

DRAFT – Chapter 1 and Chapter 2

Consultation Paper
Month 202X
Comments due: Month Day, 202X

Presentation of Financial Statements



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

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

In meeting this objective, the IPSASB sets IPSAS™ and Recommended Practice Guidelines (RPGs) for use by public sector entities, including national, regional, and local governments, and related governmental agencies.

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

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Note: This section has yet to be completed

REQUEST FOR COMMENTS

This Consultation Paper, *Presentation of Financial Statements*, was developed and approved by the International Public Sector Accounting Standards Board® (IPSASB®).

The proposals in this Consultation Paper may be modified in light of comments received before being issued in final form. **Comments are requested by Month XX, 202X.**

Respondents are asked to submit their comments electronically through the IPSASB website, using the “[Submit a Comment](#)” link. Please submit comments in both a PDF and Word file. Also, please note that first-time users must register to use this feature. All comments will be considered a matter of public record and will ultimately be posted on the website. This publication may be downloaded from the IPSASB website: www.ipsasb.org. The approved text is published in the English language.

Guide for Respondents

The IPSASB welcomes comments on all matters discussed in this Consultation Paper, including all Preliminary Views and Specific Matters for Comment. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate and contain a clear rationale.

The Preliminary Views and Specific Matters for Comment in this Consultation Paper are provided below. Paragraph numbers identify the location of the Preliminary View or Specific Matter for Comment in the text.

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PV 1

Specific Matter for Comment 1—Chapter 1

SMC 1

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Chapter 1: Project Overview

Introduction

- 1.1 The preparation and publication of general-purpose financial statements (henceforth referred to as 'financial statements') is critical for holding governments and other public sector entities¹ accountable for their decisions and providing the information needed to support decision-making about the use of public resources. The financial statements are a key communication tool within an entity's public financial management (PFM)² framework.
- 1.2 Financial statements provide a faithfully representative and verifiable source of information about an entity's financial performance, financial position, and cash flows based on the transactions, events, and other economic phenomena that have occurred in the reporting period. The information is structured and presented in such a way as to support understandability, accessibility, comparability, and the reporting of relevant information in response to user needs.
- 1.3 The users of public sector financial statements, as provided for in *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (the 'Conceptual Framework'), are the service recipients of public sector services and the resource providers who fund the delivery of public sector services (and their representatives). This includes a wide range of users, such as citizens, taxpayers, legislators, policy advisors, lenders, creditors, and donors.³
- 1.4 How financial information is presented in financial statements is seen as a critical component of strengthening PFM globally due to the importance of ensuring the information presented in financial statements is relevant, useful, understandable, and accessible to the users of the financial statements for accountability and decision-making purposes.
- 1.5 IPSAS 1, *Presentation of Financial Statements* currently sets out the overall considerations for how financial statements should be presented. IPSAS 1 also includes guidance on the structure of the financial statements and minimum requirements for the content of the financial statements.⁴
- 1.6 This Consultation Paper (CP) considers enhancements to the existing principles and requirements in IPSAS 1 concerning how information is presented in financial statements. The improvements are expected to help support the effective and sustainable use of public sector resources and the ongoing delivery of public services for current and future generations by improving the communication effectiveness of financial statements.
- 1.7 Diagram 1 on the next page provides a snapshot of the project.

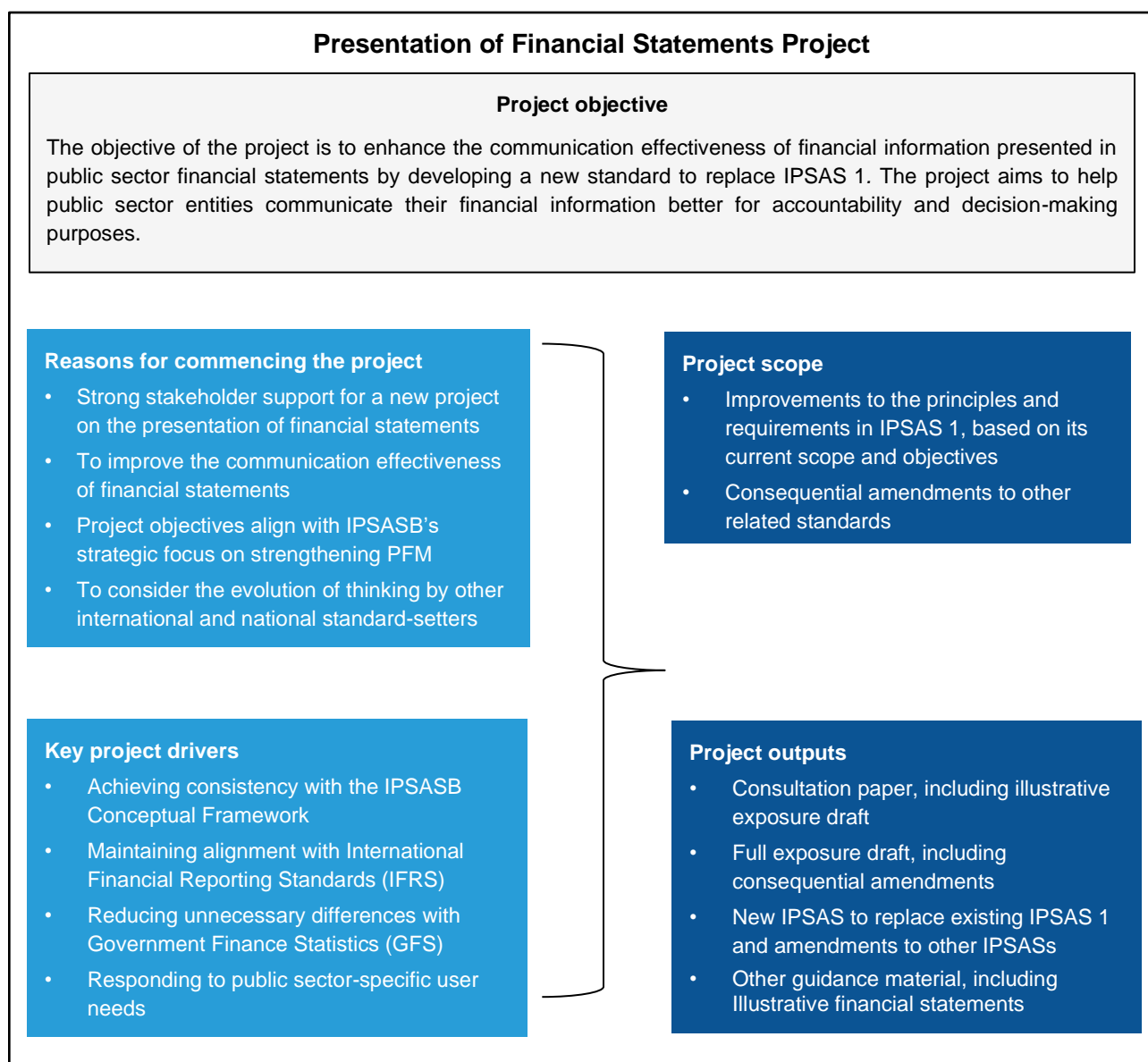
¹ Public sector entities include national and sub-national (regional, state/provincial, and local) governments and related government entities. It also includes international public sector organizations, such as the United Nations System Organizations.

² 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 and sustainable delivery of public service outcomes.

³ The financial information in financial statements is also used by other parties with an interest in the public sector, for example, statisticians, analysts, media, and lobby groups.

⁴ Paragraph 1 of IPSAS 1 provides that "*the objective of the Standard is to prescribe the manner in which general purpose financial statements should be presented to ensure comparability both with the entity's financial statements of previous periods and with the financial statements of other entities*".

Diagram 1



Why is this project being undertaken?

Developments since the last review of IPSAS 1

- 1.8 IPSAS 1 currently sets out the requirements for the selection, location, and organization of information reported in financial statements in accordance with IPSAS. The standard also provides guidance on the structure of financial statements, the components of financial statements, and requirements for the content of financial statements.
- 1.9 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 2006.⁵

⁵ IPSAS 1 has been subsequently amended for consequential amendments resulting from the issuance of new IPSASs.

- 1.10 Since IPSAS 1 was last revised, the following developments have not been considered by the IPSASB:
- (a) The IASB has substantially revised IAS 1 as a consequence of introducing the concept of other comprehensive income (OCI) and other amendments arising from the completion of the IASB's *Disclosure Initiative* projects;
 - (b) The outcomes of the IASB's project on the *Presentation of Financial Statements*;⁶
 - (c) The IPSASB's Conceptual Framework was published in 2014 with topics relevant to the presentation of financial statements; and
 - (d) The International Monetary Fund issued an updated Government Finance Statistics Manual in 2014 (GFSM 2014).
- 1.11 The IPSASB also noted that in the post covid-19 environment, users of public sector financial statements are looking for improvements regarding the transparency, relevance, and understandability of information about the levels of government expenditure, where the money has been spent (to understand priority areas), what the expenditure has achieved, and the liabilities the expenditure incurred has created.⁷
- 1.12 Given the evolution of thinking about the presentation of financial statements and other developments since 2006, this project provides the opportunity to consider enhancements to existing principles and requirements by replacing IPSAS 1 to improve the communication effectiveness of financial statements, which forms a central component of a public sector entity's general purpose financial reports (GPFRs).

Responding to concerns raised by users of financial statements

- 1.13 The published financial statements are often the first touch point (and sometimes the only touch point) many users have with information concerning a reporting entity's financial performance, financial position, and cash flows. How financial information is presented in the financial statements can significantly impact the usefulness of the information for accountability and decision-making purposes.
- 1.14 As financial reporting standards have matured in both the public and private sectors, concerns have been raised about the relevance and usefulness of information presented in financial statements. The common concerns raised by users of financial statements include:
- (a) Complexity and lack of understandability
- The suite of IPSAS standards is now substantially complete. As a result, some see the financial statements prepared in compliance with IPSAS as overly complex and using unhelpful technical accounting terminology. This complexity makes it difficult for non-expert users to understand the financial information presented in financial statements.

⁶ The aim of this IASB project is to develop improvements to the structure and content of the primary financial statements, with a focus on the statement(s) of financial performance. As an outcome of this project, the IASB expects to publish a new IFRS Standard in the first half of 2024.

⁷ Government fiscal interventions globally in response to the covid-19 pandemic exceeded 16 trillion US dollars (as of April 2021) [IFAC, From Crises to Recovery: Public Sector Priorities to Support Covid-19 Recovery](#).

(b) Information overload

Financial statements sometimes present an overwhelming amount of information. This information overload can hinder decision-making and the ability to identify the key information for accountability purposes.

(c) Relevance and materiality

Financial statements should give greater prominence to the information that is of most importance and relevance to users. Irrelevant or immaterial disclosures can obscure the most important information for accountability and decision-making purposes. Addressing this concern in the public sector is particularly challenging given the size of many public sector entities and the breadth of their activities.

1.15 During this project's research and scoping phase, the IPSASB also identified the following common presentation issues raised by preparers, auditors, and regulators.

- (a) Entities are unsure how to apply the materiality concept, leading to the disclosure of immaterial and non-relevant information.
- (b) Lack of requirements in IPSAS for the separate presentation of "recurring" revenue and expenses from "non-recurring" revenue and expenses.
- (c) Inconsistency in understanding how the statement of financial performance should be structured – specifically, the practice of presenting certain items of revenue and expenditure separately from sub-totals for total revenue and total expenditure.⁸
- (d) Entities do not clearly present expenditure classified by nature or function as currently required by IPSAS 1, with many reporting expenditure using a mixture of both.⁹
- (e) Increased reporting of non-GAAP measures, such as additional sub-totals in the statement of financial performance – the most common being 'operating surplus/deficit'. The calculation of these non-GAAP measures varies extensively across different public sector entities and different jurisdictions.¹⁰
- (f) Different views on how assets and liabilities should be classified when presented on the face of the statement of financial position – for example, an alternative to the existing current/non-current classification in IPSAS 1 is a financial/non-financial classification.¹¹
- (g) Inconsistent accounting and presentation of equity reserves and reconciliation of movements for the reporting period. Also, some jurisdictions use different descriptions for categorizing equity balances, such as 'restricted and unrestricted reserves' or 'usable and unusable reserves'.

⁸ Items typically excluded and presented separately are finance revenue, finance costs, profit/loss from sale of assets, fair value movements, and actuarial gains and losses.

⁹ Many users would like expenditure to be classified by the entity's major programs of service delivery, which they consider would be more aligned with the entity's policy objectives and budget information – and would allow the user to understand better the public sector entity's priorities and commitments to addressing various social, economic, and infrastructure needs.

¹⁰ Non-GAAP measures refer to measures of financial performance, position, or cash flows that are not based on measures provided for within accounting standards. Non-GAAP measures may be reported within the financial or outside the financial statements. In the private sector some common examples include 'operating profit' and 'earnings before interest, taxes, depreciation and amortization' (EBITDA).

¹¹ The Canadian Public Sector Accounting Standards Board (PSAB) has proposed a reporting model that requires assets and liabilities to be classified as financial/non-financial because of the importance of providing a net financial assets or net financial liabilities balance on the statement of financial position.

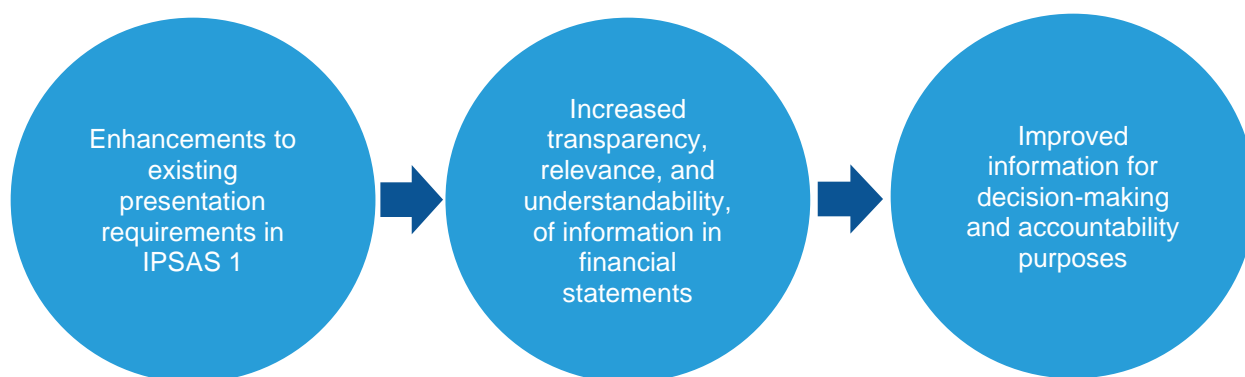
- (h) Uncertainty about classifying certain cash flow movements between operating, financing, and investing activities.

1.16 Further background on the reasons for the IPSASB undertaking this project is provided in [Appendix A](#).

What is the objective of this project?

- 1.17 The objective of this project is to enhance the communication effectiveness of financial information presented in public sector financial statements by developing a new standard to replace IPSAS 1. The project aims to help public sector entities communicate their financial information better for accountability and decision-making purposes.
- 1.18 The focus of the project is on enhancing the existing presentation principle and requirements in IPSAS 1 to support improvements in the transparency, comparability, relevance, understandability, and accessibility of information provided in public sector financial statements. Central to this objective is responding to the information needs of the broad group of public sector financial statement users.
- 1.19 Achieving this objective will include considering the structure of the financial statements, the location of information, and the required minimum content disclosures in IPSAS 1 — and the standards-level principles for how information is selected for presentation based on the concepts of materiality and the qualitative characteristics of information included in GPFRs.¹²
- 1.20 An overview of the project objective is illustrated in Diagram 1 below.

Diagram 1



- 1.21 The expected project outcomes are improvements to the existing requirements and principles in IPSAS 1 to allow public sector entities to present information in a manner that:
 - (a) Enhances the communication effectiveness of the financial statements for accountability and decision-making purposes; and
 - (b) Supports the increased integration of information presented in financial statements with other reporting systems used in their jurisdiction's PFM frameworks – such as their budgeting process and/or the reporting of information for government finance statistical purposes.

¹² The Conceptual Framework (Chapter 3) outlines the qualitative characteristics of information included in GPFRs of public sector entities, which are relevance, faithful representation, understandability, timeliness, comparability, and verifiability.

What are the key drivers for this project?

- 1.22 Through the research and scoping phase of the project, the IPSASB confirmed the following key drivers (or reference points) for advancing the development of this project.
- (a) Achieving consistency with the Conceptual Framework;
 - (b) Maintaining alignment with IFRS to the extent appropriate; and
 - (c) Reducing unnecessary differences with GFS.
- 1.24 The three drivers provide a strong basis for enhancing the presentation requirements in IPSAS 1 in response to the information needs of users of public sector financial statements.

Achieving consistency with the Conceptual Framework

- 1.23 In 2014, the IPSASB published its Conceptual Framework, which includes a separate chapter on the *Presentation of General Purpose Financial Reports* (Chapter 8) and other chapters with concepts relevant to the presentation of financial statements.¹³
- 1.24 The Conceptual Framework establishes the concepts to be applied by the IPSASB when developing IPSASs. The principles reflect the public sector context,¹⁴ particularly the reporting of information useful to users of financial statements for accountability and decision-making purposes.
- 1.25 Since the issuance of the Conceptual Framework in 2014 and subsequent updates, the IPSASB has not completed a full review of IPSAS 1 to ensure consistency of standards-level requirements and principles with the Conceptual Framework.
- 1.26 Some of the issues to be considered when reviewing existing requirements in IPSAS 1 against the Conceptual Framework include:
- (a) Purpose of financial statements – consistency with the objectives of general purpose financial reporting in Chapter 2 of the Conceptual Framework;
 - (b) Selection of information to present in financial statements – consistency with the qualitative characteristics of information in Chapter 3 of the Conceptual Framework;
 - (c) The definition of key financial statements elements – consistency with the definitions of assets, liabilities, revenue, expense, and contributions from and distributions to owners in Chapter 5 of the Conceptual Framework;
 - (d) Accounting for residual net assets/equity balances – consistency with the concepts of net financial position, other resources, and other obligations in Chapter 5 of the Conceptual Framework; and
 - (e) Presentation of financial statements – consistency with the general principles of presentation and the concepts concerning the selection, location, and organization of information in Chapter 8 of the Conceptual Framework.

¹³ In 2023, the IPSASB published a revised Chapter 5, *Elements in Financial Statements*, and Chapter 7, *Measurement of Assets and Liabilities in Financial Statements*, and a revised Chapter 3, *Qualitative Characteristics*.

¹⁴ The principle characteristic unique to the public sector is that the sector generally exists to provide services to the public rather than to generate profits.

- 1.27 The new proposed standard to replace IPSAS 1 will balance the objective of achieving consistency with the Conceptual Framework while also achieving appropriate alignment with IFRS and information prepared for GFS purposes.

Maintaining alignment with IFRS to the extent appropriate

- 1.28 IPSAS 1 was initially developed as an IFRS convergence project with the objective of maintaining alignment with the requirements, structure, and terminology used in IAS 1 issued by the IASB.
- 1.29 The IPSASB has a policy of maintaining alignment with IFRS to the extent appropriate for the public sector.¹⁵ Generally, it is considered that the presentation requirements between IPSAS and IFRS should be consistent unless there is a public sector-specific reason to warrant a departure.¹⁶
- 1.30 Achieving consistency in the presentation requirements between IPSAS and IFRS, being how the financial statements are structured, minimum content requirements, and the descriptions of elements (i.e., how the financial statements look), provides immediate benefits from an understandability perspective. This is due to the familiarity many users of public sector financial statements have with IFRS-based financial statements.
- 1.31 This project will consider the following amendments to IAS 1 not yet considered by the IPSASB at the standards level:
- (a) Amendments to IAS 1 issued in September 2007, which introduced the “comprehensive income” and “other comprehensive income” into the presentation of financial statements;
 - (b) Other amendments to IAS 1, including those arising from the completion of the IASB’s *Disclosure Initiative projects* over the 2014 – 2021 period; and
 - (c) The outcomes of the IASB’s *Primary Financial Statements* project.
- 1.32 Some of the issues to be considered from an IFRS alignment perspective include:
- (a) The public sector approach to other comprehensive income (OCI)
IPSAS 1 does not currently include the concept of OCI, whereby IFRS permits certain items of income and expenses to be recognized outside of the profit and loss statement and instead presented in the statement of comprehensive income. IPSAS generally requires these equivalent items of revenue and expenses to be recognized directly in equity reserves and accounted for through the statement changes in net assets/equity.
 - (b) Sectioned Statement of Financial Performance
IFRS 18 has introduced a requirement to classify income and expenses into one of five categories presented in the statement of profit or loss— operating, investing, financing, income tax, and discontinued activities. An equivalent requirement does not currently exist in IPSAS 1.

¹⁵ The development of an IPSAS aligned with an equivalent IFRS is guided by the IPSASB’s policy paper [Process for Reviewing and Modifying IASB Documents](#) (also known as ‘Rules of the Road’).

¹⁶ Departures from IFRS may be warranted when the requirements or terminology in IFRS do not appropriately reflect the public sector context, or when the inclusion of additional guidance is necessary for specific or more prevalent transactions in the public sector.

(c) Aggregation of revenue and expenses

The IASB, through the issuance of IFRS 18, has introduced enhanced principles for aggregating operating revenue and expenses. This project will consider whether to introduce these principles into a new IPSAS – including whether to retain the requirement to present expenses by function, nature, or allow a mixture of both.

(d) Disclosure of management-defined performance measures

The IASB has also introduced disclosure and reconciliation requirements for when management-defined performance measures (also commonly known as non-GAAP measures) are used to communicate management's view of an aspect of an entity's financial performance. The CP will assess the extent to which non-IPSAS measures are used in the public sector and the need for equivalent reconciliations.

Reducing unnecessary differences with GFS

- 1.33 In developing accounting standards appropriate for the public sector, the IPSASB has a policy of reducing unnecessary differences between IPSAS and GFS.¹⁷
- 1.34 Many governments produce two types of ex-post financial information:
- (a) Government finance statistics (GFS) on the general government sector (GGS) for macroeconomic analysis¹⁸ and decision-making; and
 - (b) General purpose financial statements to provide financial information to users for accountability and decision-making purposes at an entity level, which often includes consolidated financial statements for the whole of government reporting level.
- 1.35 The overarching standards for macroeconomic statistics are set out in the *System of National Accounts* (SNA).¹⁹ The SNA is a framework for a systematic and detailed description of the national economy and its components, including the GGS. These standards are then implemented at national or regional levels, for example, the European Union through the European System of Accounts. GFS reporting guidelines include the International Monetary Fund's (IMF) Government Finance Statistics Manual.
- 1.36 GFS reporting guidelines produced by IMF and other bodies provide internationally recognized standards and guidance for compiling and presenting government finance statistics. Their primary purpose is to promote consistency, comparability, and transparency of government finance statistics, making it easier to compare and analyze fiscal data across countries.
- 1.37 In 2014, the IMF issued the *Government Finance Statistics Manual 2014* (GFSM 2014) with an enhanced analytical framework to support fiscal analysis that was not considered during the original development of IPSAS 1.

¹⁷ The IPSASB considers opportunities to reduce unnecessary differences with GFS in all standard-setting projects. For further information, please see the IPSASB's [Process for Considering GFS Reporting Guidelines during the Development of IPSASs](#).

¹⁸ Macroeconomic reporting is the process of collecting, analyzing, and disseminating data and information about the overall performance and health of an economy.

¹⁹ The 2008 SNA was published jointly by five organizations: The Statistical Office of the European Communities (Eurostat), the International Monetary Fund (IMF), the Organization for Economic Co-operation and Development (OECD), the United Nations Statistics Division and regional commissions of the United Nations, and the World Bank.

- 1.38 The GFSM 2014 includes four primary statements:
- (a) Statement of Operations;
 - (b) Statement of Other Economic Flows;
 - (c) Balance Sheet; and
 - (d) Statement of Sources and Uses of Cash.
- 1.39 Financial reporting and GFS fulfill different purposes within a jurisdiction's PFM framework. Public sector financial reporting is focused on recording and presenting financial information on an entity's financial performance, financial position, and cash flows. GFS information is primarily concerned with determining the general government's impact on the economy and serves as input for macroeconomic reporting. Accordingly, financial reporting and GFS have different paradigms defining their respective recognition and measurement principles, which are provided for in separate reporting frameworks.
- 1.40 Although public sector financial reporting and GFS fulfill different purposes, financial information prepared in accordance with IPSAS and GFS guidelines have much in common. Both are prepared on an accrual basis and present a government's assets, liabilities, revenue, expenses, and information on cash flows. There is considerable overlap between IPSAS and GFS, and therefore, there is benefit in seeking to remove unnecessary differences where possible.

What is the scope of this project?

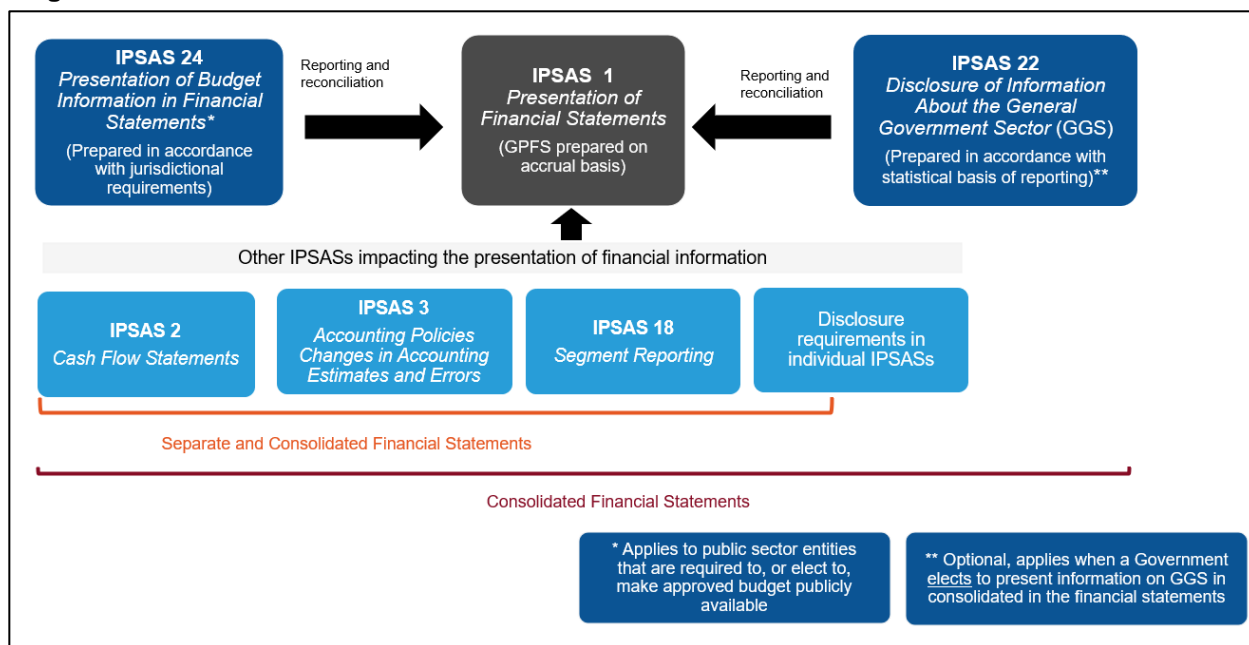
The primary focus of the project

- 1.41 The project is primarily focused on the existing objectives of IPSAS 1, which is to provide the overarching requirements and principles for how financial information should be presented in financial statements.
- 1.42 The project's scope is intrinsically linked to the purpose of preparing and presenting financial statements, which is to provide information about the financial position, financial performance, and cash flows of an entity that is useful to users for accountability and decision-making purposes. How information is presented in financial statements plays a significant role in achieving this purpose.
- 1.43 The project scope includes the development of standards-level provisions about the three underlying concepts of presentation – information selection, information location, and information organization.
- 1.44 The project scope also includes exploring the idea of allowing for different presentation approaches to support increased integration between financial information prepared for budgetary and statistical reporting purposes and financial statements prepared in accordance with IPSAS.

Consideration of other related IPSASs

- 1.45 The IPSASB noted that the preparation and presentation of financial statements in accordance with IPSAS requires the consideration of IPSAS 1 and other relevant IPSASs, including several standards that specifically address the presentation of information in different components of the financial statements (for example, IPSAS 2, *Cash Flow Statements*). However, the IPSASB agreed that it was important for this project to focus on the overarching requirements that underpin the presentation of financial statements, as currently provided for by IPSAS 1. This will provide a foundation from which possible future projects to review related standards may be considered.

- 1.46 Other IPSASs that include presentation and disclosure requirements are outside this project's scope. Nonetheless, the IPSASB acknowledged that consequential amendments will likely be required to ensure related IPSASs continue working together with the proposed new standard to replace IPSAS 1.
- 1.47 Diagram 2 on the next page provides an overview of the relationship between IPSAS 1 and other IPSASs, which address the presentation of information in financial statements.

Diagram 2

- 1.48 Further discussion on the relationship between IPSAS 1 and other IPSASs, as it relates to the scope of this project, is provided in [Appendix B](#).

Consideration of other reporting developments

- 1.49 The IPSASB considered other recent developments impacting how information is presented in financial statements when developing the project scope. Specifically, these included:
- (a) Efforts to improve the *accessibility* of information in financial statements through digital reporting and other initiatives; and
 - (b) The increased attention being given to the *connectivity* of information provided in financial statements with other information reported by an entity outside of its financial statements – such as climate-related disclosures and service performance information.
- 1.50 The IPSASB agreed that it was important for this project to focus on developing robust standards-level principles and requirements for the presentation of financial statements. The development of a new IPSAS to replace IPSAS 1 will provide a strong foundation for possible future IPSASB activities of separate projects to support improvements in the accessibility and connectivity of financial and non-financial information provided in different reports published by an entity to explain its performance, achievements, and impact.
- 1.51 Further discussion on other reporting developments, as it relates to the scope of this project, is provided in [Appendix C](#).

How will this project be developed?

- 1.52 The project will be developed by proposing enhancements to existing presentation requirements in IPSAS 1, based on the concepts in the Conceptual Framework, while seeking to align with IFRS and information prepared for GFS purposes to the extent appropriate to achieve the objectives of financial reporting.
- 1.53 To allow for stakeholder feedback throughout the development of this project and the opportunity to consider alternative presentation concepts, this project will be developed over three phases.

| | |
|--|---|
| Phase 1 — Consultation Paper (CP) and illustrative exposure draft (ED) | <p>This is the project's current phase, which is seeking feedback on the IPSAB's preliminary views on proposed enhancements to existing presentation requirements by replacing IPSAS 1.</p> <p>An illustrative ED is included to provide constituents with an understanding of what the proposed standard might look like based on the IPSASB's preliminary views discussed in this CP.</p> |
| Phase 2 — Full ED to replace IPSAS 1, plus consequential amendments to other IPSASs | Taking into account constituent feedback from Phase 1, the complete ED, together with consequential amendments to other IPSASs, will be developed and issued for public consultation. |
| Phase 3 — Final pronouncement | Based on constituent feedback received from Phase 2, the final IPSAS, together with consequential amendments to other IPSASs, will be developed for publication. |

- 1.54 **Diagram 2** below illustrates the process the IPSASB is taking to develop the new IPSAS on *Presentation of Financial Statements*. The project is presently in the CP development phase.



Chapter 2: Purpose of Financial Statements

- 2.1 This Chapter provides an overview of the key concepts concerning the *purpose of financial statements*. It then explores how this concept should be positioned in a new IPSAS to replace IPSAS 1.
- 2.2 As discussed in Chapter 1, the objective of this project is to enhance the communication effectiveness of financial information presented in financial statements of public sector entities by developing a new standard to replace IPSAS 1.
- 2.3 A key overarching principle within IPSAS 1 is the *purpose of financial statements*. Establishing a common understanding of this purpose, based on the information needs of users of public sector financial statements, is critical to advancing the objectives of this project.
- 2.4 The following concepts in the IPSASB's Conceptual Framework provide a useful lens from which to consider the purpose of financial statements.
- (a) [Objectives of financial reporting](#);
 - (b) [The role of financial statements](#);
 - (c) [Users of financial statements](#); and
 - (d) [Information needs of financial statement users](#).
- 2.5 A comprehensive review of the underlying concepts concerning the preparation and presentation of financial statements, as provided for in the Conceptual Framework, are outside this project's scope. However, the IPSASB is keen to receive feedback on whether any amendments are required to the existing guidance in IPSAS 1 to explain the purpose of financial statements at the standards level and to ensure consistency with the Conceptual Framework.

Objectives of financial reporting

- 2.6 The publication of financial statements enables public sector entities to be held accountable for how they manage and use the money and other resources they receive in exchange for the delivery of services to the public. The information in financial statements is also used as a key input into the decision-making process for the current and future use of public sector resources.
- 2.7 The purpose for preparing and presenting financial statements on an accrual basis in accordance with IPSAS is primarily based on the *objectives of financial reporting* as established by the Conceptual Framework.
- 2.8 Paragraph 2.1 of the Conceptual Framework provides that:
- The objective of financial reporting by public sector entities are to provide information about the entity that is useful to users of GPFRs for accountability purposes and for decision-making purposes.*

Accountability

- 2.9 The Conceptual Framework acknowledges that the notion of *accountability* reflected in the objective of financial reporting is broad. Governments and other public sector entities are accountable to those that provide them with resources (such as through the collection of taxes) and those that depend on them to use those resources to deliver services to the public.

- 2.10 The discharge of accountability obligations requires providing information about the entity's management of resources entrusted to it and information useful to users in assessing the sustainability of the entity's activities – the ability to continue providing services for the current and future periods.
- 2.11 For public sector entities, the discharge of accountability requires reporting to constituents on its stewardship of public resources. This includes providing information that will enable users to form judgments about such matters as:
- (a) The extent to which the entity has discharged its responsibilities in safekeeping and managing public resources,
 - (b) The efficient and effective use of those resources in achieving specified service delivery objectives, and
 - (c) Compliance with relevant budgetary, legislative, and other controls regulating the raising and use of public monies.
- 2.12 The IPSASB is of the view that a broad notion of accountability is appropriate because citizens and other constituents provide resources to governments and other public sector entities on an involuntary basis and, for the most part, depend on governments and other public sector entities to provide needed services over the long term.

Decision-making

- 2.13 The Conceptual Framework confirms the view of the IPSASB that users of GPFRs (including the financial statements) of public sector entities will require information for both accountability and decision-making purposes.
- 2.14 *Decision-making* refers to decisions made by resource providers about the allocation of resources to an entity and decisions made by the entity's management about how the resources received should be used.
- 2.15 The users of information in financial statements for decision-making purposes include:
- (a) Lenders, creditors, donors, and public sector entities that transfer resources to other public sector entities (e.g., transfers of funding from central to local government) who make decisions about the extent of resources provided in the current and future periods based on the information in the financial statements.
 - (b) Policymakers, politicians, and those involved in the budgetary process who often rely on the information in the financial statements as a key input for decisions about the future priority of government and other public sector spending.

Relationship between GPFRs and financial statements

- 2.16 The primary objective of governments and most public sector entities is to provide services to maintain and improve the well-being of citizens and other residents.
- 2.17 The Conceptual Framework provides that it is necessary for GPFRs to have a wider scope than the information reported through the financial statements alone, because the financial statements do not give a complete picture of how effectively and efficiently a public sector entity has met its service delivery objectives.

- 2.18 GPFRs are broadly defined as financial reports intended to meet the information needs of users who are unable to require the preparation of financial reports tailored to their specific needs.
- 2.19 In addition to the financial statements (which are focused on the entity's financial position, financial performance, and cash flows for a reporting period), GPFRs may include for example:
- (a) Information on the long-term sustainability of an entity's finances;²⁰
 - (b) Financial statement discussion and analysis;
 - (c) Service performance information;²¹ or
 - (d) Compliance with approved budgets (when reported outside the financial statements).²²
- 2.20 When considering the purpose of financial statements, it is important to keep in mind that they are not intended to include all the information needed to discharge a public sector entity's reporting obligations.

Role of financial statements

- 2.21 The Conceptual Framework recognizes that the information presented in the financial statements remains at the core of achieving the objectives of financial reporting — *to provide information about an entity that is useful to users of GPFRs for accountability purposes and for decision-making purposes*.
- 2.22 The role of the financial statements is to provide a structured representation of an entity's financial position, financial performance, and cash flows for a reporting period. The financial statements portray the financial effects of transactions and other events by grouping transactions and balances into broad classes based on shared common economic characteristics.
- 2.23 To fulfill this role, financial statements provide information about an entity's financial statement elements and other information to explain the entity's financial performance, position, and cash flows. The elements used in financial statements are:²³
- (a) Assets;
 - (b) Liabilities;
 - (c) Revenue;
 - (d) Expenses;
 - (e) Ownership contributions; and
 - (f) Ownership distributions.²⁴

²⁰ Provides information that is useful to assess the ability of an entity to meet its future debt servicing obligations and the extent to which it can meet other current and future obligations related to the delivery of public services.

²¹ Service performance information is predominantly non-financial information about the services that the entity provides.

²² While a comparison of actual with budget information for the reporting period may be included in the financial statements, the budget documents issued by governments may provide more detailed financial and non-financial information about the government's plans and priorities concerning the achievement of policy objectives over the short and medium terms.

²³ As provided for and described in Chapter 5 of the Conceptual Framework, *Elements in Financial Statements*.

²⁴ The Conceptual Framework recognizes that in some circumstances, to ensure that the financial statements provide information that is useful for a meaningful assessment of the financial performance and financial position of an entity, recognition of economic phenomena that are not captured by the elements may be necessary. Consequently, the Conceptual Framework does not preclude IPSAS from requiring or allowing the recognition of resources or obligations that do not satisfy the definition of a financial statement element in the financial statements – referred to “as resources and other obligations”.

- 2.24 When considering the purpose of financial statements, it is useful to consider their inherent limitations.
- (a) Financial statements largely portray the financial effects of past transactions, events, and other economic phenomena.
 - (b) Financial statements generally only portray assets and liabilities that can be reliably measured in monetary terms.
 - (c) Key non-financial information, such as the effectiveness, efficiency, or impact of goods or services delivered against public policy objectives, cannot be fully measured or reported in the financial statements.
 - (d) Certain qualitative factors, such as deferred maintenance or the quality of infrastructure assets, are not fully reflected in the information provided by financial statements.
 - (e) Financial statements can only report on certain items of an entity's sustainability and other related environmental, social, and governance (ESG) matters.
 - (f) Financial statements do not fully illustrate the financial impact of significant environmental challenges, such as an economic crisis, natural disasters, and health emergencies.
- 2.25 It is for these reasons that the IPSASB recognizes that other GPFRs will be needed to supplement the financial information provided in the financial statements to tell the full story of a public sector entity's performance.

Users of financial statements

- 2.26 As discussed above, the purpose of financial statements is to provide information about an entity that is useful to users of those statements for decision-making purposes and to demonstrate accountability. The objectives of financial reporting and the purpose of financial statements are therefore determined by reference to the users of the financial statements and their information needs.

Primary users

- 2.27 The Conceptual Framework provides that the primary users of GPFRs (for which the financial statements are a critical component) are:
- (a) Service recipients — Citizens and other residents who benefit from public services;²⁵ and
 - (b) Resource providers — Taxpayers, donors, lenders, and other resource providers that provide the resources to fund the delivery of those public services.²⁶
- 2.28 The primary users of financial statements also include the legislature (or similar representative body) and individual members of parliament acting on behalf of service recipients and service providers as primary users of the financial statements.²⁷

²⁵ Citizens and other residents receive services from, and provide resources (through taxes) to, the government and other public sector entities. Therefore, citizens are considered primary users of financial statements.

²⁶ Paragraph 2.4 of the Conceptual Framework describes the primary users of public sector GPFRs.

²⁷ The legislature, parliament, councils, and similar representative bodies are also primary users of financial statements and make use of these statements when acting in their capacity as representatives of the interests of service recipients and resource providers.

- 2.29 Service recipients and resource providers typically do not possess the authority to require a public sector entity to disclose the financial information they need for accountability and decision-making purposes – hence the need for standardized requirements for the preparation of financial statements.

Other users

- 2.30 The Conceptual Framework also recognizes that financial statements may be used by others with an interest in the financial reporting of public sector entities. Other users of financial statements may include:
- (a) Statisticians, analysts, the media, financial advisors, and public interest lobby groups; and
 - (b) Regulatory and oversight bodies, audit institutions, central agencies, budget controllers, rating agencies, and lending institutions.
- 2.31 These other users will often find the information in financial statements useful, but they are not considered the primary users of financial statements. Therefore, the requirements for preparing and presenting financial statements in IPSAS are not developed specifically to meet their particular information needs.²⁸
- 2.32 The information provided in financial statements may also be useful for compiling national accounts, as inputs to statistical financial reporting models, for assessments of the impact of government policies on economic activity, and for other economic analytical purposes. However, financial statements are not developed specifically to respond to the needs of those who require information for these purposes.²⁹
- 2.33 However, the IPSASB recognizes that the way information is presented in financial statements can help support the use of an integrated financial reporting system to generate IPSAS-compliant financial statements and other information used for GFS or budgetary purposes.

Information needs of financial statement users

- 2.34 The users of financial statements rely on the information they provide to enable them to hold governments and other public sector entities accountable for the delivery of necessary and/or promised services and to allow for informed decisions about the allocation and use of public resources. Increasingly, users are also looking for information about how the public sector is acting as a custodian of public resources and is safeguarding these resources for current and future generations.
- 2.35 The scope for considering the information needs of the users of financial statements is primarily through an understanding of the purpose and objectives of the financial statements.
- The purpose of financial statements is to present information about the financial position, financial performance, and cash flows of an entity; and
 - The objective of financial statements is to provide useful information to users of the financial statements (primarily being service recipients and resource providers) for accountability and decision-making purposes.

²⁸ Conceptual Framework, Paragraph 2.6.

²⁹ Conceptual Framework, BC 2.13.

- 2.36 When considering enhancements to the existing requirements in IPSAS 1, it is useful to consider the information needs of financial statement users, based on the individual components of the financial statements as summarized in Table 5.

Table 5

| Component of financial statements | Consideration of user information needs |
|--|---|
| Statement of financial position | <p>Users require information about the assets and liabilities of an entity to enable them to identify the resources of the entity and the claims on those resources at the reporting date.</p> <p>This provides useful information for accountability and decision-making purposes, as the information provides input into the user's assessment of such matters as:</p> <ul style="list-style-type: none"> (a) The extent to which management has discharged its responsibilities for safekeeping and managing the entity's resources. (b) The extent to which resources are available to support future service delivery activities and the consumption of resources during the current period. (c) The amounts and timing of future cash flow to service and repay existing claims to the entity's resources. (d) The entity's net financial position based on the balance of assets and liabilities |
| Statement of financial performance | <p>Users require information about the revenue received and expenses incurred to enable them to understand the entity's ability to fund its activities and the costs of service delivery.</p> <p>This will provide useful information for accountability concerning the efficient and effective use of public resources and the prioritization of spending across different programs.</p> <p>The statement also provides useful information for decision-making purposes about the cost of service delivery and the extent to which these costs are recovered from taxes or other contributions/ transfers or borrowings.</p> |
| Statement of changes in net asset/equity | Provides useful information for accountability and decision-making purposes on the extent of contributions from/to owners and any other movements not recorded through the statement of financial performance. |

| | |
|---|--|
| | Users also want information to understand the extent to which equity reserves are available to support current and future delivery activities. |
| Cash flow statement | <p>Users require information about the cash received and paid in the reporting period to help understand how well the entity manages its cash resources.</p> <p>Information about cash flows is also useful to help users assess the entity's compliance with spending mandates expressed in cash terms and inform the assessment of the likely amounts and sources of cash inflows needed in future periods to support service delivery objectives.</p> |
| Comparison of budget and actual amounts ³⁰ | The inclusion of approved budget information within the financial statements provides important information to assist users in assessing how well an entity has managed its operating activities and service delivery in accordance with approved budgets. |
| Notes to the financial statements | <p>The notes provide additional information to give context to the information displayed in the core financial statements.</p> <p>Such information provides the user with a better understanding of the entity's financial position, performance, and cash flows for the reporting period – and, therefore, provides information that is useful for accountability and decision-making.</p> |

2.37 Research concerning the financial information needs of the public³¹ highlights user needs consistent with the above. Some of the common information needs of the public to hold governments and other public sector entities accountable and to make decisions include:

- (a) Information that links an entity's budget to the financial statements; users want to be able to "follow the money", including:
- How the budgeted allocation of money was spent, where it was spent (i.e., what services/programs), if it was spent as planned, and who benefited;
 - How government spending benefits them personally;
 - How much money was spent on service delivery compared to administrative costs;
 - How much money is lost to corruption and wasteful expenditure, and explanation of any irregular expenditure; and
 - Tender information, such as who receives a significant contract and why, the amount of the contract, and any deviations from standard procurement processes.

³⁰ When an entity makes publicly available its approved budget, IPSAS 1 requires a comparison of budget and accrual amounts either as a separate additional financial statement or as a budget column in the financial statements.

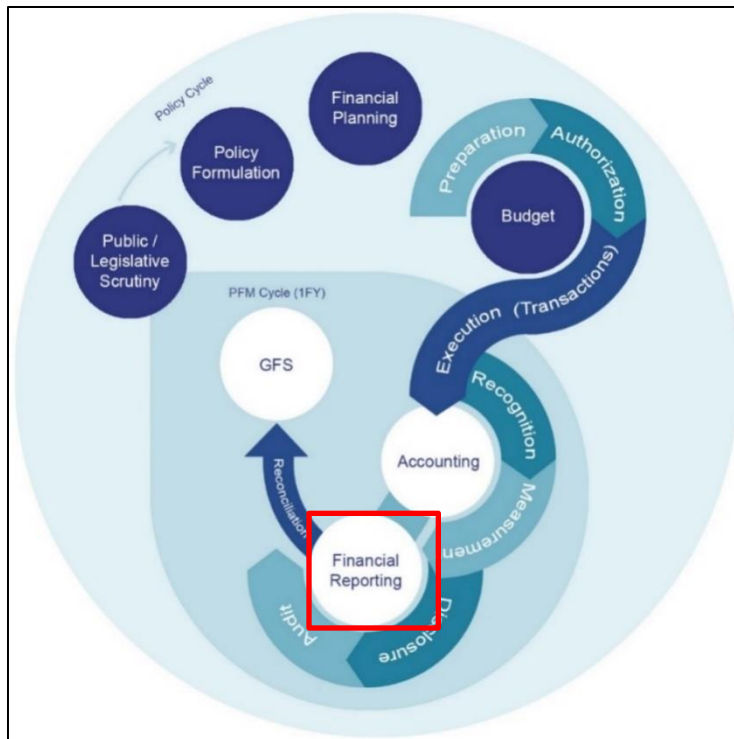
³¹ The public (or citizens) provides resources to the government and other public sector entities in the form of taxes, local government rates, levies, service charges, and donations. The public is also dependent on the delivery of services from these entities. They are, therefore, considered primary users of the financial statements.

- (b) Information about how much has been spent on capital expenditure, including:
- What significant projects are currently being undertaken;
 - How much progress has been made, what costs have been incurred to date, and what is the estimated cost to complete;
 - What are the reasons for the delays and over or under-spending against budgets; and
 - The maintenance required on completed capital asset projects and the ability of the asset to continue providing services as planned.
- (c) Information about the public sector entity's viability (the ability to continue operating based on expected resources available and future obligations), including:
- Whether debt is at an acceptable level and whether debt arrangements are able to be serviced as planned;
 - Whether the entity made a surplus or deficit and expected future surpluses/deficits; and
 - Whether the delivery of current services can be maintained over the current and future periods based on current revenue sources.

The purpose of financial statements within the broader PFM context

- 2.38 To provide a broader context for the purpose of financial statements, it is useful to consider the role of financial statements within the broader PFM framework, as illustrated in Diagram 3 below.

Diagram 3



Source: World Bank (May 2019 - *Benchmarking Guide: Integrating Public Sector Accounting and Government Financial Statistics*)

- 2.39 This diagram from the World Bank helps illustrate where financial reporting (which leads to the publication of financial statements) fits within an accrual-based PFM framework. The process starts with the formation of public policy, which then feeds into the financial planning and budgetary process, then leads to the accounting for the actual transactions incurred in the delivery of public goods and services, and finally, the financial reporting process, which for many jurisdictions is then reconciled with GFS information.
- 2.40 The diagram does not fully reflect the process's circular nature. While the financial reporting process and publication of financial statements are used for accountability purposes near the end of the PFM cycle, the information in the financial statements is also used at the start of the PFM cycle to provide key inputs for the decision-making purposes regarding the development of future public policy and government priorities through the budgeting process.
- 2.41 The preparation and publication of financial statements contribute to the PFM cycle by confirming, based on the reporting of actual transactions incurred and events, the extent to which managers and those charged with governance have discharged their responsibilities for the efficient and effective use of public resources in compliance with budgetary, legislative, and other requirements. In addition, the financial statements provide a reliable 'source of truth' for information about the entity's current financial position and performance from which future decisions can be made.
- 2.42 The discipline of preparing and presenting financial statements in accordance with IPSAS and obtaining assurance over those financial statements is critical from a PFM perspective. Many members of the public will not read the financial statements of governments, but nevertheless, their trust in the government's management and use of public resources is enhanced by the knowledge that the financial statements are prepared and published in accordance with standardized requirements.

Proposed enhancements to IPSAS 1 – describing the 'purpose of financial statements'

- 2.43 In advancing the project objectives, the IPSASB has considered whether enhancements are needed to the standards-level description of the *purpose of financial statements*. This consideration was based on reviewing existing guidance in IPSAS 1, the IPSASB's Conceptual Framework, and recent changes made by the IASB through the issuance of IFRS 18 [TBC].
- 2.44 The general understanding of the purpose and objectives of financial statements, as discussed in this Chapter, has remained the same from when IPSAS 1 was last reviewed. This understanding has subsequently been reflected in the Conceptual Framework through the discussion on the purpose of financial reporting, users of the GPFRs, and their information needs.
- 2.45 The guidance in the Conceptual Framework provides that:
- The purpose of financial statements is to present information about the resources of the reporting entity and claims to those resources at the reporting date, and changes to those resources and claims and cash flows during the reporting period.³² It is generally understood that this purpose is achieved through the reporting of information about the financial position, financial performance, and cash flows of an entity.³³
 - The objective of financial reporting is to provide financial information about the entity that is useful to users of GPFRs for accountability purposes and decision-making purposes.³⁴

³² Conceptual Framework, paragraph 4.6.

³³ Conceptual Framework, paragraph 2.17.

³⁴ Conceptual Framework, paragraph 2.1.

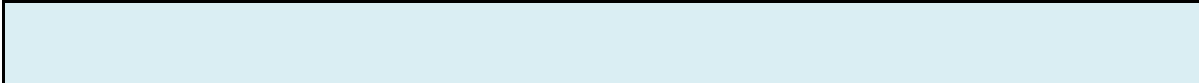
- 2.46 A review of the standard-level description of the *Objective of Financial Statements* in IFRS 18 highlights a move towards streamlining the extent of guidance at the standards level, based on the understanding that a discussion on the purpose of financial statements is a key concept better addressed through a conceptual framework.
- 2.47 As a result of this analysis, the proposed standard-level description of the *Purpose of Financial Statements*, as included in the illustrative ED, is as follows.

| Proposed standards-level description | Basis for guidance |
|--|---|
| Objective of financial statements³⁵ XX The objective of financial statements is to provide financial information about a reporting entity's assets, liabilities, net assets/equity, revenue, and expenses that is useful to users of financial statements for accountability and decision-making purposes. | The paragraph aligns with the "objective of financial statements" provided in paragraph X of IFRS 18, with terminology changes to ensure consistency with IPSAS literature. |
| XX Specifically, the objectives of financial reporting in the public sector are to provide financial information that is useful to users of the financial statements in assessing: <ul style="list-style-type: none"> (a) The extent to which management has discharged its responsibility for safekeeping and managing the resources of the entity; (b) The extent to which resources are available to support future service delivery activities, and changes during the reporting period in the amount and composition of those resources and claims to those resources; (c) The amount and timing of future cash flows necessary to service and repay existing claims to the entity's resources; (d) Whether the entity has acquired resources economically and used them efficiently and effectively to achieve its service delivery objectives; (e) Whether operating costs were recovered from revenue earned in the period or were financed by increasing the level of indebtedness; and (f) How the entity raised and used cash during the period, including its borrowings, repayment of borrowing, and its acquisition and sale of, for example property, plant, and equipment. | No equivalent paragraph is included in IFRS 18. The IPSASB considered that additional guidance was needed at the standards level to reflect the public sector context, which is focused on the broader user needs of service recipients and resource providers. The public sector specific paragraphs are based on paragraphs 2.14-2.16 of the Conceptual Framework. This proposed paragraph enhances the existing public sector specific guidance in paragraph 15 of IPSAS 1. |
| XX General purpose financial statements can also have a predictive or prospective role, providing information useful in predicting the level of resources required for continued operations, the resources that may be generated by continued | No equivalent paragraph is included in IFRS 18. The paragraph has been brought forward from an existing paragraph in IPSAS 1. |

³⁵ IFRS 18 refers to the "objective of financial statements" rather than the "purpose of financial statements" as currently used in IPSAS 1.

| | |
|---|--|
| <p>operations, and the associated risks and uncertainties. Financial reporting may also provide users with information:</p> <ul style="list-style-type: none"> (a) Indicating whether resources were obtained and used in accordance with the legally adopted budget; and (b) Indicating whether resources were obtained and used in accordance with legal and contractual requirements, including financial limits established by appropriate legislative authorities. | <p>The IPSASB considered it appropriate to retain the paragraph based on the need of service recipients and resource providers for information to assess compliance with relevant budgetary, legislative, and other authorities regulating the raising and use of resources.</p> |
|---|--|

Preliminary View 1



APPENDIX A – FURTHER BACKGROUND ON REASONS FOR CONDUCTING THE PROJECT

A1 Further background on the reasons for undertaking this project are discussed under the following headings.

- (a) [Responding to stakeholder feedback](#)
- (b) [Consideration of the environmental landscape](#)
- (e) [Consistency with IPSASB's strategic objectives](#)

Responding to stakeholder feedback

- A2 In July 2021, the IPSASB sought stakeholder feedback on its [Strategy and Work Plan for 2019-2023](#). This included consultation on which potential new projects should be added to its work plan over this period. Overall, the IPSASB received strong support for continuing to focus its efforts on developing and maintaining high-quality financial reporting standards and guidance for the public sector.
- A3 Through this consultation, the addition of a new project on the presentation of financial statements in the public sector received strong support. One of the key challenges in practice raised by respondents was the need to improve the accessibility of information provided in financial statements for non-specialist users and civil society in general.
- A4 Respondents strongly supported revising IPSAS 1 to enhance the relevance, usefulness, understandability, and accessibility of information in public sector financial statements. Feedback included an encouragement to consider the outputs of the IASB projects focused on improving the communication effectiveness of information in financial statements.
- A5 In preparation for commencing a new project on the presentation of financial statements, the IPSASB completed initial scoping and research activities over the 2019-2023 period.³⁶ This work was critical in confirming the importance of the project, identifying the key public sector issues to be addressed, and ultimately supporting the IPSASB decision to commence the project.
- A6 The IPSASB agreed to commence the project and approved the [Project Brief](#) for the new project *Presentation of Financial Statements* in September 2023.

Consideration of the environmental landscape

- A7 Many governments and other public sector entities, at both central and local levels, are under increased pressure to demonstrate the sustainable use of resources to ensure the ongoing delivery of services to the public for current and future generations.³⁷ This pressure originates from ongoing fiscal challenges arising from increased service delivery costs, aging infrastructure assets requiring replacement, responding to natural disasters, and implementing climate change mitigation and adaptation plans.

³⁶ The topic of *Presentation of Financial Statements in the Public Sector* was included as a topic for discussion at the 2nd IPSASB Research Forum held on 17 June 2020 in Oslo-Drammen, Norway, and feedback was also received from the IPSASB Consultative Advisory Group (CAG) in June 2023.

³⁷ Those services include, for example, welfare programs, education, health, law and order, national security, and defense services.

- A8 In response to this pressure, users of financial statements are looking for improvements regarding the transparency, relevance, and understandability of information presented in financial statements about how public sector financial resources are being managed and spent. Users of public sector financial statements also want a clearer understanding of the resources available to service current and future service delivery costs.
- A9 In addition, the unprecedented level of government spending in response to the covid-19 pandemic has subsequently seen an increased demand from the public for improved transparency around the levels of government expenditure, where the money has been spent (to understand priority areas), what the expenditure achieved (i.e., impact), and the liabilities this spending has created.
- A10 How financial information is presented in financial statements is key to communicating the financial impact of public policy decisions in response to current environmental challenges. The consideration of the current environmental landscape confirms a need and opportunity for improvements to the existing presentation requirements in IPSAS 1.

Consistency with IPSASB's strategic objectives

- A11 The IPSASB's Strategy and Work Program for 2024-2028 includes the strategic objective of:

"Strengthening Public Financial Management (PFM) globally through increasing adoption and implementation of accrual IPSAS and public sector sustainability reporting standards."

- A12 The IPSASB plans to deliver its strategic objective in two ways, both of which have a public interest focus:
- (a) Delivering global standards by developing and maintaining public sector financial and sustainability reporting standards; and
 - (b) Inspiring implementation by raising awareness of the IPSAS standards and the benefits of their adoption.
- A13 This project, which is focused on improving requirements concerning the presentation of financial statements by replacing IPSAS 1, is consistent with the IPSASB's strategic objectives because:
- (a) Developing high-quality financial reporting standards for the public sector will be achieved by exploring new requirements for the presentation of financial statements that are focused on the information needs of users of public sector financial statements; and
 - (b) Improvements to how information is presented in public sector financial statements, to enhance understandability and accessibility, will support the adoption and implementation of IPSAS through the increased understanding of how financial information should be presented in the financial statements – leading to improved consistency in reporting.

APPENDIX B – FURTHER BACKGROUND ON SCOPE CONSIDERATIONS

- B1. The development of standards-level requirements concerning the presentation of financial statements is linked to many of the underlying principles for preparing financial statements – including:
- (a) The objectives of financial reporting – to provide information that is useful for accountability and decision-making purposes;
 - (b) Identifying the users of financial statements and their information needs;
 - (c) The qualitative characteristics and constraints on information included in GPFs;³⁸
 - (d) The concept of the reporting entity;³⁹ and
 - (e) The relationship between the financial statements and other types of general purpose reports.
- B2. The presentation of financial information is also impacted by the definitions of the financial statement elements, the recognition criteria, and measurement requirements in IPSAS – for example:
- (a) The definition of the elements and the measurement criteria affect the items that can be presented in the financial statements; and
 - (b) The application of different measurement bases impacts the presentation of information about valuation movements recognized.
- B3. Due to the broad nature of the presentation concept and linkages with other financial reporting requirements and developments, the project scope needed to be clearly defined. The IPSASB confirmed the scope of this project by considering the following:
- (a) [The concept of presentation](#);
 - (b) [The relationship between IPSAS 1 and other IPSASs](#); and
 - (c) Other reporting developments ([Appendix C](#)).

The concept of presentation

- B4. The project scope includes the development of standards-level provisions concerning the three underlying concepts of presentation – information selection, information location, and information organization.

Information selection

- B5. Decisions about the selection of information to include in the financial statements involve the application of professional judgment based on the consideration of the following:
- (a) *The objectives of financial reporting by public sector entities* – to provide information about the entity that is useful for users of the financial statements for accountability and decision-making purposes; and

³⁸ Chapter 3 of Conceptual Framework: *Qualitative Characteristics*, outlines the qualitative characteristics of information included in general purpose financial reports and the constraints on information included in general purpose financial reports.

³⁹ Chapter 4 of the Conceptual Framework: *Reporting Entity*, outlines the key characteristics of a reporting entity.

- (b) *The qualitative characteristics and constraints of information included in the GPFRs – relevance, faithful representation, understandability, timeliness, comparability, verifiability, materiality, cost-benefit, and balancing the qualitative characteristics.*
- B6. The information selected for inclusion in the financial statements is based on the entity's objectives, the nature of the transactions, events, or other economic phenomena that have occurred during the reporting period, and jurisdiction-specific considerations. Selection decisions will also require considering what information should be included in the financial statements or other GPFRs.
- B7. The qualitative characteristics of *relevance* and *faithful representation* are particularly relevant to information selection decisions. Users of financial statements want information that is of most relevance and interest to them. The communication effectiveness of financial statements is weakened when they are cluttered with information that is not considered relevant for accountability and decision-making purposes.
- B8. *Relevance* requires that the information selected for presentation should be capable of making a difference in achieving the financial reporting objectives and should have confirmatory and/or predictive value. *Faithful representation* requires that information included in the financial statements about an entity's financial performance, position, and cash flows should be complete, neutral (i.e., selected and presented without bias), and free from material error.

Information location

- B9. Decisions about information location address whether information should be displayed on the face of the core statements or disclosed in the notes. These decisions can affect the way that users interpret the information presented and the comparability of the information.
- B10. Distinguishing displayed information and disclosed information through location ensures that those items that directly relate to communicating matters, such as an entity's financial position, financial performance, and cash flows, can be highlighted and given appropriate prominence, with further information as required to provide a full understanding of the displayed items provided through the notes.
- B11. IPSAS 1 includes guidance and requirements for the information presented in different components of the financial statements, which determine the location of different types of information. In accordance with IPSAS 1, the components of the financial statements currently comprise of:
- (a) A statement of financial position;
 - (b) A statement of financial performance;
 - (c) A statement of changes in net assets/equity;
 - (d) A cash flow statement;
 - (e) When the entity makes publicly available its approved budget, budget information either as a separate statement or as a column in the financial statements; and
 - (f) Notes, comprising a summary of significant accounting policies and other explanatory material.⁴⁰

⁴⁰ The current components of financial statements and how they are structured may be enhanced or amended as a result of this project.

Information organization

- B12. Decisions about how the information is organized in the financial statements address questions such as the structure of financial statements, grouping of transactions, using headings and subtotals, aggregation and disaggregation of information, and ordering of note disclosures.
- B13. A key consideration for information organization is ensuring the linkages between the different parts of the financial statements are clear and support comparability. This is critical for understandability and giving prominence to information that conveys key messages.

The relationship between IPSAS 1 and other IPSASs

- B14. The IPSASB noted that the preparation and presentation of financial statements in accordance with IPSAS requires the consideration of IPSAS 1 and other relevant IPSASs, including several standards that specifically address the presentation of information in different components of the financial statements (for example, IPSAS 2, *Cash Flow Statements*).
- B15. However, the IPSASB agreed that it was important for this project to focus on the overarching requirements that underpin the presentation of financial statements, as currently provided for by IPSAS 1. This will provide a foundation from which possible future projects to review related standards may be considered.
- B16. Other IPSASs that include presentation and disclosure requirements are outside this project's scope. Nonetheless, the IPSASB acknowledged that consequential amendments will likely be required to ensure related IPSASs continue working together with the proposed new standard to replace IPSAS 1.

IPSAS 2, Cash Flow Statements

- B17. As currently provided for in IPSAS 1, the cash flow statement is a critical component of a complete set of accrual-based general purposes financial statements. The information provided by this statement allows users to ascertain how a public sector entity raised the cash it required to fund its activities, and the manner in which that cash was used. It is a key statement used for decision-making and to demonstrate accountability for the entity's use of cash resources.
- B18. The requirements for preparing and presenting a cash flow statement are set out in a separate standard, IPSAS 2. Through the scoping and research phase of this project, the IPSASB has yet to be made aware of any significant concerns about the current requirements in IPSAS 2 and, therefore, concluded that a comprehensive review of this Standard was not required as part of this project.
- B20. At the exposure draft phase of this project, the IPSASB will consider consequential amendments to IPSAS 2 due to decisions made regarding the replacement of IPSAS 1. The IPSASB recognizes the importance of all components of the financial statements working together to provide a coherent picture of an entity's financial performance for the reporting period.
- B21. The IPSASB understands the important role of the cash flow statement and the crucial information it provides. A separate project on IPSAS 2 has been included in the IPSASB's Work Program as a future maintenance project and will commence as resources become available.

IPSAS 3, Changes in Accounting Estimates and Errors

- B22. IPSAS 3 is drawn primarily from IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, published by the IASB. IPSAS 3 provides a basis for selecting and applying accounting policies in the absence of explicit guidance in other IPSASs.
- B23. The IASB's *Primary Financial Statements* project resulted in some amendments to IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors* – these were limited to the relocation of provisions between IAS 1 and IAS 8.
- B24. IAS 1 (superseded by IFRS 18) previously included requirements relating to the general features of financial statement preparation. The issuance of IFRS 18 and the withdrawal of IAS 1 resulted in some of the paragraphs setting out general features of financial statements preparation being moved from IAS 1 to IAS 8.
- B25. The wording used in the paragraphs moved from IAS 1 to IAS 8 by the IASB was unchanged (i.e., the amendments were limited to the relocation of paragraphs); these included:
- (a) the definition of material;
 - (b) the requirements relating to fair presentation and compliance with IFRS Standards;
 - (c) the requirements relating to going concern;
 - (d) the requirements relating to the accrual basis of accounting; and
 - (e) the requirements relating to disclosures of accounting policies and sources of estimation uncertainty.
- B26. The IASB considered that the movement of these paragraphs allowed for the new standard (IFRS 18) to be focused primarily on the presentation of information in the financial statements, and requirements concerning the basis for preparing the financial statements would fit better within the content of IAS 8. This project will consider whether moving equivalent principles from IPSAS 1 to IPSAS 3 is appropriate based on maintaining the coherence of the IPSAS suite of standards.

IPSAS 18, Segment Reporting

- B27. During research for and scoping of this project, the importance of the relationship between the presentation requirements in IPSAS 1 and IPSAS 18 was highlighted.
- B28. IPSAS 1 provides the overarching principles for the presentation of financial statements, including the format and layout, while IPSAS 18 establishes the requirements for identifying and disclosing segment information for certain elements of the financial statements.
- B29. When preparing financial statements, the categorization and aggregation of information often requires a public sector entity to consider IPSAS 1 and IPSAS 18 concurrently. This ensures that segment reporting is integrated into the overall approach to preparing the financial statements.
- B30. A comprehensive review of IPSAS 18 is outside this project's scope. However, the IPSASB will consider consequential amendments to IPSAS 18 due to decisions made regarding the replacement of IPSAS 1 to ensure the two standards continue to work together.

IPSAS 22, Disclosure of Information about the General Public Sector

- B31. The objective of IPSAS 22 is to provide disclosure requirements for governments that elect to present information in their consolidated financial statements about the general government sector (GGS) prepared on a statistical basis.⁴¹ The application of the standard is optional.
- B32. The key differences between financial statements prepared in accordance with IPSAS and those prepared on a GGS basis are summarised in **Table 1** below.

Table 1

| Financial statements prepared in accordance with IPSAS | Financial statements for GGS prepared on a statistical basis |
|--|---|
| <p>Financial statements of for a government provide an overview of:</p> <ul style="list-style-type: none"> (a) the assets controlled and liabilities incurred by the government; (b) the cost of services provided by the government; and (c) the taxation and other revenues generated to fund the provision of those services. <p>Financial statements of a government, which delivers services through controlled entities, whether primarily dependent on the government budget to fund their activities or not, are included in the consolidated financial statements.</p> | <p>Financial statements and budgets for the government, or sectors thereof, are prepared in accordance with statistical bases of financial reporting.</p> <p>These statistical bases of financial reporting focus on providing financial information about the GGS.</p> <p>The GGS comprises those non-profit entities that undertake nonmarket activities and rely primarily on appropriations or allocations from the government budget to fund their service delivery activities.</p> <p>The statistical bases of financial reporting may also provide information about</p> <ul style="list-style-type: none"> (a) the corporations sector of government that primarily engages in market activities; (b) the public sector as a whole (for example, GGS may include both central and local government). <p>While Financial statements prepared in accordance with IPSAS consolidate only controlled entities, such a limitation is not made in statistical bases of financial reporting.</p> |
| <p>The objectives of financial statements prepared in accordance with IPSASs are to provide information useful for decision-making and to demonstrate the accountability of the entity for the resources entrusted to it and which it controls.</p> | <p>The purpose of financial statements prepared in accordance with statistical bases of financial reporting is to provide information suitable for analyzing and evaluating fiscal policy, especially the performance of the GGS and the broader public sector of a country.</p> |

⁴¹ These bases reflect requirements consistent with, and derived from, the System of National Accounts, 2008 prepared by the United Nations and other international organizations, which is an internationally recognized framework for compiling and presenting economic statistics at the national level.

- B33. In many jurisdictions, the disclosure of information about the GGS in financial statements supports and enhances the decision-making of, and accountability to, users of those statements. The disclosure of information about the GGS assists users of the financial statements to better understand:
- (a) The resources allocated to support the service delivery activities by the GGS, and the government's financial performance in delivering those services; and
 - (b) The relationship between the GGS and the corporation's sector, and the impact each has on overall financial performance.
- B34. In those jurisdictions where financial statements for the government are prepared in accordance with statistical bases of financial reporting and widely published, the disclosure of information about the GGS in financial statements forms a useful link between the financial statements prepared in accordance with IPSASs and those prepared in accordance with statistical bases of financial reporting.
- B35. The IPSASB is unaware of any significant concerns with the current reporting requirements in IPSAS 22. Therefore, a comprehensive review of IPSAS 22 is outside this project's scope.
- B36. The IPSASB will consider consequential amendments to IPSAS 22 due to decisions made regarding the replacement of IPSAS 1 to support the reconciliation of GGS disclosures in the financial statements with financial information prepared in accordance with IPSAS.
- B37. A separate project on IPSAS 22 has been included in the IPSASB's Work Program as a potential future maintenance project, which will commence as resources become available.

IPSAS 24, Presentation of Budget Information in Financial Statements

The importance of budget information

- B38. The IPSASB recognizes the importance of the budgeting process in strengthening PFM. The publishing of budget information is critical for holding public sector entities accountable for the efficient collection of public funding and for the effective use of this funding in accordance with agreed priorities established through the budget process.
- B39. Most governments and other public sector entities operate within spending mandates and financial constraints established through the budgetary process. Monitoring the implementation of the approved budget is one of the primary methods of oversight by which a public sector entity is held accountable for its financial performance and management of public resources.
- B40. The budget process supports fiscal discipline by setting limits on expenditures and revenue targets, preventing overspending, and promoting responsible financial management. Published budget information provides transparency and accountability by making government financial plans accessible to citizens and other stakeholders. Budget information is vital for policy implementation, as it translates government priorities into actionable financial plans and supports the delivery of essential public services and programs. It also facilitates long-term fiscal planning, ensuring governments can respond to crises and address future challenges while maintaining macroeconomic stability.
- B41. Additionally, budget information influences investor and creditor confidence, impacting borrowing costs and access to financing. It can assist in promoting sustainable development by allocating resources to initiatives that align with economic, social, and environmental goals. Ultimately, sound PFM, underpinned by comprehensive budget information, is essential for effective governance,

responsible resource allocation, and the achievement of policy objectives, all while maintaining transparency and accountability over the use of public funds.

Preparing budget information

- B42. The budgeting process for many public sector entities is inherently complex and resource-intensive due to the size and diversity of operations, which are often spread across multiple service delivery programs and departments. The level of judgment, estimation, and assumptions required based on fiscal forecasts and expected public policy outcomes is significant.
- B43. The budget process across the public sector is often jurisdiction-specific based on its local environmental factors, systems of government, and public policy objectives. For this reason, the IPSASB mandate does not include developing specific requirements or guidance for how budget information should be prepared or presented.

Inclusion of budget information in financial statements

- B44. IPSAS 1 currently requires (when budget information is made publicly available) the presentation of budget information in an entity's financial statements — either as a separate statement or as a column in the financial statements to allow for the actual results to be contrasted against the published budget.
- B45. The requirements for presenting budget information in financial statements are currently set out in IPSAS 24. This includes requirements concerning the disclosure of explanations of reasons for material differences between the budget information published and actual amounts as presented in the financial statements.
- B46. Compliance with the requirements of IPSAS 24 ensures that public sector entities discharge their accountability obligations and enhance the transparency of their financial statements by demonstrating compliance with the approved and published budgets for which they are held publicly accountable.
- B47. Stakeholder feedback has highlighted that the reconciliation of budget information with actual results in the financial statements can be challenging, especially when budget information is not prepared on a comparable basis — for example, when budget information is prepared on a cash basis and the financial statements are prepared on an accrual basis. The IPSASB is also aware of some concerns about the inconsistent application of IPSAS 24 and the call for more specific guidance to improve the comparability of reconciliations of budgeting and accounting information in financial statements.

Scope conclusions

- B48. A comprehensive review of IPSAS 24 is outside this project's scope. However, the IPSASB will consider consequential amendments to IPSAS 24 due to decisions made regarding the replacement of IPSAS 1, to ensure the two standards continue to work together.
- B49. A separate project on IPSAS 24 has been included in the IPSASB's Work Program as a potential future maintenance project, which will commence as resources become available. Such a project would likely consist of a post-implementation review to help identify where further guidance is needed and where amendments to existing guidance would be useful.

Disclosure and presentation requirements in individual IPSASs

- B50. Other individual IPSASs include presentation and disclosure requirements for specific transactions, events, or circumstances in addition to the minimum disclosure requirements and overarching presentation principles in IPSAS 1. These additional presentation and disclosure requirements are tailored to the objectives and subject matter of the individual standard. For example, IPSAS 47 *Revenue* sets out presentation and disclosure requirements for revenue transactions, including guidance on the disaggregation of revenue balances.
- B51. The project's primary focus is on the existing scope of IPSAS 1, which includes the consideration of the overarching principles for selecting the most relevant and important information to present in the financial statements – i.e., the concept of materiality and qualitative characteristics of information presented in financial statements.
- B52. Other IPSASs that include presentation and disclosure requirements are outside this project's scope. Nonetheless, the IPSASB acknowledged that consequential amendments will likely be required to ensure related IPSASs continue working together with the proposed new standard to replace IPSAS 1.
- B53. A *Disclosure Project* has been included on the list of future projects for addition to the IPSASB's Work Program as resources become available. Such a project would consider developing disclosure principles to review specific disclosure requirements in individual IPSASs. Reviewing existing disclosure requirements in individual IPSASs will also be within the scope of the IPSASB's future post-implementation review processes.

APPENDIX C – CONSIDERATION OF OTHER REPORTING DEVELOPMENTS

C1. When confirming the project scope, the IPSASB considered the impact of the following recent reporting developments:

- (a) [Improving the accessibility of information in financial statements](#); and
- (b) [Increased focus on the connectivity](#).

Improving the accessibility of information in financial statements*Overview of recent developments*

- C2. The general public is one of the key users of financial statements published by governments and other public sector entities. This user group requires information to hold public sector entities accountable for their activities and decision-making. For this information to be useful, the information must be accessible.
- C3. Given the significant increase in external data-sharing capabilities, sources of information, and platforms from which to access information through internet-based applications – many jurisdictions have been exploring ways to improve the accessibility of information provided in public sector financial statements. These initiatives are based on different user groups' information needs and preferences for how they access information.
- C4. Many of the initiatives involve the use of digital reporting solutions, which generally refer to the use of digital technologies and electronic systems to prepare, submit, disseminate, and communicate financial and non-financial information to different stakeholders. Digital reporting has gained prominence across the public sector as governments and other public sector organizations aim to improve efficiency, transparency, and accessibility in their reporting processes.
- C5. Many jurisdictions are already in the process of implementing digital reporting strategies across different levels of government. It is generally recognized that the accessibility of financial and non-financial data and reports is critical for holding those in power accountable for the use of public funds and providing useful information for decision-making.
- C6. Some approaches taken by jurisdictions to improve the accessibility of information published in public sector financial statements include:
 - (a) Digital reporting – this mainly relates to the move from a traditional paper-based reporting format (or electronic versions of paper reports such as HTML and PDF), which are only readable by humans, to a digital machine-readable reporting format. The move to digital financial reporting (achieved through digital tagging) enables key elements of information contained in the financial statements to be searchable online and easily extracted for trend and benchmarking analysis across multiple reporting entities and jurisdictions.⁴²
 - (b) Dashboard reporting – this internet-based tool allows users to tailor the information they wish to receive based on their interests. These digital solutions may also allow the user to 'drill down' to obtain further details about certain transactions and other disclosures, depending on the level of detail the reporting entity is prepared to make publicly available.

⁴² Tagging of financial statements, using eXtensible Business Reporting Language (XBRL), is a process that involves attaching specific standardized codes or tags to individual items or data points within financial statements. These tags are typically applied to numerical values, text descriptions, and other relevant information found in financial reports and documents. The primary purpose of tagging financial statements is to facilitate electronic filing, analysis, and comparison of financial information.

- (c) Narrative or summary reports – these are published together with the financial statements and seek to report the most significant matters that will be of interest to the broader public, written in plain language and presented in a short, easy-to-understand format.

IASB's digital reporting initiatives

- C7. The IASB's strategy for 2022 – 2026 includes a key strategic objective of “supporting the digital consumption of financial information, including developing and maintaining the IFRS Accounting Taxonomy”.⁴³
- C8. In response to digital reporting developments, the IASB notes that for digital financial reports to be decision-useful, high-quality, and globally comparable, they need to accurately represent all the information in an entity's general purpose financial reports in a machine-readable format. This leads to increased accessibility of financial statements to support the efficient operations of capital markets.
- C9. In response to feedback on its last strategy consultation regarding the topic of digital reporting, the IASB plans to:⁴⁴
 - (a) Consider the implications of increased consumption of digital financial information for the development of Accounting Standards,
 - (b) Continue to improve its IFRS Accounting Taxonomy;
 - (c) Engage further with its partners in the digital ecosystem by, for example, working with regulators to support adoption of the IFRS Accounting Taxonomy and with preparers to support quality outcomes in applying the IFRS Accounting Taxonomy; and
 - (d) Work together with the International Sustainability Standards Board (ISSB) to develop consistent approaches and concepts for the IFRS Accounting Taxonomy and the to-be-developed IFRS Sustainability Disclosure Taxonomy.

IPSASB's current response to digital reporting developments

- C10. The IPSASB Strategy and Work Program does not currently include a specific strategy regarding the digital consumption of information in financial statements. The IPSAS strategy for the period 2024-2028 is instead focused on three main activities:
 - (a) Maintaining and developing Public Sector Accounting Standards;
 - (b) Commencing the development of Public Sector Sustainability Standards, with an initial focus on a *Climate-related Disclosures* project; and
 - (c) Promoting adoption and implementation of IPSAS and Public Sector Sustainability Standards.⁴⁵

⁴³ The IFRS Accounting Taxonomy is a standardized digital representation of IFRS Standards published by the International IASB. It is designed to facilitate the electronic tagging and reporting of financial information in accordance with IFRS. The IFRS Taxonomy plays a critical role in enabling consistent and structured reporting of financial data, particularly in the context of XBRL and other electronic reporting formats.

⁴⁴ These plans have been summarized based on the IASB's [Third Agenda Consultation: Feedback Statement](#) (July 2022).

⁴⁵ By 2030, it is projected that more than 70% of jurisdictions will apply accrual accounting in the public sector. These users will increase demands on the IPSASB's resources.

- C11. Digital reporting is not a current priority for the IPSASB due to the following considerations.
- (a) The need to focus IPSASB's limited resources on its strategic priorities as provided in the 2024-2028 Strategy and Work Program (based on stakeholder feedback);
 - (b) Many jurisdictions are already in the process of implementing digital reporting strategies for financial reporting across different levels of the public sector. It does not appear that the lack of an IPSAS-based taxonomy or other guidance is limiting the progression of these initiatives; and
 - (d) International organizations, such as the IMF, World Bank, and the United Nations, have developed publicly available databases that provide users with access to financial and non-financial information reported by governments on a country-by-country basis.
- C12. As the adoption of accrual-based financial reporting and the use of IPSAS by public sector entities increases globally, there may be a future need for the IPSASB to consider developing a specific strategy to support the digital consumption of financial information.

Impact on this project

- C13. For this project, the focus is on developing robust standards-level principles and requirements for the presentation of financial statements. The development of a new IPSAS to replace IPSAS 1 will provide a strong foundation for possible future IPSASB activities to support public sector digital reporting initiatives.
- C14. A key objective of this project is to support the consistent presentation of information in financial statements by governments and other public sector entities. The consistency of presentation requirements, including the principles of aggregation, categorization, and descriptions used, will be critical for any future projects or initiatives to digitally tag elements of public sector financial statements.
- C15. The IPSASB does not currently seek to prescribe or restrict how information is made available to users of the financial statements. The IPSASB encourages entities to consider how the information reported in the financial statements can be better packaged and communicated to facilitate broader accessibility and awareness of the important information made available through the publication of financial statements. In conclusion, possible IPSASB activities to support the accessibility of information in financial statements are not within this project's scope.

Increased focus on connectivity

Overview of recent developments

- C16. Over the past two years, standard-setters internationally have moved with speed in response to the call for the development of a global baseline to measure and report on ESG-related factors as they relate to a reporting entity – broadly described as sustainability reporting. Government interest in the reporting of sustainability-related matters has also advanced over this period, with an initial focus on introducing mandatory reporting requirements and standards for corporate entities in many jurisdictions.
- C17. The development of a global baseline for sustainability reporting came in response to increasing concerns about the fragmented nature of sustainability standards that existed globally. Reporting entities in both the public and for-profit sectors previously had several prominent frameworks

available from which they could choose to use as a basis for reporting on sustainability-related information.⁴⁶

- C18. These developments led to the establishment of the International Sustainability Standards Board (ISSB) in November 2021 by the trustees of the IFRS Foundation at the United Nations Climate Change Conference (COP26). In June 2023, the ISSB issued its inaugural global sustainability disclosure standards — IFRS S1 *General Requirements for Disclosure of Sustainability-related Information* and IFRS S2 *Climate-related Disclosures*. The two standards create a common language for disclosing the effect of climate-related risks and opportunities on a reporting entity.⁴⁷
- C19. The IPSASB has also responded to the call for the development of public sector-specific sustainability standards. In June 2023, the IPSASB announced it had [decided to move forward](#) with the development of a public sector-specific *Climate-Related Disclosures* standard.

Impact on this project

- C20. With the issuance of ISSB Standards, which have a for-profit focus, one of the issues now being considered by standard-setters is how best to achieve greater connectivity and integration between information provided in financial statements and other types of reports focused on sustainability.
- C21. The IPSASB supports efforts to improve the connectivity of different types of reports used by an entity to explain the advancement of its objectives. In the public sector, it is essential that reporting brings together both financial and non-financial information to provide a comprehensive picture of performance, based on sustainable service delivery and efficient use of public resources. However, given that public sector-specific sustainability standards are in the early stages of development by the IPSASB, it is too early for this project to have a specific focus on achieving connectivity objectives.
- C22. Once the development and use of sustainability standards have been further advanced in the public sector, the IPSASB will be better positioned to consider the nature of initiatives to support improved connectivity between public sector financial statements, reports on sustainability, and other GPFRs (such as service performance information).
- C23. The IPSASB noted that the development of enhancements to the presentation of financial statements (the focus of this project) will occur over the same period in which the IPSASB is developing its first sustainability-related standard. While acknowledging that the consideration of connectivity issues is not a primary focus of this project, the IPSASB nevertheless encouraged the staff of the respective projects to collaborate where possible to ensure the outcomes of both projects supported an integrated approach to reporting by public sector entities.
- C24. A future project specifically focused on the connectivity of the financial statements, other GPFRs, and sustainability-related reports will likely be required in the future. This future project may also consider whether further guidance is needed to support the disclosure of climate risks and opportunities in the financial statements.⁴⁸

⁴⁶ Some of the Sustainability Related Frameworks developed over the past few decades include: Global Reporting Initiative (GRI), the International Integrated Reporting Council (IIRC), and the Sustainability Accounting Standards Board (SASB), which have now merged to form the Value Reporting Foundation (VRF), and the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD); others include the UN Sustainable Development Goals.

⁴⁷ Both the European Union and the United States of America are developing their own climate-based sustainability disclosure requirements that are similar but differ in places from the ISSB standards.

⁴⁸ The IASB also has an ongoing project to explore targeted actions to improve the disclosure of financial information about [Climate-related Risks and Uncertainties in Financial Statements](#).

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