedreporting.org/wp-content/uploads/2019/02/The-Sustainable-Development-Goals-and-the-future-of-corporate-reporting-1.pdf>.

<sup>28</sup> Corporate Reporting Dialogue, 2019, Understanding the value of transparency and accountability, available at <https://corporatereportingdialogue.com/wp-content/uploads/2019/07/Understanding-the-value-of-transparency-and-accountability-paper-1.pdf>.

<sup>29</sup> See, for example, Pacter P, 2005, What exactly is convergence? *International Journal of Accounting, Auditing and Performance Evaluation*, 2:67–83, available at <https://www.iasplus.com/en/binary/resource/2005ijaape.pdf>, and Brusca I and Martínez JC, 2015, Adopting International Public Sector Accounting Standards: a challenge for modernizing and harmonizing public sector accounting, *International Review of Administrative Sciences*, 82(4):724–744.

<sup>30</sup> For more information, see [http://www.ifac.org/system/files/publications/files/IPSASB-Strategy-Work-Plan-Consultation-Summary2\\_0.pdf](http://www.ifac.org/system/files/publications/files/IPSASB-Strategy-Work-Plan-Consultation-Summary2_0.pdf).

<sup>31</sup> Available at [http://www.ifac.org/system/files/uploads/IPSASB/Agenda%20Item%201.5%20IPSAS%20IFRS%20Alignment%20Dashboard\\_June%202019.pdf](http://www.ifac.org/system/files/uploads/IPSASB/Agenda%20Item%201.5%20IPSAS%20IFRS%20Alignment%20Dashboard_June%202019.pdf).

<sup>32</sup> Available at [http://www.ifac.org/system/files/uploads/IPSASB/Agenda%20Item%201.7%20IPSAS%20IFRS%20Alignment%20Dashboard\\_March%202019%20-%20revised.pdf](http://www.ifac.org/system/files/uploads/IPSASB/Agenda%20Item%201.7%20IPSAS%20IFRS%20Alignment%20Dashboard_March%202019%20-%20revised.pdf).

*IPSAS 41, financial instruments*

35. IPSAS 41, financial instruments, is aimed at improving the relevance of information for financial assets and financial liabilities. It will replace IPSAS 29, financial instruments: recognition and measurement. IPSAS 41 introduces the following:

- (a) Simplified classification and measurement requirements for financial assets;
- (b) A forward-looking impairment model;
- (c) A flexible hedge accounting model.

36. IPSAS 41 has an effective date of 1 January 2022 but may be adopted early. A 2019 Organization for Economic Cooperation and Development report on accrual accounting in Ireland<sup>33</sup> suggests that it may be worthwhile to consider early adoption of IPSAS 41, rather than implementing the existing standards under IPSAS on financial instruments.

*IPSAS 42, social benefits*

37. The IPSAS Board has released IPSAS 42, social benefits<sup>34</sup> with an effective date of 1 January 2022. In combination with releasing IPSAS 42, the IPSAS Board also released a related *Exposure Draft 67: Collective and Individual Services and Emergency Relief (Amendments to IPSAS 19)* to address a wide range of significant government expenditures. This means that IPSAS 42 is one of several related initiatives dealing with liabilities and expenses that arise from non-exchange transactions as well as the complement to such transactions, namely, revenue from exchange and non-exchange transactions.<sup>35</sup>

38. IPSAS 42 stipulates how to handle cash transfers that are provided by States to specific individuals or households which meet eligibility criteria and that mitigate the effects of social risk and address the needs of society.

## 2. Current development process of International Public Sector Accounting Standards

*Exposure Draft: Collective and Individual Services and Emergency Relief*

39. In *Exposure Draft 67: Collective and Individual Services and Emergency Relief (Amendments to IPSAS 19)*, transactions for collective and individual services and emergency relief are addressed.<sup>36</sup> *Exposure Draft 67* forms part of the IPSAS Board's broader non-exchange expenses project, proposing requirements for collective and individual services and emergency relief. The purpose of the IPSAS Board's project on non-exchange expenses is to develop new or amended standards that provide recognition and measurement requirements applicable to providers of non-exchange transactions, except for social benefits. It should be noted that the first step in the development of accounting requirements for non-exchange expenses was the publication of a consultation paper on accounting for revenue and non-exchange expenses, which was issued in August 2017.

<sup>33</sup> Organization for Economic Cooperation and Development, 2019, Financial reporting in Ireland: Draft report, available at [http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=GOV/PGC/SBO\(2019\)2/DRAFT&docLanguage=En](http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=GOV/PGC/SBO(2019)2/DRAFT&docLanguage=En) (accessed 10 July 2019).

<sup>34</sup> Available at <http://www.ifac.org/publications-resources/ipsas-42-social-benefits>.

<sup>35</sup> The IPSAS Board issued a consultation paper on accounting for revenue and non-exchange expenses in which two potential approaches are discussed in relation to recognition of revenue for transactions that have performance obligations or stipulations. The consultation paper embeds a suggested alignment with IFRS 15.

<sup>36</sup> IPSAS Board, 2018, Collective and individual services and emergency relief, available at <http://www.ifac.org/publications-resources/exposure-draft-67-collective-and-individual-services-and-emergency-relief> (accessed 10 July 2019).

*Consultation paper on measurement*

40. In April 2019, the IPSAS Board released a consultation paper on measurement that addresses how measurement bases are determined in the public sector.<sup>37</sup>

41. The IPSAS Board indicated that after completing the Conceptual Framework, it recognized a need for better alignment of IPSAS measurement requirements and guidance with the principles contained in the Conceptual Framework. Therefore, on the basis of the rationale that measurement requirements in IPSAS should be amended to better align them with the Conceptual Framework's measurement concepts, the IPSAS Board's Measurement Project began in 2017.

42. The consultation paper of 2019 identifies the most commonly used measurement bases for measuring assets and liabilities for public sector entities. In the consultation paper, the development of a single standard is proposed that will provide definitions and guidance on the main measurement bases, while other IPSAS will continue to provide guidance on which particular measurement basis is to be used.

*European Public Sector Accounting Standards*

43. Article 16, paragraph 3 of Council Directive 2011/85/EU, issued on 8 November 2011, on requirements for the budgetary frameworks of member States, tasked the European Commission to assess the suitability of the IPSAS for the member States of the European Union by 31 December 2012. One of the main recommendations of the European Commission's report on the matter was the implementation of a single set of harmonized accrual-based accounting standards, consistent with the European System of Accounts,<sup>38</sup> at all levels of Government throughout the European Union.

44. To address this, Eurostat launched a public consultation on the suitability of IPSAS for European Union member States in February 2012. This consultation on the suitability of IPSAS and harmonized accruals-based European Union public sector accounting standards was considered an important component of building trust across the public sector.<sup>39</sup> The overall conclusion from the public consultation was that European Union member States<sup>40</sup> did not think it appropriate for the European Union to adopt IPSAS, but instead should develop European Public Sector Accounting Standards (EPSAS). Nevertheless, the report considered and concluded that IPSAS serves as an "indisputable reference" for potential European Union harmonized accounts.

45. While no decisions have yet been taken at the European Union level regarding harmonized accounting standards, a European Union-wide accounting framework could be implemented according to the following indicative timeframe: (a) phase 1, increasing fiscal transparency in the member States in the short- to medium-term by promoting accruals accounting, e.g. IPSAS, in the period from 2016 to 2020, and in parallel developing the EPSAS framework (i.e. EPSAS governance, accounting principles and standards); and (b) phase 2, addressing comparability within and between the member States in the medium- to longer-term, by implementing EPSAS by 2025.

<sup>37</sup> Available at <http://www.ifac.org/news-events/2019-04/ipsasb-seeks-comments-measurement-proposals> (accessed 10 July 2019).

<sup>38</sup> The current European System of Accounts 2010 is the standard under which government finance statistics within the European Union are reported (see <https://ec.europa.eu/eurostat/web/esa-2010>, accessed 10 July 2019).

<sup>39</sup> Aggestam-Pontoppidan C and Brusca I, 2016, The first steps towards harmonizing public sector accounting for European Union member States: Strategies and perspectives, *Public Money and Management*, 36(3):181–188.

<sup>40</sup> European Commission, 2013, Assessment of the Suitability of the IPSAS for the Member States – Public Consultation, p. 8., available at <http://ec.europa.eu/eurostat/about/opportunities/consultations/ipsas> (accessed 10 July 2019).

46. An online course on European Public Sector Accounting has been developed and is available free of charge. Students and professionals can learn about different approaches and traditions of Public Sector Accounting in selected European Union countries. In addition, the educational modules include lectures on IPSAS.<sup>41</sup>

#### IV. Consolidation of financial statements in the public sector<sup>42</sup>

47. In many cases, several entities in the public sector work together for a common purpose, under one organization (an economic entity). Consolidation is the process of presenting financial statements of all entities that make up a reporting entity in a consolidated manner. As described in the Association of Chartered Certified Accountants ACCA report of 2017 entitled *Whole of government accounts: Who is using them?*,<sup>43</sup> a central idea behind the introduction of consolidated accounts across the entire spectrum of Government is to encourage greater accountability through greater transparency of links between government bodies and the amalgamation of financial obligations across the various bodies into a single entity.

48. As described in a report issued by Eurostat in 2018, the consolidated information at the level of a central Government can provide useful information on the execution of the policies by that Government, while financial information related to one ministry reflects the contribution of that ministry in the overall central government policy.<sup>45</sup> Information prepared at the consolidated level may therefore serve the needs of users who are different from the users of information prepared at the individual entity level. Political and managerial responsibilities at the two levels are different, and financial statements that reflect the impact of the decisions taken at each level are useful for accountability and decision-making. The main issues that seem to emerge when considering the preparation of consolidated financial statements can be divided into the three areas listed below,<sup>46</sup> the first two of which are conceptual in nature and are key aspects in serving accountability and decision-making needs:

- (a) Determination of the level at which consolidated financial statements should be prepared;
- (b) Determination of the scope of consolidation;

<sup>41</sup> See <http://offene.uni-rostock.de/online-course-european-public-sector-accounting/> (accessed 10 July 2019).

<sup>42</sup> This chapter is based on information compiled from a number of key reports: Eurostat, 2018, EPSAS issue paper on consolidation of financial statements, available at <https://circabc.europa.eu/sd/a/76234623-73ae-4765-9345-193d38d00ad2/Issue%20paper%20on%20consolidation%20of%20financial%20statements.pdf>; Eurostat, 2017, EPSAS issue paper on the national approaches to harmonization of chart of accounts, available at <https://circabc.europa.eu/sd/a/54519783-fa35-41f6-b60f-dd0d9510faa9/Issue%20paper%20on%20chart%20of%20accounts.pdf>; and Chow DSL, Pollanen R, Baskerville R, Aggestam-Pontoppidan C and Day R, 2019, Usefulness of consolidated government accounts: A comparative study. *Public Money and Management*, 39(3):175–185; and two reports of the Association of Chartered Certified Accountants published in 2015 and 2014, respectively, *Consolidated government accounts: How are they used?*, available at [https://www.accaglobal.com/content/dam/ACCA\\_Global/Technical/pubsect/ea-consolidated-government-accounts-v4.pdf](https://www.accaglobal.com/content/dam/ACCA_Global/Technical/pubsect/ea-consolidated-government-accounts-v4.pdf), and *Whole-of-government accounts: Who is using them?*, available at <https://www.accaglobal.com/content/dam/acca/global/PDF-technical/public-sector/tech-tp-woga-whole-of-government.pdf>.

<sup>43</sup> The term whole-of-government accounts is used differently in different jurisdictions. In the United Kingdom, whole-of-government accounts refers to the consolidation of all levels of government (i.e. national, regional and local). In federal republics, such as Australia, States are always sovereign and therefore whole-of-government accounts never refers to the consolidation of different levels of Government.

<sup>44</sup> See <https://www.accaglobal.com/content/dam/acca/global/PDF-technical/public-sector/tech-tp-woga-whole-of-government.pdf>.

<sup>45</sup> Available at <https://circabc.europa.eu/sd/a/76234623-73ae-4765-9345-193d38d00ad2/Issue%20paper%20on%20consolidation%20of%20financial%20statements.pdf>.

<sup>46</sup> Compare, for example, with Eurostat, 2018.

(c) The cost and complexity linked to the preparation of consolidated financial statements, an issue which is organizational in nature.

49. Consolidation only makes sense once high-quality financial statements are available for entities in the public sector. Consolidation will thus often be the last phase of accounting reform in the public sector.

50. To carry out a consolidation in accordance with IPSAS, the concept of a reporting entity is defined in the IPSAS Board's Conceptual Framework. Then, the following IPSAS explain the requirements included in the various standards dealing with consolidation:

- (a) IPSAS 35, consolidated financial statements
- (b) IPSAS 36, investments in associates and joint ventures
- (c) IPSAS 37, joint arrangements
- (d) IPSAS 38, disclosures in other entities.

51. Under standards such as IPSAS (as well as IFRS), determining which accounts are included in the consolidated financial statements is based on the concept of control.

#### *Determining the scope of consolidation*

52. Determining which entities are included in the scope of consolidation is based on the concept of control. Consolidated financial statements should include the accounts of the controlling entity and those of all controlled entities.

53. The following definitions are relevant in this context:

(a) Control: an entity controls another entity when the entity is exposed, or has rights, to variable benefits from its involvement with the other entity and has the ability to affect the nature and amounts of those benefits through its power over the other entity;

(b) Controlling entity: an entity that has one or more controlled entities;

(c) Controlled entity: an entity, including an unincorporated entity such as a partnership, that is under the control of another entity;

(d) Economic entity: a group of entities comprising the controlling entity and any controlled entities. Other terms sometimes used for economic entity include administrative entity, financial entity, consolidated entity or group.

#### *The role of chart of accounts in facilitating consolidation*

54. Using a harmonized chart of accounts is also helpful to streamline and make the consolidation process more efficient.<sup>47</sup> Harmonization of the chart of accounts is therefore often recommended for all government entities within a country, if they seek to prepare consolidated financial reports in the future. The harmonization of the chart of accounts facilitates both the consolidation at a specified government level (central, State and local) and consolidation at the national level. Examples of countries that have adopted a harmonized chart of accounts include Brazil, Estonia and Portugal.

55. The organization of the consolidation process implies the setting up of a standard chart of accounts and procedures, such as the elimination of intra-government transactions and balances. Below are examples in regard to accrual accounting reforms, where the development of a harmonized chart of accounts have been an integral part of enabling consolidated financial statements. The examples are taken from recent studies and Eurostat studies from 2017 and 2018.<sup>48</sup>

<sup>47</sup> Eurostat, 2017, EPSAS issue paper on the national approaches to harmonisation of chart of accounts, available at <https://circabc.europa.eu/sd/a/54519783-fa35-41f6-b60f-dd0d9510faa9/Issue%20paper%20on%20chart%20of%20accounts.pdf>.

<sup>48</sup> Ibid.; Eurostat, 2018, EPSAS issue paper on consolidation of financial statements, available at <https://circabc.europa.eu/sd/a/76234623-73ae-4765-9345-193d38d00ad2/Issue%20paper%20on%20consolidation%20of%20financial%20statements.pdf>.

*Belgium*

56. Central government entities, under the authority of the Federal Public Services, can opt to apply the harmonized Belgian chart of accounts for private corporations or the harmonized Belgian chart of accounts for non-profit organizations. The reason for this is that, at the time of the roll out of the enterprise resource planning system to the Federal Public Services and Public Planning Services, some central government entities, other than Federal Public Services, Public Planning Services and social security funds, had already their local systems for financial accounting and statistical reporting in place and running. Consequently, interfaces were created with the enterprise resource planning system allowing these central government entities to communicate their data for consolidation and statistical reporting purposes.

57. If a central government entity chooses to keep its chart of accounts for private corporations or for non-profit organizations, they have to communicate their data by means of a mapping table linked to the harmonized chart of accounts applicable to public sector entities.

58. In Belgium, a harmonized chart of accounts has been adopted with a view to improving comparability and increasing possibilities for sharing best practices among consolidated entities. It allows for better consistency of accounting practices. In addition, it facilitates the consolidation process.

*Brazil*

59. Until 2014, each Brazilian federal entity (central Government, States and municipalities) had its own chart of accounts. This meant that the accountant of the public entities had freedom to change, exclude or include accounts in that chart. With the process of convergence of Brazilian public accounting to IPSAS, a new chart of accounts structure was established, called the Plan of Accounts Applied to the Public Sector. Certain accounts in the new chart of accounts are restricted, if they are accounts relevant for consolidation purposes.<sup>49</sup>

*Portugal*

60. In 2013, the Ministry of Finance of Portugal appointed the National Accounting Standards Commission in order to adopt IPSAS-based financial accounting standards in the Portuguese public sector. Since then, Portugal has also adopted a harmonised chart of accounts as part of its accrual accounting reform.

61. Together with the Conceptual Framework and the Multidimensional Accounts Plan, the standards under the country's Accounting and Budgetary and Financial Reporting Standards form the basis for preparing public sector entities' financial reporting, which is expected to include four main financial statements in addition to notes: balance sheet, operating statement (by nature), cash flow statement and statement of changes in equity. The new Accounting Standards for Public Administrations considers each public entity as a reporting entity; however, it foresees a simplified regime for smaller and less risky entities. The Accounting Standards for Public Administrations comprises the budgetary, financial and management accounting subsystems. The objective is to fully implement the accrual basis of accounting to the general government sector, linking it with the current modified cash basis used in the budget subsystem.

62. The harmonized chart of accounts applies to all levels of Government (central, regional and local). All entities included in the whole-of government accounts should use the standard chart of accounts. Local entities can adapt their local chart of account, but it should be mapped to the harmonized central chart of accounts for consolidation purposes.

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<sup>49</sup> See Jorge S, Vaz de Lima D, Pontoppidan C and Dabbicco G, 2019, The role of the charts of accounts in public sector accounting. Available at [https://openarchive.cbs.dk/xmlui/bitstream/handle/10398/9723/Jorge\\_VazdeLima\\_AggestamPontoppidan\\_Dabbicco.pdf?sequence=1](https://openarchive.cbs.dk/xmlui/bitstream/handle/10398/9723/Jorge_VazdeLima_AggestamPontoppidan_Dabbicco.pdf?sequence=1) (accessed 10 July 2019).

### Modalities of consolidation

63. This section moves from the consideration of the role of a harmonized chart of accounts for the process of enabling the making of consolidated financial statements in the public sector, to a focus on the processes to prepare such consolidation. Studies have shown that consolidation boundaries differ from country to country depending on various factors. This will be illustrated in the following country examples.

#### *Australia*

64. In Australia, consolidated financial statements, including government-controlled public corporations, are published within five months after the end of the financial year.

#### *Estonia*

65. A standard chart of accounts is used by all public sector entities, including 240 different accounts for assets, 340 for revenues and 450 for expenses. The State Shared Service Centre is in charge of the management of consolidation software, which allows obtaining of financial reports within a very limited time frame. All public sector entities must input their financial information into the consolidation system within 30 days after the end of the month. The summarized whole-of government accounts (with limited notes) are prepared on a quarterly basis, and the annual whole-of government financial statements are prepared by 30 April. Thereafter, they are audited by the State Audit Office and presented to Parliament by 30 August.

66. Consolidated financial statements in Estonia are prepared at different levels:<sup>50</sup>

(a) At the central government level, including the State and entities controlled by the State;

(b) At the local government level, including all local government units and their controlled entities;

(c) At the general government sector level, including all entities belonging to the general government sector, without public corporations controlled by the central or local governments;

(d) At the whole-of-government level, including all entities belonging respectively to the public sector consolidated (general government sector, plus public corporations controlled by the central or local governments).

67. Preparation of whole-of-government accounts is required by accounting law in Estonia. The country has defined the objective of producing whole-of-government accounts, to give: (a) an overview of the country's financial position, financial performance and cash flows and (b) the information required to complete international financial reporting obligations.

68. At each government level (central and local), the scope of consolidation includes all entities over which the controlling entity has control, in line with international accounting standards such as IPSAS.

#### *Italy*

69. A research study published in 2019 focuses on understanding consolidations in local governments in Italy.<sup>51</sup> The study looked at local governments that joined a testing period and implemented consolidated financial statements on a voluntary basis.

<sup>50</sup> Consolidated financial statements are available in Estonian at <https://www.rahandusministeerium.ee/et/riigi-raamatupidamine> (accessed 10 July 2019).

<sup>51</sup> Santis S, Grossi G and Bisogno M, 2019, Drivers for the voluntary adoption of consolidated financial statements in local governments, *Public Money and Management*.

70. The findings of the study show that both technical and political reasons influenced the decision of local politicians (supported by managers) to participate in the testing period; moreover, the findings show the relevance of other variables, such as the local government's size and level of debt.

71. A valuable finding from the study is the potentially important role of a testing period, which, in this case allowed local governments to gain greater knowledge of the accounting standards and the structure of consolidated financial statements, while improving, for example their employees' skills.

72. The results of the study highlight the relevance of both technical and political reasons for local governments implementing consolidated financial statements on a voluntary basis. In order to facilitate the implementation of consolidated financial statements, in the study it is recommended that central Governments encourage local governments to be legitimate, i.e. to improve citizens' perception of their performance. As well, a central Government should provide technical assistance through ad hoc training courses or by publishing manuals.

#### *United Kingdom*

73. The Government of the United Kingdom prepares whole-of-government accounts covering central and local governments, and public corporations (including the central bank). At the central government level, government departments prepare consolidated financial statements including their agencies, arm's length bodies and subsidiaries. Devolved administrations, i.e. Northern Ireland, Scotland and Wales, also prepare consolidated accounts at their level. Local government entities prepare consolidated accounts for their own groups (i.e. including subsidiaries).

74. Consolidated financial statements are also prepared by the National Health Service, trusts, State-owned enterprises and academy schools. Whole-of-government accounts are financial statements prepared in accordance with IFRS (as adapted for the public sector). They are presented to the House of Commons (parliament) following the Government Resource and Accounts Act 2000. The United Kingdom therefore produces consolidated financial statements for the whole of the public sector.<sup>52</sup> They are published within 12 to 14 months after the end of the fiscal year.

#### **Challenges with whole-of-government accounts**

75. The usefulness of consolidated government accounts for policymaking could benefit from more detailed studies. Another country that produces consolidated financial statements in the public sector is New Zealand, which does consider consolidated government accounts useful. In Canada, discussion of benefits focuses on a greater awareness of government operating costs, while for Australia and Sweden such information is not used for policy purposes.<sup>53</sup>

76. The EPSAS issue paper on consolidation of financial statements (Eurostat, 2018) highlights three main types of issues in connection with the preparation of consolidated financial statements:

- (a) Determination of the level at which consolidated financial statements should be prepared;
- (b) Determination of the consolidation scope;
- (c) Cost and complexity linked to the preparation of consolidated financial statements.

77. The reporting entity may indeed be defined at different levels: at the central government level, at the local government level and even at a lower level (e.g. at the

<sup>52</sup> The Government of the United Kingdom published its eighth whole-of-government accounts. Whole-of-government accounts are available at <https://www.gov.uk/government/publications/whole-of-government-accounts-2016-to-2017> (accessed 10 July 2019).

<sup>53</sup> Chow D et al., 2019; Association of Chartered Certified Accountants, 2015.



department level). Each level includes in its scope the entities that are (deemed to be) part of that level. In addition to this, the appropriateness of preparing whole-of-government accounts, i.e. presenting the accounts of all public sector entities within one country, should be analysed. The level at which consolidated financial statements should be prepared is often determined by national, State or local law or regulation.

78. Deciding the approach for determining the scope of consolidation is the most cited technical/conceptual challenge.<sup>54</sup> The key conceptual question is whether consolidated accounts should be prepared solely based on the notion of control or based on both the notion of control and the nature of the activities of the entities. International accounting frameworks such as IPSAS and IFRS require the inclusion in the scope of consolidation of all entities under the control of a controlling entity (including public corporations that carry out market or commercial activities).

79. The Eurostat EPSAS issue paper on consolidation of financial statements<sup>55</sup> also highlights that, in a European context, questions, such as that, should the European System of Accounts scope of reporting be followed, the accounting treatment of investments in public corporations (which would then not be eliminated in consolidation) would need to be determined. Possible accounting treatments include reporting investments using the equity method and measuring them at cost or at fair value.

80. Technical and/or practical difficulties may arise in the application of consolidation rules under international accounting frameworks. These can happen in relation to:

- Determination of the scope of consolidation, including applying judgement in determining whether control exists and whether and to what extent materiality thresholds can be used in deciding which entities may be left out of the scope of consolidation.
- The consolidation process, including gathering of information from all entities in scope, intragroup eliminations, harmonization of accounting policies (including for public corporations that carry out commercial activities).

81. Furthermore, the Eurostat EPSAS issue paper indicates that balances and transactions between entities within the economic entity should be eliminated in full, including revenues and expenses. Internal gains and losses on intra-government transactions, which have been included in assets or liabilities (e.g. in inventory or in fixed assets) should also be eliminated in full. The practical challenges of gathering information across a series of entities with different financial systems should not be underestimated.

### **Benefits of whole-of-government accounts**

82. The main benefits reported by, for example, the Government of the United Kingdom in relation to the production and publication of consolidated financial statements are:

- (a) Whole-of-government accounts are used to support government response of independent review of fiscal risks and reviewed by parliamentary committee.
- (b) Central government consolidated accounts provide opportunities for scrutiny by parliamentary select committees and for trend data.
- (c) Local government consolidated accounts provide useful opportunity for scrutiny by local taxpayers.

83. Governments included in the 2018 study by Eurostat, which looked at Estonia, Slovakia and the United Kingdom in relation to consolidation practices, identified benefits linked to the preparation of whole-of-government accounts.<sup>56</sup>

<sup>54</sup> See, for example, Association of Chartered Certified Accountants, 2018, IPSAS implementation: Current status and challenges, available at [https://www.accaglobal.com/content/dam/ACCA\\_Global/Technical/pubsect/pi-IPSAS-implementation-current-status-and-challenges.pdf](https://www.accaglobal.com/content/dam/ACCA_Global/Technical/pubsect/pi-IPSAS-implementation-current-status-and-challenges.pdf).

<sup>55</sup> Eurostat, 2018.

<sup>56</sup> Ibid.

84. The benefits include:

(a) Increased transparency and comprehensive reporting of public sector assets and liabilities of the country, allowing balance sheet scrutiny.

(b) Better use of assets and better management of liabilities (what is made evident will be managed) and, consequently, better financial discipline in the whole public sector.

(c) Better management of risks (owing for example to the reporting of contingent liabilities).

(d) Providing the foundation for (i) defining key performance indicators for better public financial management and (ii) wider management reforms (cost effectiveness, results-based management).

(e) Providing useful source of information for fiscal sustainability reports and statistical reports.

(f) Increased credibility towards fund providers and other interested stakeholders.

## V. Issues for consideration

85. This note presents current developments with respect to IFRS and IPSAS, as well as considerations for consolidation of public sector financial statements and preparation of whole-of-government accounts. These developments have significant implications for member States, particularly those that have yet to implement IFRS and IPSAS. To address the challenges related to reforming national systems of accounting and reporting to meet requirements of investors, other capital providers and decision-makers, the issues outlined below could be addressed by delegates attending the thirty-sixth session of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting.

86. With regard to the IFRS, the following issues could be considered:

(a) What are some of the key lessons learned in implementing recently issued IFRS?

(b) Are there any particular challenges that countries and enterprises are encountering in implementing the new IFRSs?

(c) What are some of the global mechanisms available for ensuring comparable and consistent implementation of IFRSs that came into effect in recent years?

(d) What are some of the main benefits derived from implementing recently issued IFRSs?

(e) There are still many countries around the world that have not yet implemented IFRS. What is the likely trend in the coming years?

87. In relation to IPSAS and consolidation of public sector financial statements and whole-of-government accounts, delegates may wish to consider the following issues:

(a) What are some good practices in implementing IPSAS worldwide?

(b) What can be done to facilitate timely preparation of public sector financial reports?

(c) How can member States build the necessary human capacity to successfully implement IPSAS?

(d) What are some key challenges and benefits of whole-of-government accounts?