



Holding governments to account

International Public Sector Accounting Standards Board chair Andreas Bergmann on plans for a global public sector accounting framework

The recent deterioration in the fiscal circumstances of governments has brought to light as never before the need for better financial reporting by governments globally, as well as the need for improvements in the management of public sector resources.

We are all affected by a government's financial management decisions, and strong financial reporting has the potential to improve decision-making in the public sector as well as to make government more accountable to its citizens. The International Public Sector Accounting Standards Board (IPSASB) is an independent standard-setting board that is supported by the International Federation of Accountants (IFAC). When it initiated its standard setters programme in 1997, the goal was to develop a credible core set of accrual-based International Public Sector Accounting Standards (IPSAS). IPSAS could be directly adopted by public sector entities worldwide or treated as a sound basis for adaptation through national standards. Since 1997, the IPSASB has developed and issued a suite of 31 accrual standards – plus a cash-basis standard for countries developing towards full accrual accounting. Accrual-based accounting systems recognise income when it is earned

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IPSASB is seeking feedback to help it develop public sector financial reporting concepts. The deadline for comments is 15 June 2011 for all three documents covering the first three phases (see opposite). Go to www.ifac.org/PublicSector/ExposureDrafts.php

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and expenses when they are incurred, rather than when they are received or paid.

Many governments operate on a cash basis and do not account for significant liability items such as public sector pensions and major investments in physical assets such as infrastructure. The IPSASB encourages public sector entities to adopt the accrual basis of accounting, which will not only improve their financial management, but will also reduce the opportunity for incidents of financial fraud, as well as provide a clearer and more comprehensive snapshot of a government's financial viability and health.

The IPSAS suite includes several standards that were developed to address critical public sector issues – such as accounting for revenue from non-exchange transactions, reporting budget information, and disclosures about the general government sector. However, the majority of IPSAS are based on International Financial Reporting Standards (IFRS), with changes incorporated to address issues specific to the public sector. In particular, since the International Accounting Standards Board (IASB) is focusing more narrowly on financial investors, IPSASB recognises the need to develop its own conceptual framework. It is a framework that clearly and comprehensively addresses the concepts that underpin public sector financial reporting.

The purpose of the IPSASB's public sector conceptual framework project is to give a structure to the process of creating financial reporting standards, and to ensure that standards are based on fundamental principles. The goal is to develop concepts, definitions and principles that respond to the objectives, environments and circumstances of governments and other public sector entities and, therefore, are appropriate to guide the development of IPSAS.

The project is a collaborative effort, to which a number of national standard setters have contributed significant and invaluable resources. It recognises the diversity of social and cultural traditions, and the different forms of government and service delivery mechanisms that exist in the many jurisdictions that may end up adopting IPSAS. Work already done by the IASB is taken into consideration, as far as it is already available and applicable to the public sector.

The development of a public sector conceptual framework for general purpose financial reporting is the IPSASB's highest priority for the next two years. Our very challenging goal is to complete all four phases of the public sector conceptual framework (described opposite) by the first half of 2013.

Conceptual framework phases

The public sector conceptual framework project is divided into four phases. Each starts with board consideration of key issues, followed by a consultation paper. The feedback to the consultation will help mould the exposure draft, comments on which will help in developing the final version of the framework. All four phases have begun, with phase one being the most advanced.

Phase one

An exposure draft – *Objectives and Users, Scope, Qualitative Characteristics and Reporting Entity* – was issued in December 2010. It covers:

- * concepts related to the objectives and users of public sector general purpose financial reports paper
- * scope of financial reporting
- * qualitative characteristics of information in general purpose financial reports
- * reporting entity and group reporting entity.

One key IPSASB view, as expressed in the exposure draft, is that the scope of financial reporting in the public sector needs to go beyond general purpose financial statements to encompass broader types of reporting. For example, in the public sector, reporting on the long-term sustainability of public finances is of crucial importance.

Phase two

This part of the framework covers elements and recognition in financial statements.

A consultation paper – *Elements of Financial Reporting* – was issued in December 2010.

Elements are the basic building blocks of financial statements needed to meet the information needs of the users of these financial reports.

The consultation addresses key questions:

- * What are assets and liabilities in public sector financial statements?
- * What are revenues and expenses in public sector financial statements?
- * Are there other elements needed in public sector financial statements?
- * What are the recognition criteria for public sector financial statements?
- * How should IPSAS approach reporting public sector financial performance?

Phase three

A consultation paper on measurement was issued in December 2010 exploring the measurement bases that may validly be adopted for the elements that are recognised in general purpose financial statements in the public sector. The term 'measurement basis' refers to the concept used in determining the amount at which an asset, liability, revenue, or expense is stated in the general purpose financial statements. The consultation paper looks at how the measurement bases may be classified according to whether they reflect historical or current attributes of an asset or liability, represent an entry or an exit perspective, and reflect a market- or entity-specific perspective. It also considers the qualitative characteristics of information included in general purpose financial reports.

Phase four

Drafting of a consultation paper on presentation and disclosure is already in progress. The IPSASB has discussed issues, and the draft paper is expected to be considered at the March 2011 board meeting.