

## Financial reporting by governments- a global issue and global response

**I**n the global context, the globalisation of world economy has also brought a greater acknowledgement of the relationship between good governance, fiscal transparency and better economic outcomes both domestically and on an international scale. Corporate collapses, inappropriate or inefficient use of resources by governments, and unstable national economies increasingly can have deleterious consequences not only for the local economy and government itself, and the citizens and other participants dependant on the efficient operation of the government and economy, but also on a global scale for economies around the world.

paper focuses on some aspects of the contributions the accounting profession, operating on a national and global level, can make to ensuring appropriate financial information is disclosed by governments.

Governments raise, borrow (both domestically and on international markets), control, consume and redistribute significant resources. By most financial, economic and social measures they are one of, if not the, most significant entities within their domestic economies. Their demand for, and use of, resources can have a major influence on the social and economic well-being of members of their community and the success of their

of the profession and support governments around the world in strengthening transparency and accountability in financial reporting of governments, and in providing managers with the information they need to ensure that resources are used efficiently and effectively in providing goods and services to citizens. Through their efforts in ensuring high quality financial reporting, accountants in government make a significant contribution to economic development and stability nationally and worldwide.

However, the quality of government financial information reported to external users and to managers in some jurisdictions is poor. This is often associated with poor standards of financial management, economic decision making and accountability. Such an environment contributes to a low standard of financial discipline and can lead to corruption and mismanagement.

Holding governments and their agencies accountable is a key element to good governance in the public sector, and fiscal transparency is one (though by no means the only) necessary condition for the discharge of accountability. Key components of any governance system are:

- The preparation of financial reports in accordance with well understood and

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Globalisation of the world economy has brought with it many challenges and many opportunities, including a greater focus on the role of the accounting profession and the value which accountants can deliver at all levels of finance, production, and service delivery in both the private and public sectors.

The availability of relevant and reliable financial information to support informed decision making and efficient allocation of resources in both the private and public sectors is necessary for economic stability and growth. The accountability profession, both nationally and globally, plays a major role in ensuring that such information is available. This

domestic economies, and can have important flow on affects to economies on an international level.

### Need for international standards

Many members of the profession are accountants in government. They, like their private sector counter-parts maintain the highest standards

generally accepted accounting standards developed in the interests of the users of financial statements of public sector entities.

- An audit that provides assurance that those standards have been complied with.

A major impediment to the achievement of enhanced accountability and financial transparency of governments and their agencies in many jurisdictions is the absence of generally accepted financial reporting standards for these entities. In India, the Government Accounting Standards Advisory Board (IGASAB) is developing national standards\*. However, in many jurisdictions, national standards-setting boards or other independent standards-setting agencies charged with developing standards in the interests of users, and adopting a formal due process which seeks the views of the financial reporting community, have not been established.

The core issues faced by standard-setters are not usually unique to only their own jurisdictions. While there can be national cultural and institutional differences between jurisdictions which may need to be reflected in national financial reporting requirements, it is difficult to contemplate circumstances in which, from a public interest perspective, the information required for decision making, accountability and transparency owed to constituents would differ simply by crossing from one

to another jurisdiction. The issues confronting standards setters and others concerned with transparent reporting are therefore likely to have global characteristics and relevance at a global level. A global response which focuses on fundamental financial reporting issues and draws on the knowledge of national authoritative bodies can contribute positively to consistent and appropriate financial reporting by governments around the world.

The development and maintenance of international public sector accounting standards, available to all governments, which reflect internationally agreed minimum benchmarks of best practice in public sector financial reporting can support governments around the world concerned to enhance the quality and consistency of financial reporting by public sector entities in their jurisdiction. Such standards will provide governments with a cost efficient means of ensuring that the financial reports of public sector entities in their jurisdiction include financial information of sufficient quality to discharge accountability obligations to users and to support informed decision making by a wide range of external users.

This is an endeavour, which is consistent with the public interest objectives of our profession. It is also an area, which is relevant to many outside the profession concerned with economic development, stability and ultimately the so-

cial and economic well-being of members of our local and global community. It is an endeavour in which we, as members of a national profession, need to work together with our colleagues at a global level and with international standards setters and other relevant authoritative bodies. The role the profession is making at an international level is outlined below.

### IPSASB

The International Federation of Accountants (IFAC) is the global organisation for the accountancy profession. It works with its 163 member organisations in 119 countries to protect the public interest by encouraging high quality practices by the world's accountants. IFAC members

\* GASAB is developing accounting standards for Union Government and State Governments of India, within the framework of cash basis of accounting. The Institute of Chartered Accountants of India has constituted a Committee to develop accounting standards for autonomous bodies, local bodies and not-for-profit organisations within the framework of accrual basis of accounting.



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represent 2.5 million accountants employed in public practice, industry and commerce, government and academe. Its structure and governance provide for the representation of its diverse constituencies and interaction with external groups that rely on or influence the work of accountants.

In 1986 IFAC established the Public Sector Committee (PSC) to respond to the needs of its public sector members globally. In 2004, in recognition of evolving need for public sector accounting standards and the wider role of public sector accounting in the public sector, the IFAC Board reconstituted the PSC as the International Public Sector Accounting Standards Board (IPSASB) with a mandate to develop and issue under its own authority International Public Sector Accounting Standards (IPSASs).

In pursuing its mandate the IPSASB operates on a global scale, drawing input from members of the profession and others with relevant expertise from around the world. The IPSASB currently comprises 15 members drawn from IFAC member bodies. India is a new member of the IPSASB appointed in November 2004, but already has made a valuable contribution to our work.

IPSASB members are appointed because of their knowledge of, and experience in, public sector financial reporting. Technical advisors drawn from the accounting profession, in their own country, support IPSASB members. Members of the multilateral lending agencies and certain other regional and international organisations are observers on the IPSASB with full rights of the floor. The IPSASB currently comprises the following countries and organisations:

• IPSASB MEMBERS 2005

France (Chair), United Kingdom (Deputy Chair), Argentina, Australia, Canada, Germany, India, Israel, Japan, Malaysia, Mexico, New Zealand, Norway, South Africa, and United States of America.

• IPSASB OBSERVERS 2005

Asian Development Bank (ADB), European Commission (EC), International Accounting Standards Board (IASB), International Monetary Fund (IMF), International Organisation of Supreme Audit Institutions (INTOSAI), Organisation for Economic Co-operation and Development (OECD), World Bank, the United Nations (UN) and United Nations Development Programme (UNDP). The IPSASB is well credentialed to perform the role of the International Public Sector Standard-Setter. This is because it:

- Has been established to operate in the public in-

terest, and is independent from control by those who would seek to influence the outcomes generated other than in the public interest.

- Possesses appropriate technical expertise, knowledge of institutional arrangements encompassed by its constituency, and a membership mix that encompasses technical proficiencies of users, prepares and auditors and a broad geographical spread.
- Adopts a formal due process, which provides stakeholders with the opportunity to contribute to the development process. Exposure Drafts (EDs) of each proposed IPSAS are published and widely distributed free of charge. The

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exposure period of each proposed IPSAS is usually at least four months. EDs can also be downloaded from the IPSASB website at [www.ipsasb.org](http://www.ipsasb.org)

- Provides the opportunity for national standard-setters, government agencies responsible for the development of financial reporting policy and guidelines, and other key stakeholders to be directly involved in the IPSAS development process through the estab-

lishment of steering committees and a consultative group.

- Is a technical board of IFAC and, with the involvement of international organisations such as the World Bank, IMF, ADB, UN, UNDP, IN-

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TOSAI and OECD who sit as observers on the IPSASB, possess sufficient authority for the development and implementation of pronouncements.

#### IPSAS – a global resource

Benefits flowing from the development and maintenance of IPSASs will include:

- The establishment of appropriate financial reporting practices.
- Consistency in application of those practices (both within a country/jurisdiction from period to period and between countries for the same period).
- The potential for harmonisation/convergence of financial reporting between economic and accounting bases where appropriate.
- It is likely that internal users will also benefit from the development and application of IPSASs.

The adoption of IPSASs will also provide for

greater efficiency and effectiveness in the audit and analysis of governmental financial statements as common rules are adopted around the world for the financial reporting of similar transactions and events. It will also mean that financial reporting expertise, so often a scarce resource in the public sector, will become more mobile across national boundaries, with the expectation that, for example, developing economies will be able to access this resource at a lower cost.

#### IPSASs on issue

The IPSASB has developed IPSASs for financial reporting under both the cash basis of accounting and the accrual basis of accounting.

The comprehensive Cash Basis IPSAS, “Financial Reporting Under The Cash Basis of Accounting” was issued in January 2003. The IPSAS comprises two parts: the first part includes mandatory requirements that are to be complied with and a second part, which identifies encouraged (but not required) disclosures and treatments. Financial reporting under the cash basis is being further developed with the issue of an exposure draft on the disclosure of external assistance.

Twenty one IPSASs have been developed for application in the preparation of accrual based financial statements. They are identified in Figure 1 below. They are based on IASs promulgated by the IASC as at 31 August 1997 or their subsequently revised versions

where appropriate for the public sector.

Many of the IPSASB's constituents, including some currently reporting on a cash basis have expressed support for the application of the accrual basis of accounting to governmental financial reporting. This support is based on the view that accrual information includes supplements and enhances the cash information currently provided and benefits both internal and external users. Many of those constituents also sought guidance on the process of transitioning from the cash to the accrual basis. In response the IPSASB issued Study 14, “Transition to the Accrual Basis of Accounting – Guidance for Public Sector Entities”, which identifies key issues to be addressed and alternate approaches that can be adopted in implementing the accrual basis of accounting in an efficient and effective manner in the public sector. Study 14 is a ‘living document’ and is updated periodically.

All IPSASs and discussion papers currently on issue can be downloaded free of charge from the IPSASB website at [www.ifac.org](http://www.ifac.org)

#### Future work program

Going forward, the IPSASB has identified its work program as comprising the following major components:

- First priority: Addressing public sector specific projects that were identified in the initial stage of the Standards Program. These issues include:
- For the accrual basis: Accounting for social policy obligations of govern-



## IPSASs ISSUED AS ON JUNE 2005

· IPSAS 1, "Presentation of Financial Statements"
· IPSAS 2, "Cash Flow Statements"
· IPSAS 3, "Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies"
· IPSAS 4, "The Effect of Changes in Foreign Exchange Rates"
· IPSAS 5, "Borrowing Costs"
· IPSAS 6, "Consolidated Financial Statements and Accounting for Controlled Entities"
· IPSAS 7, "Accounting for Investments in Associates"
· IPSAS 8, "Financial Reporting of Interests in Joint Ventures"
· IPSAS 9, "Revenue from Exchange Transactions"
· IPSAS 10, "Financial Reporting in Hyperinflationary Economies"
· IPSAS 11, "Construction Contracts"
· IPSAS 12, "Inventories"
· IPSAS 13, "Leases"
· IPSAS 14, "Events After the Reporting Date"
· IPSAS 15, "Financial Instruments: Disclosure and Presentation"
· IPSAS 16, "Investment Property"
· IPSAS 17, "Property, Plant and Equipment"
· IPSAS 18, "Segment Reporting"
· IPSAS 19, "Provisions, Contingent Liabilities and Contingent Assets"
· IPSAS 20, "Related Party Disclosures"
· IPSAS 21, "Impairment of Non-Cash-Generating Assets"
· Glossary: "Glossary of Defined Terms IPSAS 1 – IPSAS 21"
· Cash Basis IPSAS, "Financial Reporting Under The Cash Basis of Accounting"

ments, accounting for non-exchange revenue including taxes; budget reporting; accounting for heritage assets.

- For the cash basis: Accounting for external assistance assets; review of the implementation of the cash basis IPSAS.
- Second priority: Convergence of IPSASs with International Financial Reporting Standards (IFRSs) where appropriate for the public sector.
- Third priority: Convergence of accounting and statistical bases of financial reporting to the extent appropriate. In this context,

the Chair of the IPSASB is a member of the international group – Task Force on Harmonization of Public Sector Accounting (TFHPSA) and a member of the IPSASB chairs Working Group 1 of that Task Force.

- The IPSASB has actioned projects on many of these topics. The IPSASB's work program also includes the development of a conceptual framework for the public sector. The work program is updated for each meeting and is available on the IFAC website at [www.ifac.org](http://www.ifac.org)

### Operating processes of IPSASB

The IPSASB maintains a transparent operating processes which provides an opportunity for key constituents around the world to be directly involved in the development of EDs and IPSASs, for example, the IPSASB:

- Holds its meetings in public and makes available its agenda materials for IPSASB meetings on the IPSASB's web site at [www.ipsasb.org](http://www.ipsasb.org)
- Meets regularly with regional members of its consultative group and others who have an interest in financial reporting

in conjunction with each IPSASB meetings. These meetings are also held in public and provide the opportunity for key constituents to communicate directly with the IPSASB on such matters as work program priorities and the likely contents of IPSASs under development. Those of you who attended the IPSASB meeting in Delhi in November in 2004 will, I am sure have been impressed with the open and informed exchange of views at the consultative group 'round table'.

- Uses Steering Committees and Project Advisory Panels, which may comprise non-IPSASB members to assist in the development stage of certain projects and develops projects partnership with national standard-setters where appropriate.
- Supports translation of final IPSASs into a number of key languages.

#### Other global initiatives of relevance to public sector members

Other boards and committees of IFAC also draw on expertise from the global profession to deal with matters critical to ensuring that the profession, including its public sector members, continues to operate with the highest professional values in the public interest.

The International Auditing and Assurance Standards Board (IAASB) develops high quality auditing, assurance,

quality control and related services standards for the global profession, including those working in the public sector. From its establishment, the IPSASB and its predecessor (the PSC) sought to ensure that international auditing standards included appropriate guidance for auditing in the public sector and provided public sector input, in the form of PSPs to the IAASB.

With the increasing focus on standards setting, new arrangements for providing auditing guidance to public sector entities have been developed. In late 2003, the IAASB and International Organisation of Supreme Audit Institutions (INTOSAI) signed a Memorandum of Understanding, formalising an arrangement for INTOSAI participation in IAASB projects. This mechanism will ensure effective and appropriate public sector input into global audit standards.

The Ethics Committee is in the process of strengthening the Code of Ethics for all accountants. Included in that process is the development of significant new guidance for accountants in government, focusing particularly on their objectivity and independence when performing assurance services. IFAC's other committees and permanent task forces



establish education standards, provide guidance in management accounting issues and ensure that international standard setters are made aware of issues both from a small and medium enterprise perspective and from an emerging economy perspective.

#### Conclusion

The accountancy profession has an important role to play in supporting the efficiency and effective operation of governments, in strengthening transparency in financial reporting and in ensuring governments discharge their accountability obligations to constituents. This is a role that we must pursue at the national and the global level. This paper has focussed on the development of financial reporting standards. In this area, as in other areas, much more will be accomplished when national and international bodies work together. The issues are global and our profession must respond on a global basis. □