

Meeting: IPSASB Consultative Advisory Group

Meeting Location: Toronto, Canada

Meeting Date: December 4, 2023

Agenda Item 4

For:

☐ Approval

☒ Discussion

☐ Information

PRESENTATION OF FINANCIAL STATEMENTS

Project summary	<p>The objective of the project is to enhance the communication effectiveness of financial information in general purpose financial statements by developing a new IPSAS to replace IPSAS 1, <i>Presentation of Financial Statements</i>.</p> <p>The project is in the Consultation Paper (CP) development phase.</p>	
Meeting objectives	Topic	Agenda Item
Discussion Item	Permitting different presentation approaches	4.1
	Illustrative examples of different presentation approaches	Appendix A
Other supporting items	IPSASB Due Process Checklist	4.2

Permitting different presentation approaches

Project background

1. IPSAS 1, *Presentation of Financial Statements* currently sets out the requirements for the selection, location, and organization of information reported in financial statements in accordance with IPSAS. The standard provides guidance on the structure of the financial statements, the components of financial statements, and other requirements for the content of the financial statements.
2. IPSAS 1 was issued in May 2000 and was primarily drawn from IAS 1, *Presentation of Financial Statements* issued by the International Accounting Standards Board (IASB). The standard was last revised in December 2006.
3. The IPSASB added a project on the *Presentation of Financial Statements* after receiving strong constituent support to its 2021 Mid-Period Work Program Consultation and approved the [Project Brief](#) in September 2023. This Project Brief considered input from the CAG on the objective, scope, and consultation approach.
4. The project is focused on improving how information is presented in financial statements, recognizing that these statements continue to be a central component of public sector general purpose financial reports (GPFRs). The financial statements confirm the impact of transactions incurred and other events or circumstances in the reporting period – by reporting on the entity's financial performance, financial position, and cash flows.
5. The key drivers for the project include:
 - (a) Achieving consistency with the IPSASB's *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities (Conceptual Framework)*;
 - (b) Maintaining alignment with International Financial Reporting Standards (IFRS) to the extent relevant to the public sector;
 - (c) Reducing unnecessary differences with Government Finance Statistics (GFS); and
 - (d) Responding to public sector specific user needs.
6. The next phase of the project is the consideration of key issues by the IPSASB to support the development of a Consultation Paper (CP).

Introduction to issue for CAG discussion

7. The published financial statements are often the first touch point (and sometimes the only touch point) many users have with information about a reporting entity's financial performance, financial position, and cash flows. How financial information is presented in financial statements can significantly impact the usefulness of the information for accountability and decision-making purposes.
8. One of the issues being explored by the IPSASB is whether to provide the option for a reporting entity to choose from different approaches for presenting their financial statements, based on local jurisdictional considerations.
9. Recent stakeholder feedback has encouraged the IPSASB to consider providing increased flexibility in IPSAS for how information is required to be presented in financial statements to improve the usefulness, relevance, and understandability of the information.

10. Increased flexibility would enable an entity to present information in their financial statements in a consistent manner (i.e., format) as other reports used within a jurisdiction's public financial management (PFM)¹ framework. This would encourage greater integration between the different types of reports used across the public sector for accountability and decision-making purposes – such as information prepared for budgetary, long-term fiscal sustainability, and government finance statistics (GFS) purposes.
11. The IPSASB will be discussing the concept of introducing different presentation approaches at the upcoming December 2023 meeting. The feedback from the CAG will be critical in supporting these initial discussions.

Current flexibility provided by IPSAS 1

12. A key objective of establishing requirements in IPSAS 1 for how information should be presented in financial statements is to ensure comparability with the entity's financial statements of previous periods and other entities with similar activities.
13. The IPSASB recognizes that there is a balance necessary between:
 - (a) Comparability in the way information is presented in financial statements supports the provision of financial information (about an entity's financial position, financial performance, and cash flows) necessary for accountability and decision-making purposes; and
 - (b) Flexibility in how information is presented in the financial statements based on the nature of the reporting entity's activities, the transactions incurred, and the impact of other events or circumstances in the reporting period.
14. IPSAS 1 currently provides some flexibility regarding the presentation of additional information in financial statements. For example, IPSAS 1 permits the display of additional line items, headings, and subtotals on the face of the primary financial statements and encourages additional note disclosure when needed for users to understand the entity's financial position, financial performance, and cash flows.
15. IPSAS 1 also currently provides some specific presentation options, for example:
 - (a) An entity shall present, either on the face of the statement of financial performance or in the notes, an analysis of expenses using a classification based on either the nature of expenses or their function based on the entity's activities.
 - (b) Asset and liability items displayed on the statement of financial position shall be classified on a current or non-current basis, except when a presentation based on liquidity provides information that is faithfully representative and is more relevant.
16. However, IPSAS 1 is fairly prescriptive in how it expects the financial statements to be structured and where certain information is required to be located within the financial statements. The question considered by this paper is whether increased flexibility should be permitted and how this could be provided.

¹ Public Financial Management (PFM), in its broadest sense, is the system by which financial resources are planned, directed, and controlled, both externally to and internally within the public sector entity, to enable and influence the efficient and effective delivery of public service outcomes sustainably.

Impact of accounting policy choices

17. The preparation of financial statements in accordance with IPSAS includes several accounting policy choices that will likely influence decisions regarding the presentation of information in financial statements. Accounting policy choices mainly relate to the measurement of assets and liabilities, which impact the extent to which the structure and content of the financial statements are required to account for economic flows not arising directly from transactions (i.e., valuation movements).
18. A reporting entity's decisions to measure assets and liabilities on a cost or revaluation basis (when IPSAS permits different options for subsequent measurement) will likely impact an entity's preferences for how information is presented in its financial statements.

Reasons for change

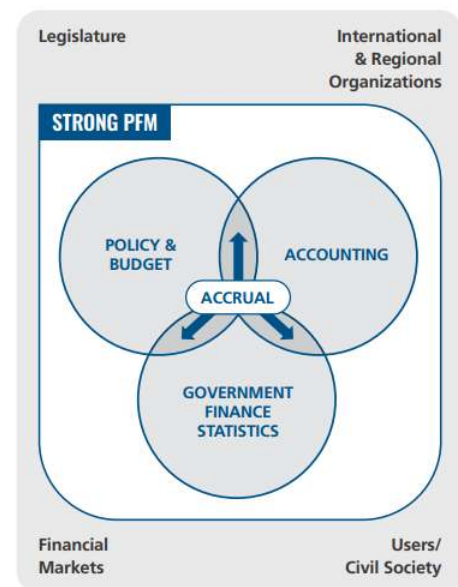
19. Many governments and international organizations have undertaken major reforms of their PFM systems to adopt accrual-based financial reporting based on IPSAS. The common reasons cited for this are improvements in transparency, comparability, and usefulness of information in financial statements for accountability and decision-making purposes.
20. The advancement of PFM reforms has also seen significant improvements in budgetary reporting processes and an increased focus on the quality of information used for GFS reporting purposes. These developments have led to a growing call for greater integration between the different financial-related reports used within the public sector for accountability and decision-making purposes. These reports include:
 - (a) financial statements and GFS information (which report ex-post financial information); and
 - (b) budget information and long-term fiscal sustainability reports (which are forward-looking).
21. Stakeholders have highlighted the difficulty in establishing the link between IPSAS-based financial statements and other reports used for budgeting or GFS purposes. This makes it difficult for politicians, policymakers, and other users to understand, recognize, and reconcile key financial performance measures of a similar nature used across different reports.

Exploring the concept of permitting different presentation approaches

22. The IPSASB is considering whether to explore, during the CP stage of the project, the concept of permitting the use of different options for presenting information in financial statements. This will support increased integration of different types of financial information used for strong PFM.

This includes information prepared for:

- (a) Public policy and budget purposes;
- (b) GFS purposes, and
- (c) Accounting purposes through the presentation of financial statements.



23. The IPSASB is currently in the exploratory phase of considering a presentation approach that allows for increased flexibility. For discussion purposes, the approach could work as follows:
- (a) In addition to the standard presentation approach provided for in IPSAS 1, a reporting entity would have the choice to present its financial statements based on three presentation optional approaches:

Option 1: IFRS-aligned — may be preferred by jurisdictions with a strong IFRS reporting background (this may be the case when for-profit entities in the jurisdiction apply IFRS).

The IFRS-aligned presentation approach would be similar to the standard IPSAS presentation approach, with differences mainly limited to terminology.²

Option 2: GFS-aligned — may be preferred by jurisdictions where GFS information is commonly used in other reports for public policy formation, reporting the financial impact of public sector activities, or presenting budget information.

Option 3: Budget-aligned — this approach would likely be a mixture of the two previous approaches and may be preferred by jurisdictions where the presentation of budget information strongly reflects local regulations and specific performance measures.
 - (b) The GFS and budget-aligned approaches would allow for greater flexibility concerning the structure of the financial statements and where information is located (for example, under the budget-aligned approach, total expenditure could include operating and capital expenditure).³
 - (c) The entity's decision of which approach to use would be based on:
 - (i) The consideration of the jurisdiction's PFM framework — the approach used for presenting budget information and the extent to which GFS information is used;
 - (ii) The consideration of domestic user needs — their familiarity with different presentation approaches (including terminology); and
 - (iii) The entity's accounting policy choices — the extent to which 'other economic flows' are required to be accounted for in the financial statements.
 - (d) Regardless of which presentation approach an entity chooses to use, all recognition, measurement, and minimum disclosure requirements in individual IPSASs must still be complied with. The increased presentation flexibility would be limited to choices about the structure of the financial statements and the location and organization of the required financial information within those financial statements.
 - (e) The overarching principles for the selection of information to disclose in the financial statements would also be consistent across all presentation approaches – this includes the principles of materiality and the qualitative characteristics of information included in GPFRs of public sector entities – relevance, faithful representation, understandability, timeliness, comparability, and verifiability.

² This will depend on whether the IPSASB introduces into the IPSAS literature an 'other comprehensive income' like approach as an outcome of this project.

³ GFS defines expenditure as the sum of expenses and the net investment in non-financial assets (i.e., capital expenditure).

24. The proposed approach, to offer three options, recognizes that due to the differences between PFM frameworks across different jurisdictions, a single standardized presentation approach may only be suitable for some jurisdictions.
25. In principle, the concept of providing different presentation approaches is being explored as a means of improving integration between different types of financial-related reports used for decision-making and accountability at a national level. Different presentation approaches may also be useful for different levels of government.
26. We envisage that if the approach is taken forward, decisions regarding the selection of different presentation approaches would likely be made centrally (for example, by the ministry of finance or accountant general's department) for a whole class or sector of entities. This will ensure that the presentation of financial statements remains comparable with other similar bodies in a jurisdiction.

Benefits

27. The potential benefits of introducing presentation approach options include:
 - (a) Greater flexibility to choose a presentation approach based on local jurisdictional considerations, user needs, and accounting policy choices.
 - (b) Facilitates greater integration of information in financial statements with other financial-related reports used within a jurisdiction's PFM reporting framework.
 - (c) Improved linkages and simplification of reconciliation between different financial-related reports used within a jurisdiction's PFM reporting frameworks.
 - (d) Use of common language and key financial performance measures across different financial-related reports – to support the increased understanding and use of information in financial statements.
 - (e) Consistency in presentation approaches will support the increased use of accrual-based information in financial statements as the source data used for the compilation of GFS and budgetary purposes – which will improve the quality and credibility of data used.

Downsides

28. The potential downsides of the new flexible presentation approach mainly relate to concerns about the impact on international, domestic, and entity-level comparability.
29. Many jurisdictions considering the adoption of IPSAS (or in the process of implementing IPSAS) have stressed the importance of comparability of financial statements at both a national and international level. For example, the comparability of financial statements has been cited as particularly important for the European Public Sector Accounting Standards (EPSAS) because they are developed to contribute to the European Commission's ability to compare the financial position of European Union member states.
30. In the United Kingdom, New Zealand, Australia, and other countries, budgets have conventionally been prepared on the same basis as financial statements for many years. In these countries, there is a general understanding that preparing and presenting financial information in budgets and financial statements on the same basis leads to the improved efficiency and effectiveness of the jurisdiction's PFM framework. However, this argument is not as strong for jurisdictions where the preparation of budget information is more closely aligned with GFS reporting guidelines and/or prepared on a cash basis.

31. The varying viewpoints on the nature and significance of comparability are likely to differ across various levels of government and among different types of entities within the public sector.
- (a) At a whole of government level, international comparability may be considered important from a bond market and/or GFS perspective; or
 - (b) At the sector level or within a sector, increased flexibility to present the financial statements in a manner that is linked to the budgeting framework may avoid comparability problems and support integration with the budgetary framework, as well as strengthening accountability and decision-making.
32. As noted above, by including presentational options, we envisage that under an optional presentation approach, IPSAS would continue to provide a 'standard' or 'default' financial statement presentation approach (i.e., format). If a different presentation approach is selected, the entity would need to explain why this approach is seen as providing information that is more faithfully representative and relevant to users.

Illustrative examples

33. [Appendix A](#) provides illustrative examples of what the different presentation approaches could look like. These are provided purely to illustrate the concept and have not yet been developed for the purpose of receiving feedback on their structure or content at this time.
34. The illustrative examples focus on the Statement of Financial Performance because this statement has the most scope for different presentation options. The main differences arise from where valuation movements are presented and the treatment of capital expenditure to show total government spending.
35. There is also scope for different presentation approaches for the Statement of Financial Position concerning how assets and liabilities are categorized – for example, current/non-current as used for financial reporting purposes or financial/non-financial as used for GFS purposes.

Next steps

36. If the concept of allowing for different presentation approach options in IPSAS is taken forward, additional analysis, stakeholder outreach, and IPSASB deliberation will be required to develop the concept further.

Questions for CAG members

- Q1. To what extent is the approach (i.e., format and structure) for presenting information in public sector financial statements in your jurisdiction influenced by the presentation approach of other reports used for PFM purposes?
- (Such as budget information, long-term fiscal sustainability reports, and information used for GFS purposes).
- Q2. What potential benefits and downsides do you see from providing increased flexibility for a jurisdiction to choose from different financial statement presentation approaches when applying IPSAS?

Appendix A — Illustrative examples of different presentation approaches

A1 Illustrative example: GFS-aligned presentation approach

Government Consolidated Financial Statements (Example)	
Statement of Operations	
Operating revenue (A) — by source	Transactions effecting net worth
Taxes	
Social contributions	
Grants	
Other revenue	
<hr/> Total operating revenue	Transactions in non-financial assets
Operating expenses (B) — by nature	
Compensation of employees	
Use of goods and services	
Consumption of fixed assets	
Social benefits	
....	
<hr/> Total operating expenses	
<hr/> Net/gross operating balance (A) - (B)	
Net/gross investment in non-financial assets (C)	
Fixed assets	Transactions in financial assets and liabilities (financing)
Inventories	
....	
<hr/> Total expenditure (D = B+ C)	Transactions effecting net worth
<hr/> Net lending/(Net borrowing) (A-D)/(F-G)	
<hr/> Transactions in non-financial assets and liabilities	
Net acquisition of financial assets (F)	Transactions effecting net worth
Net incurrence of liabilities (G)	
<hr/> Total transactions in non-financial assets and liabilities	
Other economic flows	Transactions effecting net worth
Fair value gain/(loss) on financial instruments	
Revaluation of land and buildings	
Actuarial gains/(losses)	
<hr/> Total other economic flows	

A2 Illustrative example: IFRS-aligned presentation approach

Government Consolidated Financial Statements (Example)	
Statement of Comprehensive Revenue and Expense	
Operating Revenue	Operating
Income from tax revenue	
Sale of goods and services	
Levies and commissions received	
Other	
<hr/>	
Total operating revenue	
Operating Expenses	
Transfer payments and other subsidies	
Wages and salaries	
Depreciation and amortization	
Impairment	
Repairs and maintenance	
Supply of goods or services	
Insurance	
Interest expense	
Other operating expenses	
<hr/>	
Total operating expenses	
<hr/>	
Operating surplus/(deficit)	
Income and expenses from investments	Investing
Income and expenses from associates and joint ventures	
Fair value gain/(loss) on financial instruments	
<hr/>	
Surplus/(deficit) before financing	
Interest expense on borrowings	Financing
Unwinding of discount on provisions	
<hr/>	
Surplus/(deficit) for the year	
<hr/>	
Other comprehensive income	Other revaluation gains and losses
Revenue and expenses that will be reclassified to surplus/(deficit)	
Losses on cash flow hedges	
Exchange differences on translating foreign operations	
Revenue and expenses that will not be reclassified to surplus/(deficit)	
Revaluation of land and buildings	
Actuarial gains/(losses)	
<hr/>	
Total comprehensive revenue/(expense)	
<hr/>	

A2a Illustrative example: Variant of IFRS-aligned presentation approach

The Annual Report of the Department of Culture, Media, and Sport in the United Kingdom, provides a useful example of financial statements applying an IFRS presentation approach, adapted to reflect the public sector context.

The adaptations include changes to the presentation approach to reflect local PFM considerations. Most notably, the reporting of the Department's "parliamentary funding" through the Statement of Changes in Taxpayers' Equity (equivalent to the Statement of Changes in Equity/Net Assets) rather than recognizing this funding as revenue. This presentation approach allows the Consolidated Statement of Comprehensive Net Expenditure (equivalent to the Statement of Financial Performance) to focus on the Department's Net Expenditure.

Extracts from Annual Report for the year ended 31 March 2022

PRIMARY STATEMENTS					
Consolidated Statement of Comprehensive Net Expenditure for the year ended 31 March 2022					
	Note	2021-22		Restated 2020-21	
		Core department	Departmental group	Core department	Departmental group
		£'000	£'000	£'000	£'000
Staff costs	3	137,271	2,320,450	115,854	2,300,840
Grants and subsidies to sponsored bodies	4.1	6,150,150	9,636	6,172,214	10,850
Other grants	4.2	351,233	3,168,228	679,804	3,868,766
Purchase of goods and services	4.3	89,604	565,475	73,602	440,511
Depreciation, amortisation, impairment charges and expected credit loss adjustments	4.4	34,038	435,963	5,777	438,102
Provisions expense	4.5	3,823	17,236	2,586	138,745
Finance cost	4.6	433	58,937	2,649	63,231
Other operating expenditure	4.6	39,547	2,700,881	37,540	2,275,986
Total operating expenditure		6,806,099	9,276,806	7,090,026	9,537,031
Income from contracts with customers	5.1	(44,566)	(558,657)	(44,361)	(474,665)
Current grant income	5.1	(91,122)	(209,886)	(99,169)	(225,963)
Other operating income	5.2	(81,713)	(2,453,432)	(2,977)	(2,135,405)
Total operating income		(217,401)	(3,221,975)	(146,507)	(2,836,033)
Net expenditure for the year		6,588,698	6,054,831	6,943,519	6,700,998
Other comprehensive net expenditure					
Items which will not be reclassified to net operating expenditure:					
Net (gain)/loss on:					
- revaluation of property, plant & equipment, intangible assets, heritage assets and right of use assets		(14,980)	(196,872)	(15,824)	61,409
- pension remeasurements	22.1	-	(1,188,149)	-	233,040
Items which may be reclassified to net operating expenditure:					
Net (gain)/loss on:					
- impairments		-	(306)	-	10,014
- other revaluations including financial assets through OCI		-	(185,900)	-	(354,135)
Total other comprehensive net expenditure		(14,980)	(1,571,227)	(15,824)	(49,672)
Total comprehensive expenditure for the period		6,573,718	4,483,604	6,927,695	6,651,326

Statement of Changes in Taxpayers' Equity (core department) for the year ended 31 March 2022

	Note	Core department		
		General fund	Revaluation reserve	Total reserves
		£'000	£'000	£'000
Balance at 1 April 2020		106,276	(13,837)	92,439
Net parliamentary funding - drawn down		(8,479,599)	-	(8,479,599)
Supply payable/(receivable) adjustment	18	1,270,635	-	1,270,635
CFERs payable to the Consolidated Fund	SOPS 4.1	6,795	-	6,795
Net expenditure for the year	SoCNE	6,943,519	-	6,943,519
Non-cash adjustments:				
Auditors' remuneration	4.3	(500)	-	(500)
Movements in reserves:				
Other comprehensive net expenditure	SoCNE	-	(15,824)	(15,824)
Balance at 31 March 2021		(152,874)	(29,661)	(182,535)
Net parliamentary funding - drawn down		(5,597,497)	-	(5,597,497)
Net parliamentary funding - deemed supply		(1,270,635)	-	(1,270,635)
Supply payable/(receivable) adjustment	18	175,745	-	175,745
CFERs payable to the Consolidated Fund	SOPS 4.1	883	-	883
Net expenditure for the year	SoCNE	6,588,698	-	6,588,698
Non-cash adjustments:				
Auditors' remuneration	4.3	(535)	-	(535)
Movements in reserves:				
Other comprehensive net expenditure	SoCNE	-	(14,980)	(14,980)
Balance at 31 March 2022		(256,215)	(44,641)	(300,856)

A3 Illustrative example: Budget-aligned presentation approach

Government Consolidated Financial Statements (Example)	
Statement of Operations	
Operating Revenue (by source)	Operating revenue and expenses (delivery of public sector programs)
Income taxes	
Other taxes	
Net investment income	
Net income from government business enterprises	
Other income	
<hr/>	
Total operating revenue	
Operating expenses (by function)	
Social benefits	
Health	
Education	
Defense	
General government	
Public order and safety	
Contingency and reserve fund	
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Total operating expense	
<hr/>	
Operating surplus/(deficit) before financing	
<hr/>	
Public debt charges	
<hr/>	
Net operating balance	
<hr/>	
Other economic flows included in the operating result	Other economic flows
Fair value gain/(loss) on financial instruments	
Net write-down of assets (including bad and doubtful debts)	
Net surplus/(deficit) from associates and joint ventures	
<hr/>	
Operating result	
<hr/>	
Other economic flows	
Revaluation of land and buildings	
Actuarial gains/(losses)	
<hr/>	
Comprehensive result - total change in net worth	
<hr/>	
Net operating balance	
<hr/>	
Net acquisition of non-financial assets	Net capital expenditure
Purchase of non-financial assets	
Less sales of non-financial assets	
<hr/>	
Fiscal balance (Net lending/(borrowing))	
<hr/>	
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IPSASB Due Process Checklist (condensed to include portions relevant to the CAG)

Project: Presentation of Financial Statements

#	Due Process Requirement	Yes/No	Comments
A. Project Brief			
A1.	A proposal for the project (project brief) has been prepared that highlights key issues the project seeks to address.	Yes	The IPSASB considered the draft project brief in June and September 2023.
A2.	The IPSASB has approved the project in a public meeting.	Yes	The IPSASB approved the Project Brief in September 2023.
A3.	The IPSASB CAG has been consulted on the project brief.	Yes	At the June 2023 meeting, the CAG provided feedback on key aspects of the project to inform the development of the project brief.
B. Development of Proposed International Standard			
B1.	The IPSASB has considered whether to issue a consultation paper or undertake other outreach activities to solicit views on matters under consideration from constituents.	Yes	The IPSASB has agreed to issue a consultation paper (CP) and an illustrative exposure draft (ED) during the first public consultation phase. Upon issuing the CP and the illustrative ED, the IPSASB will consider the nature of other outreach activities to support this consultation.
B2.	If comments have been received through a consultation paper or other public forum, they have been considered in the same manner as comments received on an exposure draft.	TBD	[Pending]
B3.	The IPSASB CAG has been consulted on significant issues during the development of the exposure draft.	TBD	The CAG will be consulted on significant issues throughout the development of the CP.
D. Consideration of Respondents' Comments on an Exposure Draft			
D4.	The IPSASB CAG has been consulted on significant issues raised by respondents to the exposure draft and the IPSASB's related responses.	TBD	[Pending]
D5.	Significant comments received through consultation with the IPSASB CAG are brought to the IPSASB's attention. Staff	TBD	[Pending]

#	Due Process Requirement	Yes/No	Comments
	have reported back to the IPSASB CAG the results of the IPSASB's deliberations on those comments received from the CAG.		
D6.	The IPSASB has assessed whether there has been substantial change to the exposed document such that re-exposure is necessary.	TBD	[Pending]
D7.	If applicable, the IPSASB has voted on a resolution in favour of re-exposure.	TBD	[Pending]
D8.	The basis of the IPSASB's decision with respect to re-exposure has been minuted.	TBD	[Pending]
D9.	If the exposure draft has been re-exposed, the explanatory memorandum accompanying the re-exposure draft explains the reasoning for re-exposure and the changes made as a result of the earlier exposure.	TBD	[Pending]
<i>E. Approval</i>			
E1.	The Program and Technical Director has confirmed to the IPSASB that due process has been followed effectively, and the final standard is approved for issuance.	TBD	[Pending]
E2.	The IPSASB has approved the final revised content of the exposed standard in accordance with its Terms of Reference.	TBD	[Pending]
E3.	If applicable, the IPSASB has set an effective date for application of the final standard.	TBD	[Pending]
E4.	The IPSASB's basis for conclusions has been prepared and included in the final standard.	TBD	[Pending]

Completed by: IPSASB Staff as of November 2023.