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IPSAS issues for public finance management executives

IPSAS Outlook

In this issue...

The Ernst & Young and CIPFA Eurostat IPSAS report briefing event — a summary report

We are pleased to bring you a summary of the event we held together with CIPFA in March, following the publication of Eurostat's report. We hope you will find our panellists' discussions at the briefing event useful for your own discussions with policymakers in your jurisdiction.

Interview with Eurostat's Alexandre Makaronidis

We are delighted to talk to Alexandre Makaronidis, project leader of the European Commission's assessment of the suitability of IPSAS for use by European Union (EU) Member States, about his thoughts on where the initiative is heading.

IPSASB issues Conceptual Framework ED on presentation

Look at a snapshot of the proposals in the ED. We encourage you and your organization to provide feedback to the IPSASB on its development of the final phase of the Conceptual Framework.

IPSASB project update

Read a summary of the recent Board discussions on key projects during its March 2013 meeting.

Resources

Look here for a recent list of our publications.

A message from Thomas Müller-Marqués Berger

Welcome to this month's edition of *IPSAS Outlook*, which will bring you insights into recent IPSAS developments and emerging issues. In addition, we will bring you regular reports on IPSAS projects from around the world as we share some of the experiences of our Global IPSAS network. I hope you will find this of assistance to your organization.

We welcome your feedback on *IPSAS Outlook*. Please contact us at thomas.mueller-marques.berger@de.ey.com.

Thomas Müller-Marqués Berger, IPSAS Global Leader

Ernst & Young
Quality In Everything We Do

The Ernst & Young and CIPFA Eurostat IPSAS report briefing event – a summary report

In March, the European Commission published its long awaited report, *Towards implementing harmonised public sector accounting standards in the Member States (the Report),*[1] which recognizes the need to implement uniform and comparable accrual-based accounting practices across all parts of government in Europe. Eurostat, the statistics directorate of the European Commission, undertook the EU-wide study to assess the suitability of IPSAS for EU Member States. The Report recommends important changes to current practices in public sector accounting in Europe, including using IPSAS as a reference point for the development of European Public Sector Accounting Standards (EPSAS).

Together with the Chartered Institute of Public Finance and Accountancy (CIPFA), we hosted an event in Brussels for key stakeholders in the Member States to mark the launch of the Report and consider its findings and recommendations. We also discussed the challenges of implementing harmonized accrual-based accounting standards for Member States who are currently using a different basis of accounting (e.g., cash, modified cash, partial accrual or full accrual). The audience included representatives from EU institutions, the International Monetary Fund (IMF) and the European Central Bank (ECB).

Overview of the key findings and recommendations of the Report

Our first speaker, Alexandre Makaronidis, Project Leader and Head of GFS Quality Management and Government Accounting Unit at Eurostat, gave an overview of the key findings and recommendations of the Report. He noted that, on one hand, fiscal surveillance at the EU level is based on accrual data, but, on the other, budgetary policy at a national level is often based on cash data. While Government Finance Statistics (GFS) are based on the accrual principle, for many Member States, GFS is often a result of converting cash data into accrual data. This is not an ideal base to start from and may result in deficient information being reported. The Report also notes that basic accounting data and reporting processes vary both across and within Member States.

Next, Mr. Makaronidis briefly summarized the findings of feedback from Member States' accounting authorities and respondents to the public consultation which took place in the first half of 2012, and the conclusions of the Report, as follows:

- There is a need for harmonized accrual-based public sector accounting standards at all levels of government in the EU.
- IPSASs in their current state cannot be directly implemented in Member States, but the standards are an indisputable reference point for potential EU accrual-based public sector accounting standards (EPSAS).

He also highlighted the advantages of a set of harmonized accrual-based standards for Member States and the potential obstacles to implementing accrual-based accounting standards. In addition, he outlined the benefits of using IPSASs as well as the obstacles to the direct adoption of IPSASs.

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[1] *Towards implementing harmonised public sector accounting standard standards in Member States* is accessible via http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2013:0114:FIN:EN:PDF.

"… creating and implementing EPSAS would be a major milestone which is expected to increase the timeliness and reliability of fiscal data"

Looking at a potential way forward, Mr. Makaronidis described a three-phase approach. First, in the preparatory phase, he emphasized the need to achieve momentum in harmonization and accrual-based accounting. In the second phase, decisions and actions need to be made by the European Parliament. For example, adopting a legal framework and establishing an EPSAS standards-setting board. In the final phase, the establishment of strong EU governance and enforcement is crucial.

Mr. Makaronidis' immediate priority is to obtain feedback from relevant European constituents that would enable him to develop a roadmap for the way forward. Therefore, Eurostat held a conference hosted by Algirdas Semeta, Commissioner for Taxation, Customs, Statistics, Audit and Anti-Fraud to discuss remaining unresolved issues over a two-day event in Brussels on 29 May and 30 May 2013.[2]

He expects the implementation of the new accounting framework itself to be phased, with the aim of full EPSAS implementation for all Member States in the medium term.

The global and European context for developing trust, accountability and transparency — the importance of accrual accounting for fiscal stability

In this session, Julia Catz, Advisor to the Macroeconomics Statistics Division of the ECB, and Richard Hughes, Head of the IMF's Fiscal Affairs Department's Public Finance Management Division, discussed both the global and European contexts for developing trust, accountability and transparency and, in particular, the importance of accrual accounting for fiscal stability.

Mr. Hughes focused on what we have already learned and what lessons we still need to learn from the global financial and sovereign debt crises. He outlined why fiscal transparency is an important building block in this context, for example, transparency regarding the sources of unexpected increases in general government debt during the crises, the lack of sufficient institutional coverage in current fiscal reporting (e.g., not including government business enterprises or service concession arrangements in fiscal reports), and transparency regarding the unrecorded assets, liabilities and obligations of a government. In addition, he highlighted the huge increase in the number of government guarantees that have been issued as a result of the global financial crisis. The crises also revealed substantial weaknesses in fiscal reporting practices, even among advanced economies like OECD countries.

Based on these lessons, Mr. Hughes presented suggestions on how the IMF could support national and regional constituencies to improve fiscal transparency. Key issues for the IMF include: the alignment of standards for budgeting, accounting and statistics; the building of strong national constituencies for fiscal transparency (e.g., through existing constitutional bodies, such as supreme audit institutions or national statistics bodies, or other organizations like independent fiscal agencies or professional accounting bodies); and political support for national or regional efforts to improve reporting practices by strengthening multilateral monitoring and enforcement of standards.

Ms. Catz outlined the importance of fiscal data to the ECB, and how it is used by the ECB. The timeliness and reliability of quarterly fiscal data received from agencies such as Eurostat, national central banks and statistical institutions is crucial to the ECB. Ms. Catz reiterated that the implementation of public accounting systems on an accrual basis would enhance the timeliness and reliability of general government accounts, reinforcing the ECB's earlier views from 2011 in the context of the EU's "six-pack" legislation initiative. Eurostat's proposal to develop EPSAS will facilitate the translation of public sector accounts to European System of Accounts-compliant fiscal data, and would also increase timeliness and reliability of the fiscal data. The harmonization of public sector accounting for all countries and all government entities will also improve the reliability of fiscal data for local and regional governments "… creating and implementing EPSAS would be a major milestone which is expected to increase the timeliness and reliability of fiscal data," says Ms. Catz.

The benefits and challenges of implementing IPSAS for Member States — learning from country experiences

In the second joint session with Ian Carruthers of CIPFA, Thomas Müller-Marqués Berger, Ernst & Young's Global Leader for International Public Sector Accounting, discussed the benefits and challenges he has experienced with implementing IPSAS in major conversion projects. An international survey[3] conducted by Ernst & Young in 2011 showed that the main incentives for adopting accrual accounting are:

- More effective cash and asset management
- Better decision-making
- Greater cost awareness and efficiency

[2] Further information on the Eurostat's Conference on *Towards implementing European Public Sector Accounting Standards* can be accessed at: http://epp.eurostat.ec.europa.eu/portal/page/portal/conferences/introduction/2013/epsas

[3] See Toward transparency: *A comparative study on the challenges of reporting for governments and public bodies around the world,* which can be accessed at ey.com/ipsas

The Ernst & Young and CIPFA Eurostat IPSAS Report Briefing Event – a summary report *continued*

Mr. Müller-Marqués Berger highlighted that entities need to carefully consider their starting point as it will impact on the scope and complexity of converting to IPSAS. An accrual accounting implementation project covers a range of issues, such as GAAP analysis, capacity building, redesign of major organizational processes and IT systems, constructing an opening balance sheet, and consolidation of controlled entities in some cases. Therefore, the conversion process is likely to present entities with some major challenges.

He also outlined the benefits of an accrual accounting implementation, such as increased transparency and better comparability that is perceived by external parties. Other internal benefits include improved performance management and enhanced planning with better financial information. He also outlined the organizational impact of conversion to accrual accounting and some of the major challenges he has experienced.

Ian Carruthers, CIPFA's Policy and Technical Director, spoke about the UK's experience of implementing accrual accounting in terms of the benefits and challenges. In the UK, new accrual requirements were adopted gradually across the public sector, with Whole-of-Government accounts (WGA) transitioned at the final stage. In addition, Mr. Carruthers outlined the implementation project timeline and some of the factors that were key to the success of the project.

Discussing the management of the transition, he gave the rationale for what should be done at the central and local government levels. In terms of the timeline of the project, which took over six years, Mr. Carruthers highlighted that 'reform fatigue' is a risk that needs to be borne in mind. However, he also noted that data quality significantly improved over the course of the project. The number of qualified audit reports at the central government level decreased from 30 in 1999 to only two in 2004. Furthermore, the average time taken to submit accrual-based accounts to parliament improved from 310 days in 2000 to just 110 days in 2010.

Mr. Carruthers focused on embedding the use of accrual-based financial information for decision-making. Accrual budgeting is necessary for establishing the legal framework for using accrual information and it is crucial for decision making. A change in culture is needed to embed the 'accrual mindset' in an organization's decision making, at the executive level in particular. The UK experience demonstrates that accrual accounting and budgeting have improved transparency and public financial management, but such conversions are a long and continuous journey.

Panel discussion and Q&As

The speakers took part in a panel discussion and a Q&A session with the audience. The focus was on the future legal framework for public sector accounting in Europe, the organization and governance for the standard-setting approach envisaged by Eurostat, as well as the basis for the standards themselves.

Looking ahead, there are many uncertainties about the way forward for a harmonized, accrual-based accounting framework for Member States. The goal is clear, but it will take the united resolve and commitment of policymakers working with stakeholders to make it a reality.

DISCLAIMER: The views expressed above are those of the presenters and should not be attributed to their organizations.

Some useful links

Videos of the briefing event can be accessed at the following website:

http://www.publicfinanceinternational.org/video/

Public Finance International has also featured some articles about the briefing event, which can be accessed via the following link:

http://www.publicfinanceinternational.org/financial-reporting/accruals-based-accounting/

Assessment Report, Staff Working Document and Inventory of Member States accounting and auditing practices:

http://epp.eurostat.ec.europa.eu/portal/page/portal/government_finance_statistics/government_accounting

Eurostat Public consultation 2012:

http://epp.eurostat.ec.europa.eu/portal/page/portal/public_consultations/consultations/ipsas

Interview with Eurostat's Alexandre Makaronidis

The key conclusion is that there are strong arguments in favor of accrual accounting in the public sector on a harmonized basis

Alexandre Makaronidis is the Head of Eurostat's GFS Quality Management and Government Accounting Unit. This unit is responsible for the powers entrusted to Eurostat, and deals with country risk assessment, quality management, in particular verification of upstream data for Excessive Deficit Procedure (EDP), and public accounting. In March, the unit produced a report on the suitability of IPSAS for EU Member States and is responsible for the proposed harmonization of public sector accounting standards. Makaronidis obtained his PhD from Ludwig-Maximilians-University Munich and focused on management studies.

Tell us about your role in Eurostat's project on the assessment of the suitability of IPSASs for the EU Member States?

Eurostat's GFS Quality Management and Government Accounting unit, which I head, was set up in 2010. One of its main objectives is to promote accrual accounting in the public sector. We were asked to prepare an assessment of the suitability of IPSASs for use by EU Member States on behalf of the Commission – this request was addressed to the European Commission through the Budgetary Frameworks Directive as part of the six-pack legislation.[1]

We based the assessment on a wide range of considerations and had substantial stakeholder involvement. The assessment was undertaken following the Commission's own successful experience with the implementation of accrual-based IPSAS.

The report from the Commission to the Council and the European Parliament, *Towards implementing harmonised public sector accounting standards in Member States* (the Report)[2] was issued in March 2013. This report is accompanied by a staff working document[3] that summarizes the advantages and disadvantages of IPSAS, as well as some of the costs and benefits of implementation. In addition, there is a complementary study that provides an overview of Member States' current arrangements for public sector accounting and auditing.[4]

As project leader, what do you feel are the highlights of the assessment?

In our assessment, we consulted with European Commission Services, international organizations, Member States' experts and other interested parties. We also established a task force of Member States' experts to discuss IPSAS and inform our thinking. The task force operated throughout 2012. In addition, Eurostat carried out a public consultation between February and May 2012, to gather views on the suitability of IPSAS.[5]

We took into account a wide range of views in the course of our outreach; the key conclusion is that there are strong arguments in favor of accrual accounting in the public sector on a harmonized basis. Even if IPSASs, in their current form cannot be directly implemented by EU Member States, they offer an important reference point for developing EPSAS. EPSASs will need to be developed and enforced based on a strong and reliable EU governance system.

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[1] The five regulations and one directive apply to EU Member States cover financial sanctions, fiscal and macro-economic surveillance.

[2] *Towards implementing harmonised public sector accounting standard standards in Member States* is accessible via http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2013:0114:FIN:EN:PDF.

[3] The staff working document is accessible via http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=SWD:2013:0057:FIN:EN:PDF.

[4] *Overview and comparison of public accounting and auditing practices in the 27 EU Member States* is prepared by Ernst & Young for Eurostat and is accessible via http://epp.eurostat.ec.europa.eu/portal/page/portal/government_finance_statistics/documents/study_on_public_accounting_and_auditing_2012.pdf.

[5] A report on the summary of responses is available in the February 2013 issue of our *IPSAS Outlook* which is accessible on ey.com/ipsas.

Interview with Eurostat's Alexandre Makaronidis *continued*

One of the main findings of the report is that, in their current form, IPSASs cannot be readily implemented by EU Member States. What were the main arguments for that conclusion?

A combination of pragmatic considerations and the concerns of the Member States form the main arguments in support of our conclusion, and we will need to address each of these concerns in full.

Currently, IPSASs do not prescribe the accounting practices to be followed in sufficient detail. Also, some of them offer too many alternative accounting treatments. This does not align with our idea of a harmonized system of EPSAS.

In their current state, the standards cannot be regarded as complete in terms of coverage or their practical applicability to some important government transactions, such as taxes and social benefits. IPSASs are still failing to take sufficient account of the specific needs, characteristics and interests of public sector accounting and reporting. It is likely that some standards will need to be updated when the IPSAS conceptual framework is completed in 2014. Another issue on our agenda is the consolidation of accounts according to IPSAS for general purpose financial reporting, which differs from the consolidation principles according to the general government concept, a core concept of fiscal monitoring in the EU.

The governance structure for IPSAS is currently being reviewed to address concerns of stakeholders. Any resulting reforms should ensure that the independence of the standard-setting process is strengthened and, at the same time, addresses public sector-specific needs effectively. Many of our Member States see the lack of representation of the EU public sector accounting authorities in standard-setting as an important issue. The Commission's report expresses our appreciation for the excellent work accomplished by the IPSASB so far. However, the IPSASB will need more resources to cope with demands for new standards and guidance on emerging issues with the necessary speed and flexibility in an ever-evolving fiscal climate. This is particularly important in the wake of the current sovereign debt crisis.

Finally, we all need to bear in mind that a key driver of the EU initiative on IPSASs and public sector accrual accounting is EU fiscal surveillance and coordination. These activities require a harmonized framework of public sector accounting standards that provides the necessary assurances about the reported data required by EU, national policymakers and stakeholders.

The sovereign debt crisis has been ongoing for a couple of years now, and the benefits of accrual accounting have been documented in various countries for a reasonable period of time. In your view, what has delayed the implementation of accrual accounting in some EU Member States?

Indeed, it has been suggested that the recent financial and economic crises would not have happened - at least not to the extent that they have - if an accrual-based, transparent and reliable system of public sector financial reporting had been in place. However, it is widely recognized that the lack of reliability of recognition, measurement and reporting of sovereign debt and deficits have been at the core of the crisis. Nevertheless, I do not think that we can speak of a delay as, to our knowledge to date, there has been no systematic attempt to harmonize public sector accounting standards globally or regionally, certainly not in the EU. There have only been national initiatives.

The implementation of accrual accounting in the public sector constitutes a major reform. As such, there are cultural, conceptual and technical accounting issues to be dealt with. For example, it is necessary to ensure that the right expertise is in place, to communicate the reforms to stakeholders and to modernize IT systems, as necessary.

The report recommends a single set of accrual-based accounting standards at all levels of government in the EU. For countries like Germany, the Netherlands and Italy, that are still using the cash basis at the federal or central government level, this is a challenging proposal. Can you give an indication of your plans to engage with, and to encourage, those countries still reporting on a cash basis to move to accrual accounting and get their buy-in for the way forward?

We have made a major effort to engage with stakeholders in those countries, and have done so recently at the EPSAS conference in May. We recognize that there is work to be done to convince some stakeholders of the benefits of accrual accounting, not only for EU purposes, but also in their own national interests, and we are continuing our efforts to persuade them.

If EPSASs are adopted by all Member States, the Commission envisages providing assistance in some of these areas.

If EPSASs are adopted by all Member States, the Commission envisages providing assistance in some of these areas. For instance, coordinating the sharing of training and expertise, providing assistance to Member State governments on conceptual and technical matters, and coordinating and sharing the planning of Member States' public accounting reforms. If a Member State has significant gaps or inconsistencies in its public financial management information systems, these need to be taken into consideration in the EPSAS implementation plans, and reflected in the additional work required in the implementation timetable. The proposed way forward should take a balanced approach that builds on existing achievements and takes into account the Member States' resource constraints.

The report proposes to develop EPSAS, using IPSASs as a reference framework for future development. Given that the development of a European-specific set of public sector accounting standards is a potentially costly and long-term project to implement, what were the main reasons for deciding to develop a set of EPSASs?

A harmonized accrual-based public sector accounting systems in the EU, in particular, for the purposes of fiscal surveillance, and notably, the EDP is greatly needed. The potential benefits include better governance and accountability, improved public sector management, and the transparency necessary for the proper functioning of global financial markets. EPSAS would, in our view and in the Commission's own experience, add a net positive value for the EU and its Member States in the context of the new international financial architecture promoted in the context of the G20.

The proposed way forward should take a balanced approach that builds on existing achievements and takes into account the Member States' resource constraints.

Given that it would likely take some time to get the politicians onside, how long would you expect all EU Member States to take to fully implement EPSAS, and what potential roadblocks do you anticipate? And what kind of time frame is Eurostat recommending the European Parliament for EU Member States to implement EPSAS?

There are still important obstacles to overcome before EPSAS becomes a reality. EPSAS is a strategic and complex project. Its objective is, subject to materiality assessments, that the many thousands of government entities in the EU would compile their accounts on the same basis. This will require the adoption of many technical accounting standards in the form of binding EU standards that the Member States must apply consistently. Therefore, it is a medium-term, genuine change management project. We will need to strike the right balance between giving the project the time it needs to materialize and, at the same time, avoid the effect of a counterproductive reform fatigue. Given some of the concerns that Member States have and the long-established accounting traditions in the public sector, the key issue of timing needs to be addressed carefully.

One of the next questions for the development of EPSASs is the governance structure: the report calls for the establishment of a strong EPSAS governance structure. Against a background of various national approaches to national public sector accounting, what might the proposed standard-setting and oversight structure look like?

This issue was on the agenda for the conference in May. In the end, it will be up to the European Parliament and the Council to decide on a governance structure for EPSAS. But it is clear that the EPSAS governance structure would need to encompass the necessary processes and procedures for effective governance, oversight, standard setting, and provision of technical and accounting advice.

It is likely that the first step would be to establish EU governance for this project, with the objective of clarifying the conceptual framework and bearing in mind the key aims of common EU public sector accounting. The EPSASs could thus be based on a set of key IPSAS principles. EPSAS could also use existing IPSASs if agreed, by Member States. However, EPSAS should not regard IPSAS as a constraint for the development of its own standards.

Interview with Eurostat's Alexandre Makaronidis *continued*

One point of criticism of the Eurostat recommendations is that they only recommend accrual accounting, but are silent on budgetary reform. Why did the report focused solely on public sector accounting, and not accrual budgeting?

It seems to me that this is primarily an issue of proportionality. From a European perspective, we have a key interest in harmonizing public sector financial reporting and ensuring the quality of the underlying accounting systems and the data they provide. In this sense, there seems to be no need for harmonizing budgetary accounting and reporting systems, which should therefore remain a national concern. In our view, it should be left to the Member States to decide on the best way to tackle this.

Recently, the IPSASB has issued a Consultation Paper, *IPSASs and Government Finance Statistics Reporting Guidelines*,[6] in which it promotes the harmonization of IPSAS and GFS. What is Eurostat's view on the alignment of public sector accounting and GFS?

This is a very complex issue on which the views of the standard setters, preparers and statisticians may differ, sometimes to a significant extent. The real question here is about the key aims of financial reporting and the audience it is meant to serve. This discussion is still ongoing and it is too early to say in which direction the alignment should or would go. It is my personal view that, IPSAS, IFRS or national GAAPs, and ESA based EDP financial reporting, should converge. I think we are all keen to see how fast this process is going to be and in which direction it is going to move.

What are the next steps? Could you outline the strategic plans for further action?

As mentioned earlier, the Commission believes that, before deciding on the actual project of creating EPSAS and implementing it in the Member States, some further preparatory steps are necessary. Several important issues remain, such as establishing the EPSAS framework and specifying a first set of core EPSAS standards, as well as the planning of the implementation itself. The Commission would need to clearly define the milestones for the future project, and take into account impact assessment considerations.

Once it has been decided, the process of implementation would be sequential. We believe that a preparatory stage is needed to gather more information and points of view, and to develop a roadmap. This stage would involve further consultations and more concrete proposals. We will then need to go through a stage of developing and putting in place the practical arrangements, addressing issues such as finance, governance, possible synergies and the concerns of smaller government entities. This should result in the publication of a proposal for an EPSAS Framework Regulation. With the proposed framework in place, the project can enter the implementation phase. This should be gradual, and where a Member State's existing accounting standards differ greatly from EPSAS, it should be given more time. Nevertheless, it is envisaged that implementation would be achieved by all Member States in the medium term.

How we see it

We support the Commission's ongoing efforts to engage with relevant stakeholders in gathering feedback to develop a roadmap for EPSAS implementation within Member States.

We are also supportive of a tailored and phased approach for this accounting transformation project. Although this will require considerable commitment throughout all levels of government in Member States, a phased and tailored implementation approach, with the Commission's assistance, would lessen implementation burden for Member States.

[6] This consultation paper can be accessed via http://www.ifac.org/publications-resources/ipsass-and-government-finance-statistics-reporting-guidelines.

IPSASB issues Conceptual Framework ED on presentation

The IPSASB issued Conceptual Framework Exposure Draft 4 (ED) *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Presentation in General Purpose Financial Reports* in April 2013. This is a milestone in public sector accounting standard setting, as it is the first time that presentation concepts and principles applicable to both GPFSs and GPFRs are being developed.

The ED proposes concepts for presentation in General Purpose Financial Reports (GPFRs). GPFRs include both general purpose financial statements (GPFSs) and other reports providing additional information that enhances, complements, and supplements the financial statements.

The ED defines presentation as, "the selection, location and organization of information that is displayed and disclosed in GPFRs." Presentation covers both the display and disclosure of information. Whereas displayed information communicates the key messages in a GPFR, disclosed information makes displayed information more useful by providing detail that will help users to understand the displayed information. Despite the fact that some respondents to the consultation opposed the new terminology, the IPSASB retained its distinction between presentation, display and disclosure, as "display and disclosure support a clear distinction, within the context of financial statements, between information shown on the face of a financial statement (display) and information shown in the notes to the statements (disclosure)."[1]

After considering feedback from respondents, the IPSASB dropped the terminology relating to the distinction of core and supporting information, which was discussed in the Consultation Paper (CP) to this ED. Respondents felt that this distinction between core and supporting information implied that information in the notes to the financial statements is less important than information on the face of a statement, which is not always the case.

The CP initially proposed a presentation approach to:

- Focus on user needs to identify presentation objectives
- Apply qualitative characteristics (QCs) to presentation decisions
- Have separate presentation concepts

At the March 2013 meeting, the IPSASB decided that a simpler, more focused approach was more appropriate. Concepts that were developed in phase 1 of the Conceptual Framework are now directly applied to presentation decisions. Further, the development of a set of presentation objectives to guide presentation decisions and the notion of presentation concepts, as proposed in the CP were not further pursued by the IPSASB in the ED. The IPSASB takes the view that presentation decisions on information selection, location and organization need to be made to reach the financial reporting objectives. They imply that the application of the QCs and constraints, which are described in chapter three of the Conceptual Framework, are already embedded. Presentation decisions need to respond to the needs of users for information about economic or other phenomena.

Sections 2 to 4 of the ED describe the application of concepts in other parts of the Conceptual Framework to the selection, location and organization of information. These chapters discuss:

- High level decisions, which could result in a new report, movement of information between reports, or the amalgamation of reports.
- Lower level decisions, which focus on more detailed decisions on information selection, location and organization within a report.

The ED sets out the concepts applicable to financial statements in more detail.

Next steps

Comments on the ED for the IPSASB are requested by 15 August 2013 and we encourage you and your organization to consider the proposals carefully and provide the Board with your feedback.

[1] See Basis for Conclusions (BC) 7 of the ED.

IPSASB project update

What's new?

The following table shows new publications issued by the IPSASB and public consultations published for comment:

Projects	Publication
Conceptual Framework: Presentation in General Purpose Financial Reports	At the March 2013 IPSASB meeting, the Board approved for publication the ED *Conceptual Framework Phase 4 Presentation in General Purpose Financial Reports*. The comment period ends 15 August 2013. The ED and the *At a Glance* document (which provides a summary of the ED) are available on www.ifac.org/public-sector
IPSAS 2013 Handbook	The *IPSAS 2013 Handbook* which is expected to be published 1 June 2013 is now available for pre-order. Further details are available on www.ifac.org/public-sector/publications-resources

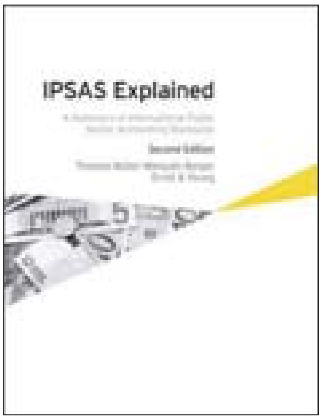
IPSASB March 2013 Meeting – Current discussions

Topic	Current Discussion
Conceptual Framework Phase 4: Presentation in General Purpose Financial Reports	At the meeting, the IPSASB approved the issue of Conceptual Framework Exposure Draft 4 (ED), *Presentation in General Purpose Financial Reports* for public consultation. The ED covers the presentation, display and disclosure of information in general purpose financial reports (GPFRs). See our summary of the proposal on page 9.
The Preface to the Conceptual Framework	The Board has confirmed that the Preface should be included in the Conceptual Framework. However, the board decided to defer the approval and publication of the preface until the Conceptual Framework is finalized.
Criteria for determining the status of a pronouncement	The IPSASB considered a set of criteria developed by IPSASB staff for determining the types of documents that the IPSASB might develop and whether these would be authoritative or non-authoritative pronouncements. The IPSASB agreed that pronouncements relating to GPFSs should be authoritative IPSASs. However, there were contrasting views as to the status of pronouncements relating to GPFRs. As a result, the IPSASB agreed that for now, pronouncements relating to GPFRs should be issued as non-authoritative Recommended Practice Guidelines (RPGs). The IPSASB also confirmed that this decision regarding the authority of pronouncements relating to GPFRs be re-considered in the future.
Financial statement discussion and analysis	In-line with the decision that guidance for GPFRs should be non-authoritative, the IPSASB confirmed that the draft of IPSAS XX *Financial Statement Discussion and Analysis*, which has been developed from ED 47, should be revised to become an RPG. The IPSASB acknowledged that this decision may require changes to be made to specific wording in the current draft and gave directions for amendments. A draft RPG with Basis for Conclusions will be considered at the next meeting in June 2013.
Reporting on the long-term sustainability of an entity's finances	Draft RPG 1 *Reporting on the Long-Term Sustainability of an Entity's Finances* was reviewed by the IPSASB at the meeting. The IPSASB directed staff to revise the section relating to the dimensions of long-term fiscal sustainability to refer directly to the dimensions of service, revenue and debt and to explain that there are two aspects to each dimension: capacity and vulnerability. Capacity is the ability of the entity to influence or change the service, revenue or debt dimensions and vulnerability is the extent of the entity's dependence on factors outside its control or influence. A revised draft will be considered at the June 2013 meeting for the IPSASB's approval.
Revision of IPSASs 6-8	Two EDs are currently under development, as follows: *Separate Financial Statements* (based on IAS 27 *Separate Financial Statements* as amended in 2011); and *Investments in Associates and Joint Ventures* (based on IAS 28 *Investments in Associates and Joint Ventures* as amended in 2011). The IPSASB provided feedback at the meeting on issues arising from the development of the two EDs. This included considering the possible amendments to the equivalent IFRSs currently being reviewed by the IASB. Furthermore, the IPSASB also considered unresolved issues arising from other EDs within the Conceptual Framework project at previous meetings, including: i. Potential exemptions from the consolidation requirements in ED *Consolidated Financial Statements* and alternative accounting methods for any such entities. ii. Where consolidation is required, alternative ways of presenting information on certain controlled entities in consolidated financial statements iii. Potential ways of limiting the structured entity disclosures within ED *Disclosure of Interests in Other Entities* to ensure appropriate disclosures in the public sector context.

Topic	Current Discussion
Revision of IPSASs 6-8 (continued)	The Board has not yet made any decisions on points (i) and (ii) above. These issues will be further considered at the June 2013 meeting. On issue (iii), the IPSASB agreed to proceed on the basis of limiting the structured entity disclosures in ED *Disclosure of Interests in Other Entities* to "entities that have been designed so that voting or similar rights, including administrative arrangements or statutory provisions, are not the dominant factor in determining control of the entity."
Public sector combinations	The *Public Sector Combinations* CP was issued in June 2012 and closed for comments October last year. The IPSASB received 26 responses. At this meeting, the IPSASB considered the responses to Specific Matter for Comment (SMC) 1 regarding the scope of the project. The Board agreed that the project should continue with the scope as proposed in the ED. Furthermore, the Board agreed that the draft ED should include guidance on: a) The derecognition and recognition of assets for the transferor b) The definition of an operation c) Disclosure requirements for combining entities relating to the going concern basis d) Subsequent measurement requirements similar to that included in IFRS 3 *Business Combinations* e) Distinguishing between asset acquisitions, entity and operation acquisitions and amalgamations using relevant text from IFRS 3 *Business Combinations* The Board also discussed the responses to SMC 2 which asked respondents whether the approach used in the CP for distinguishing between acquisitions and amalgamations, with a further distinction for public sector combinations not under common control and under common control, is appropriate. Staff were directed to outline the possible consequences for the accounting treatment of the different suggestions made by respondents for the Board's consideration at the next meeting. The comments to the other SMCs and Preliminary Views will be considered in detail at the next board meeting in June.
Consultation on the IPSASB's Work Program 2013-2014	For the first time, constituents were invited to comment on the IPSASB's work program for 2013-2014. A detailed analysis of the responses was discussed during this meeting. A number of potential projects will remain inactive at this time, but will be further considered when the IPSASB undertakes its broader strategic review for the period post-2014. The IPSASB aims to approve and issued for comment a CP on the work program for the post-2014 period in March 2014. A Task Based Group (TBG) will be formed to assist with developing materials for this strategy review. The IPSASB will further discuss elements of this broad strategic review over the next few months. The IPSASB Chair and staff plans to discuss with the IASB the possibility of a collaborative project on emissions trading schemes at their next liaison meeting scheduled for May 2013. This topic will be further discussed at the IPSASB June 2013 meeting and other potential projects will be considered, with a view to selecting two or three projects for initiation over the next 12-18 months.
First-time adoption of accrual basis IPSASs	At the meeting, an analysis of the transitional provisions relating to IPSAS 23 *Revenue from Non-Exchange Transactions (Taxes and Transfers)*, IPSAS 25 *Employee Benefits* and IPSAS 32 *Service Concession Arrangements: Grantor* was discussed and the Board provided directions to staff on various aspects including categorization. It was agreed to have a general guideline for a default period for transition of three years, acknowledging that this could be changed at the standard level if determined appropriate. At the next meeting, an analysis of the transitional provisions for the financial instruments standards will be considered. In addition, a number of overarching issues will also be discussed.
Government business enterprises (GBEs)	Currently, GBEs are directed to apply IFRS instead of IPSAS. The Board held an initial discussion about a new project on GBEs. While this project is still in the early stages and significant research has yet to be done, the definition of a GBE was discussed. In addition, the observed diversity in both practice and national definitions were discussed and whether there is a need to define GBEs. The alternative would be not to define GBEs, but rather, to allow governments to determine those entities that are profit-oriented and that therefore may apply IFRSs. As the definition of GBE is transaction-focused, the staff were directed to explore the possibility of a definition that would be based on objectives or services or perhaps nature of activities. The IPSASB confirmed that the project to amend IPSAS 6 *Consolidated and Separate Financial Statements*, should address the issue of how GBEs are included in the government reporting entity, i.e., whether line-byline consolidation (the current requirement) is appropriate or whether equity accounting should be considered.
Eurostat study	The IPSASB was also informed of the Eurostat's recently published report, *Towards implementing harmonised public sector accounting standards in Member States: The suitability of IPSAS for Member States*. See page two for more details.

Resources

The publications below are available at www.ey.com/ipsas.

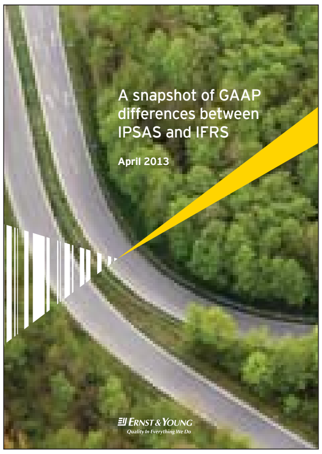


IPSAS Explained

We have published an updated second edition of our practical guide to IPSAS, *IPSAS Explained*. This guide provides decision-makers in the public sector with an overview of IPSAS and the International Public Sector Accounting Standards Board. Opening with an examination of the objectives of the standards, the book goes on to give an overview of the principles relevant to key topics such as the accrual basis of accounting as against the cash basis, fair value, present value, cost and measurement bases. It contains a summary of each IPSAS and recently-issued exposure drafts. This book is available for purchase from Wiley, at www.ey.com/ipsas.

Toward transparency

Ernst & Young has undertaken a study to assess the current state of public sector accounting from a global perspective. This new research provides a better understanding of what governments are doing well, and where there is scope for improvement.



A snapshot of GAAP differences between IPSAS and IFRS

This publication summarizes the key differences between IPSAS and IFRS. It further explains the sources and reasons for differences between the two frameworks.

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Upcoming webcast

Ernst & Young's Public Sector Accounting: IPSAS Update 2013 (Live) Tuesday, 25 June 2013, 4pm BST
In this webcast, our panel will provide an overview on the background, structure and due process of the International Public Sector Accounting Standards Board (IPSASB). It will also provide an update on key projects on the IPSASB's agenda, including the Conceptual Framework, and outline some of the current developments on IPSAS adoption and implementation around the world.

This webcast is aimed at providing public sector finance managers with the latest developments on the IPSASB's projects and IPSAS implementation globally.

Register your interest on the webcast at http://www.ey.com/GL/en/Issues/webcast_2013-06-25-1500_public-sector-accounting-ipsas-update-2013

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The move to International Public Sector Accounting Standards (IPSAS) is an important initiative in public sector accounting, the impact of which stretches far beyond accounting to affect every key decision you make, not just how you report it. We have developed the global resources — people and knowledge — to support our client teams. And we work to give you the benefit of our broad sector experience, our deep subject matter knowledge and the latest insights from our work worldwide. It's how Ernst & Young makes a difference.

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