

Harmonizing financial accounting, budgeting and macroeconomic statistics: towards a common GAAP-based framework?

Workshop on public sector accounting
„Better Accounts, Better Budgets, Better Spending?“

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Agenda

- ▶ The role and evolution of IPSASB
- ▶ The process of international harmonization of accounting standards on an accruals basis: the role of the IPSASB and implementation of IPSAS within EU countries
- ▶ IPSAS, IFRS and GFS: influences and interrelationships
- ▶ Changing governance structures of IPSAS
- ▶ Conceptual framework
- ▶ Key future challenges

The role of the IPSASB in international harmonization of accrual accounting standards

- ▶ IPSASB is an independent board within IFAC

- ▶ IPSASB's Forward Strategy from 2015:

Strengthening public financial management and knowledge globally through increasing adoption of accrual-based IPSAS by:

- ▶ Developing high-quality public financial reporting standards;
- ▶ Developing other publications for the public sector; and
- ▶ Raising awareness of the IPSAS and the benefits of their adoption.

- ▶ IPSAS standards are not mandatory, but there is peer pressure created by developing best practice standards on the basis of a global due process

The evolution of IPSASs

Phase 1 (1997-2002)

- ▶ Through financial support of international institutions development of a first set of accounting standards (“Core Set”: IPSAS 1 – IPSAS 20)

Phase 2 (2003-2010)

- ▶ Where relevant for the public sector, convergence with IAS/IFRS as of 31.12.2008 was achieved
- ▶ Issuance of first standards to specific issues of the public sector (IPSAS 21 – IPSAS 24)

Phase 3 (2010-2014)

- ▶ Development of a Conceptual Framework for the public sector
- ▶ Focus on specific issues of the public sector as well as further development of existing standards (IFRSs convergence)

Phase 4 (since 2015/16)

- ▶ New governance model in place (PIC and CAG)
- ▶ Conceptual Framework as basis for developing standards and guidance to specific issues of the public sector

Implementation of IPSAS within EU Countries (1)

Table 4 - Accounting maturity by country and government sector

	<i>Central</i>	<i>State</i>	<i>Local</i>	<i>Social Fund</i>
<i>Austria</i>	73%	12%	12%	61%
<i>Belgium</i>	67%	67%	73%	60%
<i>Bulgaria</i>	56%	-	56%	63%
<i>Croatia</i>	34%	-	34%	55%
<i>Cyprus</i>	14%	-	75%	17%
<i>Czech Republic</i>	75%	-	75%	77%
<i>Denmark</i>	72%	-	65%	58%
<i>Estonia</i>	92%	-	92%	86%
<i>Finland</i>	72%	-	90%	92%
<i>France</i>	89%	-	84%	92%
<i>Germany</i>	22%	29%	58%	42%
<i>Greece</i>	12%	-	12%	12%
<i>Hungary</i>	66%	-	66%	55%
<i>Ireland</i>	54%	-	71%	57%
<i>Italy</i>	31%	-	30%	14%

Source: PwC, Collection of information related to the potential impact, including costs, of implementing accrual accounting in the public sector and technical analysis of the suitability of individual IPSAS standards, 1. Aug. 2014

Implementation of IPSAS within EU Countries (2)

Table 4 - Accounting maturity by country and government sector

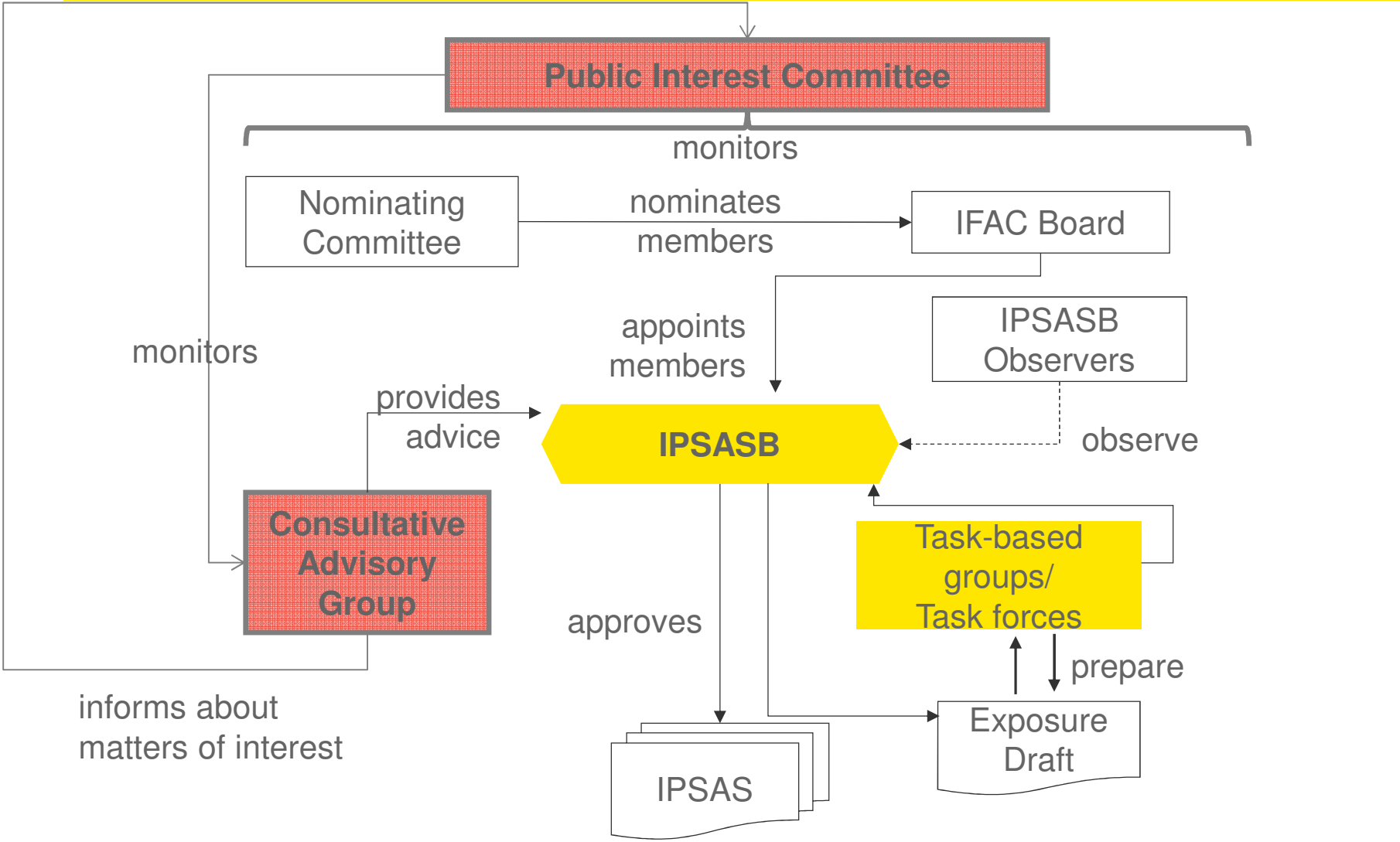
	<i>Central</i>	<i>State</i>	<i>Local</i>	<i>Social Fund</i>
<i>Latvia</i>	73%	-	73%	55%
<i>Lithuania</i>	88%	-	88%	72%
<i>Luxembourg</i>	19%	-	31%	15%
<i>Malta</i>	22%	-	94%	-
<i>Netherlands</i>	31%	-	58%	78%
<i>Poland</i>	66%	-	66%	68%
<i>Portugal</i>	55%	-	80%	70%
<i>Romania</i>	63%	-	63%	38%
<i>Slovakia</i>	75%	-	75%	34%
<i>Slovenia</i>	62%	-	62%	19%
<i>Spain</i>	70%	61%	68%	58%
<i>Sweden</i>	81%	-	81%	71%
<i>United Kingdom</i>	96%	-	95%	-

Source: PwC, Collection of information related to the potential impact, including costs, of implementing accrual accounting in the public sector and technical analysis of the suitability of individual IPSAS standards, 1. Aug. 2014

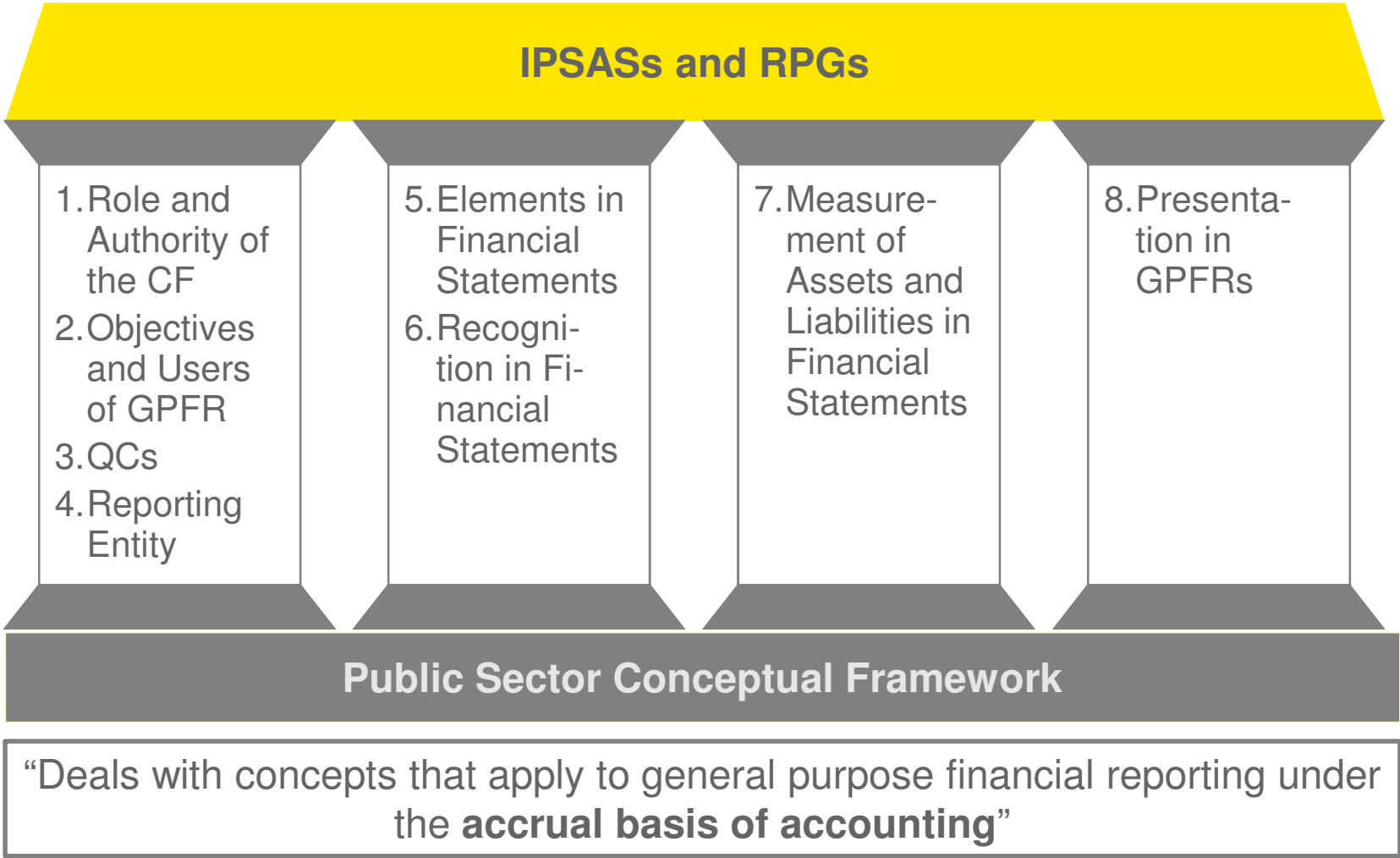
IPSAS, IFRS and GFS: influences and interrelationships

- ▶ IPSASs are largely based on the principles of IFRS
- ▶ In principle IPSASB follows a “transaction neutral approach”
 - ▶ Rationale: ensures greater comparability between private and public sector reporting when accounting for similar types of transactions
- ▶ IPSASB uses IAS/IFRS as a starting basis and follows the “rules of the road”-approach
- ▶ But: significant gaps in IASB’s literature from a public sector point of view, e.g.
 - ▶ Impairment of non-cash generating assets
 - ▶ Accounting for non-exchange transactions
 - ▶ Presentation of budget information
- ▶ “Alignment” with Government Finance Statistics (GFS) gained more and more of importance in recent years => “GFS rules of the road”.

Changing governance structures of IPSAS



Conceptual framework



Key future challenges

- ▶ Technical challenges
 - ▶ Recognition and measurement of social benefits
 - ▶ Public sector combinations
 - ▶ Accounting for revenues/non-exchange expenses
- ▶ Governance challenges
 - ▶ Balanced representation of stakeholders
 - ▶ Set-up operational processes for providing technical advice to the IPSASB
- ▶ Implementation and other challenges
 - ▶ Consistent application of IPSASs
 - ▶ Relationship between international and supra-national standard-setting (e.g. EPSAS)

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