## ATTENDANCE

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* NIA- Not in Attendance
(M) Member
(TA) Technical Advisor
(B) IFAC Board
(O) Observer
(S) IFAC Staff
(C) Consultant
1. WELCOME AND APOLOGIES

The Chair opened the meeting and welcomed the members to New York for this meeting. The Chair thanked Jay Karia, the observer from the United Nations, for organizing for the PSC to view the Macy’s July 4th fireworks from the United Nations’ building.

The Chair welcomed the new members, technical advisors and observers to their first Committee meeting:
- Mr. Mohd Salleh bin Mahmud, Member, Malaysia;
- Mr. Er Beng Kiong, Technical Advisor, Malaysia;
- Dr (Ms.) Nafsiah Mohammed, Technical Advisor, Malaysia;
- Mr. Ron Alroy, Technical Advisor, Israel;
- Mr. Tadashi Sekikawa, Technical Advisor, Japan;
- Mr. Ethan Weisman, Observer, International Monetary Fund; and
- Ms. Anne Kester, Observer, International Monetary Fund.

The Chair also welcomed Mr. Robert (Bob) Attmore the new Chairman of the Governmental Accounting Standards Board (GASB, USA). Mr. Attmore joined the meeting as an observer invited to the table.

Apologies were noted from:
- Warren McGregor, Observer (IASB);
- Simon Bradbury, Observer (World Bank); and
- Jon Blondal, Observer (OECD).

Jerry Gutu noted that the European Commission’s previous observer, Mr. Dieter Glatzel, had stepped down and had not been replaced. Jerry noted that the Director-General responsible in the EC was in the process of nominating a replacement observer. The PSC members from Europe were requested to take up the issue of a replacement. Mike Hathorn agreed to take this up at the next meeting of the EC at which the Director-General Budget would be present.

2. CONFIRMATION OF MINUTES

The meeting received the minutes from the meeting held in Buenos Aires on March 24 – 26, 2004. The minutes were confirmed subject to the following changes:
- Jay Karia was present at the meeting;
- Under Item 11 on page 2.21, it should be noted that members were invited to pass comments on the matrix of differences between IPSASs and GFS to the authors out of session; and
- Any minor editorial amendments.

**Action Required:** Amend minutes, Post to IFAC Leadership Intranet. Prepare Action List.

**Person(s) responsible:** PSC Staff.
3. MATTERS ARISING AND ACTION LIST

There were no matters arising from the minutes, apart from matters to be raised under other agenda items. The PSC Technical Director noted that the items on the Action List had been dealt with as indicated.

**Action Required:** Prepare Minutes and Action List from July 2004 meeting, circulate to members for review – members to advise staff of any proposed amendments.

**Person(s) responsible:** PSC members, Staff.

4. CHAIRMAN’S REPORT

The Committee received and considered a report by Philippe Adhémar, the Chair of the PSC, on his activities as Chair since the previous PSC meeting. In particular, Philippe noted that he had:

- Promoted IPSASs in various public sector seminars;
- Participated in an OECD workshop on implicit liabilities and IAS 19, ‘Employee Benefits.’ He advised that the workshop participants expressed interest in the progress on the Invitation to Comment “Accounting for Social Policies of Governments;” and
- Attended IASB’s Standards Advisory Council (SAC) meeting in Oslo, Norway. He noted that the IASB was moving along with a large agenda which included:
  - Convergence with the USA’s Financial Accounting Standards Board (FASB). One of the projects within the convergence project is a joint project for a single conceptual framework;
  - A project on consolidation of special purpose entities (SPEs); and
  - A revenue recognition project.

The Chair also noted that he had met with Sir David Tweedie, the Chair of the IASB and other Board members to discuss the possibility of joint projects between the PSC and the IASB, especially in regards to public/private partnerships (service concession arrangements).

**Action required:** Prepare Chair’s Report for November meeting.

**Person(s) responsible:** Chair, PSC Technical Director.

5. SECRETARIAT’S REPORT

The Committee received and noted:
- A report from the Secretariat; and
- An updated Members’ Correspondence Distribution List.

Jerry Gutu spoke to the Secretariat’s report identifying the activities he had been involved in since the last meeting of the Public Sector Committee on March 24 – 26, 2004 in Buenos Aires, Argentina. He advised the meeting that he had been involved among other duties in:

*Minutes from the PSC Meeting in July 2004 – New York*
• Managing the nomination process for the Consultative Group including replacements;
• Finalizing arrangements for this meeting in New York;
• Liaison with the IFAC’s other technical committees, particularly the IAASB and the PSC sub-committee on drafting of PSPs and forwarding them to the IAASB;
• Various other secretariat and support functions; and
• Arranging future meetings, including the November 2004 meeting in New Delhi, India.

Members’ attention was drawn to the Correspondence Distribution List (CDL). Members were requested to pass on any amendments so that the CDL can be updated.

**Action Required:**  Update PSC CDL with any changes. Prepare Secretariat Report for November 2004 meeting. Finalize arrangements for November 2004 meeting and advise members.

**Person(s) Responsible:** PSC Secretariat.

6. REPORT ON THE STANDARDS WORK PROGRAM

The Committee received and noted:
• A memorandum from Paul Sutcliffe regarding funding activities, promotion activities and the status of IPSAS translations;
• A memorandum from Paul Sutcliffe on the Standards Development Work Program;
• A report on the status of PSC projects;
• A draft work plan for the remainder of 2004;
• A projected work plan for 2004 through 2006; and
• A summary of the active projects of national public sector standards setters and similar authoritative bodies in PSC member countries.

Paul Sutcliffe, the PSC Technical Director:
• Tabled a report on PSC Standards Program costs and funding to June 2004, and projections through to June 2005. Details of costs incurred by the PSC Standards Program and by IFAC central in respect of the PSC secretariat during 2003 were also tabled;
• Noted that staff had prepared a funding proposal in April 2004 that was being reviewed by the Chair. The preparation of the funding proposal had been suggested in the meeting of the Chair, the Deputy Chair, the Technical Director and the international organizations represented as observers on the PSC during the course of the meeting in Buenos Aires. Paul noted that the proposal would be further updated to support funding initiatives consequent on the Report of the Review Panel;
• Explained that based on standards program staff continuing to operate out of Australia, the current funding arrangements would support operations through until mid 2005, but additional funds would be necessary beyond that time;
• Additional funding from the World Bank for the project on Development Assistance had been approved and received; and
• The second contribution from the Asian Development Bank (ADB) under the existing funding agreement had been received. It was noted that a third and final tranche was due in 2005.

Ron Points noted that he had been advised that the Inter-American Development Bank had approved funding to match the ADB funding.

The Chair requested representatives of the regional banks and international organizations to meet with him, the Deputy Chair and the Technical Director following the meeting to discuss regional funding initiatives.

Paul Sutcliffe outlined translation and promotional activities that had been undertaken since the last meeting including:
• The Spanish translation had been completed except for one IPSAS, which was still in process. The Mexican member advised that the final IPSAS had been completed and forwarded to the IASCF during the last few days;
• The French translation was still progressing. The Chair advised that it was anticipated that the French translation would be completed in October of this year;
• The PSC Chair, members and staff had been active in promoting PSC activities. Members noted the schedule of PSC presentations included in agenda materials and agreed to provide to Staff out of session information about any additional presentations made or scheduled;
• English, French and Spanish versions of PSC Update 11 had been prepared and distributed following the Buenos Aires meeting. Paul particularly thanked the Mexican member and French delegation for their work in reviewing and correcting the translations; and
• Ron Points advised that translation of IPSASs into Vietnamese was about to commence.

Matthew Bohun provided an update on responses received to the Invitations to Comment “Accounting for Social Policies of Governments” and “Revenue from Non-Exchange Transactions (including Taxes and Transfers).” Matthew noted the closing date for comment was June 30 and forty-five responses had been received to date, with more to come. Members agreed that copies of all responses and the analysis should be provided to Steering Committee members at the same time as they were sent to the PSC.

Paul drew members’ attention to the summary of projects on the active work plans of standard setters. He noted that it was compiled from input from PSC members on the active projects on the agendas of standards setters or similar bodies in their jurisdiction, and would be circulated to all members again prior to the next PSC meeting for any updates.

Paul noted progress on technical projects since the March 2004 meeting of the PSC including that:
• The Budget Reporting Research Report had been finalized and made publicly available on the PSC’s website in late May. Paul also noted that a limited number of hard copies of the Report had been prepared and were available;
• Development Assistance Project – the draft Exposure Draft had been circulated to the Project Advisory Panel (PAP). Paul also noted that the consultant would discuss the draft at an OECD seminar in Paris immediately following this PSC meeting (on July 9, 2004) at which further input would be received;

• A project brief on the PSC’s performance reporting project had not been prepared. Staff were seeking input from the IASB on the reactivation of their project and were not yet in a position to prepare a comprehensive project brief; and

• The project brief for an Occasional Paper surveying the use of IPSASs had not been prepared. Paul Sutcliffe noted that given limited staff resources there had not been sufficient time to prepare the brief. He also expressed doubts about whether the PSC had the resources to proceed with the project in the short term. Members noted that this project was important but agreed that the current level of PSC resources would not allow this project to be progressed in the very near future.

Members noted and agreed the 2004 and 2005+ work plans, subject to revisions to reflect decisions made during the remainder of this meeting. Paul advised that these work plans reflect decisions, and the consequences of decisions, already made by the PSC and that the forward work plan would be significantly influenced by the PSC’s decision on its IASB convergence strategy to be considered later in the meeting. He also noted that an extended work plan had been prepared to support the PSC’s discussion of its IAS/IFRS convergence strategy later in the meeting.

As part of its consideration of the PSC Review (see item 13), the PSC discussed its work program priorities moving forward. The Chair called a formal vote and it was agreed that priorities would be:

• First, addressing public sector specific issues;
• Second, convergence/harmonization with IFRSs/IASs; and
• Third, convergence/harmonization with statistical reporting.

Paul advised members that:

• Jerry Gutu and Li Hongxia would soon be completing their time with IFAC, and this was likely to be their last meeting. Paul noted the significant contribution both had made to the PSC’s activities and thanked them for their support. Members also thanked them and wished them well for the future. Members noted that, if possible, arrangements be made to enable Li Hongxia to attend the next meeting to complete her work on the IPSAS Improvements Project;
• Matthew Bohun would move from the Melbourne office to New York to take over from Jerry Gutu;
• LiLi Lian had been promoted to Technical Manager. Members congratulated LiLi, noting the promotion was well deserved; and
• He was exploring a number of possibilities to recruit staff, including a secondment. He noted that the PSC’s current funding position made filling vacant staff positions very difficult.

The Chair noted that the IASB was moving ahead with a project on public/private sector arrangements (PPSAs) and it would be wise for the PSC to be involved. It was agreed...
that an update on the status of accounting for PPSAs in PSC members’ jurisdictions should be prepared for the next meeting, and that PSC staff should monitor closely the IASB project, including direct involvement if appropriate.

**Action Required:** Update register of funding, translation and promotion activities. Update work program and funding proposal. Prepare Project Brief for Occasional Paper on use of IPSASs when time allowed and resources were available to support the project. Meet with observers re funding strategies. Prepare Update on public private sector arrangements, Project Brief on heritage assets and follow up activities from discussion of PSC convergence strategy. Follow up with the IASB on its projects on performance reporting and develop project brief if appropriate.

**Person Responsible:** PSC Chair and Deputy Chair, Members, PSC staff.

### 7. COUNTRY BRIEFING REPORTS

The country reports were taken as read.

**Action Required:** Prepare country reports for the PSC meeting in New Delhi in November 2004. Circulate reports with agenda materials.

**Person(s) Responsible:** Members, Technical Advisors, PSC Secretariat.

### 8. ED 23 IMPAIRMENT OF ASSETS

The Committee received and noted:
- A memorandum from Matthew Bohun;
- A draft IPSAS 21, “Impairment of Non-Cash-Generating Assets;”
- An extract of the draft minutes of the PSC meeting in March 2004 in Buenos Aires;
- A proposed endorsement of IAS 36, “Impairment of Assets;” and
- A proposed endorsement and summary of IFRS 5, “Non-Current Assets Held for Sale and Discontinued Operations.”

Matthew Bohun introduced the topic and explained that the draft IPSAS 21 had been marked up to reflect decisions made at the last PSC meeting and to ensure compatibility with the IAS/IFRS draft convergence strategy. Matthew advised that paragraphs 1(d) and 5 would revert to the form of words used in ED 23, and that paragraphs 1(f) – (j) would be deleted because the Committee decided not to adopt the proposed convergence strategy (see item 12, which was discussed prior to this item at the meeting).

The PSC considered whether non-cash-generating property, plant and equipment carried at revalued amounts should be tested for impairment. Several members argued that there was no public sector specific reason for differing from the approach adopted in IAS 36,
which requires such assets to be tested for impairment. Other members argued that the different approach taken to measuring value in use of cash-generating and non-cash-generating property, plant and equipment rendered any impairment test superfluous because the recoverable service amount would never be materially different from the carrying amount. It was also noted that ED 23 was different from IAS 36 because of the latter’s need to account for cash-generating assets and groups thereof. The PSC agreed that it would not require impairment testing of property, plant and equipment carried at revalued amounts, but that it would note in the Basis for Conclusions that its reasons for doing so included the pragmatic reason that it did not consider an impairment test should be triggered solely because of the impact of transaction costs.

Staff proposed that investment property be excluded from the scope of the proposed IPSAS because investment property is, by definition, cash generating. Members noted that where the use of a property has not yet been determined, it is treated as investment property and it is possible, therefore, for investment property to be non-cash-generating. The PSC agreed to exclude from the scope of the proposed IPSAS, investment property measured using the fair value model in accordance with the IASB’s approach, and agreed that paragraph 6, as drafted in ED 23 would be restored.

The PSC confirmed its previous decision that for a decline in market value to be considered as an indicator of impairment, the decline must be significantly more than would be expected as a result of the passage of time or normal use. The PSC agreed to the amendment to paragraph 21(a).

The PSC discussed cessation of demand as an indicator of impairment. Staff proposed in the draft IPSAS that the indicator be “cessation or near cessation of demand” and that commentary note that if demand declined to a point at which the entity would not have responded to it, or would have responded other than by acquiring the asset being considered for impairment, then demand would be considered to have nearly ceased. The PSC recognized that this would require entities to use professional judgment in making such decisions. The PSC agreed with the proposal outlined in the staff memo and draft IPSAS.

The PSC discussed whether the depreciated replacement cost, restoration cost and service units approaches to measuring value in use were one approach or three separate approaches. Staff advised the PSC that they were of the view that these were methods of determining depreciated replacement cost before and after impairment and reflected practice in the valuation profession. Members noted that the working group that developed ED 23 was concerned to avoid describing all the approaches in a manner that suggested that they were “fair values” because that would place an impediment to adoption of the IPSAS in jurisdictions where the historical cost model was mandated by law. The PSC agreed that the amendments proposed by staff in the draft IPSAS would not be adopted and that the IPSAS should retain the wording that was included in ED 23 while ensuring consistency with the basis of conclusions.

The PSC discussed whether to include obsolescence as an indicator of impairment and agreed that changes in the technological environment encompassed obsolescence and
thus obsolescence was already included within the minimum indicators of impairment in paragraph 21(a) of the draft IPSAS. The PSC agreed to note this in the Basis for Conclusions.

The PSC agreed to reverse its previous tentative decision to include a reference to IPSAS 3 in paragraph 49. The PSC considered that this would unnecessarily date the IPSAS as the work program envisages updating IPSAS 3 within the next two years.

The PSC discussed additional amendments that had been made to IAS 36 in the March 2004 version of that IAS. The PSC agreed that:

- It would substitute the term “fair value less costs to sell” for the term “net selling price” which was included in ED 23;
- It would adopt “shall” in place of “should” in line with the staff recommendations in relation to the improvements project;
- It would not amend the draft IPSAS to include particular provisions relating to intangible assets or goodwill; and
- It would adopt the abbreviation “CU” for currency unit, as has been done by the IASB.

The PSC reviewed the illustrative example of impaired software as an example of an impaired intangible asset, which was included by staff in appendix B of the draft IPSAS. The PSC agreed that the example would provide useful guidance to users and that it should be included in the final IPSAS.

The PSC undertook a page by page review of the draft IPSAS and agreed the following amendments:

- The Introduction should be updated to reflect the revised introduction used in new IPSASs;
- The title of the IPSAS is to be “Impairment of Non-Cash-Generating Assets”;
- It is proposed that this IPSAS be effective after equal authority is adopted after the revision of the “Preface to International Public Sector Accounting Standards.” At that time the italicized paragraph before the objective paragraph would be revised to acknowledge equal authority of the bold and plain type paragraphs. PSC members noted that as they worked through the IPSAS at this meeting they would ensure that commentary paragraphs were appropriate for the equal authority environment;
- Paragraph 7, which explains why property, plant and equipment carried at revalued amounts is excluded from the standard, should include some of the rationale from the Basis for Conclusions;
- The definition of “active market” should be included, as drafted;
- The definition of “cash-generating assets” should be “cash-generating assets are assets held to generate a commercial return” in accordance with the decision made at the March 2004 meeting;
- Superfluous definitions should be deleted;
- In paragraph 15A, the second sentence should read: “An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.”
• Paragraph 16A on depreciation and amortization should be deleted;
• In paragraph 18, the second sentence should only refer to paragraph 20, not to paragraphs 20 – 24;
• In paragraph 21 the third sentence should read: “The existence of other indicators may result in the entity estimating the asset’s recoverable service amount.”
• In paragraph 36, a sentence should be inserted to note that in this standard “value in use” refers to the “value in use of a non-cash-generating asset”;
• Paragraphs 42A and 43 should be deleted;
• The Basis for Conclusions should explain that the indicator of reversal of impairment in paragraph 55(a) (a significant increase in an asset’s market value) is not the mirror of the indicator of impairment in paragraph 21(a) (during the period, an asset’s market value has declined significantly more than would be expected as a result of the passage of time or normal use) because a significant decline in market value is only an indicator of impairment if it is unexpected. Expected declines in market value are incorporated into the measurement of the carrying amount of an asset without testing for impairment;
• The Basis for Conclusions should explain that a resurgence in demand (minimum indicator of reversal of impairment in paragraph 53(a)) is different from a long term increase in demand for the services provided by the asset (additional indicator of impairment in paragraph 55(b)) because paragraph 53(a) refers to a reversal of the situation that caused an impairment loss to be recognized, whereas paragraph 55(b) refers to a change in circumstances unrelated to the reason an impairment loss was recognized;
• The Basis for Conclusions should explain that whilst physical impairment is an indicator of impairment, restoration of damage is not an indicator of reversal of impairment because the costs of restoration would be added to the carrying amount of the asset and because the reason for impairment (physical damage) does not reverse, but is rectified;
• The first sentence of paragraph 68 should read “An entity that discloses information about a segment in accordance with IPSAS 18, “Segment Reporting” shall disclose the following for each segment reported by the entity:” Similarly, paragraph 69(d) should be amended to clarify that entities are required to apply IPSAS 18;
• In Appendix A, the paragraph lettering should be matched to that in paragraph 20 to enable readers to cross reference them;
• In Appendix C, the heading above paragraph C12 should be “Other Assets”. Paragraph C12 should be amended to reflect that the PSC is developing its own standard on impairment of cash-generating assets;
• Paragraph C15A should be deleted; and
• Paragraph C16D (second occurrence) should be deleted.

With two abstentions, the PSC voted unanimously to approve the standard subject to a final review of the editorial changes and Basis for Conclusions by the Chair and a sub-committee consisting of the members from Australia, Canada, New Zealand, South Africa and the United States of America.
The Committee agreed that this IPSAS would have the same application date as the eleven IPSASs currently being improved, and that this approach to the application date of this IPSAS would be confirmed at the November 2004 PSC meeting.

The Committee noted that it had exposed the requirement to apply IAS 36 to cash-generating assets in ED 23, and that this satisfied the due process and that it could issue an IPSAS based on IAS 36 without further exposure. However, the Committee decided that it would review a draft document at the next meeting and would decide then whether further due process was required, it appointed a sub-committee consisting of members from Canada, South Africa and USA to develop a draft IPSAS 22, “Impairment of Cash-Generating Assets” based on IAS 36, but not including amendments made by IFRS 3, “Business Combinations” or IFRS 5, “Non-Current Assets Held for Sale and Discontinuing Operations”, with public sector examples. The Committee would review this document at the November 2004 meeting and determine whether, in practice, the changes required were sufficiently minimal that it could issue the document without further exposure.

**Action Required:** Finalize IPSAS, review finalized IPSAS, prepare draft IPSAS 22, “Impairment of Cash-Generating Assets.”

**Person(s) Responsible:** PSC Staff, Chair, Members from Australia, Canada, New Zealand, South Africa and the United States of America.

9. **PSC STEERING COMMITTEE – BUDGET REPORTING**

The Committee received and considered:
- A memorandum from Paul Sutcliffe;
- The final Research Report prepared by Dr Hughes; and
- Extract of the minutes of the PSC meeting in March 2004.

Paul spoke to the memorandum noting:
- The Research Report had been finalized following the March 2004 meeting and loaded on the IFAC web for public access in late May; and
- To facilitate analysis, the memo grouped the ten recommendations made in the Research Report under five broad headings and provided staff views on those categories.

Paul noted that staff views on the recommendations were that:
- Budget reporting, or certain aspects thereof, was within the mandate of the PSC to the extent it related to and/or was communicated by general purpose financial reports;
- The next stage of this project should be dealt with in two components. The first component being a short term project on comparisons of actual and budget (ex-post reporting), with an ED being developed by the consultant and staff. The second component being a longer term project on reporting budget forecast information as general purpose financial reports (ex-ante reporting). This component should be
developed by the Steering Committee with an ITC being prepared as a first step. Paul noted a range of issues that could usefully be considered in that ITC:

- Matters relating to budget formulation and other management accounting and budget management issues were dealt with in the Research Report and this was appropriate. However, these matters should not be dealt with in an IPSAS;
- Any conceptual framework on public sector financial reporting should acknowledge the role of the budget in the public sector;
- That while a separate exposure draft on reporting actual and budget comparisons should be developed and issued, it may well be that the final requirements could be included in IPSAS 1; and
- There was strong support for the PSC dealing with budget reporting from constituents responding to the PSC Review survey.

Paul Sutcliffe noted that Ron Points, the Chair of the Steering Committee, and Dr Jesse Hughes, the author of the Research Report were in attendance and requested their views. Ron Points noted that he had no objections to the project being progressed as proposed by staff, but noted that it was important that momentum gained during the Research Report development process be maintained. Dr Hughes noted that he also generally agreed with the staff recommendations for progressing the project. He noted he would place a strong emphasis on the requirement or encouragement for governments to operate their budget and accounting systems on the same basis. He was also of the view that Recommendation 5, which advocates development of an IPSAS on budgetary accounting procedures, should be supported.

Members discussed the recommendations of the Research Report and the staff views in detail noting that Dr Hughes should be commended for his work. Key matters discussed and members’ views thereon included:

- There was strong support for ex-post reporting but some members were of the view that the issues and principles relating to ex-ante reporting were more complex. Some members questioned whether ex-ante reporting was within the PSC’s mandate;
- Some members expressed the view that the project on ex-ante reporting should be postponed until the PSC had progressed other components of its work program. Others were of the view that its inclusion on the work program should not be postponed, noting that this was a major gap in financial reporting in the public sector. However, they agreed that while included on the work program, it should be dealt with as resources allowed, and this may not be in the short term;
- Some members questioned whether a Steering Committee and an ITC was needed for the ex-ante reporting project, noting their preference to deal with it directly at PSC level. Other members noted that it was important to have input from the budget community as this project developed, and the Steering Committee, or Project Advisory Panel approach was an effective means of achieving this;
- Some members noted the link between the proposed project and the GFSM 2001 developed by the IMF, and requested views from the IMF observers. The IMF observers supported the development of an IPSAS to deal with comparisons of budget with actual. However, they expressed some misgivings about the PSC dealing with ex-ante reporting. They expressed the view that the PSC should not deal with
presentation of forward budget information, but focus on ensuring that the accounting records maintained relevant and reliable information which could be used as input for GFS reports and the next round of budget estimates;

• The focus of any project. Members noted any project dealing with ex-ante reporting should focus on the presentation of budget information as general purpose financial reports and should not deal with budget formulation issues. Some members also noted that the project should not deal with matters for which legislation was in place. They expressed the view that IPSASs should not deal with issues that may put them in conflict with legislation. However, other members noted that there may have been legislative requirements in place in respect of financial reporting issues dealt with by the existing IPSASs, but the PSC quite appropriately developed IPSASs which reflected its view of high quality financial reporting, after input generated through the due process – they advocated that the PSC continue with that policy. At issue should only be what constituted high quality general purpose financial reporting. Some members noted the project should focus on the principles underlying the reporting of budget information;

• Budget reporting, both ex-ante and ex-post were key issues in the public sector and should be pursued vigorously. Some members noted that while they agreed with this in principle, it was still not clear what could, should, or would be dealt with by a PSC project on ex-ante reporting, and this should be clarified in a detailed project brief;

• It was not clear how ex-ante reporting would fit within the PSC’s work program and what its implications were for the progress of the other components of the work program. Some members noted the PSC’s resources were already stretched and questioned the ability of the PSC to progress all aspects of this project in general purpose financial reports; and

• The timing of initiation of the ex-ante reporting project. Members noted that the work program included in the agenda papers proposed that the ex-ante budget reporting project be actioned in 2005 and a Steering Committee established. Some members expressed the view that it was appropriate to continue with that program at this stage, noting that whether or not a Steering Committee or Project Advisory Panel should be established should be reconsidered in light of the detailed project brief which identified the specific issues to be addressed.

Paul Sutcliffe noted that PEFA had provided funding to support the project for this calendar year and if the comparison of actual to budget were to be progressed, it would be advantageous to retain Dr Hughes under the terms of his existing contract and, with the support of PEFA funding, continue his work on this segment of the project.

The PSC agreed that:

• An exposure draft dealing with the comparison of budget to actual should be developed by the consultant and staff. The first draft of that exposure draft would be considered by the PSC at its meeting in November 2004;

• A detailed project brief on the ex-ante reporting project should be prepared for consideration in early 2005. That project brief is to identify key matters to be dealt with in the project, an estimate of resources needed to support it, whether it should be developed as an exposure draft or as an ITC and how it would fit within the work
program. The PSC would then make a decision on timing and process for the project development.

**Action Required:** Prepare draft Exposure Draft on comparisons of actual to budget (ex-post reporting) for consideration at the next PSC meeting. Prepare Project Brief on reporting budget forecast data as a general purpose financial statement (or note) for consideration in 2005.

**Person(s) Responsible:** Consultant and PSC Staff.

10. ACCOUNTING FOR DEVELOPMENT ASSISTANCE

The Committee received and considered:

- A Memorandum from Paul Sutcliffe;
- An updated draft ED;
- Responses to the updated ED from Project Advisory Panel members;
- A preliminary draft ED; and
- A Progress Report from Charles Coe.

Ian Mackintosh, Chair of the Project Advisory Panel (PAP) and Charles Coe, consultant on the project, were in attendance. Ian Mackintosh introduced the topic noting that:

- The PAP had been reconstituted and the draft ED circulated for comment. Some comments had been received and more were anticipated;
- Charles Coe would make a presentation to a major OECD forum on the ED following this PSC meeting; and
- The OECD forum presentation would provide the opportunity for input by OECD member countries, other developing countries, PAP members and donors. The PSC Chair noted that a PSC member had been invited to attend but that he and the Technical Director were unable to attend because of obligations at the IFAC Board immediately following the PSC meeting. The Chair requested that other members who could attend make contact with Charles Coe.

Charles Coe noted that he had arranged to meet with the PSC Technical Director in September to work through a number of technical and format issues that they had identified and to ensure that linkages to the Cash Basis IPSAS were properly formed and expressed. Accordingly, the primary focus of this session would be on the definitional and other issues raised by PAP members to date. He also noted that an additional submission had been received from the OECD in the last two days. He then identified the major issues raised in all submissions received including:

- Whether military assistance and humanitarian assistance could be encompassed by the definition of development assistance. He noted that responses received so far had differing views on whether they would be, and should be, encompassed within the definition. Staff noted their preference to develop a definition of development assistance that did not include military assistance. PSC members noted that even if included, military assistance should be separately disclosed;
• The recent proposal from the OECD that revised its previous submission and proposed that a broad definition of external assistance rather than development assistance be adopted, with separate disclosure of major components as appropriate. Members noted they were not averse to this approach in principle. However, this would change the focus and scope of the project, and the focus on development assistance had been made specifically at the request of the OECD-DAC and MDB. If the focus was now to be changed, staff should seek input on whether those bodies supported were not opposed to it;

• That a number of respondents had outlined the specific detailed characteristics of the definition of development assistance adopted by their organization, and these characteristics differed in some respects. Charles Coe also noted that in its most recent submission the OECD had outlined key factors of the definition that was being developed for application by its members. PSC members noted that the focus of any definition should be on general purpose financial reporting and, in that context, there was a need to ensure that developing a definition based on detailed technical specifications would not narrow the definitions such that it was only suitable for special purpose financial reporting by a subset of recipients;

• The extent to which separate disclosures should be required. Members also advocated that the disclosure requirements not single out particular organizations but require identification of major classes of donors, major purposes for which assistance was given and the major types of assistance. In other respects, disclosure should be by nature and function as reflected in IPSASs. Members noted this might result in amounts provided by individual donors not being separately identified. Similarly, the specific projects for which assistance was to be applied may not be separately identified;

• Whether third party settlements should be encompassed within the IPSAS. Members agreed that they should;

• Whether the IPSAS should apply to donors. Members agreed the IPSAS should apply to recipients. If recipients also acted as intermediaries and in that sense were donors, the IPSAS would apply to them in respect of assistance received;

• Whether details of compliance with loan or grant conditions should be required. Members noted that the disclosure of all instances of compliance could be extensive and questioned the value of such disclosures, noting disclosure of instances of non-compliance was likely to be more relevant to assessments of the financial performance and position of reporting entities. Members agreed that the notion of negative assurance could usefully be adopted, such that disclosures of instances of material non-compliance with adverse consequences for the recipient entity should be required;

• Whether disaggregation of development and humanitarian assistance should be proposed in the ED. Members agreed that it should;

• Whether the illustrative financial statements were supported. Members agreed they were important and should be further developed following input from the PAP and OECD presentation;

• Whether transitional requirements should be included. Members noted they would consider this following further input from the OECD forum and the PAP. Some
members observed that a case for transitional requirements was developed by some respondents to date; and
- Whether concessional rate loans and subsidies, including export credits, should be encompassed by definitions of development and external assistance. Members agreed they should, provided they could be identified and quantified and their benefit to the recipient entity could be identified.

The IMF representative noted that the IMF had developed functional categories to identify classes of assistance and expressed some doubts about the need for an IPSAS on this topic. Members explained the background to the project, noting it had been initiated in response to requests by the OECD – DAC group and the multi-lateral development banks (MDBs) harmonization committee and was intended to include additional relevant disclosures in general purpose financial statements, and to assist in the reduction of compliance costs by recipients of development assistance.

The IMF representatives also advised that IMF loans and other operations were not in the nature of development assistance. The PSC noted that if this was the case, IMF loans would be separately disclosed outside development assistance. Charles noted that many individual organizations had their own, specific reporting requirements. These were different for each organization and hence the compliance cost relief consequence of this project was dependent on these organizations harmonizing their requirements under the broad parameters of the IPSAS. The general purpose disclosures could then be supported by detailed special purpose reports, provided at donors’ request.

A number of PSC members from developing countries noted that this IPSAS was very important. Members agreed the IPSAS was necessary for transparent reporting and should apply to all reporting entities adopting the cash basis, not only governments and not only in developing nations.

Members agreed to consider further whether the ED should be refocused on external assistance with requirements to disclose the key component thereof when further input had been received from the OECD – DAC and MDB groups who initially proposed the project to the PSC, and from the PAP.

**Action Required:** Make presentation to OECD Forum. Update draft exposure draft based on PAP comments for consideration at next PSC meeting. Consultant and PSC staff to meet to refine technical and format issues.

*Person(s) Responsible:* PAP Chair, Consultant, PSC Staff.

11. **GFS, ESA, IPSAS HARMONIZATION**

The Committee received and considered:
- A memo from Paul Sutcliffe and Matthew Bohun; and
- A draft Project Advisory Panel project brief;
Matthew Bohun introduced the topic and advised members that the project brief on disclosure of financial information about the general government sector (GGS) had been drafted in response to the recommendations of Working Group I (WG1). Matthew outlined the main features of the project brief, which proposes the development of an IPSAS that encourages disclosure of general government sector information by entities preparing whole-of-government, consolidated, general purpose financial statements. Where an entity elects to disclose general government sector information the project brief proposes that the IPSAS require the following:

- Disclosure be made in the notes of the general purpose financial statements;
- Disclosure of the GGS is encouraged but not required. There is no prohibition on disclosure of the public financial corporations (PFC) sector and the public non-financial corporations (PNFC) sector;
- If disclosure of the GGS is made, the IPSAS will prescribe requirements for the information to be disclosed. Those requirements may also be applied to the PFC and PNFC sector;
- Recognition and measurement of items shall be according to the requirements of IPSASs, except for consolidation under IPSAS 6, “Consolidated Financial Statements and Accounting for Controlled Entities;”
- Balances and transactions within sectors are to be eliminated, however balances and transactions between sectors should not be eliminated;
- The GGS will report an investment in other sectors, rather than consolidate the entities they control in those other sectors;
- The disclosure of the GGS sector would not replace the need to disclose information by segments as required by IPSAS 18, “Segment Reporting;”;
- The project brief also noted that the general government sector should not be considered a segment, and that information about the general government sector would be disclosed in addition to information about segments; and
- The IPSAS would not require or prohibit disclosure of additional information by classification of function of government.

The Chair reiterated that the project aims at converging IPSASs with statistical financial reporting models to the extent appropriate. The IMF Observers noted that there are links between this project and the budget reporting project, in that the International Monetary Fund is encouraging national governments to prepare budgets on a GFSM 2001 basis. Some members expressed the view that GGS disclosures and the preparation of financial statements in accordance with statistical models of financial reporting are in the nature of special purpose financial reports and that the PSC should not devote resources to establishing standards for the preparation of special purpose reports. Other members expressed the view that disclosure of GGS information in general purpose financial statements was consistent with the PSC’s mandate and would provide relevant information to users of general purpose financial statements. They also noted that it was proposed that the disclosure of GGS information be encouraged, not required and that the PSC had already decided that it should converge with statistical models of financial reporting to the extent appropriate. The PSC agreed that this project brief should be further developed with input from the Project Advisory Panel.
Paul Sutcliffe noted that following the last PSC meeting in March 2004, Ian Mackintosh, the Chair of WG1, had advised WG1 members of the decisions of the PSC and:

- Sought WG1 approval for the development and issuance of the “matrix” as a PSC Occasional Paper or Research Report, and had received a positive response; and
- Invited WG1 members to form a Project Advisory Panel (PAP) to provide input to the project on the disclosure of information about the GGS, and had received a positive response from a number of WG1 members.

The PSC discussed the project brief in detail, noted tentative support for the recommendations made by staff but directed staff to gather PAP input on those recommendations before a final decision was made. The PSC noted that the project brief should be provided to the PAP, should raise the issues to be considered by the PAP, but should not pre-empt recommendations that may be made by the PAP. In this context, the PSC noted that the PAP should consider:

- Whether disaggregation by level of government should be required by the IPSAS. In some jurisdictions, a higher level of government may control lower levels of government, for example the national government may control local governments;
- Whether entities applying the Cash Basis IPSAS should also be specifically encouraged to disclose GGS information;
- The prominence that should be given to GGS disclosures. Whilst staff recommended that disclosure be made by way of a note to the financial statements, the PAP may recommend disclosure in a separate column of the individual financial statements, as a note, or otherwise;
- Whether entities which make GGS disclosures should be required to reconcile the IPSAS information to the data contained in financial reports prepared under the statistical financial reporting model adopted in that jurisdiction – whether GFSM 2001 or other reporting model. Some members expressed the view that in the long term there would be a demand for a reconciliation statement;
- Whether measurement of investments in other sectors be in accordance with GFS or another basis;
- How information on the general government sector relates to the requirement to disclose segment information;
- Whether a new IPSAS was needed to deal with the GGS disclosure, or whether amendments should be made to IPSAS 1, “Presentation of Financial Statements” and IPSAS 2, “Cash Flow Statements” to encourage such disclosures; and
- Whether the IPSAS should require that entities disclosing the GGS should be required to disclose information using the classifications of functions of government (COFOG) widely adopted in statistical financial reporting models.

Staff noted that the draft project brief proposed disclosures of specific items using terminology drawn from GFSM 2001, and they had received comments that expressed concern that this may be confusing because:

- these amounts would be compiled by reference to IPSAS requirements rather than GFSM 2001 requirements; and
- some jurisdictions may not adopt GFSM 2001 reporting formats.
It was proposed that input be sought from the PAP on whether it was appropriate that key “line item” disclosures be required for the GGS disclosure, and whether those line items should be based on disaggregating the IPSAS based report (and therefore adopting for example, IPSAS terminology, measurement and classification) or whether this approach required amendment, and the nature of the amendment.

The PSC directed staff to redraft the project brief for presentation and approval at the November PSC meeting after input from the PAP.

Staff advised members that a performance reporting project brief had not been developed, and staff were of the view that the project brief should not be finalized until staff:

- Have a better feel for the IASB project on Reporting Comprehensive Income Project and can report to the PSC on the potential for any overlap with the project recommended by WG1; and
- Explore the potential for IASB representation on any Steering Committee established to progress this project. Such representation will assist to minimize the potential for any unintended differences between GAAP and statistical bases of financial reporting in this respect.

Staff noted they intend to discuss this matter with the IASB and would report back to the PSC at its next meeting. The PSC agreed with this approach.

**Action Required:** Prepare final draft project brief.

**Person(s) Responsible:** PSC Staff.

### 12. IASB UPDATE AND IPSAS HARMONIZATION WITH IASs/IFRSs

The Committee received and considered:

- A memorandum from Paul Sutcliffe on the IPSAS/IFRS harmonization policy;
- A paper outlining a PSC-IAS/IFRS Harmonization Strategy; and

Paul Sutcliffe introduced the topic noting that at the request of the Chair, the Deputy Chair, Mike Hathorn, agreed to work with staff to coordinate the IASB convergence projects on the PSC agenda.

He noted that, at its meeting in Buenos Aires the PSC directed Staff to prepare a strategy for the PSC’s IPSAS/IFRS Harmonization program, which:

- Maintain the nexus between IPSASs and IASs/IFRSs in the long term where appropriate for the public sector;
- Established a stable platform of second generation IPSASs in the medium term; and
- Made English, French and Spanish versions of the second generation IPSASs available simultaneously;

and staff had spent a great deal of time on the development of a IPSAS/IFRS Harmonization program consistent with those parameters.
He also noted that the Deputy Chair had spent two days working with staff on the strategy and that the Chair had provided valuable input, but the Strategy remained the Staff view and did not necessarily reflect the view of the Chair or Deputy Chair. Paul also noted that the Chair had written to the Consultative Group and sought comments from them on the proposed strategy. To date, three responses had been received – those responses were from the AGA in the United States, HOTARAC in Australia and the representative from Switzerland.

At the request of Chair, the Deputy Chair introduced the proposed strategy and provided background to it noting that the PSC’s work program consisted of three broad components being public sector specific issues which the PSC had agreed would be its first priority in the medium term and convergence with IASs/IFRSs and with statistical reporting models, which the PSC had agreed would be its second and third priorities. He also noted that in the short and medium term:

- Significant time would need to be devoted to the development of IPSASs dealing with public sector specific issues such as non-exchange revenue, social policy obligation and budget reporting over 2005 and 2006; and
- The strategy proposed a mechanism to continue to work on but at the same time set realistic expectations for the achievement of the other two components of its work program. In this context, he noted that many of the IASs on which the twenty existing accrual-based IPSASs were based had been revised and a number of IASs for which no IPSAS currently existed had been issued. He noted that the draft strategy identified the new IASs/IFRSs in two categories depending on their relevance to the public sector.

The Deputy Chair then outlined the main features of the proposed strategy noting that it was proposed that it comprised a stable platform and a “second generation” of IPSASs which would articulate with the public sector specific issues currently being developed as a priority by the PSC. He noted those features included:

- The stable platform would comprise the twenty existing IPSASs on issue as at the end of 2004. He noted that even if approved at this meeting, it was not proposed that IPSAS 21, “Impairment of Non-Cash-Generating Assets” be included in this group because it impacted on IPSAS 17, “Property, Plant and Equipment”, would require amendment to that standard and this could delay the implementation of the stable platform. However, he noted that it would be available for early adoption by those seeking guidance on accounting for impairment of non-cash-generating assets;
- The application date of the second generation IPSASs would be January 1, 2009. An earlier date was not possible, given current Staff resources, the need to link with PSC priority projects and given the PSC intention to have English, French and Spanish translations in place at the same time. It was noted that as standards were approved they could be made available as pending standards and certain IPSASs may be able to be early adopted. The PSC acknowledged that setting a later effective date beyond 2009 may damage the credibility of IPSASs;
- Each IFRSs/IASs that was applicable to the public sector would be issued as an IPSAS to clarify its authority to the public sector, rather than rely on the hierarch. This would require the PSC to go through full due process and ensure the
transparency of its deliberative process. However, where there was not a public sector reason to depart from the IAS/IFRS it was proposed that the IAS/FRS would not be amended – rather the IAS/IFRS would be adopted by endorsement – an illustration of an endorsement statement which would identify linkages to other IPSASs was included in agenda materials. However, where there was public sector specific reason for departure, the IAS/IFRS would not be endorsed, rather provisions of an IFRSs/IAS would be amended and an IPSAS issued, again after due process. This approach would ensure transparency of process (rather than relying on the hierarchy) and would allow the PSC to allocate Staff resources to deal with public sector specific issues, while maintaining the consistency of existing IPSASs with IFRSs/IASs; and

- By January 2009, the PSC would have:
  - IPSASs dealing with public sector specific issues, eg., non-exchange revenue, social policy obligations of governments, budget reporting etc.;
  - Twenty-one IPSASs, of which eleven IPSASs would be updated as part of General Improvements Project; and
  - About ten additional IPSASs being endorsed IFRSs/IASs.

The Deputy Chair noted that the work completed on the General Improvements Project meant that a significant portion of IASB Harmonization convergence program was already well developed.

Chair and members commended the Deputy Chair and staff for the work that had been done and discussed the main issues of the strategy paper, noting:

- The IASB had an extensive work program and was in the process of converging with certain Standards of the Financial Accounting Standards Board (FASB) in the United States. Therefore, it was unlikely that the IPSASs would ever catch-up and be harmonized with the IASs/IFRS. As such, the PSC’s priority should be to progress the public sector specific issues on its work program;
- The IPSAS on impairment should be included in any stable platform, given its importance to public sector entities, even if this meant deferring the stable platform until the IPSAS was approved and its consequences for other IPSASs worked through;
- The endorsement approach differed from that adopted during the first phase of the standards program and did not provide sufficient opportunity for the PSC to provide a public sector perspective to the matters dealt with in IPSASs. Some members expressed the view that this approach would not add value to the IAS/IFRS convergence program;
- That it would involve considerable PSC time to develop IPSASs equivalents of many IASs/IFRSs, whichever approach was adopted. In addition, the IASB was constantly changing these Standards and by the time the second generation IPSASs is in place, some of the endorsed IASs/IFRS will likely be obsolete. Some members noted that this may well be the case in respect of IAS 19, “Employee Benefits” and IAS 39 which were included in the proposed strategy work program. Other members noted that these standards were important to the public sector and the hierarchy mechanism may not work as well as was expected in providing guidance to constituents; and
- When there were public sector specific reasons that justify a departure from an IAS/IFRS and therefore the preparation of a separate IPSAS, rather than the endorsement of an existing IAS/IFRS was subjective. Some members expressed a preference for an approach that dealt with each IAS/IFRS in the same manner and was not subject to such judgments.

The PSC agreed that the IASB convergence program for the medium term should comprise:
- IPSAS 21, “Impairment of Non-cash-generating Assets” and IPSAS 22, “Impairment of Cash-generating Assets”; and
- The General Improvements Project – this project would deal with the eleven existing IPSASs being updated consequential on the IASB’s improvement project. These IPSASs would be updated to reflect the changes resulting from the IASB Improvements project. In respect of amendments for IASs/IFRSs for which an IPSAS had not yet been issued, the cross-referencing to those IASs/IFRSs should adopt a similar style to that adopted in the existing IPSASs including the recently approved IPSAS21; and
- The refreshing of the remaining existing nine IPSASs (those not part of the General Improvements Project) as a consequence of the issue of IPSASs 21 and 22, and of the eleven improved IPSASs noted above.

The application date of the second generation IPSASs should be either January 2006 or January 2007 subject to progress made on the general improvements project at the November 2004 and March 2005 meetings.

Members also agreed that:
- the initiation of projects dealing with IFRSs/IASs for which there was no IPSAS on issue would be deferred; and
- the remaining nine IPSASs (those not part of the General Improvements Project) could be updated for amendments made to their equivalent IASs/IFRSs as of the end of 2004 if resources allowed.

Members requested that staff provide their views on the resource implications and desirability of updating the remaining nine IPSASs at this time. The Technical Director noted that it was desirable to maintain the nexus between IPSASs and their equivalent IAS/IFRS. However, he also noted that:
- IAS 32, “Financial Instruments: Presentation and Disclosure,” the equivalent of IPSAS 15, had been substantially updated as a consequence of issuance of IAS 39, and it may involve considerable staff resources and PSC meeting time to work through this IPSAS;
- that an Exposure Draft on IAS 37, “Provisions, Contingent Liabilities and Contingent Assets,” the equivalent of IPSAS 19, was expected by the end of 2004 and this would mean that IPSAS 19, which is based on the existing IAS 37, may soon be out of date; and
- changes had been made to a number of existing IASs as a consequence of the issuance of new IASs/IFRSs for which an IPSAS had not yet been issued,
consequently an updated IPSAS could not reflect all the requirements of the equivalent IPSAS/IFRS.

Staff expressed concern that there may not be sufficient staff resources and PSC meeting time to update the remaining nine IPSASs and enable the full due process to work through in time for a 2006 application date. The PSC noted staff views and agreed it would not make a decision on whether IPSAS 15 and IPSAS 19 should be updated as part of the second generation IPSASs until it considered its work program in November 2004.

12A General Improvements Project

The Committee received and considered:

- A memorandum from Hongxia Li and Li Li Lian;
- An overview of changes; and
- Marked up drafts of IPSAS 1, IPSAS 3, IPSAS 17 and IPSAS 16.

Hongxia Li introduced the topic noting that at the Buenos Aires meeting, the PSC agreed to continue to review the marked-up IPSASs under the General Improvements Project. She noted that the criteria Staff adopted for the amendments to these IPSASs were to process changes to paragraphs that were the same in both existing IPSASs and previous IASs and to incorporate in the IPSASs the new requirements in IASs where appropriate. However, changes were not processed for paragraphs that were introduced or changed by the PSC in the existing IPSASs.

She provided a brief update on the changes made to the marked-up IPSASs since the PSC March meeting. The additional changes were in three broad groups to reflect:

- Decisions made at the March meeting – to delete unnecessary definitions in IPSAS 1 and IPSAS 3;
- Amendments made to improved IASs resulting from new IFRSs issued by the IASB, such as IFRS 3, “Business Combinations” and IFRS 5, “Non-current Assets Held for Sale and Discontinued Operations”;
- Amendments to identify the consequences of accepting the IPSAS/IFRS Harmonization Strategy (Item 12.2) proposed by Staff. These included an authoritative appendix of Amendments to Other Pronouncements, an appendix of IFRIC/SIC Interpretations of IFRSs/IASs and cross references to key IFRSs/IASs such as IAS 36, “Impairment of Assets” and IFRS 5. However, based on the discussion of that Strategy, Hongxia advised that some of these changes needed to be revised.

Hongxia Li then outlined the major changes in IPSAS 1, “Presentation of Financial Statements” and the PSC’s views on issues raised in the IASB Improvements Exposure Draft in its submission to the IASB in 2002. These major changes were to:

- Transfer the requirements relating to the selection and application of accounting policies from IPSAS 1 to IPSAS 3 and to transfer the presentation requirements for surplus or deficit for the period from IPSAS 3 to IPSAS 1;
• Include the guidance on the meaning of “present fairly”;
• Tighten the existing requirements on departure from a requirement in an IPSAS and to distinguish two situations in which the relevant regulatory framework permits or prohibits the departure;
• Require a financial liability that is due within twelve months after the reporting date, or for which the entity does not have an unconditional right to defer for at least twelve months after the reporting date, to be classified as a current liability, even if an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting date and before the financial statements are authorized for issue;
• Require that a long-term financial liability be classified as a current liability at the reporting date when the liability is payable on demand because the entity has breached a condition of its loan agreement on or before the reporting date. This is to be the case even if, after the reporting date, and before the financial statements are authorized for issue, the lender has agreed not to demand payments as a consequence of the breach;
• Include additional line items on the face of the financial statements, such as investment property;
• Remove “extraordinary items” from the face of the statement of financial performance and emphasize that an entity shall not present any items of revenue and expense as “extraordinary items” either on the face of the financial statements or in the notes;
• Require an entity to disclose the judgments that management has made in the process of applying the entity’s accounting policies that have the most significant effect on the amounts recognized in the financial statements; and
• Require an entity to disclose the key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Members agreed the changes in principle subject to the detailed page by page review, except for the prohibition on presentation of “extraordinary items”. Some members noted that based on the analysis taken in the public sector, there were significant user needs for information about extraordinary items. Therefore, extraordinary items should, at least, be disclosed in the notes to meet these information needs. Other members were of the view that there was not a public sector reason to differ from the IAS. They noted that the requirements in proposed IPSAS 1 did not preclude the separate presentation of the substance of so-called extraordinary items in existing IPSAS 1, either on the face of the financial statements or in the notes as long as these items were material. They further added that the only difference was that these items would no longer be described as extraordinary items. The PSC voted on whether retaining paragraph 105, which states “an entity shall not present any items of revenue and expense as extraordinary items, either on the face of the statement of financial performance or in the notes”. The majority voted to delete paragraph 105. It was also agreed that this difference would be identified in “comparison with IAS 1” and the reason why the presentation of extraordinary items either on the face of the financial statements or in the notes was required in IPSAS 1 should be contained in Basis for Conclusion accompanying IPSAS 1.
The Committee undertook a page-by-page review of proposed IPSAS 1 and agreed the following:

- Paragraph 7 referring to the establishment of the IASB should be deleted. The similar paragraph in all eleven proposed IPSASs should also be deleted;
- An interpretation of “management” should be included in paragraph 18 to clarify the meaning of “management” in the public sector;
- References to IPSAS 9, “Revenue from Exchange Transactions” should be included in paragraph 48. Therefore, the first sentence of paragraph 48 should read “Revenue relating to exchange transactions IPSAS 9, “Revenue from Exchange Transactions” defines revenue and requires it to be is measured at the fair value of the consideration received or receivable, taking into account the amount of any trade discounts and volume rebates allowed by the entity”;
- The middle sentence of paragraph 58 should read “Unless specified to the contrary elsewhere in this Standard, or in another Standard, such disclosure are made either...”;
- Paragraph 87, which relates to the presentation of assets classified as held for sale and liabilities included in disposal groups classified as held for sale, should be deleted;
- Paragraph 101(d), which relates to the presentation of the result of discontinued operations, should be deleted;
- “Or recoverable service amount as appropriate” should be added to paragraph 107 (a) after “recoverable amount” because recoverable service amount is a measurement basis for non-cash-generating assets specified in IPSAS 21;
- “Finance costs” in the last sentence of paragraph 115 should be deleted;
- “Or recoverable service amount” should be added after “recoverable amount” in the brackets of paragraph 133;
- The effective date of January 1, 2009 in paragraph 152 should be changed to an undefined date “MM DD YY”. A similar change should be made to all eleven proposed IPSASs;
- A paragraph should also be added indicating that the proposed Standard supersedes IPSAS 1 issued in May 2000. This paragraph should be included in all eleven proposed IPSASs under the General Improvements Project;
- Based on the decision made on the IPSAS/IFRS Harmonization Strategy, all references in the text of proposed IPSAS 1 to IPSAS XX, “Employee Benefits,” IPSAS XX, “Financial Instruments: Recognition and Measurement” and IPSAS XX, “Non-current Assets Held for Sale and Discontinued Operations” should be removed;
- Based on the decision made about the IPSAS/IFRS Harmonization Strategy, Appendix 1 Interpretations of International Financial Reporting Standards should be removed. The similar Appendix in IPSAS 17 should also be removed;
- The line item “gains on sale of property, plant and equipment” on the statement of financial performance (either by function or by nature) in Appendix 3, should be removed. Consequently, “Gains shall not be classified as revenue” as specified in IAS 16, “Property, Plant and Equipment” should also be in IPSAS 17. A reference to “other income” should be included in the illustration. In addition, the line item “share of surplus of associates” on that statement should be relocated after “total expenses”;
- An introductory paragraph to Appendix 4 Qualitative Characteristics of Financial Reporting, which states the Appendix is not part of the Standard, should be included.
Some members noted that they had identified editorial comments and would provide them to staff out of session.

The Committee also agreed:

- To further progress the General Improvements Project at the November 2004 and March 2005 meetings;
- To consider an omnibus Exposure Draft at its March or July 2005 meeting, depending on how quickly it is able to progress consideration of the individual revised IPSASs;
- To consider revisions to IPSASs 3, 16 and 17 and the “Preface to International Public Sector Accounting Standards” at its meeting in November 2004; and
- That time allocated to the General Improvements Project should not be at the expense of public sector specific issues.

12B Submission on IASB-ED on Proposed Amendments to IAS 19, “Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures”

The Committee received:

- A memorandum from Paul Sutcliffe and Li Li Lian;
- A draft submission on IASB-ED Proposed Amendments to IAS 19 Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures; and
- IASB-ED Proposed Amendments to IAS 19 Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures.

Due to lack of time, the Committee did not discuss this agenda item. (Secretarial note: members were asked to provide comments on draft submission to Staff out of session.)

Due to lack of time, the Committee did not discuss the proposed revisions to the “Preface to International Public Sector Accounting Standards”, IPSAS 3, “Accounting Policies, Changes in Accounting Estimates and Errors” or IPSAS 17, “Property, Plant and Equipment”. Members agreed these would be considered at the next meeting in November 2004.

12D IASB Update

The IASB Update was taken as read.

**Action Required:** Update the eleven IPSASs in the General Improvements Project for review at future PSC meetings based on the decision made on the IPSAS/IFRS Harmonization Strategy. Finalize the submission on IASB ED IAS 19 and circulate to members for approval out of session. Prepare revised IPSAS 3, 16 and 17 for consideration at the New Delhi meeting in November 2004. Prepare IASB update for the PSC New Delhi meeting in November 2004.

**Person(s) Responsible:** Chair, Deputy Chair, PSC Staff.

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Minutes from the PSC Meeting in July 2004 – New York
13. EXTERNAL REVIEW OF IFAC PUBLIC SECTOR COMMITTEE – SUMMARY OF PSC DISCUSSION OF REPORT OF REVIEW PANEL

The Committee received and noted:
- A memorandum from John Stanford; and
- A summary of responses to the survey questionnaire issued as part of the review process.

Philippe Adhémar, the PSC Chair noted that the final Report of the Review Panel (the Report) had been distributed directly to members by Sir Andrew Likierman, the Chair of the Review Panel. He also noted:
- Because the Report had been prepared for the IFAC Board, the PSC had not been able to include it in its Agenda materials and make it publicly available; and
- Sir Andrew would present the Report to the IFAC Board on Thursday, July 8, and he and the Technical Director would attend the Board meeting to communicate the PSC’s views.

He noted that comments on the Report from four PSC members had been received and circulated prior to the meeting, and comments from an additional two PSC members had been tabled.

Members noted that in broad terms they were of the view that the Report was comprehensive and balanced, and that they supported the majority of the recommendations. Members also noted that the IFAC Board should be encouraged to establish clear guidelines for the implementation of those recommendations it accepted to ensure that the significant momentum developed through the Review Panel process is not lost. Members also were pleased to note that the survey results generated as part of the review process confirmed that the PSC is performing an important function and should continue to be supported.

Philippe Adhémar sought guidance on matters he should raise at the Board. Members discussed each recommendation in detail and identified recommendations that could usefully be clarified, or in respect of which members had reservations, including in particular the following:

Re: Fundraising – Members noted that fundraising is the single most significant issue addressed in the Report. Members also noted the PSC had held off starting a new fundraising campaign until the completion of the External Review. Without disagreeing with the recommendation in the Report, the PSC noted that:
- It was not convinced that PSC members and staff were appropriately skilled for fundraising activities and therefore did not believe that the chief responsibility for fundraising should rest with it (the PSC). Members agreed that the IFAC Board be encouraged to provide support to the PSC’s fundraising activities whether through an IFAC fundraising committee or fundraising activities targeted specifically for the PSC, or through the establishment of a separate trust fund or other entity to raise funds for IFAC standard setting activities;
Governments are amongst those entities that benefit most from the PSC’s work and should be included in any fundraising campaign. However there may well be implications from this for PSC governance arrangements, including representation on the PIOB; and

In seeking funds from the audit and consultancy firms, the PSC may find itself in competition with the fundraising activities of other IFAC Committees. This reinforces the need for IFAC to adopt a coordinated approach to its funding activities for all its Boards and Committees.

Re: Content of the PSC Work Program – The PSC discussed its future work program in detail and confirmed that over the short and medium terms its priorities should be as follows:

• Addressing public sector specific issues will be the PSC’s first priority;
• Convergence/harmonization with the IFRSs/IASs, will be the PSC’s second priority; and
• Convergence/harmonization with statistical reporting will be the PSC’s third priority.

The Chair asked that the PSC formally vote and agree these priorities. The PSC voted and agreed these priorities.

Re: Conceptual Framework – Members did not agree with the Review Panel Recommendation that it not initiate a project to develop its own conceptual framework, but rather only interpret the IASB framework. Members directed Philippe to advise the Board that the PSC is of the view that it is important for the credibility of the IPSASs that the PSC develop its own conceptual framework. However, Members did acknowledge that as part of developing its own framework the PSC should consider the IASB’s existing framework, learn from that framework and interpret and incorporate it in a PSC framework where appropriate. Members also agreed that the PSC should actively monitor the work that is ongoing to further develop the IASB framework and also the work of other public sector standard setters in this area.

Re: Partnering with National Standard-Setters – The PSC supports the recommendation that it continue to use Steering Committees and establish more formal partnering arrangements with selected National Standards-Setters. Members also noted that the Steering Committees and partnering arrangements should be balanced to ensure that there is no regional or other inappropriate bias.

Re: The appropriate governance model – The PSC had no objection to the recommendation that public and private sector accounting standards should converge where appropriate, subject to its decision (see above) of the priority of public sector specific issues in the short and medium terms, and subject to the appropriateness of the convergence.

The PSC also supports the recommendation that it should be brought within the scope of the IFAC PIOB, but noted that the composition of the PIOB and the process for identification of the public sector members of the PIOB and the identity of those members are critical for PIOB oversight of PSC activities to be, and to be perceived to
be, a success. Members also noted that the resolution of these PIOB membership issues could usefully be linked to initiatives for gaining additional PSC funding.

The PSC had no objection to the appointment of public members, but noted that in its implementation the Nominating Committee would need to ensure that there was broad public representation, and not just representation from finance ministries.

In terms of not-for-profit entities, the PSC agreed that in principle not-for-profit entities could be brought within its scope in the long term, but in the medium term the PSC would need to focus on public sector specific issues. Members also noted that the IASB’s role in this area would need to be clarified.

Re: Renaming the PSC – The PSC strongly supports the change of its name to the International Public Sector Accounting Standards Board (IPSASB) as recommended by the Review Panel, but does acknowledge that the name change needs to be marketed effectively by IFAC.

Re: Number of meetings – The PSC agrees with the recommendation that more meeting time is necessary. Members of the PSC have a clear preference for longer meetings rather than more frequent meetings. The PSC also strongly supports the recommendation that the PSC not be required to conduct 50% of its meetings in New York. This is because the PSC should meet in key locations where it can effectively promote its output and support constituents interested in implementing IPSASs. A number of PSC members noted that seminars and other promotional activities undertaken by the PSC when meeting in their countries or in their region had been most important in raising the awareness of IFAC, the PSC and the IPSASs in the public sector in their regions.

Re: PSC size and geographical representation – The PSC supports the recommendation to address geographical and gender imbalances on the PSC, subject to appointees having appropriate skills and expertise. The PSC supports the recommendation regarding technical advisors, but one member noted that there might be an issue regarding member body representation.

Re: Approval Arrangements – The PSC agrees with the recommendation that formal provisions be included in its terms of reference in respect of proxy voting. However, the PSC noted that it should be clarified that “proxy voting” meant that an alternate actually present at the meeting (usually the technical advisor) could vote on behalf of the member.

The PSC agrees with the recommendation that agreement of two-thirds of the voting rights of the PSC are necessary for approval of Exposure Drafts, Invitations to Comment and pronouncements, noting that it would align the PSC with other IFAC committees.

The PSC agreed with all other recommendations of the Review Panel.

**Action Required:** Present PSC views to the IFAC Board

**Person(s) Responsible:** PSC Chair and Technical Director
14. **PSC CONSULTATIVE GROUP**

Members received and considered:
- a memorandum from Jerry Gutu regarding the PSC Consultative Group;
- a report on current status of appointments to the Consultative Group;
- a membership profile and operating procedures of the Consultative Group; and
- a list of members of the group and participants from the United States and Canada observing the PSC meeting as well as attending the special session of the group.

Jerry Gutu provided an update on the status of the Consultative Group, noting that 59 out of 67 individuals and organizations had confirmed their membership and participation in the group. He noted that there had only been an increase of one member, Mr. Rafi, an ex-PSC member from Pakistan, who rejoined the group following an invitation from PSC on reactivation of his membership. Jerry pointed out that of the 8 appointments which remained outstanding, 3 were from the Middle East, 2 from Latin America and a single seat each remaining for Asia, North America and Australasia.

The meeting was advised and agreed to the following:
- Replacement of Mr. Jeremiah Mutonga as representative of the African Development Bank on the Consultative Group by Mr. Charles Muthuthi who has assumed the office of Director of Accounting;
- Replacement of Mr. Hirokazu Fujita as representative of the Ministry of Finance of Japan on the Consultative Group by Mr. Tetsuo Kanai who has assumed the office of Director Public Accounting Office;
- Replacement of Dr Arthur McHugh, the outgoing Auditor General of Tasmania, as representative of the Australasian Council of Auditors-General (ACAG) on the Consultative Group by Mr. Mike Blake the new Auditor General of Tasmania;
- Professor Ato Ghartey becomes a representative of the Association of Accountancy Bodies in West Africa (ABWA). He had been initially nominated to the group as an academic;
- Acceptance of membership to the Consultative Group of Mr. Fernando Mayorga sent a request through Jerry. Mr. Mayorga of Fitch Ratings Agency. Mr. Mayorga is the Head of the International Public Finance Division in Europe; and
- That all ex-members of PSC be invited to rejoin the Consultative Group without waiting for their countries’ representatives to retire from PSC. Jerry indicated that this would ensure that the valuable expertise and contribution of the ex-members is not lost to PSC and that they all be invited to attend PSC meetings in their regions whenever those meetings take place. PSC agreed to the proposal and directed staff to extend invitations to all ex-members to rejoin the Consultative Group with immediate effect.

**Action Required:** Finalize the remaining nominations to the Consultative Group and invite all ex-members to rejoin the group.

**Person(s) Responsible:** Members, PSC Secretariat.
15. PUBLIC SECTOR PERSPECTIVES ON ISAs

Members received and noted:

- A progress report on the process of takeover of PSPs by INTOSAI and IAASB from Jerry; and
- An update on the current Public Sector Perspectives (PSPs).

Jerry expressed appreciation to the PSP subcommittee for the assistance they had given PSC Staff since the meeting in Buenos Aires, Argentina. He advised the meeting that a draft PSP on International Standard on Auditing (ISA) 320, “Audit Materiality” had been submitted a few days before the meeting to the International Auditing and Assurance Standards Board (IAASB) at the end June 2004. A PSP would be developed for revised ISA 540, “Audit of Accounting Estimates”, as soon as a draft ISA was available from IAASB sometime in September 2004.

John Fretwell, the Observer on PSC representing INTOSAI confirmed that their representatives experts, supported by technical staff, had now joined the Task Forces of IAASB and work had commenced on development of ISAs. INTOSAI perspectives and views would be woven into the ISAs as INTOSAI would work with IAASB from the beginning of the development process of an ISA rather than in the form of a PSP on a completed ISA. He also noted that, on an exceptional basis, where justified, INTOSAI would develop separate guidelines outside the ISA. Terence Nombembe, who attends the INTOSAI meetings, requested that John Fretwell report on the new procedures to INTOSAI at its next congress in Hungary – John undertook to report to the INTOSAI congress.

Action Required: Draft Public Sector Perspectives (PSPs) on International Standards on Auditing (ISAs) and circulate to PSC, forward final PSPs to IAASB

Person(s) Responsible: PSP Subcommittee and Secretariat.

16. FUTURE MEETINGS & GENERAL BUSINESS

The Committee agreed that PSC meetings should be extended to a four-day meeting to deal with PSC’s extensive work program.

The Committee noted the final meeting in 2004 would be from November 8 – 10 in New Delhi, India with the fourth day either on November 7 (Sunday) or November 11 (Thursday). (Secretarial note: Following the meeting, PSC agreed to change the dates of the next PSC meeting to November 1 – 4, 2004 so that the PSC Chair could attend the IFAC Board meeting in Paris from November 8 – 11, 2004.)

The PSC also discussed meeting locations and dates for 2005 and 2006.

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<th>Dates</th>
<th>Locations</th>
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<tr>
<td>PSC Meetings 2005</td>
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<tr>
<td>March 7 – 10 or March 14 – 18</td>
<td>Oslo, Norway</td>
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<tr>
<td>Dates</td>
<td>Locations</td>
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<tr>
<td>June/July</td>
<td>To be finalized, staff are to explore the possibility of having a meeting in Eastern Europe, Cairo, or New York</td>
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<tr>
<td>December 6 – 9, subject to PSC’s coordination with IAASB’s meeting in Cape Town</td>
<td>Cape Town, South Africa</td>
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**PSC Meetings 2006 (Dates to be confirmed later)**

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<th>Dates</th>
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<tr>
<td>March</td>
<td>To explore the possibility of having a meeting in Eastern Europe or Cairo (TBC)</td>
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<tr>
<td>June/July</td>
<td>Paris, France</td>
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<tr>
<td>November</td>
<td>Japan or Istanbul to coincide with the World Congress of Accountants in Istanbul</td>
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(TBC = to be confirmed)

Other member countries also expressed interest to host PSC meetings. These included: Japan (to coincide with the CAPA meeting), Cayman Islands (not during June/July 2005) and Israel (subject to consultation with the Ministry of Finance and the Institute of Certified Public Accountants in Israel).

Members also noted that IFAC has a policy of holding at least half of all meetings in New York, but that the Review Panel had recommended that this policy not be applied to the PSC, that this recommendation was supported by the PSC, and would be considered by the IFAC Board.

**Action Required:** Liaise with IFAC, The Institute of Chartered Accountants of India and others as necessary to coordinate the November meeting in New Delhi. Liaise with Norwegian member, technical advisor and the Norwegian Institute of Public Accountants to finalize arrangements for the March meeting. Investigate meeting locations for July 2005 meeting.

**Persons Responsible:** PSC Staff and Secretariat.

17. CONSULTATIVE GROUP MEETING

The PSC Members, Observers, Technical Advisors and Staff met with the PSC Consultative Group on the afternoon of July 6, 2004. This meeting focused on two issues, Budget Reporting and Harmonization of IFRSs and GFS with IPSASs. The members of the Consultative Group present were:

- Ato Gharty, Gharaty Associates, Ghana;
- Robert Freeman, Texas Tech University, USA;
• Charles Coe, Consultant, Canada;
• Kenneth Dye, Cowater International, former PSC Chair, Canada;
• James Luedeke, NATO;
• Jesse Huges, Old Dominion University, USA;
• Anna Miller (representing Sharon Russell), Association of Government Accountants, USA; and
• Wendy Comes, Federal Accounting Standards Advisory Board, USA

In addition the following were invited to join the discussion;
• Robert Attman, Chair, Governmental Accounting Standards Board, USA;
• Anne Kester, IMF;
• Anthony Gioffre, Department of Education, USA; and
• Ian Mackintosh, Regional Manager (South Asia), World Bank, former PSC Chair, Australia.

Philippe Adhémar, PSC Chair, welcomed the PSC Consultative Group members and members of the public gallery and others present to the meeting of the Consultative Group. Philippe gave a brief history of the PSC and its standards project and advised participants that the PSC had recently been subject to an external review, and that the Review Panel had prepared a report which would be presented to the IFAC Board the following day.

Philippe advised that the discussion of the Consultative Group meeting would focus on two areas: the workplan of the PSC (in particular the harmonization strategy) and the Budget Reporting Research Report.

The Consultative Group discussed the PSC’s work plan and convergence strategy and stressed the following points:
• Convergence with IASs/IFRSs and statistical reporting bases should be pursued where appropriate, but not to the detriment of progress on public sector specific issues;
• It supports the Strategy proposed by staff, but also supports the approach proposed by members in the discussion of that strategy;
• Funding of the standards setting project remained a critical issues that was still to be resolved;
• The PSC needs to support countries that are, or are considering, using the IPSASs;
• The PSC needs to support implementation of the Cash Basis IPSAS as a step in implementing the accrual basis IPSASs;
• The PSC needs to develop relationships and networks with organizations engaged in training public sector accountants; and
• The PSC needs to seek greater participation of stakeholders including governments, multi-lateral development banks, accounting firms and others.

The Consultative Group discussed the Research Report “Budget Reporting” and made the following points:
• Reporting budgeted forecast information involved complex issues and was likely to be a longer-term project. References to such information in a management discussion and analysis section was also likely to be useful;
• Budget reporting should be within the mandate of the PSC; and
• An IPSAS on budget reporting should include within its scope ex-ante forecast information and ex-post comparison of actual performance and position to budgeted performance and position.

The PSC Chair thanked those in attendance for their contributions and invited them to provide further written comments to the PSC on either the convergence strategy or the Research Report.

A more comprehensive record of the Consultative Group meeting is attached to these minutes as Annex 1.

18. **ROUNDTABLE SEMINAR WITH UNITED NATIONS**

The PSC met with members of various programs and organizations within the United Nations system on the afternoon of July 7, 2004. United Nations officers present were:

- Mr. Janyantilal M. Karia, Director, Accounts Division, United Nations (UN);
- Mr. Raj Rikhy, Deputy Director, Accounts Division, UN;
- Ms. Vera Rajic, Chief, Insurance and Disbursement Service, UN;
- Mr. Chulmin Kang, Chief, Central Accounts Section, UN;
- Ms. Ester Boxill, chief, Trust Fund and Technical Cooperation Section;
- Mr. Christophe Monier, Chief, Payroll Section, UN;
- Ms. Valencia Williams-Baker, Chief, Analysis and Reports Unit, UN;
- Mr. George Kyriacou, Finance Support Coordinator, IMIS Support Unit, UN;
- Mr. Sejong Lee, Peacekeeping Accounts Section, UN;
- Ms. Sarita Whiteside, Central Accounts Section, UN
- Ms. Rosita Chan, Central Accounts Section, UN;
- Ms. Lara Beeson, Trust Fund Unit, UN;
- Ms Mung Chun, Payroll Section, UN;
- Ms Jasmina Haznadar, Risk Management Unit, UN;
- Ms. Melissa Buerbaumer, Peacekeeping Accounts Section;
- Mr. Darshak Shah, Comptroller, UN Development Programme (UNDP);
- Mr. Sammy Ng’era, Chief, Corporate Financial Reporting, UNDP;
- Mr. Nicolas Beresford, UNDP;
- Mr. Claude Graham, UNDP;
- Mr. Kenwrick Phillip, UNDP;
- Mr. Richard Barr, Chief of Finance, UN Population Fund (UNFPA);
- Mr. Louis Bradley, Director, Accounting Services, UN Children’s Fund (UNICEF);
- Mr. Prom Chopra, UNICEF; and
- Ms, Sally Neal, Director, Division of Finance, Budget and Administration, UN Office for Project Services (UNOPS).
The PSC Chair made a brief presentation to introduce IFAC, the PSC and the IPSASs to the UN representatives.

Jay Karia, the UN observer on the PSC, made a presentation on the accounting system used by the UN. Jay noted that:

- There are more than thirty affiliated organizations in the UN, each with their own governing bodies, budgets and secretariats;
- Organizations can roughly be divided into two categories: those funded by assessed contributions, and those funded by voluntary contributions (e.g. World Food Programme);
- The United Nations System has a Chief Executives Board for Coordination (CEB) made up of the chief executives of all the organizations to facilitate cooperation on a range of substantive and management issues, it is chaired by the Secretary-General of the UN and meets twice annually;
- The CEB is assisted by the High Level Committee on Programmes (HLCP) and the High Level Committee on Management (HLCM). The HCLM approves changes to the UN System Accounting Standards (UNSAS);
- In 1990 the panel of external auditors completed an interim study on the development of accounting standards for the UN system and recommended the development of such standards to ensure consistency between organizations within the UN;
- In 1991 a task force was formed which developed the UNSAS, which are based on IASs/IFRSs. UNSAS have been in force since and have been updated;
- In 2001 the Board of Auditors (BOA) reaffirmed the value of the UNSAS and suggested that in future developments of these standards, IPSASs be considered;
- In 2002 the HLCM established a task force to review the existing UNSAS and to pursue with the PSC how to put in place a mechanism to monitor and participate in the development of IPSAS;
- In 2002 UN agencies reviewed IPSASs with a view to determining whether adoption of IPSASs would have any impact on UN Financial Regulations and Rules, and what financial/systems modifications would be needed to ensure compliance with IPSASs;
- In 2002 the HLCM task force met with IFAC and reestablished the UN’s observer status. The UN observer has attended all PSC meetings since November 2002. The task force concluded that it was not feasible to fully adopt IPSASs, or any external standards, at this stage, but that UNSAS should incorporate IPSASs where appropriate. The HLCM adopted these recommendations; and
- In the future the HLCM task force will continue to develop UNSAS with a view to improving financial reporting in the UN.

The PSC and members of the UN organizations present discussed the difficulties faced by UN organizations in implementing accrual accounting including:

- Current practice in the UN is to recognize acquisition of property, plant and equipment as an expense in the period of acquisition. Changing this practice may meet some resistance from organizations and member states;
- Employees’ post-employment benefits are not recorded or funded in most UN organizations, although some organizations have started to fund them. Under accrual
accounting, a large liability would need to be recognized in respect of these after service benefits; and

- At present revenue is recognized in respect of assessed contributions when the assessment is made, however many member states are in arrears and it is politically difficult to recognize a bad debt expense in relation to these contributions. It is also politically difficult to defer recognition of the receivable and revenue because it is tantamount to saying that the member state may default on its obligation.

The PSC Chair thanked those present for their attendance, said that he looked forward to the continuing contribution being made by the UN to the PSC’s deliberations and expressed the hope that PSC standards could find their useful application in the UN world.
ANNEX 1

Meeting of PSC Consultative Group participants from the North American region: New York, July 6, 2004

Philippe Adhémar, PSC Chair, welcomed participants to the meeting. In attendance were members of the Consultative Group (CG), GASB incoming Chair, Mr. Robert Attman and Mr Tony Gioffre of the US Department of Education, and PSC Members, Observers, Technical Advisors and Staff. The list of the Consultative Group members in attendance is attached.

Philippe highlighted the importance of the Consultative Group in the light of the complexity and technical nature of subject matters under consideration by PSC. He stressed the need for input from the group and the need to focus the input and relationship with PSC on a few but critical topics. Philippe requested the participants to introduce themselves and advised that the discussion of the meeting would center on two following issues:

- Harmonization with IFRSs/IASs; and
- Budget Reporting Project

Introductory remarks on PSC and its work plan

Philippe gave a brief history of PSC and its Standards Project and advised the participants that PSC had been subject to a recently concluded external review whose report was due for discussion at the IFAC Board during the same week. He pointed out that the Review Panel had consulted PSC constituents on its role, governance and operations. The responses received had been very positive and encouraging and confirmed the relevance of PSC and that it was doing a good job. The objectives and priorities of PSC were also confirmed to be on the right lines according to the views of the constituents.

Philippe asked Paul to give a summary of the PSC work plan and comment on the two areas of harmonization and budget reporting in order to focus the meeting. Paul made reference to agenda items 6.3 and 6.4 in his presentation of the work plan of PSC. He acknowledged that comments had been received from participants around the table and from other people not present with regard to harmonization and budget reporting. He highlighted that the work plan of PSC may be broken into three components as follows:

- Public sector specific issues, these include the ITCs for Non-Exchange Revenue, Social Policies of Government, indicating that to date more than forty-six comments had been received from respondents and more were expected. The analysis leading to EDs and IPSASs would be presented at the next PSC meeting in November;
- IASB Convergence program, which included current proposals for improving eleven IPSASs; and
- Harmonization of GFS/ESA/SNA/IPSASs, Paul indicated that PSC initiated work in this area in 2003 leading to the formation of a Task Force on Harmonization on which PSC and other interested organizations participate. He indicated that a matrix of the differences in treatment of the issues between the various formats of reporting would be issued later by PSC as a Study, Research Report or Occasional Paper. Proposals on how this work would be carried forward were to be tabled to PSC.
**General Discussion by all participants**

The Chair opened the discussion to the floor and asked participants to give general comments first and then focus on the issues of harmonization and budget reporting.

Participants who had introduced themselves earlier spoke to the subject as follows:

- **Ken Dye** – ex-PSC Chair, Consultant and Member of the Consultative Group. He expressed concern on the subject of harmonization indicating that the Public Sector financial reporting matter could be swallowed up in the process. He stressed the importance of the IPSASs in providing guidance and leadership in the public sector particularly to developing economies. He referred to the need for IFAC to give preeminence to PSC and provide it with adequate funding, lamenting the lack of attention to PSC so far;

- **Wendy Comes** – Financial Accounting Standards Advisory Board (FASAB) Representative to the PSC Consultative Group. Wendy explained to the meeting the funding of FASAB highlighting that perhaps PSC could consider this and other models in its search for solutions to issues such as funding and governance. She indicated that FASAB had an oversight body and that three organizations contributed to the funding of FASAB, these were the General Accounting Office, the US Treasury and the Office of Management and Budget. The funding arrangements were subject of Act of law which was to ensure the independence of FASAB;

- **Ian Mackintosh** – ex-PSC Chair, PSC PAP Chair Development Assistance Project. He enquired whether GASB’s program would enable more cooperation, sharing of resources and conducting joint projects with PSC. The incoming Chair of GASB, Robert Attman, responded that while recognizing that he was new in the position he would welcome the opportunity to interact more with PSC;

- **Charles Coe** – Consultant and member of the Consultative Group. He stressed that obtaining funding for continuing the standards program was critical even if it meant engaging marketing expertise to undertake this exercise. He said the standards program had been funded by donors to date and that the package of the existing twenty IPSASs had not focused on public specific issues of financial reporting. He suggested that PSC needs to ask itself whether it was adding value to the whole process to warrant recognition. PSC needed to deal with a misconception out there that it was for private sector accounting. He said governments should be approached to contribute to funding particularly the G7 countries, which always espouse the issue of good governance of which IPSASs are a good foundation. Agreeing with Charles’ comment, Rick Neville suggested that perhaps the Finance Ministers forum which is a subcommittee of G7 was a better group to approach;

- **Jesse Hughes** – Consultant and member of the Consultative Group. Jesse referred to the ICGFM training program, which he coordinates, conducting training programs around the world incorporating IPSASs and GFS. He said ICGFM always encouraged countries to consolidate application of the cash basis first, and obtain certification from the Auditors before preparing to move to the accrual basis. Jesse wondered whether this was a sound approach in the effort to have countries on a common comparable basis;

- **Anthony Gioffre** – Acting Director of Financial Management in the US Department of Education, observing the meeting as a member of the public. He encouraged PSC
to cooperate with other organizations and to consider endorsement of a certified body of knowledge, citing examples of ACCA and ICGFM as explained by Jesse Hughes;

- Anna Miller – representing Sharon Russell, member of the Consultative Group for Association of Government Accountants, USA. She concurred with the suggestion for PSC to network with similar organizations including AGA which was now working with many countries including Mongolia;

- Ken Dye – ex-PSC Chair and member of Consultative Group. He concurred with the view of networking between PSC and other organizations emphasizing the importance of capacity building through continuous training and certification at both professional and technician levels. He cited examples of programs he is involved with in Malaysia and other countries;

- Mike Hathorn – PSC Member for the United Kingdom. Mike expressed his agreement with the approach of sticking with the cash basis first to create a sound basis for transitioning to accrual basis. He highlighted the frustration with the current public relations approach emphasizing the need for a different strategy to bring on board those who benefit from what PSC does, that is, the governments. PSC needed help in this in his view;

- Ian Mackintosh – Chair of PAP Development Assistance Project. He suggested that perhaps a flexible approach to the application of cash and accrual bases would be better perhaps a mixed approach depending on the demands of the country. He pointed out that, the World Bank has established that there is good training for lower and middle levels of officials in India which is taking accrual on a piloting basis;

- Ethan Weisman – Alternate Observer of IMF to PSC. He echoed a case by case approach to assisting countries. He indicated that many countries were in between cash and accrual bases. He stressed that the GFS framework provides a good bridge between the cash and accrual bases of accounting in the public sector;

- Ato Ghartey – member of Consultative Group. He stressed that very few countries were operating on a pure cash accounting basis as most countries were on modified cash or accrual. He cautioned against overstressing of the cash basis thereby setting back many countries in the process; and

- Freeman Nomvalo – Technical Advisor, South Africa. He shared with the meeting the capacity building initiatives in the public sector of South Africa indicating that South Africa has decided to move to accrual basis of accounting for the public sector. He said after looking at the market including all training and education institutions they established that none of them provided relevant training to their needs. An arrangement has been made to run a pilot program focusing on the public sector financial reporting issues. This institution spearheads training programs and development of long-term programs to supply skills required for the municipality sector as well. IPSASs would be incorporated in the program. He suggested that perhaps part of the solution of spreading the IPSASs is creating the supply of skills in developing countries;

The Chair summed up the discussions of this part of the meeting stressing the following:

- Explained that emphasis of PSC is on convergence where applicable and that PSC is not losing sight of its priorities;
• Funding remained a fundamentally unresolved issue at this stage and if no additional funding becomes available PSC would not be able to proceed with its standards setting program beyond middle of 2005;
• Need for PSC to prove its worth by showing that PSC makes a difference in the countries which uses its materials;
• Need for PSC to pay more attention to the implementation of Cash Basis as a way to pave way to accrual basis;
• Need for PSC to enter into relationships and networking with organizations engaged in training; and
• Need to seek greater participation of other stakeholders including governments, MDBs, firms and other interested parties;

Discussion on Harmonization and Budget Reporting Project
Discussion then turned to the two topics of Harmonization and Budget Reporting with introductory remarks from Paul Sutcliffe. He indicated that PSC Staff received some comments from Consultative Group members on harmonization, which were not adverse to the proposed strategy, though others had expressed the view that the matter of harmonization was not an urgent one. He explained further that PSC would progress as quickly as it could with the improvement program of eleven IPSASs impacted by IASB and would want to refresh the other nine IPSASs. He indicated that Staff would indicate whether this was feasible given the work on the ITCs and the Impairment of Assets. It was intended to have a refreshed stable platform of twenty-one IPSASs in 2006 or 2007.

Turning to the Budget Reporting Research Report, Paul noted that the report that had been prepared by Jesse with assistance from a Steering Committee chaired by Ron Points, had since been circulated. The report focused on the following matters:
• Is Budget Reporting in the mandate of PSC;
• Where is the focus, comparison of budget versus actual, should this include ex-ante reporting; and
• What is the character of the information to be communicated to users.

Paul highlighted that the responses received were divided, some were in support of the report and some were not.

The Chair opened the discussion to the floor. Members noted they were comfortable with the proposed harmonization strategy proposed by staff, and with the modifications made by members during the discussion of the strategy. Members general comments included:
• James Luedeke – NATO Financial Controller and member of Consultative Group. He stressed the importance of the IPSASs staying current through the harmonization project. He indicated that the resource constraints of PSC are appreciated but from a user’s perspective, he was of the view that users would want updated IPSASs rather than using outdated ones and in that context a stable platform was not necessary. James indicated his support for development of a standard dealing with budget reporting emphasizing that budgeting and accounting were integrated in many systems now;
• Anna Miller – AGA Technical Manager standing for the representative on the Consultative Group. She supported the efforts for harmonization of IPSASs and IASs to stay current. She also stressed the importance of the budget reporting report offering AGA to host the document or link it to their website for wider access by their members and visitors to the AGA website;

• Terence Nombembe – PSC Member for South Africa. He emphasized the need to advise the group of decisions made in the previous PSC meeting in Buenos Aires, Argentina that the Report had been issued as a report of the Consultant and not as one from PSC and to get the views of the members of the group on this;

• Ato Ghartey – Consultant and member of Consultative Group. He stressed the importance of wide distribution of such reports as the Budget Reporting Research Report. These contacts should include all professional associations and Ministries of Finance;

• Wayne Cameron – PSC Member for Australia. He highlighted the importance of a targeted approach in circulation of such documents as the Budget Reporting Research Report particularly to reach all the Heads of Treasuries around the world; and

• Charles Coe – Consultant and member of Consultative. He expressed his support for an IPSAS on Budget Reporting given the centrality of the budget and stressed that the IPSAS would cover ex-ante reporting and budget versus actual.

Philippe posed a question on what the format and focus of an IPSAS on Budget Reporting should be. Responses were as follows:

• Anna Miller of AGA. She referred to the initiatives in the US to improve the management discussion and Analysis section of the general purpose financial reports in the public sector as worth consideration by PSC;

• Mike Hathorn – PSC Member for UK, suggested that form and content of financial reports in the public sector including budget reports needed to be improved through research. He said it was important to put the message in a wider context and conveying the message beyond the figures. He stressed the cross cutting nature of the issue in the private as well as public sectors. In this connection he pointed to a study by the Institute of Chartered Accountants of Scotland on reporting;

• Ken Dye – ex-PSC Chair and member of Consultative Group. He referred to a joint study done by GAO and Office of the Auditor General of Canada that addressed the issue of focus of budget reports and recommended that PSC refers to it. He stressed the importance of including the accrual concept in the budget so that both accounting and budgeting are driven by it; and

• Wendy Comes – FASAB representative on the Consultative Group. She confirmed the usefulness of the study referred to by Ken Dye, done by GAO and Auditor General of Canada that addressed the issue of reporting on the budget. She said IPSASs on the budget reporting should cover both ex-ante and ex-post reporting. She stressed the importance of covering the management discussion and analysis dealing particularly with forecasts in the IPSAS.

The Chair closed the session by thanking all the participants for their contributions inviting them to provide further comments.
List of PSC Consultative Group Members and other participants who attended the session: New York, July 6, 2004

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<tr>
<th>Name</th>
<th>Organization</th>
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<tr>
<td>1 Ato Ghardey</td>
<td>Ghardey Associates, Ghana</td>
<td>Chief Executive, Professor</td>
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<td>2 Robert Freeman</td>
<td>Texas Tech University</td>
<td>Professor</td>
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<td>3 Charles Coe</td>
<td>Consultant</td>
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<td>4 Kenneth Dye</td>
<td>Cowater International</td>
<td>Senior Vice President</td>
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<td>5 James Luedeke</td>
<td>NATO</td>
<td>Financial Controller</td>
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<td>6 Jesse Hughes</td>
<td>Old Dominion University</td>
<td>Professor, Consultant</td>
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<td>7 Anna Miller (rep. Sharon Russell)</td>
<td>Association of Government Accountants (AGA, USA)</td>
<td>Technical Manager</td>
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<td>8 Wendy Comes</td>
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<td>9 Robert Attman (not member of Consultative Group)</td>
<td>Governmental Accounting Standards Board of USA (GASB)</td>
<td>Incoming Chair</td>
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<td>10 Anthony Gioffre (not member of Consultative Group)</td>
<td>US Dept of Education</td>
<td>Acting Director, Financial Management</td>
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<td>11 Ian Mackintosh (not member of Consultative Group – appointed to the CG after the meeting)</td>
<td>World Bank</td>
<td>Manager, Financial Management for South Asia, former PSC Chair.</td>
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