



**Asia-Pacific
Economic Cooperation**

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Benefits of IPSAS

Submitted by: International Public Sector Accounting Standards Board



**Policy Discussion on International Public
Sector Accounting Standards
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Benefits of IPSAS

Dr. Guohua Huang
IPSASB Member
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Overview

- High quality of government financial reporting is required
- Accrual accounting and reporting matters
- Why IPSAS?

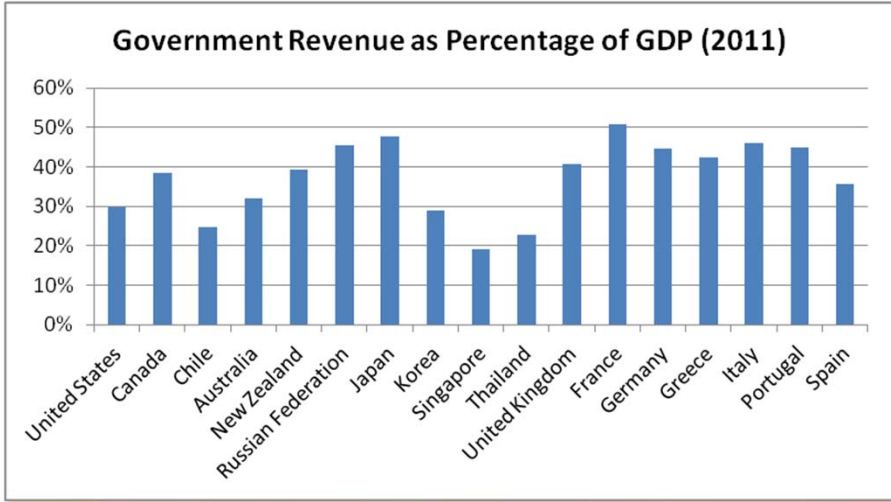
What do governments do?

- 1. Provide public goods and services
 - Roads, education, police, defense
- 2. Insure Socially
 - Social security retirement, disability, disasters
- 3. Regulate
 - Corporate, trade, environment, traffic
- 4. Employ workers
 - Clerks; soldiers; teachers; police
- ...

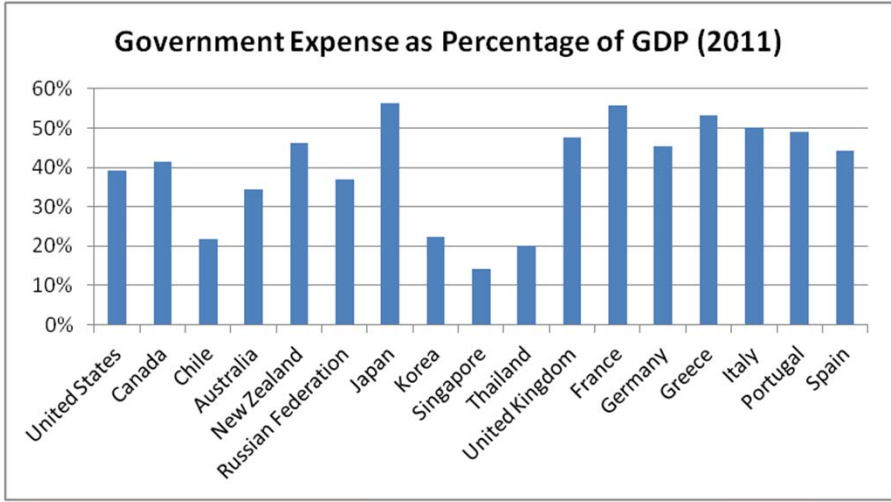
Government finance

- Expenses
 - public goods, employee benefits
- Revenues
 - taxes, non-taxes
- Liabilities
 - Treasury bonds
- Assets
 - Roads, buildings, natural resources

Government activity accounts for a major part of GDP



Government activity accounts for a major part of GDP



Government Financial Reporting is relevant

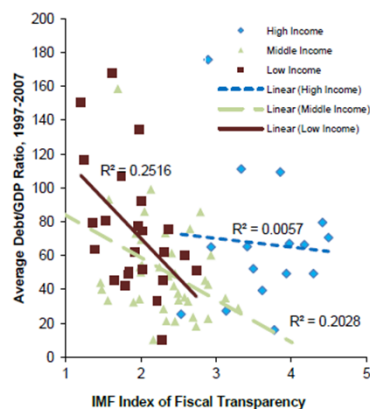
- Citizens and other resource providers want accountability
- Decision makers need a reliable basis for their decisions
 - Lenders, creditors, donors
 - Taxpayers

Government Financial Reporting is relevant

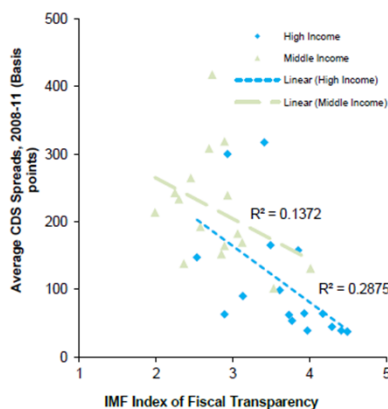
- IMF-FAD addressing issue of transparency in a comprehensive paper
 - Fiscal transparency does matter
 - Harmonization of Accounting and Statistics needed
 - ROSC initiative should be followed up
- G20 Finance Ministers press release February 2013
 - Strengthening government balance sheet → looking at financial reporting to improve debt management

Government Financial Reporting is relevant

a. Fiscal Transparency & Government Debt



b. Fiscal Transparency & CDS Spreads



Government Financial Reporting is relevant

- Significant correlation between PEFA indicator (PI25) and overall PEFA performance (Vany, 2010)
- Main advantages:
 - Financial planning
 - Financial control, debt, investment and liquidity management
 - Reliable base for audit

Accrual accounting and reporting matters

Accrual VS Cash

- Accrual accounting is the only generally accepted information system that provides a complete and reliable picture of the financial and economic position and performance of a government (EC 2013)
 - Full picture of assets and liabilities
 - Reliable information about costs and income
- Cash accounting and reporting?

Accrual accounting and reporting is needed!

- Just a few headlines
 - Greece: “Strong evidence for manipulation of the deficit and debt data presented”
 - Germany: “55 billion accounting mistake reduces debt levels”
 - Almost everywhere: “Pension Liabilities not included ...”
- Who’s next to follow?
- But it is clear: Government financial management needs accrual accounting and reporting!

Challenges faced

- Some adopt only cash accounting and reporting
 - Missed assets and liabilities
 - Allowed window-dressing
- Some adopt different accrual accounting and reporting standards
 - Impacts on comparability, transparency, accountability

Why IPSAS?

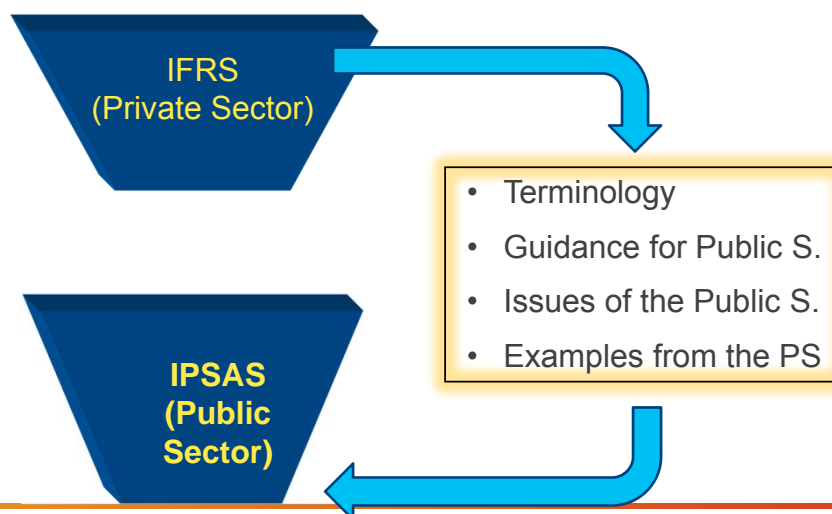
IPSASs are the international financial reporting standards for public sector

- 32 Standards approved (accrual basis) covering all main areas of government activity, 1 cash basis standard
- The standards are designed for Public Sector entities other than Government Business Enterprises (which should use IFRS), i.e. IPSASs are for non-commercial organizations
 - International governmental organizations
 - National governments, including controlled entities such as ministries or agencies
 - Subnational governments, including controlled entities

IPSASs are the international financial reporting standards for public sector

- «Transaction Neutral Approach»: If transaction is the same in private and public sector, the accounting should be the same
 - Substantial convergence of all relevant IFRS at December 31, 2009 with IFRSs at December 31, 2008
- Standards include sector specific standards where transactions are specific to the public sector
 - Disclosure of Information about the GGS (Financial Statistics)
 - Revenues from Non-Exchange Transactions (Transfers and Taxes)
 - Presentation of Budget Information
 - Service Concession Arrangements: Grantor

Converged with IFRSs



Public sector is different: Key characteristics

- Volume and Significance of *Non-Exchange* transactions such as Taxes and Transfers, or the provision of goods and services in a non-market environment
- Importance of *Budget*
- Nature of PPE: To *provide goods/services* – not cash generation, often *very specific nature*
- Responsibility for *Heritage*
- *Longevity* of public sector entities
- *Regulatory* role of government
- Ownership or control of rights to *natural resources*
- *Statistical reporting*

19

Who is IPSAS Board?

- Independent Accounting Standards Setter under IFAC
- Governance is the same as for other independent standard setters (e.g. IAASB), except for the lack of a public interest oversight board
- 18 members, 14 from Public Sector, 2 from NPO, 2 from firms (8 from APEC members)
- 10 international organizations with formal observers status, including IMF, World Bank, EU
- 7 staff, mainly based in Toronto/Canada
- Diverse funding by IFAC (approx 50 percent) and various Voluntary Contributions from Governments and Observers

IPSASB strategy themes

Developing a **conceptual framework** for the public sector

Public sector critical projects (public sector specific, IFRSs convergence, maintenance)

Communications and promoting adoption & implementation

Governance not a strategic theme, but an area for discussion, consultation and change

Momentum in adoption

- About 40 countries are adopting accrual basis IPSAS; including France, South Africa, Switzerland, Russia, Israel, Slovakia, Brazil
 - Some adopt IPSAS directly (e.g. Switzerland, Slovakia, Austria, Estonia, Lithuania, Chile)
 - Some adopt IPSAS through national standards (e.g. South Africa, Brazil, Indonesia, Malaysia, Spain, new New Zealand)
- Also sub-national governments are adopting IPSAS when the decentralized structure allows them to move independently – e.g. Prefecture of Tokyo, State of Hesse, States of Zurich/Geneva – with Berne/Basel/Luzern on their way
- Entire UN system, OECD, NATO, Interpol and EC

Momentum in adoption

- A group of about 10 countries are using IPSAS as a reference
 - Some with a long tradition in standard setting: Australia, Canada, United States (both FASAB and GASB), UK
 - Some of them are virtually compliant with IPSAS (namely Australia)

And what is the value added of using IPSAS?

Adoption and implementation of Accrual Basis IPSAS adds value

- Direct value added of fair presentation under IPSAS:
 - Transparency and Accountability: Governments are accountable to citizens, but increasingly also to other stakeholders, like the economy
 - Decision making: Is improved especially in areas with capital expenditure, e.g. government interventions (loans, asset purchase, nationalization) and non-exchange transactions.
- **Both are key areas for economic prosperity**

And what is the value added of using IPSAS?

Adoption and implementation of Accrual Basis IPSAS adds value

- Strengthen government financial management
 - Identify non-bond types of debt more easily and limit/reduce that; debt shifting is effectively prevented
 - Assets are more actively managed, leading to disinvestment or better usage
 - Enhance long term fiscal sustainability and service performance
- **Accounting and reporting are keys for sound financial management**

25

And what is the value added of using IPSAS?

Adoption and implementation of IPSAS adds value

- Value added through consequential effects – obviously not exclusively attributable to IPSAS:
 - Reputation: Rating agencies take accounting/reporting into consideration as one of the key elements. Capital markets are increasingly on alert about financial reporting issues of governments following the GFC.
 - Motivation of employees involved.
- **Reputation effects are likely to gain importance in the aftermath of the GFC**

26

Questions and Discussion



- Visit our webpage <http://www.ipsasb.org>