IPSASB Policy Paper
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International Public Sector Accounting Standards Board

Process for Considering GFS Reporting Guidelines during Development of IPSASs

International Public Sector Accounting Standards Board™

This document was developed and approved by the International Public Sector Accounting Standards Board (IPSASB).

The objective of the IPSASB is to serve the public interest by setting high-quality public sector accounting standards and by facilitating the adoption and implementation of these, thereby enhancing the quality and consistency of practice throughout the world and strengthening the transparency and accountability of public sector finances.

In meeting this objective the IPSASB sets International Public Sector Accounting Standards (IPSASs) and Recommended Practice Guidelines (RPGs) for use by public sector entities, including national, regional, and local governments, and related governmental agencies.

IPSASs relate to the general purpose financial statements (financial statements) and are authoritative. RPGs are pronouncements that provide guidance on good practice in preparing general purpose financial reports (GPFRs) that are not financial statements. Unlike IPSASs RPGs do not establish requirements. Currently all pronouncements relating to GPFRs that are not financial statements are RPGs. RPGs do not provide guidance on the level of assurance (if any) to which information should be subjected.

The structures and processes that support the operations of the IPSASB are facilitated by the International Federation of Accountants (IFAC).

PROCESS FOR CONSIDERING GFS REPORTING GUIDELINES DURING DEVELOPMENT OF IPSASs

Introduction

1. The aim of this document is to set out the International Public Sector Accounting Standards Board's (IPSASB's) process for considering Government Finance Statistics (GFS) reporting guidelines[1] during the development of International Public Sector Accounting Standards (IPSASs).

2. The process describes how the IPSASB will consider scope to reduce differences between IPSASs and GFS reporting guidelines during:

   (a) Development of its work plan;

   (b) Development of new IPSASs; and

   (c) Revisions to existing IPSASs.

3. Following this process during the revision and development of IPSASs will give effect to the IPSASB's view that:

   (a) Unnecessary differences between GFS reporting guidelines and IPSASs should be avoided; and,

   (b) The reduction of unnecessary differences is an important factor in the review and development of IPSASs.

4. This process aims to address both existing differences and possible future differences, which could arise through the development of a new IPSAS to address a previously unaddressed financial reporting topic, or revisions to an existing IPSAS.

5. The IPSASB uses professional judgment in the development of new standards and improvements to existing standards. The IPSASB application of professional judgment occurs during (a) development of a consultation paper and/or an exposure draft, and (b) consideration of responses received during consultation, leading to the issuance of a final standard. As part of the IPSASB's established due process, reasons for the IPSASB's conclusions are documented in the related Basis for Conclusions.

6. This process will be regularly assessed to determine if any changes are needed for its enhancement.

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[1] The overarching standards for macroeconomic statistics are set out in the *System of National Accounts* (SNA). Internationally recognized macroeconomic statistical methodologies are harmonized with the SNA to the extent possible, while remaining consistent with their own specific objectives. GFS reporting guidelines include the European Union (EU)'s legislated rules for national accounts—the European System of Accounts (ESA)—and the IMF's Government Finance Statistics Manual (GFSM), which is the key source of guidance for non-EU government finance statistics.

IPSASB Support for Convergence with Statistical Bases of Financial Reporting

7. The IPSASB's support for reduction of differences is expressed in the Preface to the IPSASB's *Handbook of International Public Sector Accounting Standards*, which states the IPSASB's objective as follows:

> *"The objective of the International Public Sector Accounting Standards Board (IPSASB) is to serve the public interest by developing high-quality accounting standards and other publications for use by public sector entities around the world in the preparation of general purpose financial reports.*
>
> *This is intended to enhance the quality and transparency of public sector financial reporting by providing better information for public sector financial management and decision making[2]."*

8. The Preface then highlights IPSASB support for the reduction of differences—termed "convergence of accounting and statistical bases of financial reporting"—as one part of the IPSASB's pursuit of its objective:

> *"In pursuit of this objective, the IPSASB supports the convergence of international and national public sector accounting standards and the convergence of accounting and statistical bases of financial reporting where appropriate; and also promotes the acceptance of its standards and other publications[3]."*

The Role of the IPSASB's Conceptual Framework and IFRS Convergence

9. The IPSASB's Conceptual Framework is fundamental to its standards development. IPSAS related proposals that reduce differences between IPSASs and GFS reporting guidelines will be reviewed to ensure that they are consistent with the Conceptual Framework—see paragraph 12 below.

10. The IPSASB's "*Process for Reviewing and Modifying IASB Documents*" sets out the process that the IPSASB follows when considering International Accounting Standards Board (IASB) documents for convergence, including determining whether public sector issues warrant departures from the IASB document. Step 1 of that process includes consistency with the statistical bases as one factor for consideration when making decisions. This document is intended to complement and support that process, rather than conflict with it in any way.

Scope to Reduce Differences

11. There is considerable overlap between IPSASs and GFS reporting guidelines. Both reporting frameworks are concerned with (a) financial, accrual-based information, (b) a government's assets, liabilities, revenue, and expenses, and (c) comprehensive information on cash flows. Because of this overlap, there is scope to reduce differences while remaining consistent with both the Conceptual Framework and International Financial Reporting Standards (IFRS) requirements.

12. GFS reporting guidelines and IPSASs have different objectives. Although the two sets of financial information necessary to meet these different objectives have many similarities, the different objectives do result in some fundamental differences on how, what and where information is reported. In considering scope to reduce differences the IPSASB will remain true to the objectives of financial reporting[4]. Where differences appear to warrant referral to the statistical community for

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[2] Paragraphs 5–6, Preface to the IPSASB's *Handbook of International Public Sector Accounting Standards*

[3] Paragraph 6, Preface to the IPSASB's *Handbook of International Public Sector Accounting Standards*

[4] The objectives of financial reporting by public sector entities are to provide information about the entity that is useful to users of general purpose financial reports (GPFRs) for accountability purposes and for decision-making purposes (hereafter referred to

its consideration, the IPSASB recognizes that the statistical community's consideration of issues will be in light of the objectives of the GFS reporting framework[5].

13. The IPSASB notes that GFS reporting guidelines aim to be consistent with the SNA. The SNA is under the joint responsibility of the United Nations, the International Monetary Fund (IMF), the Commission of the European Community (EC), the Organisation for Economic Co-operation and Development (OECD) and the World Bank. Revision to the SNA is a major endeavor. Scope to reduce differences through changes to the GFS reporting guidelines largely depends on the changes identified not adversely affecting the guidelines' consistency with the SNA. Revisions to the SNA may be possible in the longer term.

Tracking Issues–Table of Differences Updated For Changes

14. A table of the main differences between IPSASs and GFS reporting guidelines will be maintained to facilitate the work plan consideration described below. The table will include assessments of whether differences should be resolved through changes in IPSASs or changes in the GFS reporting guidelines. The table will be updated as necessary, on an on-going basis. Updating could be to reflect progress made on differences or to include further differences that have been identified.

IPSASB Work Plan and Reduction of Differences

15. The IPSASB will consider the reduction of differences between IPSASs and GFS reporting guidelines during development of its work plan. The IPSASB's consideration will include appropriate responses to a difference, one of which could be referral to the statistical community for its consideration of whether a difference can be resolved through changes to the GFS reporting guidelines.

16. The IPSASB will gain input from its IMF and Eurostat Observers and from IPSASB Members in order to identify:

    (a) Which proposed projects have the potential to reduce differences;

    (b) Possible other projects with potential to reduce differences;

    (c) Scope to address differences within existing projects and/or the biennial improvements project; and,

    (d) Differences that could be referred to the statistical community for consideration of scope to address differences through changes to the GFS reporting guidelines.

Biennial Improvements Projects

17. Differences that can be resolved through relatively minor revisions to existing IPSASs may be considered for inclusion in one of the IPSASB's biennial improvements projects. This would only be

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as "useful for accountability and decision-making purposes"). [Paragraph 2.1, *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*.]

5 GFS reports are used to (a) analyze fiscal policy options, make policy, and evaluate the impact of fiscal policies, (b) determine the impact on the economy, and (c) compare fiscal outcomes nationally and internationally. The focus is on evaluating the impact of the general government and public sector on the economy, and the influence of government on other sectors of the economy. The GFS reporting framework was developed specifically for public sector input to other macroeconomic statistics, although a range of countries adopt GFS reporting for their fiscal reporting, and for measuring compliance with fiscal rules.

considered for proposed revisions that are minor, consistent with the Conceptual Framework, and do not conflict with existing IPSASs, including those converged with IFRSs. This could be, for example, an amendment to clarify an IPSAS so that its application is consistent with the IPSASB's intention. As part of the IPSASB's normal due process the IPSASB's considers staff proposals with respect to revisions for inclusion in a biennial Improvements Exposure Draft. The IPSASB will decide whether a proposed revision to reduce differences with GFS reporting guidelines should be considered "minor".

IPSAS Projects and Reduction of Differences

18. During the course of each IPSAS project IPSASB technical staff and the IPSASB will consider whether there is scope for the project to address differences between IPSASs and GFS reporting guidelines. The process they will follow is summarised in diagram 1. Although the table of main differences (see paragraph 13) will be the starting point for this consideration, staff will also consider whether there are differences not captured in that table.

19. Differences identified will then be reviewed to determine whether standards level action is appropriate. (This is discussed below.) Where such differences exist staff will ensure that they are brought to the IPSASB's attention through identification in the appropriate IPSASB meeting paper(s).

20. Project staff will also consider the need to avoid introducing new differences during either (a) revisions to an existing IPSAS, or (b) development of an IPSAS to address topics that have not previously been addressed by an IPSAS. New differences could potentially be introduced, for example, when (a) removal of a GFS-aligned option in an IPSAS is considered, or (b) a new IPSAS is developed for a topic for which GFS reporting guidelines already exist. Where a potential new difference is identified, the project staff will ensure that this is brought to the IPSASB's attention through identification in the appropriate IPSASB meeting paper(s).

Factors to Consider

21. Whether or not an IPSAS project removes a difference will depend on the following factors:

    (a) Whether or not the difference is a fundamental difference (discussed below);

    (b) The extent to which the GFS treatment is consistent with

        (i) The Conceptual Framework,

        (ii) Existing IPSASs, and,

        (iii) IFRS convergence;

    (c) The IPSASB's consideration of the benefits to be gained from removing the difference and the appropriateness of the proposed IPSAS treatment;

    (d) The IPSASB's consideration of feedback from constituents; and,

    (e) The IPSASB's assessment of whether the difference should be addressed through an IPSAS or whether some other response would be more appropriate.

22. In considering the factors listed in paragraph 21 a case-by-case approach will be applied. This recognizes that the relative importance of these factors can vary depending on the issue under

consideration. Where there is a conflict between any of the factors, the IPSASB will take a decision based on the circumstances of the case.

23. With respect to point (e), one possible other response is for the IPSASB to refer a difference to the statistical community for consideration of whether it can be addressed through changes to the GFS reporting guidelines. Before making such a referral the IPSASB will gain input from its IMF and Eurostat Observers to inform consideration of the appropriateness of such a response. In some cases the most appropriate response to a difference may be to ensure that guidance is available on how to manage the difference.

Some Differences May Not Require Standards Level Consideration

24. "Fundamental differences" arise from underlying conceptual differences that cannot be resolved through changes to either IPSASs or GFS reporting guidelines. These differences are expected to continue and will need to be managed. Fundamental differences generally do not indicate a need for standards level action.

25. An important aim of the analysis of differences is to support public sector entities' ability to use a single integrated financial information system to generate both IPSAS financial statements and GFS reports[6]. Consistent with this aim, differences are classified in terms of whether they (a) can be managed either through choice of accounting policy option or systems design, or (b) can be addressed through changes in either IPSASs or GFS reporting guidelines. Some problematic differences arise from the way that a standard or guideline is applied, rather than in the standards or guidelines themselves.

26. Where alternative treatments (options) in an IPSAS allow a preparer to choose an option that is aligned with GFS reporting guidelines, no amendment to the IPSAS is necessary in order to align the treatments available under the two reporting frameworks. (As section 7 below notes, guidance that identifies those GFS–aligned options can help preparers to manage differences.)

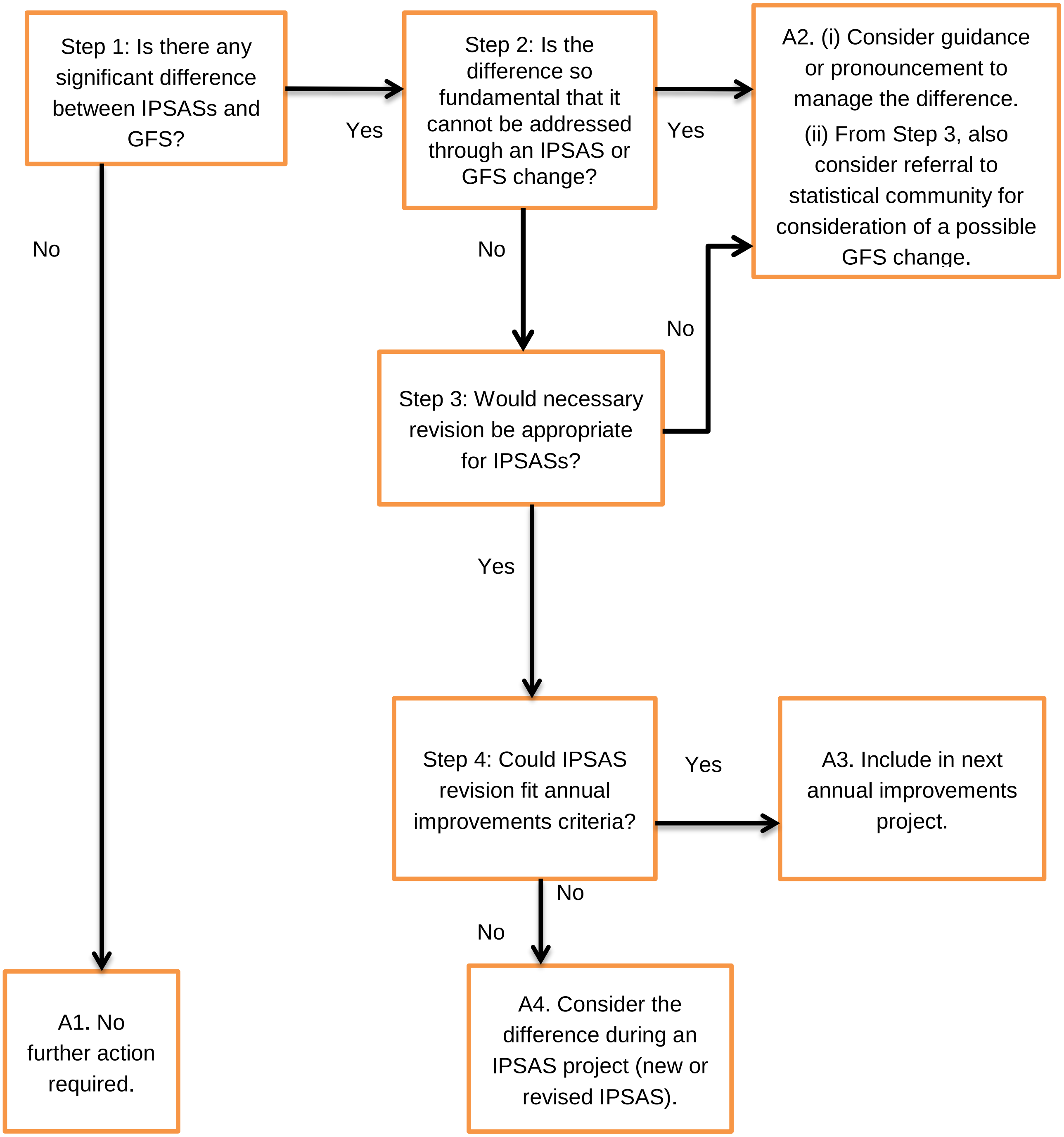
27. In the medium term non-fundamental differences which can be managed may be addressed through provision of guidance on how to manage them. However they should still be noted as differences and, in the longer term, there should be consideration of opportunities to address them through changes either to IPSASs or GFS reporting guidelines.

28. Other differences may not be high priorities for standards level action, because they can be addressed in other ways. Differences related to information presentation can be addressed through the design of an entity's information system. Appropriate classification of data allows presentation appropriate to both IPSAS financial statements and GFS reporting guidelines. Terminology differences do not involve differences of substance, and can be addressed through knowledge sufficient for preparers to translate terms from one reporting framework into those used in the other framework. This is likely to involve financial accountants working with their statistician colleagues to clarify the meaning of different terms.

[6] Benefits from such an integrated financial information system include the reduction of GFS report preparation time, costs, and effort, along with improvements in the source data for these reports, with flow-on benefits in terms of report quality, including timeliness. Improvements to the understandability and credibility of both types of reports are also likely to result.

Diagram 1

Process for Considering Differences between IPSASs and GFS Reporting Guidelines



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