

Public Sector Accounting International Harmonisation: Benefits and IPSASB's Role

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Session outline

- Who are IPSASB?
- Need for strong PFM
- Benefits of accrual
- Role of IPSAS

The IPSAS Board and its outputs

- Independent Standard Setting Board for Public Sector entities
- Remunerated Chair (75% WTE)
- 17 other volunteer board members from around world
- Toronto-based – Secretariat of 8
- Independent governance (PIC) and advisory arrangements (CAG)
- 35 IPSASs (accrual basis) covering main areas of government activity, 1 cash basis standard as ‘stepping stone’ to accrual
- 3 Recommended Practice Guidelines (RPGs)
- Public Sector Conceptual Framework

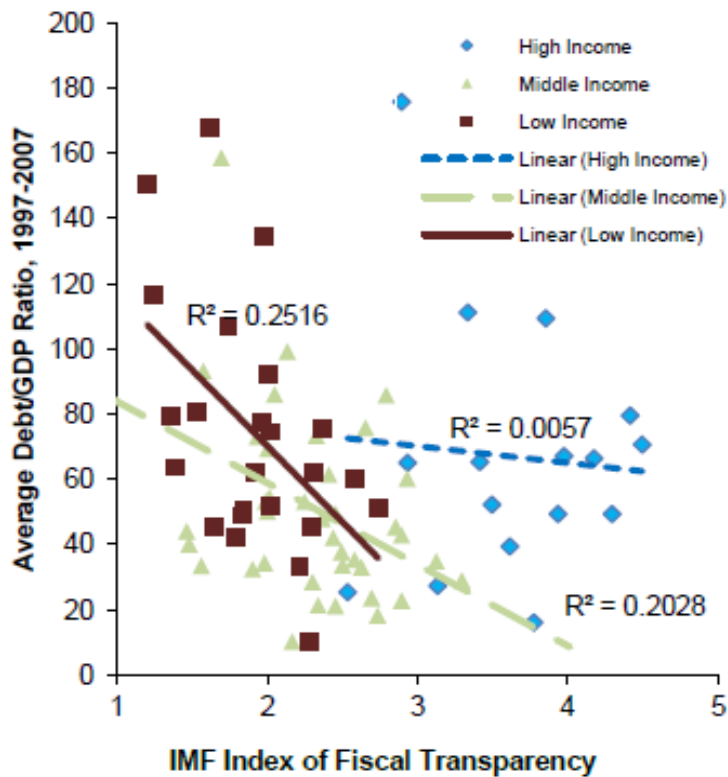
Strong PFM is essential

- Government depends on trust
- Poor Public Financial Management:
 - Allows waste
 - Encourages corruption
 - Reduces ability to collect taxes
 - Adverse impact on services
- Government expenditure typically 30%-40% GDP
- Poor PFM impacts on rest of economy and investor perceptions

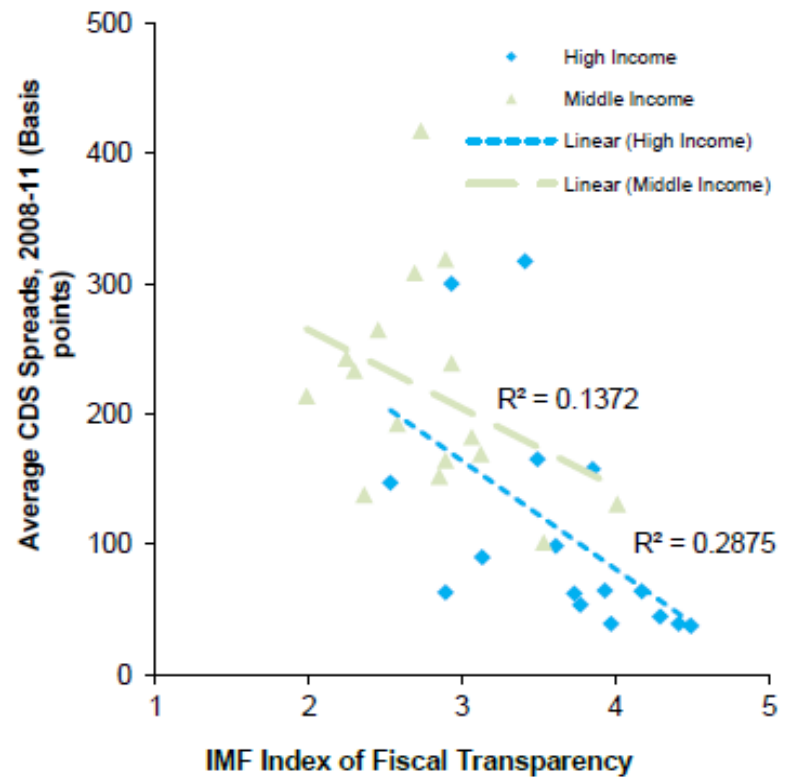
Transparency has a real impact...

- Less debt and lower interest rates

a. Fiscal Transparency & Government Debt



b. Fiscal Transparency & CDS Spreads



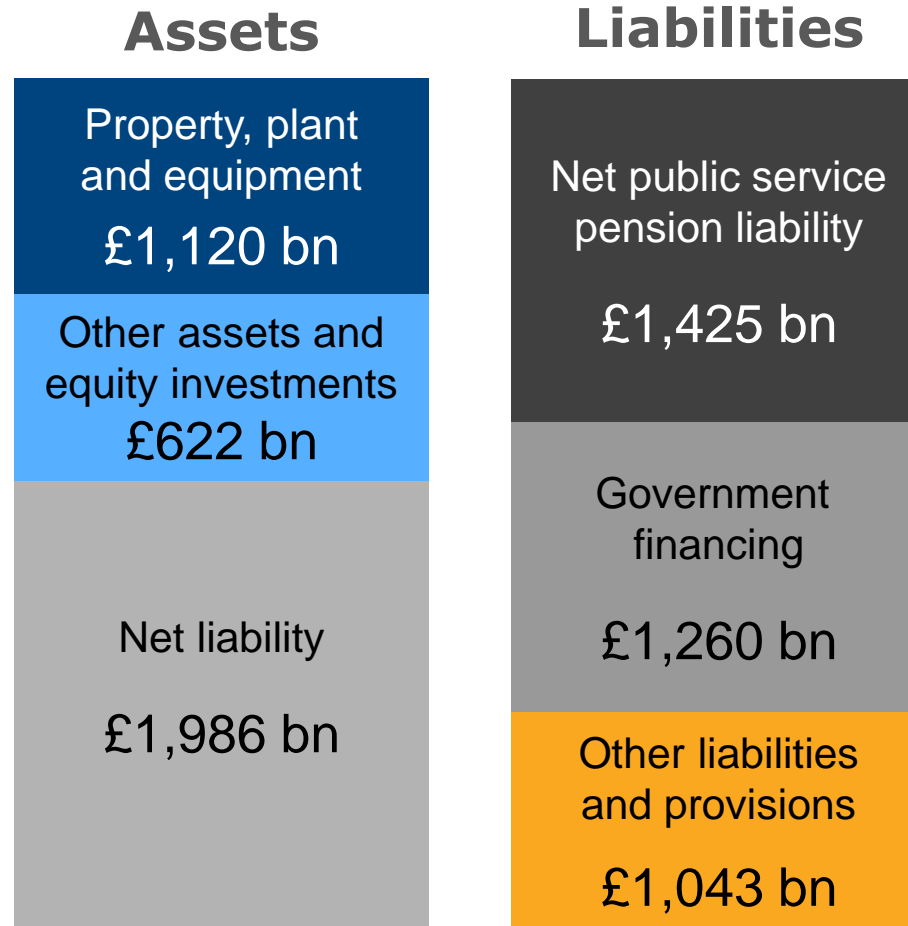
Benefits of accrual (1): What do you know about the past?

Compared with cash accrual provides:

- Complete data on:
 - Assets
 - Liabilities
- Plus at Whole of Government level:
 - Public sector employee liabilities
 - Government debt
- Overall financial position
- Accountability for past decisions
- Resulting future funding commitments



Benefits of accrual (2): UK WGA 2016 balance sheet



Benefits of (3): UK WGA

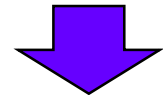
Reconciliation of public sector net debt

	2014-15	2015-16
	£bn	£bn
Public sector net debt (National Accounts)	1,554	1,606
Net public service pensions liability	1,493	1,425
Provisions	175	306
PFI contracts	33	33
Unamortised premium or discount on gilts	35	38
Tangible and intangible fixed assets	(1,076)	(1,120)
UK Asset Resolution (UKAR) net impact on net debt	(50)	(30)
Payables and receivables	(128)	(141)
Investments	(73)	(50)
Asset Purchase Facility	(45)	(50)
Other	(39)	(31)
Net liabilities (WGA)	1,875	1,986

Benefits of accrual (4): What do you know about the present?

Compared with cash accrual provides:

- Full cost of service provision:
 - Use of assets
 - Liabilities incurred
- Actual financial performance
- Ability to determine charge / subsidy levels
- Full information to compare options
- Affordability of current and new programmes
- Plus at Whole of Government level:
 - Taxation due
 - Overall surplus or deficit



Benefits of accrual (5): UK WGA Reconciliation of deficits

	2014-15	2015-16
	£bn	£bn
Public sector current budget deficit (National Accounts)	58	40
Increase in provisions	18	-
Depreciation and amortisation	(10)	(8)
Impairments and revaluations	15	9
Net losses on sale of assets	(2)	(6)
Capital grants	8	7
Research and development	3	3
Other adjustments	2	4
Financing of long-term liabilities (inc. discounting)	65	187
Revaluation of financial assets and liabilities	(5)	8
Total net expenditure (WGA)	152	244

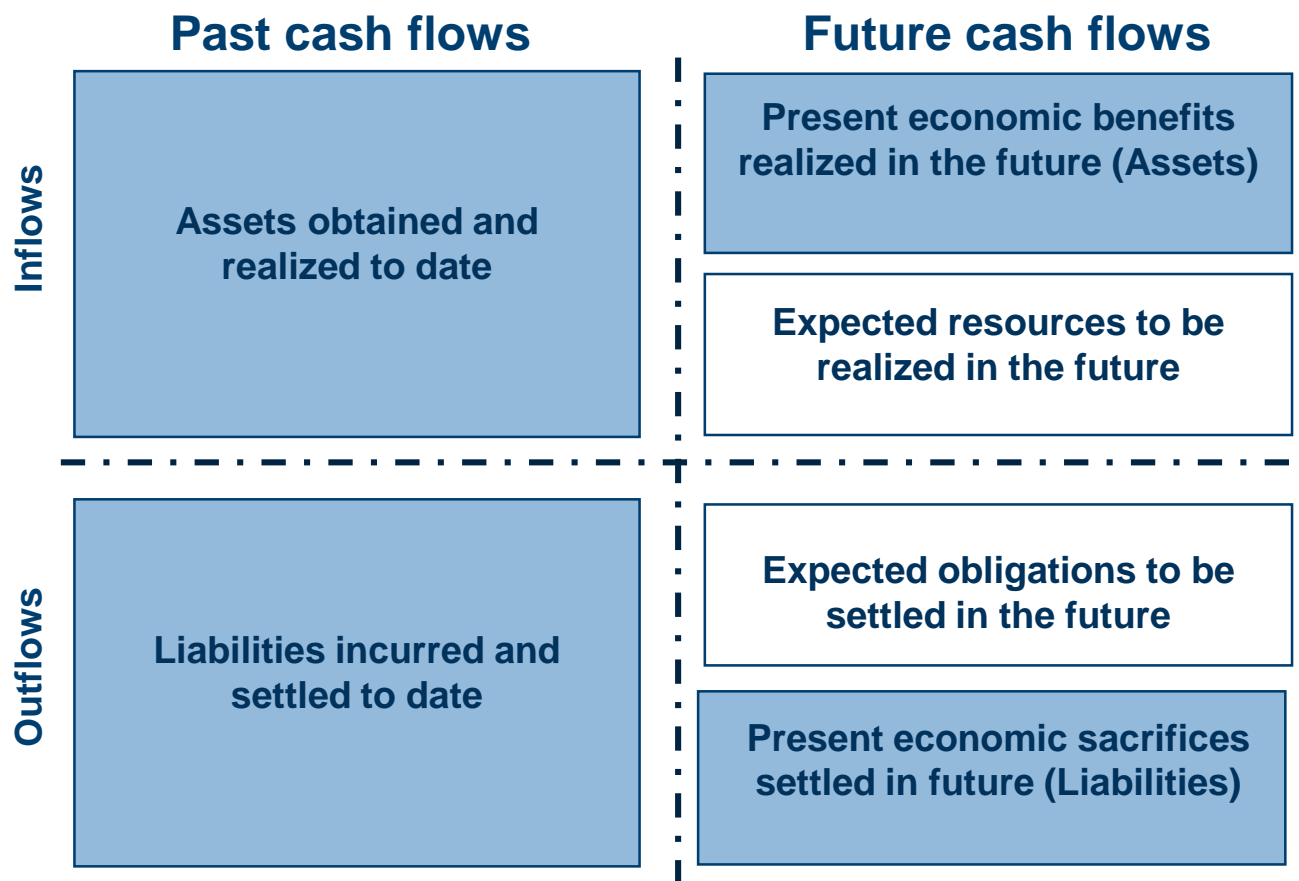
Benefits of accrual (6): What do you know about the future?

Compared with cash accrual provides:

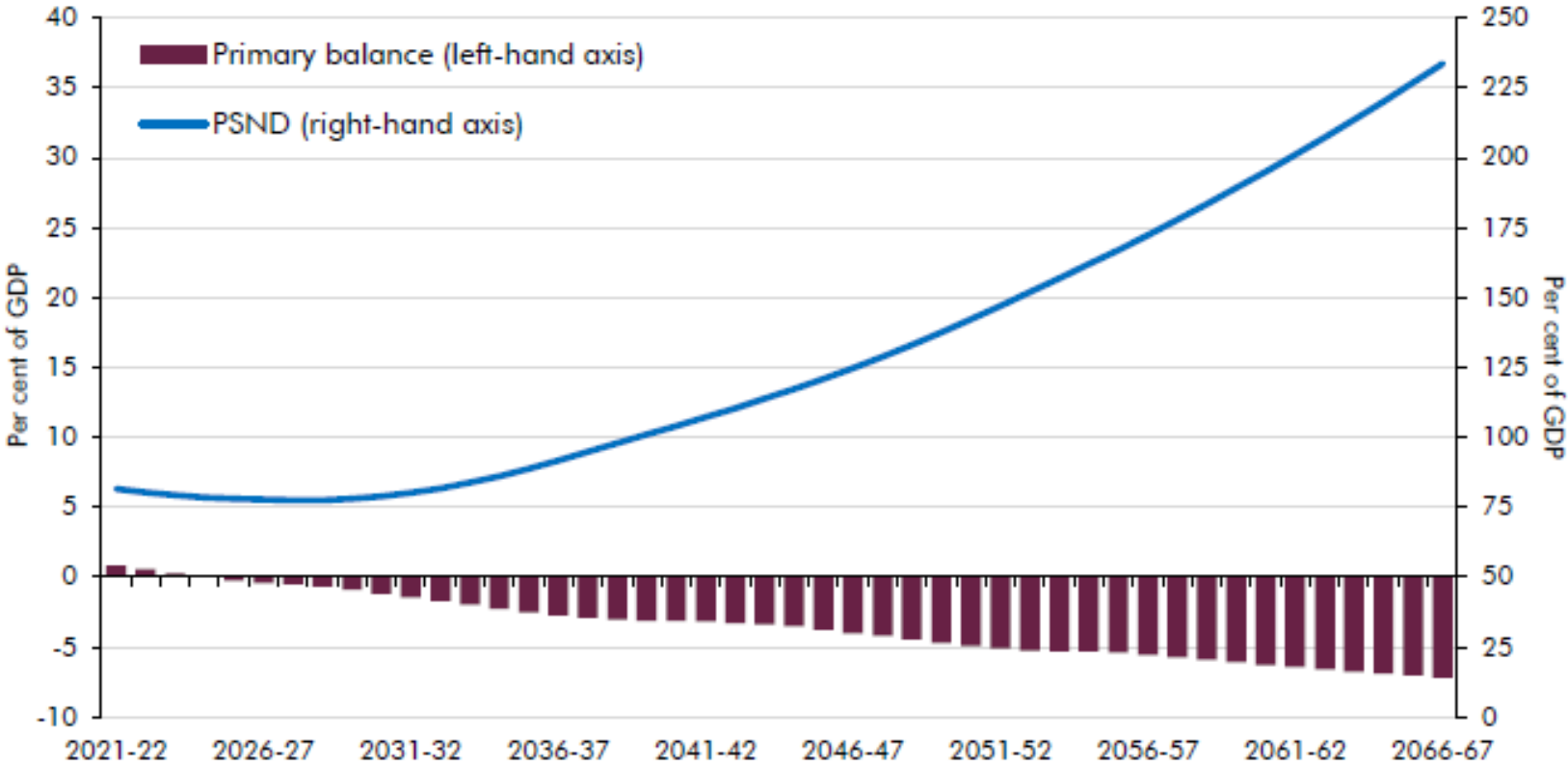
- Funding requirements for:
 - Asset maintenance / replacement
 - Settling existing liabilities
- Entity's ongoing ability to finance activities
- Plus at Whole of Government level basis for assessing:
 - Impact of demographic changes
 - Sustainability of current policies / services
 - Scope for services changes



Benefits of accrual (7): Balance sheet as basis for financial sustainability projections



Understanding the longer term challenges: UK Public Sector Finances.....



Source: OBR

Role of IPSASs (1)

“IPSASs are high quality global financial reporting standards for application by public sector entities”

- IPSASs deal with transactions and events in general purpose financial statements
- IPSASs set out principle-based requirements for:
 - recognition
 - measurement
 - presentation
- IPSASs on the accrual basis are mainly based on IFRSs but interpreted / adapted for the public sector context where appropriate
- IPSASs on unique public sector topics (e.g. Taxation) developed from scratch

Role of IPSAS (2)

Enhanced financial credibility

- Only global financial reporting standards for public sector
- Set by independent international board of public sector finance experts
- Based on private sector IFRS where appropriate
- Specifically addressing key public sector issues

Transparency and trust

- Legislature and electorate
- Financial markets

Credibility demands comparability

Questions, Discussion & Further Information



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