Benefits of IPSAS

Submitted by: International Public Sector Accounting Standards Board
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 Revenue as Percentage of GDP (2011)**

- United States: 20%
- Canada: 15%
- Chile: 25%
- Australia: 30%
- New Zealand: 35%
- Russian Federation: 40%
- Japan: 50%
- Korea: 55%
- Singapore: 60%
- Thailand: 45%
- United Kingdom: 40%
- France: 35%
- Germany: 30%
- Greece: 25%
- Italy: 20%
- Portugal: 15%
- Spain: 10%

**Government Expense as Percentage of GDP (2011)**

- United States: 30%
- Canada: 25%
- Chile: 30%
- Australia: 25%
- New Zealand: 20%
- Russian Federation: 15%
- Japan: 10%
- Korea: 5%
- Singapore: 0%
- Thailand: 5%
- United Kingdom: 15%
- France: 20%
- Germany: 25%
- Greece: 30%
- Italy: 35%
- Portugal: 40%
- Spain: 45%
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

- 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

- Terminology
- Guidance for Public S.
- Issues of the Public S.
- Examples from the PS

IFRS (Private Sector)

IPSAS (Public Sector)
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

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**

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**
Questions and Discussion

• Visit our webpage http://www.ipsasb.org