

**PREFACE TO INTERNATIONAL PUBLIC SECTOR  
ACCOUNTING STANDARDS**

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# **PREFACE TO INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS**

## **Introduction**

1. This preface to the International Public Sector Accounting Standards (IPSASs) sets out the objectives and operating procedures of the International Public Sector Accounting Standards Board (IPSASB) and explains the scope and authority of the IPSASs. The preface should be used as a reference for interpreting Invitations to Comment, discussion documents, Exposure Drafts and Standards approved and published by the IPSASB.
2. The mission of the International Federation of Accountants (IFAC), as set out in its constitution, is “to serve the public interest, strengthen the accountancy profession worldwide and contribute to the development of strong international economies by establishing and promoting adherence to high-quality professional standards, furthering the international convergence of such standards, and speaking out on public interest issues where the profession’s expertise is most relevant.” In pursuing this mission, IFAC established the IPSASB.
3. The IPSASB (formerly Public Sector Committee (PSC)) is a Board of IFAC formed to develop and issue under its own authority International Public Sector Accounting Standards (IPSASs). IPSASs are high quality global financial reporting standards for application by public sector entities other than Government Business Enterprises (GBEs).
4. The IPSASB’s Consultative Group is appointed by the IPSASB. The Consultative Group is a non-voting group. It provides a means by which the IPSASB can consult with and seek advice as necessary from a broad constituent group. The Consultative Group is chaired by the Chair of the IPSASB. The Consultative Group is primarily an electronic forum. However, regional chapters of the Consultative Group meet with the IPSASB in conjunction with any IPSASB meetings in their region. All Consultative Group members are invited to these meetings. In addition, a full meeting of all members of the Consultative Group may be held if considered necessary.

## **Objectives of the IPSASB**

5. The objectives of the IPSASB are to serve the public interest by developing high quality public sector financial reporting standards and by facilitating the convergence of international and national standards, thereby enhancing the quality and uniformity of financial reporting throughout the world. The IPSASB achieves its objectives by:
  - Issuing International Public Sector Accounting Standards (IPSASs);
  - Promoting their acceptance and the international convergence to these standards; and

- Publishing other documents which provide guidance on issues and experiences in financial reporting in the public sector.
6. The IPSASs are the authoritative requirements established by the IPSASB. Apart from developing IPSASs, the IPSASB issues other non-authoritative publications including studies, research reports and occasional papers that deal with particular public sector financial reporting issues.

#### **Membership of the IPSASB**

7. The members of the IPSASB are appointed by the IFAC Board to serve on the IPSASB. The IPSASB comprises 18 members, 15 of whom are nominated by member bodies of IFAC and three of whom are public members. Public members may be nominated by any individual or organization. In addition, a limited number of observers from bodies that have an interest in public sector financial reporting are appointed to the IPSASB. These observers have the privilege of the floor but are not entitled to vote.

#### **IPSASB Meetings**

8. Each IPSASB meeting requires a quorum of at least twelve appointed members, in person or by simultaneous telecommunications link.
9. IPSASB meetings to discuss the development and to approve the issuance of IPSASs or other papers are open to the public. Agenda papers, including the minutes of the meetings of the IPSASB, are published on the IPSASB's website: <http://www.ifac.org/publicsector>

### **Scope and Authority of International Public Sector Accounting Standards**

#### **Scope of the Standards**

10. The IPSASB develops IPSASs which apply to the accrual basis of accounting and IPSASs which apply to the cash basis of accounting.
11. IPSASs set out recognition, measurement, presentation and disclosure requirements dealing with transactions and events in general purpose financial statements.
12. The IPSASs are designed to apply to the general purpose financial statements of all public sector entities. Public sector entities include national governments, regional governments (for example, state, provincial, territorial), local governments (for example, city, town) and their component entities (for example, departments, agencies, boards, commissions), unless otherwise stated. The Standards do not apply to GBEs. GBEs apply International Financial Reporting Standards (IFRSs) which are issued by the International Accounting Standards Board (IASB). IPSASs include a definition of GBEs.

13. Any limitation of the applicability of specific IPSASs is made clear in those standards. IPSASs are not meant to apply to immaterial items.
14. The IPSASB has adopted the policy that all paragraphs in IPSASs shall have equal authority, and that the authority of a particular provision shall be determined by the language used. To avoid any unintended consequences the IPSASB has determined to apply this policy prospectively as it reviews and reissues previously issued IPSASs. Consequently, IPSASs approved by the IPSASB after January 1, 2006 include paragraphs in bold and plain type, which have equal authority. Paragraphs in bold type indicate the main principles. An individual IPSAS should be read in the context of the objective and Basis for Conclusions (if any) stated in that IPSAS and this preface.

### **General Purpose Financial Statements**

15. Financial statements issued for users that are unable to demand financial information to meet their specific information needs are general purpose financial statements. Examples of such users are citizens, voters, their representatives and other members of the public. The term “financial statements” used in this preface and in the standards covers all statements and explanatory material which are identified as being part of the general purpose financial statements.
16. When the accrual basis of accounting underlies the preparation of the financial statements, the financial statements will include the statement of financial position, the statement of financial performance, the cash flow statement and the statement of changes in net assets/equity. When the cash basis of accounting underlies the preparation of the financial statements, the primary financial statement is the statement of cash receipts and payments.
17. In addition to preparing general purpose financial statements, an entity may prepare financial statements for other parties (such as governing bodies, the legislature and other parties who perform an oversight function) who can demand financial statements tailored to meet their specific information needs. Such statements are referred to as special purpose financial statements. The IPSASB encourages the use of IPSASs in the preparation of special purpose financial statements where appropriate.

### **IPSASs for the Accrual and Cash Bases**

18. The IPSASB develops accrual IPSASs that:
  - Are converged with International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) by adapting them to a public sector context when appropriate. In undertaking that process, the IPSASB attempts, wherever possible, to maintain the accounting treatment and original text of the IFRSs unless there is a significant public sector issue which warrants a departure; and

- Deals with public sector financial reporting issues that are either not comprehensively dealt with in existing IFRSs or for which IFRSs have not been developed by the IASB.

19. As many accrual based IPSASs are based on IFRSs, the IASB’s “Framework for the Preparation and Presentation of Financial Statements” is a relevant reference for users of IPSASs.
20. The IPSASB has also issued a comprehensive Cash Basis IPSAS that includes mandatory and encouraged disclosures sections.

**Moving from the Cash Basis to the Accrual Basis**

21. The Cash Basis IPSAS encourages an entity to voluntarily disclose accrual based information, although its core financial statements will nonetheless be prepared under the cash basis of accounting. An entity in the process of moving from cash accounting to accrual accounting may wish to include particular accrual based disclosures during this process. The status (for example, audited or unaudited) and location of additional information (for example, in the notes to the financial statements or in a separate supplementary section of the financial report) will depend on the characteristics of the information (for example, reliability and completeness) and any legislation or regulations governing financial reporting within a jurisdiction.
22. The IPSASB also attempts to facilitate compliance with accrual based IPSASs through the use of transitional provisions in certain standards. Where transitional provisions exist, they may allow an entity additional time to meet the full requirements of a specific accrual based IPSAS or provide relief from certain requirements when initially applying an IPSAS. An entity may at any time elect to adopt the accrual basis of accounting in accordance with IPSASs. At this point, the entity shall apply all the accrual based IPSASs and could choose to apply any transitional provisions in an individual accrual based IPSAS.
23. Having decided to adopt accrual accounting in accordance with IPSASs, the transitional provisions would govern the length of time available to make the transition. On the expiry of the transitional provisions, the entity shall report in full in accordance with all accrual based IPSASs.
24. International Public Sector Accounting Standard (IPSAS) 1, “Presentation of Financial Statements” includes the following requirement:

An entity whose financial statements comply with International Public Sector Accounting Standards should disclose that fact. Financial statements should not be described as complying with International Public Sector Accounting Standards unless they comply with all the requirements of each applicable International Public Sector Accounting Standard.

25. IPSAS 1 also requires disclosure of the extent to which the entity has applied any transitional provisions.

**Authority of International Public Sector Accounting Standards**

26. Within each jurisdiction, regulations may govern the issue of general purpose financial statements by public sector entities. These regulations may be in the form of statutory reporting requirements, financial reporting directives and instructions, and/or accounting standards promulgated by governments, regulatory bodies and/or professional accounting bodies in the jurisdiction concerned.
27. The IPSASB believes that the adoption of IPSASs, together with disclosure of compliance with them will lead to a significant improvement in the quality of general purpose financial reporting by public sector entities. This, in turn, is likely to lead to better informed assessments of the resource allocation decisions made by governments, thereby increasing transparency and accountability.
28. The IPSASB acknowledges the right of governments and national standard-setters to establish accounting standards and guidelines for financial reporting in their jurisdictions. Some sovereign governments and national standard-setters have already developed accounting standards that apply to governments and public sector entities within their jurisdiction. IPSASs may assist such standard-setters in the development of new standards or in the revision of existing standards in order to contribute to greater comparability. IPSASs are likely to be of considerable use to jurisdictions that have not yet developed accounting standards for governments and public sector entities. The IPSASB strongly encourages the adoption of IPSASs and the harmonization of national requirements with IPSASs.
29. Standing alone, neither the IPSASB nor the accounting profession has the power to require compliance with IPSASs. The success of the IPSASB's efforts is dependent upon the recognition and support for its work from many different interested groups acting within the limits of their own jurisdiction.

**Due Process**

30. The IPSASB adopts a due process for the development of IPSASs that provides the opportunity for comment by interested parties including IFAC member bodies, auditors, preparers (including finance ministries), standard-setters, and individuals. The IPSASB also consults with its Consultative Group on major projects, technical issues, and work program priorities.
31. The IPSASB's due process for projects normally, but not necessarily, includes the following steps:
- Study of national accounting requirements and practice and an exchange of views about the issues with national standard-setters;
  - Consideration of pronouncements issued by:

- The International Accounting Standards Board (IASB);
  - National standard-setters, regulatory authorities and other authoritative bodies;
  - Professional accounting bodies; and
  - Other organizations interested in financial reporting in the public sector;
- Formation of steering committees (SCs), project advisory panels (PAPs) or subcommittees to provide input to the IPSASB on a project;
  - Publication of an exposure draft for public comment usually for at least 4 months. This provides an opportunity for those affected by the IPSASB's pronouncements to present their views before the pronouncements are finalized and approved by the IPSASB. The Exposure Draft will include a Basis for Conclusion;
  - Consideration of all comments received within the comment period on discussion documents and Exposure Drafts, and to make modifications to proposed Standards as considered appropriate in the light of the IPSASB's objectives; and
  - Publication of an IPSAS which includes a Basis for Conclusions that explains the steps in the IPSASB's due process and how the IPSASB reached its conclusions.

*Steering Committees, Project Advisory Panels and Subcommittees*

32. The IPSASB may delegate the responsibility for carrying out the necessary research and for preparing Exposure Drafts of proposed Standards and guidelines or drafts of studies to SCs, subcommittees or individuals.
33. SCs, PAPs and subcommittees are chaired by a member of the IPSASB, but can include persons who are not members of the IPSASB or of a member body of IFAC.

*Approval Arrangements*

34. The draft of a standard, duly revised after the exposure period, is submitted to the IPSASB for approval. If approved by the IPSASB, it is issued as an IPSAS and becomes effective from the date specified in the Standard. On occasion, where there are significant unresolved issues associated with an Exposure Draft, the IPSASB may decide to re-expose a proposed Standard.
35. For the purposes of approving an Invitation to Comment (ITC), ED or an IPSAS, an affirmative vote of at least two-thirds of the voting rights of the IPSASB is required. Each IPSASB member represented on the IPSASB has one vote.

## **Language**

36. The approved text of a pronouncement is that published by the IPSASB in the English language. Member bodies of IFAC are authorized to prepare, after obtaining IFAC approval, translations of such pronouncements at their own cost, to be issued in the language of their own countries as appropriate.