

**PUBLIC SECTOR COMMITTEE - 2003
VANCOUVER MEETING TENTATIVE TIMETABLE***

Marriot Vancouver Pinnacle Hotel (formerly The Delta Pinnacle Hotel)
1128 West Hastings Street, Vancouver, Canada

Wednesday 16 July 2003

8:45am – 9:00am	Coffee served	
9:00am – 9:15am	Welcome & Items 1 – 3 (¼ hour)	Procedural Matters
9:15am – 9:45am	Items 4 and 5 (½ hour)	Chairman's Report and Secretariat's Report including IFAC Liaison Report
9:45am – 10:15am	Item 6 (½ hour)	Report on the Standards Work Program including IASB Update
10:15am – 10:30am	Morning Tea (¼ hour)	
10:30am – 12:30pm	Item 8 (2 hours)	ITC Social Policy Obligations
12:30pm – 1:15pm	Lunch	
1:15pm – 2:15pm	Item 8 (1 hour)	ITC Social Policy Obligations (continued)
2:15pm – 3:45pm	Item 12 (1½ hours)	Impairment Exposure Draft
3:45pm – 4:00pm	Afternoon Tea (¼ hour)	
4:00pm – 5:30pm	Item 12 (1½ hours)	Impairment (continued)
5:30pm – 6:00pm	Item 17 (½ hour)	Consultative Group Update

Thursday 17 July 2003

8:30am-9:00am	Items 16 and 19 (½ hour)	PSPs and Ethics Update
9:00am -11:30am	Item 9 (2 ½ hours)	ITC Non Exchange Revenue
11:30am-11:45am	Morning Tea (¼ hour)	
11:45am-12:15pm	Item 9 (½ hour)	ITC Non Exchange Revenue (continued)
12:15pm – 1:00pm	Item 18 (¾ hour)	Occasional Paper
1:00pm – 2:00pm	Lunch	Consultative Group members will join PSC for discussions over lunch
2:30pm – 5:30pm	Seminar/Round Table Discussion (3 hours)	Seminar and meeting with Consultative Group members and other key constituents –

Friday 18 July 2003

9:00am – 11:15am	Item 9 (2¼ hours) Items 10, 11, 14	Progress Reports: - Budget Reporting – Draft Research Report - Development Assistance - KDQ - GFS/IPSAS/ESA 95 harmonisation – Report
11:15am – 11:30am	Morning Tea (¼ hour)	
11:30am-1:00pm	Item 15 (1½ hours)	IPSAS – IFRS harmonisation
1:00pm – 1:45pm	Lunch (¾ hour)	<i>Lunch period extended to include presentation on developments in Columbia see item 21.12</i>
1:45pm – 3:00pm	Item 13 (1¼ hours)	Study 11 and Study 14 – Update and Strategy
3:00pm – 3:30pm	Item 7 (½ hour)	Update on Country Reports
3:30pm – 4:00pm	Items 21 and 22 (½ hour)	Future Meetings and Other Business

***The meeting Timetable is tentative only and is subject to change without notice at the discretion of the Chair.**

**INTERNATIONAL FEDERATION OF ACCOUNTANTS
PUBLIC SECTOR COMMITTEE
MINUTES OF THE MELBOURNE MEETING**
Held on April 9 - 11, 2003

ATTENDANCE

COUNTRY	MEMBERS	<u>PRESENT</u> <u>NDEES</u>	<u>ATTE</u> <u>POLOGY/NI</u>	<u>A</u> <u>*</u>
Australia	Ian Mackintosh (Chairman) Robert Keys	X X		
Argentina	Carmen Giachino Palladino Blanca Arazi		X X	
Canada	Rick Neville Ron Salole	X X	X	
France	Philippe Adhémar Jean-Luc Dumont Henri Giot	X X	X	
Germany	Norbert Vogelpoth Catherine Viehweger Andreas Dörschell	X X	X	
Hong Kong SAR	Man-to Shum Chi-hung Tsang Yeung-Moon Chu		X X X	
Mexico	Javier Perez Saavedra Conrado Villalobos Diaz	X X		
Netherlands	Peter Bartholomeus Aad Bac Wilma Walker	X X	X	
New Zealand	Kevin Simpkins Simon Lee Greg Schollum	X X X		
Norway	Tom Olsen Harald Brandsås	X X (Day 1 & 3)	X (Day 2)	
South Africa	Terence Nombembe Bernhard Agulhas Erna Swart	X X X		
United Kingdom	Mike Hathorn John Stanford	X X		

United States	Ron Points	X	
	David Bean	X	
	Mary Foelster		X
ADB	Ping Yung Chiu		X
EU	Dieter Glatzel		X
IASB	Warren McGregor	X	
INTOSAI	John Fretwell	X	
IFAC Board	Pat Barratt Barrett	X	
IMF	Bert Keuppens		X
	George Kabwe		X
	Brian Donaghue	X	
OECD	Jon Blondal		X
UN	Jay Karia	X	
UNDP	Darshak Shah		X
World Bank	Simon Bradbury	X	
IFAC	Paul Sutcliffe	X	
	Matthew Bohun	X	
	Jerry Gutu	X	
	Ahmad Hamidi-Ravari	X	
	Li Li Lian	X	

* NIA- Not in Attendance

1. WELCOME AND APOLOGIES

The Chair welcomed the members to Australia on behalf of CPA Australia and ~~the~~ The Institute of Chartered Accountants in Australia. The Chair thanked CPA Australia for the use of their meeting facilities.

The Chair also welcomed the new members, technical advisors and observers to their first Committee meeting:

- ~~Richard~~ Rick Neville, Member, Canada;
- Greg Schollum, Technical Advisor, New Zealand;
- Tom Olsen, Member, Norway;
- Harald Brandsås, Technical Advisor, Norway;
- Pat ~~Barratt~~ Barrett, Observer, IFAC Board;
- Warren McGregor, Observer, IASB; and
- Brian Donaghue, Observer, International Monetary Fund.

The chair noted the following apologies:

- Carmen Giachino de Palladino, Member, Argentina;
- Blanca Arazi, Technical Advisor, Argentina;
- Ron Salole, Technical Advisor, Canada;
- Man-to Sum, Member, Hong Kong SAR;
- Chi-Hung Tsang, Technical Advisor, Hong Kong SAR;
- Yeung-Moon Chu, Technical Advisor, Hong Kong SAR;
- Darshak Shah, Observer, UNDP;
- Jon Blondal, Observer, OECD;
- Bert Keuppens, Observer, IMF; and
- George Kabwe, Observer, IMF.

2. CONFIRMATION OF MINUTES

The meeting received the minutes from the meeting held in Hong Kong on 21 – 23 November, 2002. The minutes were confirmed subject to minor editorial amendments.

<i>Action Required:</i>	<i>Amend minutes.</i>
<i>Person(s) responsible:</i>	<i>Standards Staff.</i>

3. MATTERS ARISING

The Committee received and noted the Action List from the meeting held in Hong Kong in November 2002. It was noted that all items had been dealt with. The Committee was advised that:

- the withdrawal of Guideline 1 was announced on the IFAC website and in the IFAC News, rather than as a separate media release;
- INTOSAI would be undertaking a survey on the preparation of whole-of-government financial reports and the use of International Standards on Auditing (ISAs) for providing assurance on whole-of-government financial reports; and

- there had been no response as yet from the member bodies in Australia concerning the appointment of a member to the Non-Exchange Revenue Steering Committee.

The Committee received and noted the Meeting Timetable for this meeting. It was noted that:

- there would be a half-day round table meeting with key Australian constituents, including members of the Australian Accounting Standards Board (AASB) and the Heads of Treasury Accounting ~~Research Reporting and~~ Advisory Committee (HOTARAC) on the afternoon of 10th April;
- a dinner for PSC members was being jointly hosted by CPA Australia and ~~the~~ The Institute of Chartered Accountants in Australia on the evening of 9th April; and
- a cocktail party for PSC members was being hosted by PricewaterhouseCoopers at their offices on the evening of 10th April.

4. CHAIRMAN'S REPORT

The Committee received and considered a report by Ian Mackintosh, the Chair of the PSC, on his activities as Chair since the previous PSC meeting. In particular, Ian noted that:

- it was apparent at the IFAC strategy meeting that the IFAC's highest priority is the International Auditing and Assurance Standards Board (IAASB);
- in relation to the OECD Symposium – there is more interest in the IPSASs each year. At the symposium this year there was also a great deal of interest in the possibility for convergence of GFS, ESA 95 and IPSASs; and
- there would be a meeting of the PSC-IMF-EC harmonization working group on 12 and 13 May.

Ian noted that in addition to the matters identified in his report, he had:

- attended, ~~together with Paul Sutcliffe, IFAC Director of Public Sector Accounting Standards;~~ a meeting of the Australian Financial Reporting Council;
- participated, together with Paul Sutcliffe, in a "round table" discussion on public sector accounting held by CPA Australia; and
- met with the Association of Chartered Certified Accountants (ACCA) Global to discuss possibilities for cooperation and for promotion of the IPSASs. ACCA Global have indicated that they are investigating the possibility of providing funding for a PSC member from a developing country.

The Chair invited Pat ~~Barratt~~ Barrett to provide an update on the IFAC Board's latest meeting. Pat noted that the concerns of the Board are detailed in the IFAC Board notices and highlighted the following:

- the Board discussed the obligation of member bodies to comply with IFAC Standards and, in the near future, would be issuing a notice to member bodies advising them of their obligations;
- the Board discussed relationships between IFAC, its Committees and national regulators; and
- the Board discussed the issue of assurance in relation to IFAC and its Committees, noting that:
 - open meetings of the PSC was a welcome step; and
 - there was concern about the profile of IFAC and its Committees, and whether they were meeting the needs of member bodies.

Action required: *PSC-GFS-ESA 95 Harmonization working group.*
Person(s) responsible: *Chairman, PSC Staff.*

5. SECRETARIAT'S REPORT

The Committee received and noted:

- a report from the Secretariat; and
- an updated Members' Correspondence Distribution List.

Jerry Gutu spoke to the Secretariat's report identifying the activities he had been involved in since the last meeting of the Public Sector Committee of November 2002 in Hong Kong. He noted he had been involved in:

- continuing to establish the Consultative Group. Jerry thanked members, technical advisors and other staff members of PSC for their contributions;
- finalizing arrangements for this meeting;
- finalizing arrangements for the printing and distribution of the 2003 version of the IFAC PSC Handbook with IFAC publication staff;
- liaison with the Compliance Committee on drafting of a proposed IPSAS Compliance Questionnaire;
- presentations, including a presentation on the Cash Basis IPSAS, to the Annual Conference of the Eastern and Southern African Association of Accountants General (ESAAG) in Tanzania at the end of February 2003; and
- progressing the conversion of PSC Study 14 into a web based product with input from PSC members and staff and with the involvement of the IFAC media consultant and IT staff.

Members' attention was drawn to the updated Correspondence Distribution List with a request to pass on to Jerry any amendments for updating. It was noted that the additional New Zealand technical advisor, and the Hong Kong technical advisors were not yet included on this list.

Action Required: *Update PSC CDL with any changes. Finalize arrangements for July 2003 meeting and advise members.*

Person(s) Responsible: *PSC Secretariat.*

6. REPORT ON THE STANDARDS WORK PROGRAM

The Committee received and noted:

- a memorandum from Paul Sutcliffe and Jerry Gutu regarding funding activities, promotion activities and status of IPSAS translations;
- a memorandum from Paul Sutcliffe on the Standards Development Work Plan;
- a report on the status of all PSC projects;
- an updated Work Plan for 2003;
- a projected work plan for 2003 through 2005; and
- a report on the status of IASB projects from Ahmad Hamidi-Ravari.

Paul Sutcliffe spoke to the materials and outlined funding, translation and promotional activities that had been undertaken since the last meeting and progress on technical projects including that:

- the agreement for funding for the budget reporting project under the Public Expenditure and Financial Accountants (PEFA) program was substantially finalized;
- following the agreement for provision of ADB funding, the process of securing matching funding from the Inter American Development Bank (IADB) had been reactivated;
- additional funding from the World Bank for the project on Development Assistance was substantially agreed;
- the Cash Basis IPSAS *Financial Reporting Under the Cash Basis of Accounting* had been issued;
- the French Occasional Paper had been finalized and issued with input from the French delegation and PSC Member and staff. The French delegation noted that the printed cover of the Paper was different from that of the web versions and should be corrected for future print runs;
- the Social Policy Obligations Steering Committee met in London on February 17 – 19 and the Non-Exchange Revenue Steering Committee met on February 24 – 26 in London;
- a consultant, Dr. Jesse Hughes, Emeritus Professor of Accounting at Old Domain University, Norfolk, Virginia, had been engaged to carry out work on the Budget Reporting project with guidance and input from a Steering Committee chaired by Ron Points;
- Charles Coe, former Comptroller of the ADB, had been engaged as the consultant to work on the Accounting for Development Assistance project with assistance from a Project Advisory Panel; and
- substantial progress had been made in revising the Argentinean Occasional Paper, and further comments were invited to be passed to Carmen Giachino Palladino, the Argentinean Member, or to staff.

Members noted and agreed the 2003 and 2003-2005 Work Plans, subject to revisions to reflect any decisions made regarding projects during the remainder of this meeting. In this context, members noted that:

- it was important that the translations of the Cash Basis IPSAS occurred in a timely fashion;
- IPSASs should reflect the requirements in the equivalent IFRSs. Members considered the mechanisms by which this could be achieved. It was noted there might need to be a different approach adopted for “new” IFRSs for which an equivalent IPSAS has not yet been issued, and for those IFRSs for which an IPSAS had already been issued. It was also noted that, for example, it was unlikely that the requirements of the IAS39/IFRS *Financial Instruments – Recognition and Measurement* would differ for the public and private sectors and a “wrap-around” approach may be appropriate;
- given the issuance of the Cash Basis IPSAS and 20 accrual based IPSASs, Study 11 was now out of date. Members considered whether it should be removed from the publication list and agreed that at the next meeting staff should present a paper outlining the extent to which Study 11 was out of date and whether it should be “decommissioned”;

- Study 14 was a living document and needed to be maintained to reflect the issuance of IPSASs and other developments on a continuing basis. Members agreed that the process for approving changes to Study 14 would be considered at the July 2003 meeting. Members directed staff to identify changes to Study 14 that were needed to bring it up to date. These changes will be considered at the July 2003 Meeting;
- the PSC should continue to monitor progress by national standard setters and by the IASB in developing/updating conceptual frameworks for the public sector. In this context, Mike Hathorn noted that in the UK, the public sector interpretation of the UK Accounting Standards Board's Statement of Principles was about to be approved. Rick Neville noted that a public sector framework was in place in Canada, ~~and~~ Robert Keys also noted that a public sector framework was in place in Australia, but was potentially subject to change consequent on the decision, that Australia would adopt IFRSs by 2005; and
- while the review of implementation of IPSASs particularly the Cash Basis IPSAS during 2003-2004 was premature, monitoring of implementation by countries and users was critical and should occur during 2005.

Members agreed to include as an agenda item for discussion in Vancouver in July 2003 the review of PSC publications particularly Studies 11 and 14.

Mike Hathorn, the UK member, advised that he had agreed to represent IFAC and the PSC on the Accounting Standards Committee established to assist the European Union in the adoption of IPSAS by 2005. Mike tabled a paper outlining the program of the Committee and summarizing the first meeting. Members noted that it was a major project, which would involve considerable time, and thanked Mike for his commitment.

Ron Points provided an update on the development of the mechanism/process for INTOSAI to assume the role of providing public sector guidance on International Standards of Audit, where appropriate. Ron noted this mechanism should be in place by the end of 2003.

Staff advised that a record of PSC presentations made by members, technical advisors, observers and staff was being maintained and would be updated and included as part of the materials for each PSC meeting. This would continue to be used as reference for enquiries about PSC's promotional activities and progress achieved. Members agreed to provide details of additional PSC/IPSAS promotion activities they had been involved in since the last meeting to staff out of session.

Paul updated members on translation activities, including that:

- translation of IPSASs into French and Spanish languages through the PSC-IASB co-operative initiative would soon gather momentum after a slow start. Paul noted that staff at the International Accounting Standards Committee Foundation (IASCF) had advised him that the translations would be substantially complete (up to IPSAS 18) by mid 2003. The French and Mexican representatives expressed concern about the ability of the process to meet this date and noted that the lack of translated IPSASs could frustrate the process of adoption of the accrual basis, and of IPSASs, in France and a number of Latin American countries. It was agreed that staff should follow up with relevant staff at the IASCF to ensure that

translations were completed in a timely manner. The French and Spanish speaking delegates indicated their readiness to assist in the translation and quality assurance review through the IASB-PSC exercise;

- Dr. Jesse Hughes had advised that Macedonia and Bosnia were in the process of obtaining the necessary authority from IFAC to translate the IPSASs and certain other PSC publications; and
- a register of translations would be maintained by staff.

STATUS OF IASB PROJECTS

Ahmad Hamidi-Ravari provided members with an update of the status of IASB projects. Ahmad noted that the IASB continues with its drive to have IFRSs in place for application in 2005. It was noted that apart from the improvement projects and convergence project that would lead to revised/improved standards, there are a number of other projects that may be of particular interest for the PSC program. The IFRSs on the first application of IFRSs, performance reporting and employee benefits are among such projects. The performance-reporting project is expected to come up with a new format for the presentation of income and expenses including those arising from remeasurements. Finalization of proposals on the recognition of gains and losses related to post employment benefits depends on the finalization of the performance reporting project.

Ahmad summarized the status of the IASB projects at the end of 2003 and 2004 and their possible effect on the PSC work program. It was noted that:

- by the end of 2003, there will be at least 8 IFRSs for which there are no equivalent IPSASs. This number will increase to at least 16 IFRSs by the end of 2004; and
- by the end of 2003, 12 of the current IPSASs that are based on IASs will have improved/revised equivalent IFRSs. This number will increase to 17 IPSASs by the end of 2004.

Members directed staff to prepare papers for the next meeting identifying changes to IFRSs, that are anticipated to be in place by March 2004, and to identify the impact of those changes on existing IPSASs.

Staff also drew the Committee's attention to the IASB's recent decisions on the amendment of the definition of constructive obligation in IAS 37 and the withdrawal and replacement of exiting guidance for provisions for restructuring costs in IAS 37. Staff noted that these changes might have implications for IPSAS 19 and the current projects on non-exchange revenue and social policy obligations.

Warren McGregor, the IASB member and observer at the PSC meetings provided further comments on the current IASB projects. Warren noted that the IFRS on the first application of IFRSs makes it clear that the entities adopting IFRSs for 2005 must use the latest IFRSs at 1 January 2005 and must include in their financial statements comparatives for 2004. This means they have to apply the IFRSs as from 1 January 2004. Warren added that most standards are expected to be completed by 31 March 2004 to provide a "stable platform" for preparers.

Warren also updated the Committee on the IASB's revenue recognition project. He noted that was a joint project with FASB and reflects a conceptual approach basing

revenue recognition on rights and obligations. Warren noted that the IASB has agreed that IAS 20, the standard dealing with government grants, needs to be replaced. The IASB has not reached agreement on the approach it will adopt for the recognition and measurement of grants, but has tentatively agreed that if they do not reach agreement the default position will be that adopted in IAS 41 *Agriculture*. IAS 41 requires the recognition of revenue immediately upon receipt of a grant unless conditions are attached to the grant, in which case revenue is recognized when the conditions are fulfilled.

Action Required: *Follow up with IASCF re translating into French and Spanish. Explore translation of Cash Basis IPSAS into key languages. Update register of funding, translation and promotion activities. Update work program. Continue monitoring of the IASB work program. Prepare papers for the next meeting on the withdrawal of Study 11 and updates for Study 14 and existing IPSASs.*

Person Responsible: *Chair, Members, Standards Staff.*

7. COUNTRY BRIEFING REPORTS

In addition to the reports submitted by the members and circulated with the agenda papers, country reports from Germany and Norway were tabled at the meeting. PSC members also made the following comments:

- Philippe Adhémar (France) noted that the French program of reform was still underway and that the government expected to publish full accrual accounts for the first time in 2005; and
- Jay Karia (United Nations) noted that the UN was still reviewing IPSASs but that given the structure of the UN it was not currently possible to adopt IPSASs in their entirety, but that the UN accounting standards would be changed to incorporate the provisions of IPSASs wherever possible.

Action Required: *Prepare country reports for the PSC meeting in Vancouver in July 2003, circulate with agenda materials.*

Person(s) Responsible: *Members, Technical Advisors, PSC Secretariat.*

8. DRAFT INVITATION TO COMMENT SOCIAL POLICY OBLIGATIONS

The Committee received and considered:

- a memorandum from Kevin Simpkins, the Chair of the Social Policy Obligations Steering Committee; and
- a draft Invitation to Comment (ITC) *Accounting for Social Policies of Governments*.

Kevin reported on the work of the Steering Committee since the PSC's last meeting in Hong Kong in November. He noted that:

- the Steering Committee had their third meeting on 17 – 19 February 2003 in London at the HM Treasury;

- FEE had appointed a new member to the Steering Committee – Thomas Müller-Marqués Berger, a senior manager from Ernst & Young, Germany;
- all members were either present represented by an alternate at the meeting;
- there had been limited time available to process matters agreed by the Steering Committee in London. The revised draft ITC had been distributed to the PSC and the Steering Committee simultaneously and Steering Committee members had identified a number of areas that needed revision.;
- chapters 1 to 3 were better developed than the other chapters. These chapters provided the framework underpinning the treatment of specific issues in chapters 4 to 7. Kevin noted that the Steering Committee intended to continue to strengthen chapters 1 to 3, to further develop the arguments in chapters 4 to 7 which deals with the application of those principles, and to expand chapter 8 which deals with disclosures; and
- the Steering Committee intends that a full draft be considered by the PSC ~~in~~ at its July 2003 meeting.

Paul Sutcliffe provided an overview of the comments received from Steering Committee members noting that apart from editorial matters, comments focused on the need to further clarify the basis of measurement and strengthen the consistency of argument in a number of chapters. Paul also noted that he had received comments from the Hong Kong delegation and they were available for members. He noted that the Hong Kong delegation did not agree with the majority view on the treatment of pensions or that a government could not reduce or change the level of pension benefits, and noted that a similar argument could be raised in respect of other benefits and that governments needed to ensure sustainability of a wide range of benefits.

Kevin outlined the approach adopted, by the Steering Committee, noting that:

- the draft ITC applies the definitions and recognition criteria from IPSASs;
- the draft ITC deals with provisions for social policy obligations excluded from IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets* but also provides guidance useful in identifying other liabilities arising from non-exchange transactions;
- for most social benefits, there was broad agreement amongst Steering Committee members on when a liability should be recognized. However, there was a marked difference of views on the treatment of old aged pensions and, to a lesser extent in respect of the treatment of other long term benefits such as child benefits; and
- chapter 8 of the draft ITC will consider additional disclosures that should be made about the sustainability of government operations and the financing of the social benefits. Kevin noted that the revenue aspects of the sustainability discussion in Chapter 8 would be further developed.

Prior to considering the draft ITC in detail, the PSC discussed the nature and purpose of ITCs prepared by a Steering Committee and agreed that an ITC:

- was the first step in the process of developing an IPSAS and was intended to provide the basis to initiate a full public discussion of the issues;
- can only be published after voting by the PSC in accordance with the terms of reference of Steering Committees;
- should reflect the views of the Steering Committee which may not necessarily be the views of the PSC. However, the PSC will ensure that the ITC fully and fairly

discusses all the issues to be considered. Members also agreed that the ITC should make it clear where the PSC had a strong disagreement with the Steering Committee's view; and

- should encompass the PSC's discussion of issues raised in the ITC, which may involve rewriting certain sections of the ITC and/or including additional arguments about the pros and cons of each proposal.

Members also noted that in preparing an Exposure Draft dealing with matters addressed by an ITC, the PSC would consider all submissions received on the ITC. Consequently, the views reflected in the ITC would not necessarily be reflected in the subsequent Exposure Draft.

PSC members discussed in general terms the preliminary views reflected in the draft ITC and:

- questioned why chapter 7 was the last chapter in the ITC when it is the "big ticket" item. However, it was pointed out that in some jurisdictions old age pensions might not be the "big ticket item". For example, in South Africa child benefits would be the "big ticket item" as the country did not face an ageing population. It was agreed that chapter 7 should remain where it was;
- expressed concern with the majority view on when an obligating event arose in respect of pensions – some members indicated that they were of the view that a liability for pension obligations would only arise when all eligibility criteria had been satisfied and the pension was due and payable;
- noted that there were similarities in the characteristics of pensions, education services, child endowment and other benefits that were available in the future for all that satisfied eligibility criteria. Members noted that it appeared inconsistent for those that argued that the liability for a pension arose when the individual had a valid expectation that they would receive a benefit to not pursue the same argument for these other "long-tail" future benefits. It was agreed that further explanation of the rationale for the different application of the principle was needed;
- commented that the ITC should include birth as a possible obligating event for pensions and similar "long-tail" benefits. Kevin explained that this option was discussed by the Steering Committee but it was not included in the ITC because there was no support from Steering Committee members. It was agreed it will be reinstated to reflect the range of possible obligating events;
- suggested that the ITC include some guidance on how to measure the pension liability including the discount rates to be used where the liability was to be determined on a present value basis;
- noted that in some jurisdictions a liability could not be recognized unless there was an appropriation in the budget for the amount to be settled. Some members noted that this would be true if it was a multi-period budget, which encompassed the period during which the liability was to be settled. Other members noted that whether or not a budget appropriation was made should not be the defining condition for the existence of a liability;
- suggested that the ITC should include some examples to illustrate the explanations; and
- noted that further explanation and argument were required to justify the different treatment of services provided in kind and cash transfers.

Members then proceeded to consider specific chapters of the document. In respect of chapters 1 – 3, the Committee:

- suggested that the ITC further clarify that benefits provided to government employees as a consequence of their employment are not included in the scope of the ITC but would be dealt with by the IPSAS based on IAS 19 *Employee Entitlements*, and should seek comment on whether the subsequent ED should deal with employees;
- agreed that paragraphs 3.59 – 3.61 should focus on a ‘past event’ that gives rise to a present obligation;
- agreed that the measurement options in paragraphs 3.71 – 3.73 should be further clarified; and
 - ⊕ agreed that the terminology “pay-as-you-go” (PAYG) was not appropriate and should be replaced with “due and payable”; and
 - ⊕ questioned the applicability of the notion of a constructive obligation in a non-exchange transaction context given that the obligating event could not be determined by reference to an exchange transaction.

In respect of Chapter 7 Old Age Pensions, a number of members noted that they did not support the preliminary view outlined for Option 3. Some members of the PSC noted:

- they were not comfortable with the distinction drawn between health and education and old age pensions;
- while they were of the opinion that the commitment to provide old age pensions was a form of obligation, it was not a present obligation that should be recognized in the financial statements. They also noted that if all such ‘commitments’ were recognized as liabilities, the financial statements would recognize a huge liabilities without recognizing as an asset the taxes and other revenues the government would raise to fund such liabilities;
- the notion of when an individual had a ‘valid expectation’ and could reasonably rely on receiving benefits, which was critical to this argument, could vary from society to society and over time. In addition, there may be different levels of expectations from different groupings of citizens which will make this approach extremely difficult, if not impossible, to operationalize and audit;
- the choice of the notion of reaching the age of “economic independence” or “work force entry” as the obligating event was questionable; and
- the explanation of the measurement of the liability under the majority view needed to be strengthened. It was noted that Steering Committee members had already identified the need to revise certain aspects of this chapter including deletion of the last bullet point ~~on~~ in paragraph 7.13.

Members noted that the issues being addressed by the Steering Committee were complex and that in a number of areas their personal views differed from those of the Steering Committee. However, members also agreed that the ITC would be a most useful document to foster public debate of the issues and asked Kevin to convey to the Steering Committee their appreciation for the work being undertaken.

Action Required:

Proceed with the preparation of a draft ITC for the July 2003 meeting. Arrange Steering Committee meetings and prepare Steering Committee and PSC papers as considered necessary.

Person(s) Responsible: *SC Chair, Standards Staff, Consultant.*

9. DRAFT ITC REVENUE FROM NON-EXCHANGE TRANSACTIONS

The PSC received and considered:

- a memorandum from ~~Richard~~ [Rick](#) Neville, the chair of the Non-Exchange Revenue Steering Committee;
- an incomplete draft ITC *Revenue from Non-Exchange Transactions* which contained:
 - outlines for the introductory chapter; the chapters on the proposed accounting treatment of revenue from taxation, grants, and other non-exchange transactions; and a chapter dealing with the effect on IPSAS 9;
 - complete chapters on definitions and principles for the recognition and measurement of revenue from non-exchange transactions;
- notes providing more detail on the proposed treatment of revenue from taxation, grants and other non-exchange transactions.

~~Richard~~ [Rick](#) reported on the work of the Steering Committee since the PSC's last meeting in Hong Kong in November. He noted that:

- the Steering Committee had their third meeting on 24 – 26 February 2003 in London at HM Treasury;
- Keith Alfredson, Chair of the Australian Accounting Standards Board attended as an observer to present the Australian viewpoint;
- staff from the International Accounting Standards Board attended the first day of the meeting and briefed the Steering Committee on the IASB's current revenue project, which proposes amending IAS 18 *Revenue*, to reflect a balance sheet approach to the recognition of revenue, this would be more in harmony with the IASB *Framework for the Preparation of Financial Statements*;
- at the meeting in February, the Steering Committee proposed substantial revisions to the draft ITC it considered; and
- the time between the meeting in February and the mail out for this meeting was very short and did not enable the staff to complete redrafting the entire ITC. However, staff have completed, and Steering Committee members have reviewed, the definitions, principles for recognition and measurement, and the outline of the chapters of the ITC.

~~Richard~~ [Rick](#) outlined the approach adopted, noting that:

- the draft ITC applies the definitions, and the recognition criteria of assets and liabilities from existing IPSASs;
- the draft ITC proposes definitions for: “exchange transactions”, “non-exchange transactions” and “control of an asset”;
- the draft ITC uses a flowchart to illustrate the proposed approach to the recognition and measurement of revenue from non-exchange transactions;
- the draft ITC develops an approach to the recognition of revenue, which focuses on recognizing increases in net assets. The Steering Committee envisages this approach could be applied equally to revenue arising from non-exchange or exchange transactions. In light of this, and the IASB project reviewing IAS 18 *Revenue*, the Steering Committee is of the view that in the long term there should only be one IPSAS on revenue;

- the Steering Committee is of the view that revenue should be measured at the fair value of the increase in net assets. The Steering Committee noted that this will not always be possible unless IPSAS 12 *Inventories*, IPSAS 16 *Investment Property* and IPSAS 17 *Property, Plant and Equipment* are modified to allow entities to initially recognize assets at fair value in all circumstances;
- the draft ITC proposes guidance on when a transfer is to be recognized as a “contribution from owners” as defined in IPSAS 1. The proposal is that a “contribution from owners” needs to be designated and documented as such by the transferor;
- the draft ITC includes guidance on how a transfer with stipulations attached is to be recognized initially – either as revenue or as a liability depending on the circumstances and whether subsequently revenue is recognized as conditions are fulfilled, or a liability is recognized as conditions are breached;
- that taxes are a major public sector specific issue and will be treated in some detail. In particular the ITC would note that:
 - where the tax system is used as a payment system to pay benefits to taxpayers that others receive ~~as a separate payment~~ in some other form, revenue should be grossed up in respect of those payments, and a separate expense recognized;
 - the taxable event, that is the event that gives rise to a taxation revenue, should be focused upon as the earliest possible point at which revenue can be recognized. For example, taxpayers earning income during a taxation accounting period would be the taxable event for income taxes;
 - control of tax assets does not always arise at the time the taxable event occurs, and the entity may need to delay recognition until control over the tax assets is obtained;
 - an entity is not always able to reliably measure tax assets at the time the taxable event occurs and the entity may need to delay recognition until it can reliably measure the tax assets;
 - the probability of assets flowing to the entity as a result of a taxable event may be low, requiring the entity to delay recognition until the flow is more probable than not, which may mean that in some circumstances revenue is not recognized until cash or a tangible asset is received by the entity;
- transfers, including grants and appropriations will also be discussed in detail. The ITC will note that:
 - transfers are often subject to stipulations;
 - the appropriations framework in different jurisdictions varies greatly, and entities will need to determine whether, in their jurisdiction, an appropriation gives rise to an increase in net assets, and revenue, or whether a subsequent event needs to occur before an increase in net assets and revenue are recognized;
 - third party settlements will be treated in the same manner as in the Cash Basis IPSAS;
- the ITC will deal with a number of public sector revenues separately including:
 - the sale and purchase of goods at subsidized prices;
 - loans at subsidized interest rates;
 - pledges; and
 - voluntary services.

The PSC discussed the ITC and:

- agreed that in both this ITC and other ITC's the note beneath the list of Steering Committee members should also state that the views expressed in the ITC are not the views of members' employers or sponsoring entities;
- recommended that revenue from grants be given more prominence in the Executive Summary given its prominence in the chapter on transfers;
- commented that the reference in the introductory chapter to moving to one IPSAS may be pre-empting the discussion later in the ITC. It was noted that this was a deliberate decision of the Steering Committee. The PSC also noted that the distinction between exchange and non-exchange is relevant for the purposes of defining the scope of the Steering Committee's work, but it does not necessarily imply that the distinction is necessary for determining how a particular transaction should be treated;
- questioned the need for the definition of "non-exchange transaction" to include the second sentence which notes that entities both give and receive value without respectively receiving or giving approximately equal value in return. It was explained that the Steering Committee considered that it was insufficient to make a simple statement that a non-exchange transaction is not an exchange transaction. The distinction between public sector entities giving as well as receiving was considered necessary because Social Policy Obligations Steering Committee would be using the same definition;
- suggested that the elements of control could be brought out more in paragraphs 3.10 and 3.11 and that the ITC should emphasize that "regulate" does not refer to a government's statutory/regulatory role, but its role as owner/controller of a specific asset;
- agreed in relation to paragraphs 3.12 to 3.14 that the purpose of this project is not to determine the appropriate reporting regime for "administered assets" and that the ITC should note the existence of such arrangements, but not specify the reporting requirements for such items;
- suggested that in paragraph 3.17 a less contentious example be used;
- noted in relation to paragraph 3.21 that both "probable" and "more likely than not" are used, both here and throughout the document. The PSC suggested that the ITC use only one term and use it consistently;
- suggested in relation to paragraph 3.23 that the Steering Committee make a stronger recommendation in relation to the revision of IPSASs 12, 16 and 17;
- discussed the concept of "ownership" in the public sector (refer paragraphs 3.24 to 3.27). Several members were not entirely convinced of the relevance of such a concept in the public sector. It was explained that this had been discussed and similar views were aired. It was pointed out that the definition of "revenue" from IPSAS 1 refers to "contributions from owners", which is also defined in IPSAS 1, and that a standard on revenue must, of necessity, deal with contributions from owners. The PSC suggested that the Steering Committee review the terminology "contributions from owners" with a view to making a recommendation to the PSC whether it should be revised and how;
- agreed in relation to paragraph 3.27 that a contribution from owners does not necessarily have to be provided by a controlling entity, and that the reference to the controlling entity should be removed;
- noted that the footnotes on page 9.27 should be deleted;
- agreed that the Steering Committee review paragraph 3.37 to ensure that its intention is clearly reflected in the drafting;

- agreed that Preliminary View 1 be clarified with respect to an increase in net assets due to a revaluation of assets;
- noted that in paragraph 3.51 the term “no realistic alternative” is use in relation to liabilities, elsewhere the term “little alternative” is used, the PSC recommended that consistent terminology be used;
- suggested in relation to paragraphs 3.52 to 3.60 that the ITC discuss further the features of a liability and the entity’s “power to decide” the disposition of an asset;
- suggested, in relation to paragraph 3.58, that there are two views relating to revenue arising from the transfer of an asset conditional upon a matching contribution:
 - firstly an assumption that the matching contribution will be made, and
 - secondly no assumption concerning the matching contribution.
 It was agreed that both views should be presented in the ITC;
- suggested that there is an alternative view to that proposed in paragraph 3.59, that is that the provision of goods to third parties is in substance the provision of services to the donor and therefore
- satisfies a liability, it was agreed that the ITC should canvass this alternate view;
- noted that the treatment proposed in paragraphs 3.61 to 3.66 for timing requirements is an example of the matching principle that is not endorsed by the PSC. The arguments presented in this are not convincing and the PSC recommended that the Steering Committee review this section and/or propose alternatives for debate;
- noted that the outline to chapter 4 does not discuss the tax gap which the introduction stated it would, and suggested that capital gains tax be discussed as a particular kind of tax; and
- agreed that in relation to voluntary services received, alternative accounting treatments be discussed.

Action Required: *Proceed with the preparation of a draft ITC for the July 2003 meeting. Arrange Steering Committee meetings and prepare Steering Committee papers.*

Person(s) Responsible: *SC Chair, Standards Staff.*

10. PSC STEERING COMMITTEE - BUDGET REPORTING

The Committee received and considered:

- a memorandum from Paul Sutcliffe;
- the project brief on Budget Reporting;
- a list of potential Steering Committee Members;
- a progress report on the project; and
- the Steering Committee Terms of Reference.

Paul outlined the background to the project and progress made since the last PSC meeting in November 2002, noting that:

- Ron Points had agreed to chair the Steering Committee when the PSC actioned the project in November 2001;
- when preparing the initial project brief, the PSC had noted there was a wide range of differing views on what should be addressed by the project, with some advocating that the project deal with only budget compliance and others

advocating that it deal with budget formulation or budget presentation. Consequently, a paper outlining options for the scope of the project was prepared and presented to the Committee in November 2002;

- the Committee considered the scoping paper and decided that the project should be developed in two stages – the first stage is to be a research report which will:
 - provide guidance on current best practice in budget formulation and reporting; and
 - consider whether an IPSAS on Budget Reporting fits within the PSC mandate, and if so, what issues should be dealt with by the IPSAS. Stage 2 will then be actioned in light of Stage 1; and
- a draft project brief for Stage 1 was distributed to members in January 2003.

It was noted that Dr. Jesse Hughes, the consultant engaged to prepare the research report, would provide a draft report at the next PSC meeting in July 2003.

Members considered the nominations received for membership of the Steering Committee and noted that the Chair and the Steering Committee Chair will finalize the Steering Committee membership out-of-session. Members also noted that:

- the French nominee is now Ms. Sophie Mahieux, a former head of the Budget Directorate who currently holds a senior position in the division of public expenditure execution;
- Germany would not nominate for membership of this Steering Committee; and
- the current nomination did not include sufficient representation from the Asian region. The Chair and Steering Committee Chair agreed to address this when finalizing the Steering Committee membership.

Paul noted that Dr. Hughes had agreed that it was not necessary for the Steering Committee to meet to provide input on the draft Research Report. Ron Points agreed that the Steering Committee could provide input to this stage of the project development electronically.

Rick Neville noted that CICA in Canada was currently preparing a working paper on budget reporting which had a similar timeline to that proposed in the PSC's Budget Reporting project brief, and he was confident that CICA would provide input to Dr. Hughes as requested.

<i>Action Required:</i>	<i>Finalize Steering Committee membership. Prepare draft research paper.</i>
<i>Person(s) Responsible:</i>	<i>Chair, Members, SC Chair, Standards Staff, Consultant.</i>

11. ACCOUNTING FOR DEVELOPMENT ASSISTANCE

The Committee received and considered:

- a memorandum from Paul Sutcliffe; and
- the updated project brief on Development Assistance.

Paul introduced the topic and reported that:

- as agreed at the November 2002 PSC meeting, the project will be developed in two stages. The first stage will deal with reporting under the cash basis;

- it was intended that with input from a Project Advisory Panel (PAP), the PSC would prepare an exposure draft and subsequently an IPSAS;
- Charles Coe has been engaged as the consultant on the project; and
- the expected timing of the project is:
 - membership of the PAP will be finalized in May;
 - a key decisions questionnaire to draw out the key issues to be addressed in the exposure draft will be prepared and circulated to the PAP in late May or early June;
 - Charles Coe will provide a progress report to the PSC at the July 2003 meeting; and
 - a draft Exposure Draft will be prepared for PSC review at the November 2003 meeting.

The PSC noted that the PAP will not be large but will comprise representatives from the donor community including recipients, the Multilateral Development Bank group and the OECD-DAC. The PSC also noted that it was intended that a wider engagement with the donor community would be achieved through relevant seminars and presentations. The PSC Chair will chair the PAP.

<i>Action Required:</i>	<i>Finalize Project Advisory Panel membership. Prepare key decisions questionnaire and issues paper.</i>
<i>Person(s) Responsible:</i>	<i>Chair, Standards Staff, Consultant.</i>

12. IMPAIRMENT OF ASSETS

The Committee received and considered:

- a memorandum from Ahmad Hamidi-Ravari;
- extracts of minutes of PSC meetings in April and November 2001 and March, July and November 2002;
- draft ED XX *Impairment of Assets*;
- copy of the Invitation to Comment (ITC) *Impairment of Assets*; and
- GASB Exposure Draft – Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries.

Ahmad introduced the topic, briefly reviewed the PSC decisions to date and noted that the decisions of the PSC on the project as confirmed and finalized at the November 2002 meeting have been implemented in the draft ED. Ahmad noted that consistent with IAS 36 an impairment loss was measured by comparing the carrying amount of an asset with the higher of net selling price and value in use and at that meeting the PSC agreed that the “value in use” of a non-cash flow asset should be measured as the present value of the remaining service potential of the asset.

Staff noted that determination of the “present value” of the remaining service potential of an asset necessitates the discounting of the value of the stream of services arising from the asset over the years of its useful life. Staff then set out the hierarchy of approaches to measure the value in use of the remaining service potential of the asset as follows:

- surrogate cash flows approach;
- market value approach; and

- depreciated replacement cost approach.

Staff explained that the surrogate cash flows approach involved the explicit discounting of estimated cash outflows and surrogate cash inflows and was the nearest replication of IAS 36 in measuring value in use of an asset. Staff, however, reiterated their view, as reflected in the memorandum, that they were concerned about whether the requirements of the draft ED to estimate surrogate cash flows and the determination of a discount rate to discount those cash flows were operational for public sector unique assets.

Staff briefly explained that value in use of a non-cash flow asset might also be determined by reference to the market value or the replacement cost of the remaining service potential of the asset. Where the observable market value or replacement cost of the impaired asset is available, that value may be used. The restoration cost approach and service units approach may be applied if the market value or replacement cost of the asset before impairment is available.

Staff noted that the service potential to be replaced, and, therefore, the replacement cost is determined on an optimized basis since the entity would only replace the service potential it needs over the long term. Some members noted that the IPSAS 17 notion of depreciated replacement cost may be interpreted to be broader than that in the draft ED and, therefore, some members expressed concern that the description of DRC in IPSAS 17 may not necessarily be consistent with how the draft ED would describe it. It was agreed that the stand-by or safe capacity often held by public sector entities would be included in the optimized service potential to be replaced.

The Committee confirmed its previous view that assets that are carried at fair value at the reporting date consistent with the allowed alternative treatment in IPSAS 17 Property, Plant and Equipment and the fair value model in IPSAS 16 Investment Property need not be tested for impairment because any impairment has already been taken into account in the revaluation. Staff noted that they had raised this with the IASB observer and he had a similar view on this issue but that the IASB had not yet actioned any changes to IASs/IFRSs to reflect this.

Members considered the ED and decided the following:

- the surrogate cash flows and market value approaches should be deleted from the ED. The Committee observed that:
 - it was unlikely that the surrogate cash flows approach could be applied in practice; and
 - market value differs from the net selling price (the other arm of recoverable service amount) only by the amount of selling costs involved. Therefore, the market value approach would be captured by the net selling price arm of impairment measurement;
- the value in use of a non-cash flow asset should be measured using the following approaches as appropriate:
 - depreciated replacement cost approach;
 - restoration cost approach; and
 - service units approach;

Commentary should be redrafted and appendices appropriately amended to conform to these decisions on the measurement of value in use;

- goodwill and other intangibles are not excluded from the scope of the ED. Members noted that goodwill in particular is rare in a non-cash flow context and the basis for conclusions should explain this. The basis for conclusion should also include discussion of whether the notions of “cash generating units” and “corporate assets” in IAS 36 should be translated into their equivalents in the ED;
- commentary in the scope section of the ED should explain the treatment of:
 - non-cash flow investments; and
 - property, plant and equipment carried at fair value;
- commentary paragraph 10 of the draft ED should be redrafted to:
 - exclude references to assets held for cost recovery; and
 - make it clear that the references to returns are to returns on the “assets”;
- commentary should be added to emphasize that the indicator represented by “changes in the manner in which the asset is used” encompasses a “change in use” of the asset;
- in setting out the indicators of impairment (and reversal of impairment loss), the external and internal classifications of indicators are to be identified;
- it should be made clear that a two step approach to impairment testing is in place and that recoverable service amount is determined only when an indicator of impairment arises. This also applies to reversals of impairment loss;
- paragraph 77 of the draft ED should be revisited as it is redundant for revaluation of property, plant and equipment; and
- paragraph 80 of the draft ED should be deleted.

The PSC directed that the draft exposure draft be amended for consideration at the next PSC meeting in July 2003.

<i>Action Required:</i>	<i>Proceed with the amendment of the draft ED for consideration at the July 2003 meeting.</i>
<i>Person(s) Responsible:</i>	<i>Standards Staff.</i>

13. WORKING PAPER ON CONCEPTS REFLECTED IN IPSASs

The Committee received and noted:

- a memorandum from Ahmad Hamidi-Ravari and Li Li Lian;
- a document comparing the IASB conceptual framework and the concepts underlying accrual IPSASs; and
- a document identifying concepts and definitions applied by IPSASs.

Ahmad introduced the topic and noted that as directed by the PSC at its November 2002 meeting, staff have prepared documents comparing the concepts included in the IASB framework with those underlying the 20 accrual IPSASs and the cash basis IPSAS currently on issue. The documents were prepared with a long-term view to be used as a basis for developing a PSC framework in the future. It was also noted that the documents would be updated periodically to encompass new definitions/concepts that may arise from public sector specific projects such as social policy obligations and non-exchange revenue now being dealt with by respective Steering Committees.

Staff noted that as the accrual IPSASs were based on corresponding IASs, as expected the comparison did not reveal major differences ~~as expected~~. However, it was noted that the IPSASs:

- included the term “service potential” in addition to “economic benefits” in defining the elements of the financial statements;
- required measurement at fair value at the date of acquisition of assets acquired at no cost or a nominal cost; and
- required inventories to be measured at the lower of cost and current replacement cost where they are held for distribution at no charge or a nominal charge or consumption in the production of goods to be distributed at no charge or for a nominal charge.

Staff also noted that conceptual inconsistencies between IASs and the IASB framework might have carried through to the IPSASs. An example is the criteria for revenue recognition in IPSAS 9 *Revenue from Exchange Transactions* and IAS 18 *Revenue*, which is not based on changes in assets and liabilities as advocated by the IASB framework.

It was noted that IPSASs used the term of “contributions from owners” which is not dealt with in the IASB framework. Some members expressed concern that “ownership” does not have relevance in the public sector context. Some members suggested the term “contribution from controlling parties” be used. It was, however, agreed that such terminology excluded contribution from non-controlling parties and that exiting terminology should be retained.

Members also provided updates on the work being done on conceptual frameworks in their jurisdictions:

- GASB has under review the two concept issues of “elements” and “communications”; and
- the public sector statement of principles in the UK is expected to be approved on 10 April 2003 by the ASB.

<i>Action Required:</i>	<i>Continuous monitoring of PSC and IASB concepts and definitions.</i>
<i>Person(s) Responsible:</i>	<i>Standards Staff.</i>

14. GFS, ESA 95, IPSAS HARMONIZATION

The Committee received and considered:

- a memorandum from Paul Sutcliffe;
- a Staff Working Paper on IPSAS – GFS differences; and
- a Staff Working Paper on GFS – ESA differences.

Ian Mackintosh introduced the topic and noted that:

- the topic was of particular interest in Australia due to an agreement between the national government and the state and territory governments, which specifies that budget information be presented on a GFS basis. Some members noted that this was an Australian problem, and not one that occurs in other jurisdictions where budgets are prepared on the basis of generally accepted accounting principles. However, other members expressed the view that harmonization or convergence of IPSASs, GFS and ESA 95 was desirable and should be pursued;
- there would be a meeting of the PSC-IMF-ESA 95 harmonization working group on 12-13 May in Washington DC; and

- the PSC has been asked to prepare a briefing paper on the accounting treatment of military equipment in IPSASs/GAAP and GFS/SNA/ESA for an OECD meeting in April 2003. The paper will argue that when one analyzes the definitions in the GFS Manual, SNA 93 and ESA 95 it is clear that military equipment are assets and should be recognized as such.

Members requested that the briefing paper on accounting for military equipment be circulated to the Committee.

Brian Donaghue, the IMF observer on the PSC, noted that there is a review of the SNA 93 treatment of military assets underway and that the SNA treatment is likely to change. The Statement of Other Economic Flows that is required by the GFS Manual will remain, and that there is a hope within the GFS preparer community that GAAP would move closer to that presentation.

Action Required: *Circulate briefing paper on military assets to Committee members. Continue with the IPSAS-GFS harmonization working group.*

Person(s) Responsible: *Chair, Staff.*

15. ETHICS COMMITTEE REVIEW

Members received and considered:

- a memorandum from Norbert Vogelpoth, PSC member for Germany and PSC representative on the Ethics Subcommittee which had been established to revise Part C of the Ethics Code;
- report on progress of the Subcommittee; and
- draft Part C of the Ethics Code.

Norbert Vogelpoth provided an update on the revision of Part C of the IFAC Ethics Code. He advised the PSC that:

- since joining the Subcommittee in November 2002 as the PSC representative, two meetings and one conference call had been held by the Subcommittee to discuss the revision proposed to the Code;
- Part C of the Code had undergone extensive change, and all the changes and additions proposed by PSC through him had been accepted and incorporated into the draft by the Subcommittee; and
- further changes would clarify that when a public sector auditor was undertaking an independent audit, the provisions of Part A of the Code relating to independence would apply in respect of that audit.

John Fretwell, INTOSAI observer on the PSC, noted that some Comptrollers and Auditors General that work in the public sector might not be subject to the provisions of the Ethics Code as they are not members of an IFAC member body. Ron Points referred to the initiatives by Canada to bridge this gap and enquired whether the Canadian member could organize for the CICA to provide input to IFAC on [progress](#) in overcoming this difficulty. Rick Neville agreed to the request and promised to facilitate the contact in an effort to ensure that this issue was given attention.

Norbert requested members to send to him any additional comments on the draft for submission to the Subcommittee. He indicated that there was still an opportunity to comment on the draft between now and July 2003 when the draft goes to the full Ethics Committee and even after that date when it is issued as an Exposure Draft.

Action Required: *Submit comments on Part C Ethics Code Draft to Norbert Vogelpoth. Provide input on CICA work.*
Persons Responsible: *Members, PSC Subcommittee Representative.*

16. PSC – LONG TERM STRATEGY

The Committee received and considered:

- a memorandum from Ian Mackintosh;
- the PSC strategy paper; and
- the report of PSC Internal Review conducted in 2001.

Ian introduced the topic and noted that a summary of the discussion will be provided to Ian Ball, the Chief Executive (CE) of IFAC as input for his review of the PSC during 2003.

PSC members noted the recommendations made as a result of the internal review in 2001 and the changes that had occurred at IFAC since the internal review, noting in particular the reconstitution of the IAASB, the appointment of Ian Ball, a former PSC Chair as IFAC CE, and the greater recognition of the PSC by the IFAC Board and other Committees and staff. The PSC also discussed the progress made by the PSC in its technical standards setting program, in strengthening its relations with key constituents and stakeholders, and in raising its profile since the completion of the internal review.

Members considered the issues raised in the strategy paper and:

re: the primary focus of the PSC

- agreed that the PSC should continue to focus on its standards-setting activities for financial reporting by governments and other public sector entities. Members discussed the name of the PSC and expressed the view that renaming the Committee the Public Sector International Accounting Standards Board (PSIASB) would better reflect its primary focus. Some members expressed the view that private sector non-profit organizations were not well catered for by international standards setting bodies. Members noted that the PSC was filling this role by default as was evidenced by the adoption of IPSASs by the OECD, NATO and EC;
- noted that the IAASB and INTOSAI were further strengthening their relationship such that by October 2003, INTOSAI and IAASB would work together on developing public sector perspectives on assurance engagements. It was therefore anticipated the PSC would relinquish this task by the end of 2003;
- considered whether the PSC and its staff should take an active role in the promotion of IPSASs or whether it should focus only on the technical aspects of IPSAS development, and agreed that PSC members and staff should be involved in promotion and should step up its promotion campaign. In this

context, members noted that it should promote its identity in a similar manner to that currently being pursued by the IAASB. Members also noted that additional promotional activity had implications for staff resources available to the PSC. In this context, it was noted that the PSC was already under staffed;

re: strengthening relationships with other IFAC Committees

- noted that as other IFAC Committees/Boards were developing guidance/documents, there was an increasing recognition of the potential impact of that guidance on (relevance to) the public sector and that the PSC ~~have~~ has increasingly been involved in providing input to IFAC Committees/Boards ~~the process~~ at an early stage of project development. Members welcomed this development and noted that all IFAC Committees and Boards should be encouraged to further acknowledge and accept the public sector interest in, and dimension to, their work and seek public sector input as appropriate;

re: relationship with the IASB, convergence/harmonization of IPSASs and IFRSs, and PSC work program

- confirmed the general principle underpinning the accrual IPSASs: that each IPSAS should be consistent with its equivalent IFRS unless there was a public sector specific reason for a difference;
- discussed the longer term relationship of the PSC with the IASB. Some members were of the view that the PSC better fitted under the IASB structure and should attempt to join, or at least develop an even closer working arrangement with, the IASB in the short term. Others noted that while this may be a matter for consideration over the long term, the IASB already had a heavy private sector work program and the public sector was currently not adequately represented in the IASB's governance arrangements or on its Board or staff and, at least for the immediate future, the PSC and its constituents were better served by the PSC remaining as a Committee of IFAC. Some members also noted that revised governance arrangements that provided IFAC and other key constituents and stake holders with appropriate oversight influence and involvement could usefully be considered;
- noted that currently the IASB did not adequately address public sector issues in its IFRSs and EDs thereof, and agreed that PSC will continue to provide submissions on IFRS – EDs identifying any public sector specific issues that should be dealt with by the ED;
- noted that IASB improvements and convergence projects will impact on current IPSASs and directed staff to prepare a paper identifying current and anticipated differences between IPSASs and IFRSs as of the end of 2003 or early 2004 for consideration of the PSC at its July 2003 meeting. IASB Board member Warren McGregor provided additional input on the IASB's work program noting that it was intended that a "stable platform" of IFRSs be in place by March 2004. Members noted that it was desirable that a stable platform of IPSASs, reflecting the IFRSs where appropriate, also be in place by the end of 2004. However members also noted that the first 20 IPSASs had only recently been completed and that a number of governments and other entities were, or were considering, implementing those IPSASs and it may not be wise to change them at this stage;

- agreed that the PSC would also need to consider whether it should develop guidance on first time application of IPSASs to reflect the equivalent guidance in respect of IFRSs;
- agreed that to the extent possible, staff should maintain an involvement in any conceptual framework issues/developments occurring at the IASB;
- noted that in addition to the need to “keep up” with the IASB, the PSC would need to revisit its IPSASs to determine whether it needed to undertake its own improvements program. Members agreed to provide input to staff on any emerging issues identified in their own jurisdictions;
- confirmed that Study 14 should be updated for IPSASs issued since its publication and should be maintained on an ongoing basis;

re: promotion, liaison and communication:

- agreed to develop a prospectus to promote PSC to the public. It was noted that preparation of a PSC annual report or a prospectus had been raised with staff by the IFAC President and Chief Executive in March 2003;
- noted that the IFAC Board recently directed that at least half of IFAC Committee meetings should be held in New York. This meant that at least two of the three annual PSC meetings would have to be held in New York. PSC members expressed concern with this decision, particularly given the significant promotional and communication activities that were undertaken in conjunction with PSC meetings and the positive response the PSC had received for these activities from national and regional member bodies and other organizations. Members agreed that the Chair should write to the IFAC Board to express the PSC’s concern with this decision and to note that the PSC was of the view that it was in the interests of IFAC and the PSC that PSC meeting were held in many different countries;

re: membership and observer profile:

- expressed concern with the current policy of rotating a third of members each year given that the PSC held only three meetings a year. Members expressed the view that greater continuity of membership was necessary to facilitate the efficient and effective operation of a standards-setting Committee and agreed that the IFAC CE should be advised that the PSC was of the view that only a sixth of members retire each year. This recommendation was strongly supported by PSC observers;
- suggested that the PSC Chair and senior staff have a more pro-active role in providing input to the IFAC Nominating Committee on such matters as aspects of the PSC’s skill base or geographical spread that could be enhanced when the nominating Committee is determining PSC membership. In this context members noted that the PSC had not had sufficient representation from academia, and that the general issue of the PSC’s membership profile should be included in the CE’s review of the PSC;
- considered the criteria that should be established for participation in PSC meetings as an observer. Members agreed that funding bodies should be provided with an observer seat at the PSC and that others should be invited because of the technical or other input they could provide to particular issues. In this context, it was noted that the Consultative Group provided an appropriate medium to include representation from those parties that had a

general interest in PSC activities but who may not be in a position to provide input to technical or other items on the PSC's work program;

re: funding and staffing

- noted that based on current and projected operating costs, current funding will support PSC operations into 2005. It was also noted that the PSC's funding base was well short of that needed to fully support its standards development program. Members noted that cost savings had been made by operating at well below projected staff establishment and cutting back on promotion and liaison activities and support for translation activities;
- noted that the PSC had not been successful in increasing external funding support despite considerable efforts from the Chairman, PSC members and staff, and that it was appropriate to explore new and/or additional funding arrangements to ensure the continuity of the PSC. Members agreed to give this matter some consideration and to provide staff with input for a paper on potential fund raising programs to be prepared for discussion at the next PSC meeting in July 2003; and
- noted that there were proposals for PSC staff to move to IFAC headquarters in New York. Members expressed concern that this would mean that PSC operating costs will at least double and will further reduce PSC's operating capacity. Members also noted that, in the absence of additional funding from other sources, existing PSC funders may react adversely to such an increase in PSC operating costs. Members agreed that the Chair should write to the IFAC Board to express the PSC's concern about the impact of the relocation of staff on the PSC's financial and operating capabilities.

Members also considered whether the PSC should be subject to an external review of its operations in the near future, similar to that undertaken in respect of the then IAPC, to complement the internal review to be conducted by the CE during 2003. Members agreed that the PSC would benefit from an external review of its operations and directed the Chair to write to the IFAC Board to express this view. The PSC directed the Chair to circulate the draft letter to the PSC members present at the meeting before it was sent to the Board.

Action Required:

Prepare letter to the President and Chief Executive of IFAC, prepare a document to note the changes made in IFRSs that will impact current IPSASs, and identify improvements to IPSASs, prepare prospectus on PSC activities. Prepare paper on potential funding programs.

Person(s) Responsible:

Chairman, Members, Standards Staff.

17. PSC CONSULTATIVE GROUP

Members received and considered:

- a memorandum from Jerry Gutu regarding the PSC Consultative Group nominations;
- the Consultative Group Operating procedures; and
- an action list on the Consultative Group nominations.

Jerry Gutu provided an update on the status of the Consultative Group, noting that 30 out of 67 individuals and organizations had confirmed their membership and participation in the group. Jerry pointed out that no negative responses or objections had been received to date and that responses were expected from the remaining organizations in the not too distant future.

The Committee approved the nominations to the Consultative Group and agreed to the following:

- the consultative group should be activated with immediate effect;
- North American members should be invited to meet with PSC members during the course of the next meeting in Vancouver, Canada. Members noted that the full Consultative Group should be invited to attend but that it should also be made clear that it was anticipated that only those in the immediate region would be able to accept this invitation, and this was quite acceptable;
- the Group should be involved in testing the web based version of Study 14 as one of its immediate tasks, and following the July meeting, should be requested to provide input on the ITCs; and
- a draft agenda for the July 2003 meeting with the regional section of the Consultative Group should be prepared.

Action Required: *Finalize nominations to the Consultative Group. Advise nominees, publicize the actioning of the Group and proceed to invite the group to the next meeting.*

Person(s) Responsible: *Members, PSC Secretariat.*

18. OCCASIONAL PAPERS - ARGENTINA

The Committee received and considered:

- a memorandum from Paul Sutcliffe; and
- a draft of the Argentinean Occasional Paper *Governmental Accounting System of Argentina*.

Paul noted that Carmen Giachino Palladino, the Argentinean member, had prepared the paper with Li Li Lian acting as the primary PSC staff contact on the project, and Li Li had provided input to Carmen in that capacity. The Chair noted that because of time constraints and in the absence of the Argentinean delegation, the detailed review of the draft Occasional Paper would take place at the next PSC meeting in July 2003. Members were requested to provide comments to Li Li or Paul Sutcliffe, who would forward those comments to the Argentinean delegation.

Action Required: *Forward comments to Standards staff for Argentinean delegation to consider for the next PSC meeting.*

Person(s) Responsible: *Argentinean Delegation and Standards Staff.*

19. PUBLIC SECTOR PERSPECTIVES ON ISAs

Members received and noted:

- a memorandum from Jerry Gutu on a proposal for the process for development of Public Sector Perspectives; and
- an update on the current Public Sector Perspectives (PSPs).

Jerry drew the members' attention to an update by Ron Points on the development of the relationship between the IAASB and INTOSAI to replace the current involvement of the PSC in preparing PSPs. Ron advised that the mechanism would be in place towards the end of the year.

Kevin Simpkins suggested that a small Subcommittee of PSC members be responsible for preparing draft PSPs. The Committee endorsed the proposal nominating the Canada, New Zealand, South Africa and United Kingdom to constitute such a group with staff support from Jerry. It was agreed that draft PSPs ~~that~~ would be circulated to all PSC members and ~~members~~ they need only respond if they disagreed or had further amendments to propose to the drafts.

It was agreed that Jerry would distribute materials to the Subcommittee, co-ordinate responses, prepare the PSP and distribute it to members. It was also agreed that IAASB staff member, Michael Nugent, who was located at the IFAC offices in Melbourne, would act to liaise with IAASB staff and to co-ordinate responses for Melbourne based PSC staff.

Jerry provided an update on the current requests for PSPs from IAASB noting that 4 requests were currently outstanding on Audit Risk Standards, Assurance Engagements, Audit of Interim Financial Statements and Quality Control. The first three PSPs had already been circulated to PSC members with the last PSP still to be drafted. Staff tabled proposals at the meeting on the PSPs as follows:

- Audit Risk Standard: a PSP was proposed as circulated;
- Assurance Engagements: a PSP was proposed as circulated; and
- ED on Audit of Interim Financial Statements: no additional or specific PSP was necessary.

The Committee agreed with these proposals and related PSPs, and directed that they be dispatched to IAASB.

<i>Action Required:</i>	<i>Forward the PSPs to IAASB. Action the new Subcommittee.</i>
<i>Person(s) Responsible:</i>	<i>PSP Subcommittee Secretariat.</i>

20. FUTURE MEETINGS & GENERAL BUSINESS

The next meeting would be in Vancouver, Canada on 16-18 July 2003. The last PSC meeting for 2003 was confirmed as November 5-7 in Berlin, Germany.

Norway, through its PSC member, Mr. Tom Olsen and Japan through a public gallery observer, Ms. Shimizu Ryoko, a partner in PWC Japan, expressed their countries' interest in hosting future PSC meetings. Tom noted that it was anticipated that the Norwegian government would make a decision on the adoption of accrual accounting for the public sector late in 2003 and a PSC meeting in Oslo in 2004 would provide significant promotional and liaison opportunities for the PSC and IFAC.

Members agreed that at this stage one meeting should be scheduled for New York in 2004. Members confirmed a letter under the signature of the Chair should be sent to IFAC, elaborating the benefits of continuing to hold PSC meetings outside New York in conjunction with member bodies.

Action Required: *Send letter to IFAC and finalize arrangements for meetings.*
Person(s) Responsible: *PSC Chairman and staff.*

21. PSC ROUND TABLE

The PSC held a successful “round table” discussion with the Australian Accounting Standards Board (AASB) and other key constituents including the Heads of Treasury Accounting Research Advisory Committee (HOTARAC). PSC members from Canada, France, the Netherlands, the United Kingdom and the United States of America briefly explained the progress of their particular countries towards the implementation of accrual accounting in the public sector. The Chair of the AASB briefly explained the recent reform of the AASB in Australia and its role in standard setting.

The Chair introduced the topic of GFS Harmonization in the context of the development of IPSASs. PSC members explained the position of Government Finance Statistics in their own jurisdictions. The Chair invited questions from the PSC and AASB, as well as questions from the public gallery. A lively discussion followed.

The round table also briefly discussed the current Steering Committee projects of the PSC. Kevin Simpkins introduced the Social Policy Obligations project, and Richard Neville introduced the Non-Exchange Revenue project. There was an opportunity for Kevin and ~~Richard~~ [Rick](#) to field questions from the PSC, AASB and public gallery.

**PUBLIC SECTOR COMMITTEE
ACTION LIST FROM THE MELBOURNE MEETING**

Action Required	Person(s) Responsible	Date Due	Date Completed
1. Prepare, review and distribute minutes.	PSC Secretariat, Standards Staff, Chair	May 2003	May 2003
2. Update the Committee's Action List and distribute with the minutes.	PSC Secretariat	May 2003	May 2003
3. Post approved minutes from the Hong Kong meeting on the Web.	PSC Secretariat and Standards Staff	April 2003	April 2003
4. Prepare PSC Update on Melbourne Meeting.	Chair, Standards Staff	April 2003	April 2003
5. Update PSC Correspondence, Distribution and Network Lists; and send to members.	PSC Secretariat	June 2003 and Ongoing	June 2003
6. Prepare IFAC Liaison Report.	PSC Secretariat	June 2003	June 2003
7. Update PSC Work Plan	Standards Staff	Ongoing	June 2003
8. Follow up on funding and promotion activities including follow up with IADB.	Chair, Standards Staff	Ongoing	May/June 2003
9. Follow up with IASCF on progress of translations into French and Spanish. Encourage other national organisations interested in translations to adopt IASB – PSC process.	Standards Staff, PSC Secretariat	May 2003 and Ongoing	May/June 2003
10. Explore translation of Cash Basis IPSAS.	Standards Staff	June 2003 and ongoing	Ongoing
11. Update register of funding, translation and promotion activities.	Standards Staff	June 2003 and ongoing	June 2003
12. Prepare paper on updating Study 14.	Standards Staff	June 2003	May/June 2003
13. Prepare paper on the withdrawal of Study 11.	Standards Staff	June 2003	May/ June 2003

Action Required	Person(s) Responsible	Date Due	Date Completed
14. Prepare an update on IASB work program for inclusion in PSC Agenda materials.	Standards Staff	June 2003	June 2003
15. Prepare document to note the changes made in IFRSs to be in place by 2004 and identify the impact of those changes on existing IPSASs.	Standards Staff	June 2003	June 2003
16. Prepare country reports to be included in the Committee Agenda.	All Members	June 2003	June 2003 and ongoing
17. Prepare draft ITCs, arrange SC meetings and prepare SC and PSC papers as necessary.	SC Chairs, Standards Staff	June 2003 and ongoing	June 2003 and ongoing
18. Finalize Budget Reporting Steering Committee membership.	Chair, Members, SC Chair, Standards Staff, Consultant	May 2003	In progress
19. Prepare draft research paper for Budget Reporting Steering Committee.	Standards Staff, Consultant	May/June 2003 and ongoing	June 2003
20. Finalize Project Advisory Panel membership for Development Assistance Project.	Chair, Standards Staff and Consultant.	May 2003	June 2003
21. Prepare key decisions questionnaire and issues paper for Development Assistance Project.	Standards Staff and Consultant	May/June 2003 and ongoing	June 2003
22. Prepare an Exposure Draft on Impairment of Assets for inclusion in PSC Agenda materials	Standards Staff	June 2003	June 2003
23. Monitor PSC and IASB concepts and definitions. Update PSC as necessary.	Standards Staff	ongoing	Ongoing
24. Prepare and circulate briefing paper on accounting for military assets to PSC.	Standards Staff	April 2003	April 2003

Action Required	Person(s) Responsible	Date Due	Date Completed
25. Arrange meeting and prepare papers for the IPSAS-GFS-ESA 95 harmonization working group.	Chair, Standards Staff	June 2003	May/June 2003
26. Submit comments on Part C Ethics Code draft to Norbert Vogelpoth. Provide input on CICA work.	Members, PSC Subcommittee Representative	June 2003	
27. Summarize results of strategy discussion and provide input to Ian Ball for the review of the PSC.	Chair, Standards Staff	May 2003	June 2003
28. Prepare letter to President and Chief Executive of IFAC.	Chair	April 2003	April 2003
29. Prepare prospectus on PSC activities.	Chair, Standards Staff	June 2003 and ongoing	Ongoing
30. Finalize nominations to the PSC Consultative Group. Advise nominees, publicize the actioning of the Consultative Group and proceed to invite the group to the PSC meeting in Vancouver.	PSC Chair and PSC Secretariat	May 2003	June 2003 and ongoing
31. Forward comments on Argentinean Occasional Paper to Standards Staff for Argentinean delegation to consider for July meeting.	Members, Argentinean Delegation and Standards Staff	June 2003	May 2003
32. Forward PSPs on ISAs to IAASB. Action formation of new PSP Subcommittee. Distribute relevant materials to Subcommittee.	PSP Subcommittee, Secretariat	May 2003 and ongoing.	May/June 2003
33. Liaise with CICA, CGA Canada and others as necessary to co-ordinate the July 2003 PSC meeting in Vancouver.	PSC Secretariat	April 2003 and ongoing	May/June 2003
34. Liaise with CICA, CGA Canada and others re the presentation of a seminar in conjunction with the PSC meeting in Vancouver in July 2003.	Standards Staff	May 2003 and ongoing	May/ June 2003