Approved Minutes of the Meeting of the
IPSASB CONSULTATIVE ADVISORY GROUP
Held on December 4, 2017 in Toronto, Canada

1. Attendance, Opening Remarks, and Approval of Minutes

1.1 Attendance

Members
Present: Thomas Müller-Marqués Berger (Chair)
Patricio Barra
Daniel Boutin
Kathryn Cearns
Anwaruddin Chowdhury
Fabienne Colignon
Paul Gisby
Chai Kim
Neema Kiure-Mssusa
Bill Matthews
Firmansyah Nazaroedin
Bernard Ndungu
Kevin Page
Vivek Ramkumar
Sunil Romooah
Karen Sanderson
Luís Viana
Samih Yousef

Apologies: Inge Grässle
Ahmed Idris
Manfred Kraff
Frans van Schaik

IPSASB Staff
Present: João Fonseca, IPSASB
James Gunn, Managing Director, Professional Standards
Gwenda Jensen, IPSASB
Paul Mason, IPSASB
Ross Smith, IPSASB
Joanna Spencer, IPSASB
John Stanford, IPSASB
The IPSASB CAG Chair, Mr. Müller-Marqués Berger welcomed the members of the IPSASB Consultative Advisory Group (CAG) to Toronto, Canada for the fourth meeting of the CAG.

The minutes of the June 24, 2017 IPSASB CAG meeting were approved.

The CAG Chair welcomed for the first time to the CAG the new member representing the Comptroller General of Chile, Mr. Patricio Barra.

The CAG Chair welcomed Mr. Renzo Merino, Assistant Vice-President, Sovereign Risk from Moody's Investor Service and thanked him for agreeing to speak to the CAG about the sovereign credit process.

The CAG Chair thanked CAG Member Ms. Karen Sanderson for agreeing to lead a session on Implementation Issues.

Mr. Smith, IPSASB Deputy Director presented feedback on the October 5th Public Interest Committee (PIC) meeting, which discussed the strategy consultation process. The PIC meeting agenda was focused mainly on the development of the IPSASB’s Strategy Consultation, and therefore did not cover the activities of the CAG. The discussions related to the due process followed in developing the Strategy Consultation document, and the approach to better engage and receive feedback from constituents, to ensure a broad range of views are received.

The CAG Chair thanked members for their input on topics to be included for the December Agenda. Additionally the CAG Chair thanked members for their attendance and highlighted the importance of regular attendance, noting that discussions are enriched by strong and consistent attendance. It was also noted that Public Interest Committee has requested and will be provided regular attendance reports.

2. Ratings Agency Presentation

Mr. Müller-Marqués Berger welcomed Mr. Merino, Assistant Vice-President, Sovereign Risk from Moody’s Investor Service to share a presentation on Public Sector Accounting and Sovereign Risk. The presentation by Mr. Merino highlighted the methodology, process and information used to develop sovereign credit ratings.

CAG members were interested to understand the extent which Ratings Agencies (RAs) differentiate between different financial reporting frameworks (such as accrual vs. cash) and if adjustments of the rating assessment were made in regards to audited versus unaudited financial accounting information. Mr. Merino noted that RAs see transparency and reliability of information as very important when assessing credit ratings. However, he also noted that RAs build their assessment on multiple information sources beyond financial statements so they use and rely on both cash and accrual accounting information. He noted that although they would rely on audited accrual financials if available, they are not generally demanding or encouraging countries to provide such information and they do not place a premium on accrual information. The discussion highlighted a need for the better communication with RAs, and those relying on their assessments, in particularly on the benefits of adoption and usage of accrual financial information.

The CAG members commented as follows:

- Mr. Chowdhury noted that the move to accruals may have implications on the liquidity of public sector entities. Mr. Merino was questioned on this from a RAs position. Also, he asked how political changes are considered by RAs in their assessments. Mr. Merino noted that RAs are not yet taking the liquidity constraints into account because of a lack of comparative data. However, he noted that greater transparency will help with this. On the second question, RAs will try to respond where they can when dealing with political change, for example by talking to candidates during the election process.
- Mr. Page asked which debt metrics are used by RAs? Mr. Merino replied that RAs generally use GFS debt metrics for GDP and fiscal accounts.
● Mr. Müller-Marqués Berger noted that by only using marketable debt, the difference between cash and accrual accounting may be of less importance.

● Mr. Boutin asked about the consideration of government forecasts, performance data, and the fact that these are not audited. Mr. Merino responded noting that RAs may use these as inputs, however, they will develop their own forecasts because governments may be too optimistic.

● Mr. Müller-Marqués Berger inquired whether RAs consider if financial statements are independently audited. Mr. Merino noted that they look at fiscal data, however without any independent validation or audits generally.

● Mr. Ramkumar questioned if asking for more transparency and punishing countries because they provide more transparent data may be a barrier to countries being transparent?

● Mr. Viana asked how RAs consider public financial management improvements Mr. Merino noted that they do look at governance and inflation metrics along with other factors.

● Mr. Matthews noted his surprise that there was a lack of focus on audited financial statements and the impact of audits on sovereign credit ratings.

● Mr. Yousef noted that for assets in particular there may not be an ability to sell these in the public sector. Further for certain liabilities there may not be an ability or desire to settle certain ones in the public sector. Therefore, he asked Mr. Merino if RAs have any preference relating to the accounting standards being applied. Specifically, do RAs have a preference for national accounting standards or global standards such as IPSAS? Mr. Merino noted there were no preferred standards and currently there is a lack of consistency on accounting standards used across the world. However, RAs definitely support greater transparency.

● Mr. Carruthers, Chair of the IPSASB noted the common goal of the IPSASB and RAs is increased transparency and the desire for high-quality information. Mr. Carruthers emphasized that the IPSASB and RAs have some common issues worth further exploration.

● Mr. Nazaroedin noted that financial statements are backward looking given their historic nature. He specifically asked if a clean audit opinion on financial statements impacts sovereign credit ratings. Mr. Merino noted that this is a difficult question, and in practice it varies country by country – because of the different accounting and audit frameworks in place in each jurisdiction, as well as the other information available to consider in developing a sovereign credit rating.

● Ms. Colignon noted that the discussion highlights the importance of the links between financial statements, national accounts and statistical accounting. In her view this is important when considering the remit of accounting standard-setting.

● Ms. Sanderson noted that Government Finance Statistic data appears to be important to RAs at this time. She further asked Mr. Merino to what extent do RAs view themselves as users of accrual based financial statements. If they do see value in accrual financial statements, what information would be useful? Some disclosures based on IFRS, are these useful for different users such as RAs?

Mr. Müller-Marqués Berger thanked Mr. Merino for his presentation and noted that this discussion highlighted further work that the IPSASB and accountants more generally need to undertake to convince RAs that accrual accounting information provides more useful information than cash accounting. If RAs were convinced of this, they may demand such information from countries for use in their sovereign credit assessments.
3. Implementation Issues: Presentation by CAG Member, Karen Sanderson

Mr. Müller-Marqués Berger welcomed Ms. Sanderson to share a presentation on Implementation Issues related to preparing consolidated (whole of government accounts) accrual financial statements. Ms. Sanderson discussed her consolidation accounting challenges drawn from her many years of experience as a preparer of consolidated financial statements in the UK Treasury (whole of government accounts) and for the state of New South Wales in Australia (whole of state accounts). She highlighted practical implementation issues encountered when applying principle-based accrual standards for public sector consolidation accounting; specifically noting key challenges such as defining the scope of consolidation, inter-entity eliminations, common accounting policies, usability of consolidated financial statements and fair value of property, plant and equipment (differences in the approach to fair value measurement for similar assets).

The CAG members commented as follows:

- Mr. Barra asked about the role of the audit office. In particular, do they audit both separate and consolidated financial statements in her jurisdiction? Ms. Sanderson noted that the audit offices audit both separate and consolidated financial statements.

- Ms. Colignon inquired about the process for reconciling between the budget and financial results. She noted practical challenges in France when auditing such a reconciliation because in her jurisdiction auditors lack information on the budget. Ms. Sanderson noted this is not an issue in her jurisdiction because the state of New South Wales does not consolidate local government, because they do not control them, therefore the budget and financial results only include the state level.

- Mr. Page asked Ms. Sanderson about her experience while working in the UK Treasury during the global financial crisis. What specific issues arose? Ms. Sanderson noted that it was a difficult time as a result of the program to bail out commercial banks. This raised the accounting question of how the investment in those banks should be accounted for by the government. Ms. Sanderson noted that the decision was made that the banks should not be consolidated by the government because the control was temporary (arising from the crisis).

- Mr. Matthews noted that in his view the scope of consolidation should be determined using the principles in the accounting standards. He questioned the use of legislation to set a boundary for the scope of consolidation because it might incentivize governments to use legislation to avoid the consequences of applying the accounting principles. Mr. Matthews further commented that he does not think we should over play the differences with the Government Finance Statistics (GFS) consolidation requirements. Accounting principles and financial statements have different objectives and are used for different purposes. In his view alignment with GFS should not call into question ‘control’ as a core accounting principle.

- Mr. Romooah notes that it appears to take a great deal of effort to produce consolidated financial statements. He therefore asked Ms. Sanderson whether the information is useful and in particular how it is used. Ms. Sanderson responded that in New South Wales, the information is used all the time because budgets are prepared on the same basis as the financial statements. The financial statements are used consistently for policy decisions. Also, the information is useful for debt management purposes, as government legislation sets a target of maintaining a AAA credit rating.

- Mr. Yousef noted that Abu Dhabi faces similar challenges. Mr. Yousef noted that adoption of IPSAS in Abu Dhabi has been done on a phased approach, with individual entities firstly adopting IPSAS / IFRS (dependent on the nature of the entity). The next consolidation phase which Abu Dhabi is in currently working on, brings similar issues as those highlighted in Ms.
Sanderson’s presentation. One particularly significant issue in Abu Dhabi is that the state owned enterprises are very large in scale and much bigger than the government entities.

- Mr. Carruthers noted that in the UK that accrual budgeting is being introduced for individual entities. He further noted that it is at consolidated level where the link to GFS comes in. UK public sector standards are adapted from IFRS, however, they are highly consistent with IPSAS as the IFRS amendment process is similar to the IPSASB’s process for modifying and amending IASB documents.

- Ms. Cearns noted a need to educate about the interaction between the various different financial statements as there is a general lack of understanding overall.

Mr. Müller-Marqués Berger noted that the discussion was very interesting. He proposed that the CAG should have a further discussion to consider some of the issues in greater detail in June 2018, with another CAG member(s) leading the session. CAG members supported this proposal.


The CAG considered the IPSASB Work Plan presented by Mr. Stanford, IPSASB Technical Director. Mr. Stanford updated the CAG on the current progress of ongoing projects and provided an overview of significant changes since the June 2017 CAG meeting. Mr. Stanford noted that the changes were related to both technical and prioritization reasons. A key development which Mr. Stanford noted related to the IPSASB’s developing approach on when to use a Consultation Paper (CP) or progress directly to an Exposure Draft (ED). The Public Interest Committee (PIC) has encouraged the IPSASB to consider this and whether the process for determining when to use a CP should be further formalized.

The CAG members commented as follows:

- Mr. Müller-Marqués Berger noted that the posted Work Plan will need to be reviewed by the staff related to future CAG meetings, as the current projected technical topics on future CAG agendas seems to lead to some meetings having overly heavy agendas, with others being light.

- Mr. Müller-Marqués Berger noted that when the IPSASB decides to not to include a Consultation Paper (CP) in a projects development cycle, it may increase the risk of Exposure Draft (ED) proposals not being supported, which could result in re-exposure. Mr. Müller-Marqués Berger highlighted that it is clear that the IPSASB is under pressure to make timely progress on projects and he asked Mr. Stanford how the CAG can help.

- Mr. Stanford noted that the IPSASB staff agenda papers continue to develop to be more focused on key issues and decisions taken, to assist the IPSASB in making timely decisions to help facilitate project progress. He further noted, that for the CAG agenda papers, the focus is on ensuring that the questions to the CAG are targeted so that the advice from the CAG helps the IPSASB address the issues, which he believes does help keep the IPSASB focused on the key issues.

- Mr. Carruthers noted there is tension between developing a CP and the impact this has on timeliness of the development of a new standard or guidance. This is one reason why heritage and infrastructure projects have been delayed to allow the measurement project to progress. The principles from the measurement project can then inform the measurement approaches in the heritage and infrastructure projects. The IPSASB and the staff are working to better consider the interconnectedness of projects during the planning and sequencing of work, to ensure the timely progress of the work plan in a resource efficient manner.

- Mr. Stanford noted a very engaged debate with the PIC on when a CP is needed, and he noted that a CP is usually used when the issue being dealt with is public sector specific. For the measurement project the IPSASB has decided to use a hybrid CP that will embed an ED outlining the key measurement principles. This is an innovative approach for the IPSASB, which
will require continued discussions between the staff and the Board as this approach continues to develop.

- Mr. Gunn noted that the CAG can provide useful advice to the IPSASB related to this new hybrid CP approach. Defaulting to a CP on public sector specific issues is the safe approach used in the past and there are risks in departing from this approach. However, in considering ways to move the work plan and specific projects forward in a more timely, resource efficient manner, it appears to be an area worth exploring. The CAG is important as it provides the IPSASB with a fresh perspective to consider the IPSASB’s proposals, such as the innovative hybrid approach, and if it is fit for purpose for a particular project.

- Ms. Cearns agreed with the Mr. Gunn’s point. She further emphasized that if due process allows for an innovative approach it needs to be assessed on its merits, and the IPSASB should not be constrained by the historical approaches taken to develop projects. Ms. Cearns noted concerns with how projects are subdivided on the Work Plan. For example, she has concerns that the IFRS 15, Revenue from Contracts with Customers might be difficult to address without considering how the other streams of the revenue projects will be addressed. From her perspective it is hard to envision managing the interrelated projects independent of each other. Mr. Stanford noted that although the projects are separate on the work plan, the staff involved in the projects will be working together on the issues and the project will have one staff overseeing and coordinating the project.

- Mr. Boutin questioned if there is a need for specific criteria to decide when a CP is needed? Or should it be assessed on a case by case basis? Mr. Stanford noted that he took a paper to the PIC in October and that it might not be entirely accurate to note that the paper set out criteria on when a CP should be used. However, the paper sets out the general approach historically that CP’s are often not needed for IFRS convergence projects, but are generally needed for public sector specific projects (not IFRS convergence projects). However, going forward the IPSASB is looking to consider alternative approaches, such as the hybrid CP/ED approach.

- Ms. Colignon noted some practical issues which need consideration from her perspective. For example, the revenue and non-exchange expenses CP was very wide. Now the work plan notes these projects will be de-coupled and progressed independently, but some issues remain interrelated. How will the IPSASB manage this? Mr. Stanford outlined the background and thinking in splitting the projects into the various streams. He further noted, that these projects would have an overall staff coordinator to ensure that interconnected issues are dealt with appropriately for all the streams. A key issue the IPSASB and staff note as having an impact on the approach taken is the extent to which the performance obligation approach from IFRS 15 can be extended to deal with public sector specific transactions. It should be noted that national standard setters have experience in dealing with this issue already which the IPSASB might be able to draw upon. Mr. Stanford highlighted a need to recognize the caveat that managing the process and the links between the projects will be difficult.

- Mr. Stanford highlighted for the CAG an overview of the Report Back documents included as appendixes to his report that provide feedback on the technical project discussions of the CAG from the previous meeting in June 2017.

- Mr. Müller-Marqués Berger noted while no work is planned for the Cash Basis IPSAS at this time, this did not preclude additional work later if a need was identified by constituents or by the IPSASB. Mr. Stanford noted that the IPSASB might need to revisit this approach if respondents to the Strategy Consultation requested additional issues related to the Cash Basis IPSAS be addressed, although this is not expected to be the case.
5. IPSASB Strategy and Work Plan Consultation

Mr. Smith, IPSASB Deputy Director, introduced the agenda item and outlined the history of the development of the Strategy and Work Plan 2019-2023 project. Specifically, the process steps in engaging with a broad group of constituents at the March 2017 event hosted by the IMF. Further, key discussions with the PIC were highlighted and the discussions with the CAG in December 2016, June 2017 and the CAG teleconference in October 2017 were noted. The CAG was provided with an overview of key decisions taken by the IPSASB in responding to advice from both the PIC and CAG in developing the proposed strategy. The CAG also received an overview of the planned outreach approach, including a discussion on the proposed three regional roundtables to be held during the comment period in Africa, Asia and Europe.

The CAG members commented as follows:

- Mr. Müller-Marqués Berger commented that CAG members had considered the due process followed and had not identified any concerns in the development of the consultation document.

- Mr. Barra inquired if the roundtables might be extended beyond the currently planned three, noting a particular need for such an event in Latin America. He noted that the FOCAL network might be a good forum for such an event.

- Mr. Müller-Marqués Berger noted support for the outreach approach. He questioned how the CAG fits into the outreach approach. Mr. Smith noted that he viewed the CAG members as very important in raising awareness of the Strategy Consultation and encouraging constituents in their jurisdiction to engage in the strategy process and to submit comments.

- IPSASB member, Mr. Schatz noted that the IPSASB could look to use institutions such as audit networks in different regions.

- Mr. Matthews encouraged the IPSASB to go even wider and to try to get public accounts committees interested and involved in the strategy process. He further noted that one group he thinks needs to be more involved is the academic community. From his perspective universities are not engaged with the developments in public sector accounting. Their curriculums often do not have regard for public sector accounting and this group in his opinion are generally not well aware of current developments. Mr. Matthews noted this is troubling as universities are the main training ground for the next generation of accountants. If we want to see development of public sector accounting more broadly, improvement in this area is needed.

- Ms. Sanderson noted that academics, national standard setters, accounting firms, and public accounting organizations more broadly, all appear to be appropriately considered in the proposed outreach and engagement approach. However, she urges that this approach is something which the IPSASB might want to sustain going forward and that it may want to consider it for specific projects as well. Mr. Smith acknowledged that using roundtables as planned for the strategy consultation, would be good for all projects, however, there are resource constraints and roundtables are extremely resource intensive. The IPSASB and staff will need to learn from the experience of carrying out the strategy roundtables and consider how and when to use these for other projects.

- Mr. Boutin noted that the INTOSAI community has been engaged to help provide feedback to the IPSASB. Further, he noted he will provide the members of the INTOSAI Financial Audit and Accounting Subcommittee (FAAS) the draft strategy and ask them to comment and share with their constituents. Mr. Boutin further noted that he has liaised with the INTOSAI regional bodies, providing them quarterly updates on the IPSASB’s ongoing work plan process and developments.
- Mr. Carruthers noted that the Strategy Consultation is an opportunity to engage with some important groups, such as ratings agencies, allowing the IPSASB to initiate a conversation, which hopefully can be sustained going forward.

- Mr. Gisby noted that it is important to engage with civil society organizations. These organizations value transparency and sustainability and are likely to support the IPSASB’s strategy and emphasis these important messages. Mr. Gisby also noted that it is important to establish contacts with a few people in the press.

- Ms. Cearns emphasized the importance of raising general awareness with the press. She noted that an ongoing relationship would need to be developed and maintained. She noted that this approach in the UK was helpful in putting pressure on ratings agencies to be more engaged.

- Mr. Müller-Marqués Berger recalled that in a previous discussion Mr. Page noted a need to link to broader topics to engage the general public.

- Mr. Yousef suggested a need for a forum for preparers. Such a forum would allow public sector financial statement preparers to discuss important issues. He noted that this would require someone to provide resources, as well as establish operating procedures and processes. However, he notes from his perspective this is important and needed.

- Mr. Ramkumar highlighted a need to expand the audience engaged with beyond accountants and auditors. In his view there is scope for greater engagement by asking CAG members to contact different groups, such as non-governmental organizations. However, the context for such engagement needs to be defined or it may not lead to meaningful engagement or more responses to the IPSASB’s consultation. It may also be risky in that it may raise unrealistic expectations.

- Mr. Stanford noted that the IPSASB does have the public sector standard setters forum (PSSF), which was engaged to discuss in detail the IPSASB’s developing strategy and work plan 2019-2023. He further noted that the next PSSF is planned for 2019, when the new strategy will have been approved and the IPSASB will be beginning the implementation of the strategy and the research process for its new projects.

- Mr. Carruthers noted that there are a number of different audiences the IPSASB needs to engage with. However, he noted that what engages civil society will be different to what engages fiscal councils. He noted the IPSASB may look to contact CAG members for guidance and assistance to help connect with their communities. Mr. Carruthers noted that the approach taken so far with INTOSAI is a good template.

- Mr. Müller-Marqués Berger asked CAG members to contact Mr. Smith in regards to any outreach activities so the IPSASB is aware of what is going on, and for support for presentations. Members were also asked to contact Mr. Smith if there are any particular groups or individuals that should be contacted through a formal letter. Mr. Carruthers asked that if CAG members already have relationship with groups or individuals that the IPSASB should engaged with, to let staff know.

6. Infrastructure

Manager, Standards Development & Technical Projects, Ms. Spencer and Task Force Chair, IPSASB Member Mr. Blake, introduced the agenda and outlined the history of the infrastructure project. The CAG received an update on the ongoing staff research to identify the key issues related to infrastructure accounting which should be considered in the project, and the continuing development of the project proposal. The CAG also received an overview of the initial views on whether the project will include a CP stage or not.
The CAG members commented as follows:

- Ms. Cearns noted that previous UK GAAP requirements included the concept of renewals accounting, for major capital asset networks, which included maintenance costs being treated as a proxy for depreciation. From her perspective, there is no need to address infrastructure beyond existing standards and she notes that in her view the project should be limited only to networks.

- Ms. Sanderson notes that the HoTARAC has considered infrastructure and identified three issues. Firstly, control of infrastructure assets is challenging because of poor record keeping as well as the extent of infrastructure networks, their use and management, which can span different levels of government and several different entities. Further, the issue of how to treat subsequent expenditure on infrastructure to determine if it is capital in nature or a maintenance cost is an important issue. Lastly, infrastructure assets operated under a service concession arrangement give rise to the practical issue related to the access to information needed to account for the transaction (because often the operator has the information needed by the grantor for its accounting purposes).

- Mr. Matthews noted there are linkages to other standards when dealing with infrastructure. Infrastructure purchases are often funded by senior governments which gives rise to the issues of accounting for the transfer payments. Mr. Müller-Marqués Berger noted that the IPSASB’s revenue project will be considering the treatment of grants and other transfers – which should cover this issue.

- Mr. Koehler noted that the European Union (EU) has a network of satellites used to provide the EU version of GPS. When accounting for these assets, IPSAS 17, Property, Plant, and Equipment is the applicable standard. However, IPSAS 17 refers to immovable assets, and satellites move, so in his view there is an issue with IPSAS 17 that should be considered and addressed in this project. Many other issues related to the satellite system arose when considering the accounting treatment, such as the question of who controls the system. Is it the EU or the companies involved in operating the satellites? A further issue leading from this point is whether the transaction between the EU and companies operating the network is a service concession arrangement? How to treat the intangibles related to the research and development stage of the system was another important issue considered. Componentization was another issue encountered and specifically what are the appropriate components to recognize. From his perspective he believes that IPSAS 17 provides, sound appropriate principles to account for the satellite system, however additional guidance and some further clarification would be helpful.

- Mr. Yousef noted in his opinion there is a need to define service potential and how it can be recognized and measured is important in the context of infrastructure.

- Ms. Kiure-Mssusa noted that it is important to set out how infrastructure should be measured and depreciated (including considering as to whether it should be depreciated). Also, should asset retirement obligations be built into cost of the asset and how does this apply to infrastructure?

- Mr. Romooha notes that the recognition of infrastructure can be an issue. For example, one entity recognizes the asset, while another entity receives the revenue arising from the asset.

- Mr. Nazaroedin noted a need to define what is infrastructure. Further, the treatment of transfers from central government to local governments is important and in particular consideration of who controls the asset. Whether the source of financing play a role in assessing control is an issue that should be considered.
● Mr. Page noted that a current issue related to infrastructure relates to climate change and its impact on assessing the useful life of infrastructure assets. Engineers performing assessments of useful lives are currently struggling with this.

● Ms. Cearns highlights that some of the discussion points raised issues that relate to assets that are wider than infrastructure, and the project should be cognizant of this and be careful of scope creep.

● Ms. Kiure-Mssusa highlighted the links between funding and future maintenance. What are the common issues across different types of networks, such as road, rail, water, and telecommunications? What principles can be developed and applied to these types of infrastructure networks? Land is also an issue that the project will need to consider, specifically how to treat land under roads.

● Mr. Carruthers highlighted that a key issue the IPSASB is still considering is what the appropriate scope of the project is. The IPSASB needs to consider further where IPSAS already provides guidance and what additional guidance is needed (what problems should this project be addressing).

● Mr. Ramkumar raised the question, what is meant by public interest when dealing with infrastructure assets, and accounting for these? In his experience there are problems with accounting records in India. He has seen evidence of double counting for infrastructure assets, as well as issues with existence of infrastructure projects. Are these the types of issues that can be addressed through the infrastructure project?

● Ms. Sanderson noted a big issue from her perspective is control. For example, a water system may have many different public sector entities and various levels of government operating different parts of the same network. Assessing control and which entity should account for the infrastructure network is a big challenge.

● Ms. Sanderson commented on whether or not the infrastructure project should include a Consultation Paper (CP) or not. From her view it should be decided on a case by case basis. Where issues being dealt with are complex or breaking new ground and include many different options, a CP might be needed. However, where the issues are less complex and the options are limited, progressing to an ED might be appropriate. In her view, you need to consider the issues on their merits and then decide how to consult on those. She noted support of the approach of undertaking further research and survey to gather information and evidence to determine whether a CP is needed for the infrastructure project.

● Mr. Gisby noted his agreement with Ms. Sanderson. From his perspective the IPSASB should adopt a process that gives it the information needed to appropriately progress the project.

● Mr. Koehler also views a survey as good and an opportunity to be innovative. From his perspective he would view the need for additional guidance as a need for additional public sector applicable examples of how to apply the existing IPSAS to infrastructure.

● Ms. Cearns noted that from her perspective if you are not reconsidering the definition of an asset or the recognition criteria, it seems appropriate to move directly to ED. However, if the IPSASB is reopening such issues, which are wider, a CP might be more appropriate.

● Ms. Colignon suggested that an approach such as the survey for the public sector measurement project could be explored. She asked whether that survey had provided useful information and how relevant the information gained from that survey was? Her view is that even if the IPSASB’s output is additional guidance to existing standards, the appropriate standard setting due process steps should be followed to ensure that public sector specific issues are addressed.
● Mr. Carruthers noted that a survey was also used at start of long term fiscal sustainability project and it was found to be very useful.

● Mr. Watkins provided information on the measurement project survey and noted it was limited to only IPSASB members, technical advisors and observers. He noted it was useful, some points gained related directly to infrastructure, which has been passed on to the infrastructure project team.

● Mr. Blake, IPSASB Board member and Chair of the Infrastructure task force noted that he perceived the message he was hearing from CAG was to do the survey and further research, then make a decision on the project output.

7. Heritage

IPSASB Principal, Ms. Jensen introduced the agenda item, and provided the CAG with an overview of the responses received to the Heritage Consultation Paper. She then introduced for discussion some key public interest issues highlighted by respondents related to the description and meaning of heritage, as well as if the heritage items are used in an operational or non-operational manner.

The CAG members commented as follows:

● Ms. Cearns noted that the UK does distinguish between operational and non-operational heritage assets. However, in her view when heritage assets are used operationally there is a depreciation issue. For example, are these heritage assets being consumed, or are they a separate category that should be treated differently from other capital assets.

● Ms. Sanderson noted a need to look at the definition. From her perspective the current definition in the CP and the list format is not effective, as it could be extended quite considerably if it was to include all heritage types. Her recommendation was it would be better to develop a principled definition. She also questioned the intent of holding heritage ‘indefinitely’. In her view it is questionable if preserving heritage for future generations is the same as ‘indefinitely’ and this might need further consideration. Ms. Sanderson supported Ms. Cearns points in regards to operational heritage. Ms. Sanderson further noted that heritage assets should be considered in the same way as other assets; firstly do they meet the definition and satisfy the recognition criteria; and can they be reliability measured. If so they should be recognized in the financial statements.

● Mr. Gisby noted it is hard to say social and religious heritage should not be added, but there is a risk it will become a set of rules. Some may fit into multiple categories, which could pose a challenge, but overall his view is that it is important to stick to principles. He further questioned if you can separate living organisms from the land and thinks this needs further consideration. He expressed his support for the operational heritage category. His view is that heritage assets should be recognized, even if they have to be recognized at a nominal value, if only to ensure that any subsequent capital expenditures can be appropriately accounted for and capitalized to the asset.

● Mr. Yousef recommended adding “not for current public needs” to description. Ms. Jensen noted that she believes this is a similar concept to operational heritage assets.

● Mr. Müller-Marqués Berger asked the CAG if there are any other suggestions or views to consider from respondents. Ms. Jensen noted that some respondents suggested a move away from relying on an entity’s intentions. However, she noted that this is an issue for some jurisdictions which currently define what heritage items are in legislation.

● Ms. Kiure-Mssusa noted that if animals are excluded from national parks, the value of such parks is likely to be quite low or non-existent in some African countries. She further noted her
view that if heritage items are not recognized in the financial statements because they cannot be measured reliably, they should still be disclosed. For example, in Africa the trends in number of animals would be useful information for the management and sustainability purposes of those animals, maybe more important than any value recognized in the financial statements.

- Ms. Colignon questioned what “indefinitely” means in relation to animals and other living things. How does it relate to human lifespan? She believes that the living plants and organisms issue could be included as guidance in IPSAS 27, Agriculture. Further, she is of the view that heritage items that are capital in nature could be included as guidance in IPSAS 17, Property, Plant, and Equipment.

- Mr. Chowdhury questioned who makes the determination of whether an item is heritage or not? Should the definition state who makes that decision? Ms. Jensen noted it is a question of how the boundary is “operationalized”. The guidance should include objective factors.

- Ms. Cearns noted that the requirement for items to be held indefinitely may preclude items being recognized as heritage. This is because the entity may be willing to sell selected items from time to time to improve the overall value of collection, such as when a gallery sells an item of art to fund the purchase of another piece of art. She does not recommend going down the path of allowing recognition at a nominal value. In her view recognizing capital expenditures related to existing heritage items is not dependent the existing heritage asset being recognized.

- Mr. Carruthers noted the discussion has raised many interesting points that demonstrate the challenges the IPSASB faces with this project. He noted that the Conceptual Framework defines assets and when they should be recognized. The discussion raised a question in his view, that the board needs to consider if a specific definition of heritage is needed. He noted that the guidance in Government Finance Statistics (GFS) might be relevant. He further noted an interesting perspective that has arisen is why the heritage items are recognized on the balance sheet. Is it because they have a financial value, or is it for accountability, transparency and decision making purposes? Understanding the benefits of accounting for heritage items better may help in dealing with some of the issues noted.

- Mr. Schatz noted that from a public interest perspective, there does not appear to be a risk that too many heritage items are accounted for. The problem appears to be that many heritage items are not recognized in the financial statements. So should the IPSASB rather be scoping things in, rather than scoping them out?

- Mr. Müller-Marqués Berger noted there is a need to better define the objective for this project.

- Mr. Matthews noted that one of the challenges is the valuation question. If the overarching approach is to get these items recognized in the financial statements, it might make sense to be more forgiving on the valuation issues and approaches. This might be the only difference from an accounting perspective between heritage assets and other assets (as heritage items likely qualify as other types of assets in IPSAS).

- Ms. Sanderson noted that in her view, the issue is more of an interpretation issue rather than a need for a separate heritage standard.

- Mr. Page noted that he likes the GFS definition. He further noted that to him, ‘indefinitely’ does not mean forever, rather it means for an unspecified amount of time.

- Mr. Yousef noted that in his view there should not be an exhaustive list in definitions.

- Ms. Jensen introduced other issues and noted the concern over recognition at one currency unit. She noted that most respondents support not including some assets because of the inability to measure them. She noted that respondents raised the cost of valuation of heritage items as an issue and that developing guidance that helps to limit valuation costs may be a way forward.
Ms. Cearns noted that in her view the range of types of heritage assets makes valuation challenging. She noted that some assets have markets and can be valued very easily. However, others have limited or no market and are impractical to measure. She further noted that within a category of heritage assets, there is also likely to be a continuum of those which you can value and those you cannot (with a range of assets in between). She further noted that the IPSASB should consider the extent it is comfortable with relaxing valuations requirements. Her view is that the IPSASB may need to further consider whether stewardship of an asset is dependent on recognizing the item in the financial statements and how important the stewardship issue is for the heritage project.

Mr. Chowdhury noted that obtaining the cost of heritage items can be a challenge. Take the Great Wall of China, it seems impractical or impossible to value. However, it could be disclosed. Maybe disclosure would be an appropriate way to ensure stewardship of heritage items?

Mr. Ramkumar asked what the motivation behind this project is. He asked if there is a risk that, if heritage assets are recognized and valued in the balance sheet, that they may be sold? Ms. Jensen noted the project was raised in the last strategy and work plan consultation. IPSAS 17, permits but does not require recognition, which is inconsistent. From the perspective of stewardship, some countries find that putting items on balance sheet reduces the risk of sale or loss and helps with preservation. However, it may be different from jurisdiction to jurisdiction.

Mr. Viana noted that some heritage assets will have cash flows associated with them and can be valued. Others may not, but have service potential. For operational heritage assets, maybe depreciated replacement cost could be used to value service potential. Some other types of heritage assets may be able to be valued by reference to comparable assets, such as land. He further noted that some items may be a challenge to measure, and others may have obligations related to them which should be recognized.

Mr. Carruthers followed up on a point raised by Mr. Ramkumar and noted that using the project prioritization criteria in the strategy consultation, heritage items are prevalent, and may have significant consequences depending on the entity (material for a gallery, immaterial for the government that controls the gallery). The urgency of the issue again is dependent on the jurisdiction. The feasibility of the project is partly dependent on the results and progression of the measurement project. The hope is that the measurement project may provide the necessary tools to resolve the heritage valuation issues.

Ms. Cearns noted that the IPSASB should be careful about considering the accounting requirements for the asset based on intentions. For example, selling heritage assets may be appropriate in some cases. Further, linking the management of heritage items and their stewardship to whether they are recognized in financial statements may be problematic, as the actual management of such items is not an accounting issue.

Mr. Yousef noted that the Conceptual Framework tells us what assets are, so we should simply define what heritage items are. When heritage items meet the definition of an asset, satisfy the recognition criteria and can be reliably measured, they should be recognized.

Mr. Page noted that measurement will not solve everything. There are still questions to deal with in regards to accountability and decision making that will need consideration.

8. Closing Remarks

Mr. Müller-Marqués Berger found the discussions during the meeting to be to be highly engaging, focused at the right level and noted that they continue to develop and improve over previous meetings. Mr. Müller-Marqués Berger noted that this successful meeting can be attributed to the hard work of CAG members in preparing for the meeting and their strong engagement in the discussions during the sessions. He further stressed a continued need for members to make their best endeavors to attend
each meeting. Mr. Müller-Marqués Berger thanked Mr. Merino for his presentation on public sector accounting and sovereign credit ratings, which provided the basis for a very informative and interesting discussion. Further, he thanked Ms. Sanderson for her insightful presentation on implementation challenges related to consolidation (whole of government accounts). Mr. Müller-Marqués Berger thanked IPSASB Member, Mr. Mike Blake for the short video and presentation on the 2018 World Congress of Accountants to be held in Sydney Australia in November 2018.