INTERNATIONAL FEDERATION OF ACCOUNTANTS
PUBLIC SECTOR COMMITTEE
MINUTES OF THE BERLIN MEETING
Held on November 5 – 7, 2003

ATTENDANCE

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<tr>
<th>COUNTRY</th>
<th>MEMBERS</th>
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<td>Australia</td>
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<td>Argentina</td>
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<td>Germany</td>
<td>Norbert Vogelpoth (M)</td>
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<td>Andreas Dörschell (TA)</td>
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<td>UN</td>
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Minutes from the PSC Meeting held in Berlin, Germany in November 2003
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<tr>
<th>Organization</th>
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<tr>
<td>UNDP</td>
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<td>World Bank</td>
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<td>IFAC</td>
<td>Ian Ball (S)</td>
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<td>Li Li Lian (S)</td>
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<td>Jesse Hughes (C)</td>
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* NIA – Not In Attendance
M – Member
TA – Technical Advisor
O – Observer
S – Staff
C – Consultant
1. WELCOME AND APOLOGIES

The Chair opened the meeting and welcomed the members to Berlin for this meeting. He introduced Norbert Vogelpoth, the PSC member for Germany, who welcomed members to Berlin on behalf of the Wirtschaftsprüferkammer (German Chamber of Accountants) and the Institut der Wirtschaftsprüfer (IDW) (German Chamber of Auditors), the two IFAC member bodies jointly hosting the PSC meeting. Norbert advised that the presidents of both member bodies asked him to convey their apologies for not being able to be present. Norbert thanked the PSC for accepting the invitation to meet in Berlin and wished the PSC an enjoyable stay and a successful meeting in Berlin.

The Chair welcomed the following to their first PSC meeting:
- Catherine Park, Technical Advisor, United Kingdom; and
- Betty Gruber, IMF Observer

The Chair noted the return to the PSC of Andreas Dörschell as Technical Advisor to Norbert Vogelpoth on the second and third days of the meeting.

The Chair also noted that Ian Ball, Chief Executive of IFAC, was expected in Berlin on Thursday and would attend the IDW Symposium on that afternoon.

The Chair welcomed members of the Consultative Group, and the public gallery.

The Chair noted the following apologies:
- Simon Lee, Technical Advisor, New Zealand;
- Mary Foelster, Technical Advisor, USA;
- Dieter Glatzel, Observer, European Commission;
- Darshak Shah, Observer, United Nations Development Programme; and
- Warren McGregor, Observer, International Accounting Standards Board.

The Chair also advised the PSC that Man-to Shum, former Member for Hong Kong had resigned from the PSC and that there would be no delegation from Hong Kong.

The Chair advised that:
- this was to be his last meeting as Chair and member from Australia;
- the IFAC Nominations Committee had met and forwarded PSC nominations to the IFAC Board, which is meeting in Singapore on November, 9 – 13, 2003;
- the Nominations Committee proposed that Philippe Adhémar (France) be Chair, that Mike Hathorn (United Kingdom) be Vice-Chair and there be new members for Australia, Israel, Japan, Malaysia and New Zealand, bringing the total membership of the PSC to fifteen; and
- the Board is expected to accept the recommendations of the Nominations Committee.

2. CONFIRMATION OF MINUTES

The meeting received the minutes from the meeting held in Vancouver on July 16 – 18, 2003. The minutes were confirmed subject to minor editorial amendments.

Action Required: Amend minutes, Post to IFAC Leadership Intranet
3. MATTERS ARISING

The action list was noted.

Statement of Members Obligations

A copy of IFAC’s exposure draft Proposed Statement of Member Obligations was tabled and considered. Members noted that there are two statements on financial reporting. It was agreed that:

- a submission to the IFAC Board should be prepared;
- the PSC should recommend that the SMOs should make only one statement on application of accounting standards, whether IPSASs or IASs/IFRSs; and
- SMO 5 should be amended to include only public sector not-for-profit entities, as GBEs apply IASs/IFRSs.

Action Required: Prepare response to the SMO exposure draft, circulate to members for comment and approval. Prepare Action List for next meeting.

Person(s) responsible: PSC members, Staff.

4. CHAIRMAN’S REPORT

In addition to the matters outlined in the Chairman’s report, the Chair reported that he had:

- given a presentation to the Public Sector Committee of the Fédération des Experts Comptables Européens;
- attended the national standard setters’ meeting in London. Among the major items discussed in the meeting included possible new accounting standards for small to medium sized entities (SMEs). The PSC may want to consider providing input into these standards as they may impact public sector entities; and
- presented a paper at the 15th Annual International Colloquium on Financial Management for National Governments. The Chair noted that when different governments discuss their “surplus” or “deficit”, each government means a different thing, for example:
  - USA calculates surplus/deficit on a whole-of-government modified cash basis;
  - Canada calculates surplus/deficit for the whole-of-government on an historic cost accruals basis;
  - Australia calculates surplus/deficit for the general government sector on an “underlying cash basis”; and
  - New Zealand calculates surplus/deficit for the whole-of-government on a current value accruals basis.

These differences illustrate the importance of the IPSAS – GFSM 2001 – ESA 95 convergence project.

The Colloquium also noted that when the USA’s Federal Accounting Standards Advisory Board develops standards, it considers IPSASs in its process.
The Chair also reported that the review committee has been established, the members are:

- Sir Andrew Likierman, Chair, Head of Government Accountancy Services and Managing Director of the Treasury Financial Management, Reporting and Audit Directorate, HM Treasury;
- Dr. Ian Ball, Chief Executive, IFAC;
- Mr. Ian Mackintosh, retiring Chair, IFAC PSC;
- Mr. Simon Bradbury, Division Manager, Loan Department, World Bank, Observer IFAC PSC;
- Mr. Tom Allen, Chairman, Governmental Accounting Standards Board, USA; and
- Ms. Blandina Nyoni, Accountant-General, United Republic of Tanzania.

It was noted that the new chair of the PSC, Mr. Philippe Adhémar would also be involved in the review. It was further noted that the draft Terms of Reference were included in the agenda materials. Members agreed that any comments on the draft Terms of Reference should be forwarded to Ian Ball and copied to Paul Sutcliffe for circulation to panel members.

The Review Committee’s report is to be submitted to the PSC and after PSC discussion to the IFAC Board. It will also be published on the IFAC Website, and will therefore be a public document. As a public document anyone is free to comment on it.

**Action required:** Circulate final terms of reference for PSC External Review. Circulate review report when completed.

**Person(s) responsible:** Chair, PSC Technical Director.

### 5. SECRETARIAT’S REPORT

The Committee received and noted:

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

Jerry Gutu spoke to the Secretariat’s report identifying the activities he had been involved in since the last meeting of the Public Sector Committee in July 2003. He noted he had been involved in:

- finalizing the remaining nominations to the Consultative Group including the additional proposals from FEE;
- finalizing arrangements for this meeting;
- liaison with the IFAC’s other technical committees, particularly the IAASB and the PSC sub-committee on drafting of PSPs for submission to the IAASB;
- various other secretariat and support functions including updating the Network list and transforming Study 14 into a web based product; and
- arrangements for future meetings.
Members’ attention was drawn to the IAASB Clarity of Standards Project for which a note had been circulated as an addition to the agenda papers. Jerry explained that:

• this IAASB project is directed at improving the clarity of IAASB standards, and thereby assist in consistent application of these standards;
• it focuses on clarifying three issues: equal authority, drafting conventions and relationships and authority of ISAs, IAPSSs and appendices;
• it was explained that the IASB had moved to equal authority within its pronouncements of the “black letter standards” and “grey letter commentary” as IAASB stakeholders had earlier expressed that concern on lack of clarity in some of its standards;
• at its December 2003 meeting, the IAASB will consider issuing an exposure draft of a Policy Statement that may be approved for final issue by June 2004; and
• staff consider it important that the PSC takes note of this project given its potential impact on the standard setting processes of IFAC’s other committees including the PSC.

Members’ attention was drawn to the updated Correspondence Distribution List with a request to pass on to Jerry any amendments for updating.

**Action Required:** Update PSC CDL with any changes. Finalize arrangements for March 2004 meeting and advise members.

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

6. REPORT ON THE STANDARDS WORK PROGRAM

The Committee received and noted:

• a memorandum from Paul Sutcliffe regarding funding activities, promotion activities and status of IPSAS translations;
• a memorandum from Paul Sutcliffe on the Standards Development Work Plan;
• a report on the status of all PSC projects;
• an updated work plan for 2003;
• a projected work plan for 2004 (and beyond);
• a summary of the active projects of national public sector standards setters and similar authoritative bodies in PSC member country jurisdictions; and
• a report on the status of IASB projects from Matthew Bohun.

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

• funding – no additional funding activities had taken place since the last meeting and it was not intended that additional activity would occur prior to the completion of the PSC review. Ron Points noted that the Inter-American Development Bank (IADB) had previously undertaken to match the contribution from the Asian Development Bank (ADB) while it had not responded to his requests for funding support;
• translation – in addition to translation activities already underway, requests for the right to translate IPSASs had been received, and approved, for Kazakhstan and Serbia and Montenegro. The IASCF had not yet responded on the
possibility of translating the Cash Basis IPSAS into French and Spanish using the PSC – IASB co-operative arrangement, but this matter would be discussed further with IASCF staff. The French member indicated that the IASB (IASCF) – PSC arrangement for the translation of IPSASs into French had moved forward and completion by the end of this year or early next year was anticipated. The Mexican and Argentinean members noted that progress on translation of IPSASs into Spanish was still unsatisfactory and requested Paul to pursue this with IASCF staff;

- Social Policy Obligations Steering Committee – the Committee had not met since the last PSC meeting. However, the SC Chair and staff had met and revised the draft, SC members had reviewed and commented on that revised draft and additional revisions had been made. An updated draft ITC was included in the Agenda for this PSC meeting;

- Non-Exchange Revenue Steering Committee – the Committee had met in September. Key chapters of the draft ITC had been revised and circulated to SC members for comment following that meeting. Subsequently, the full ITC was revised, incorporating comments from ITC members on the key chapters. The updated draft was then distributed to SC members at the same time as it was distributed to PSC members for inclusion in the Agenda for this PSC meeting. Additional comments received from SC members are included in Agenda materials and have been tabled;

- Development Assistance Project – the formation of the Project Advisory Panel had been delayed because of some restructuring of key constituent groups. It was now anticipated that at the PSC meeting in March 2004, the PSC would consider responses from the PAP rather than a first draft Exposure Draft;

- Li Hongxia had joined the PSC staff from the Ministry of Finance of the People’s Republic of China for a secondment of 12 months;

- Ahmad Hamidi-Ravari had completed his 18-month secondment to the PSC and had returned to work with the AASB;

- Research Report on Budget Reporting – the draft report was included in the Agenda for discussion at this meeting and it was anticipated that it would be further developed and presented to the PSC for review and approval to issue at the March 2004 meeting;

- proposed revisions to SNA – the PSC paper on recognizing military platforms and weapons that provided ongoing service potential had received a positive response from the OECD group charged with making recommendations for the review of SNA in 2008;

- Argentinean Occasional Paper – the Paper had been approved by the subcommittee and would be finalized for publication by the end of 2003 or early 2004; and

- heritage assets – staff should monitor the work being undertaken in the UK and in the USA by the FASAB – a FASAB paper is anticipated for issue in early 2004.

Members noted and agreed the 2003 and 2004+ work plans, subject to any revisions to reflect any decisions made during the remainder of this meeting including decisions relating to:

- the PSC strategy for dealing with the IASB improvements project;
- other actions related to IASB harmonization; and
• the need to consider during 2004 the PSC strategy for developing IPSASs based on IAS 39 *Financial Instruments: Recognition and Measurement* and revisions to IAS 32 *Financial Instruments: Disclosure and Presentation*.

Paul referred members to the schedule of member and staff presentations, noted that the seminar in Mexico had included representatives of authoritative bodies from a number of Latin American countries, and requested members, technical advisors and observers to provide to Staff out of session information about any additional presentations made by since the last meeting.

Jerry Gutu noted that he and Li Li Lian had updated the web version of Study 14 which was launched in October. Jerry expressed his thanks to those who had provided input to this project.

Members noted the program for the IDW symposium on 6th November at which the PSC Chair would speak, and the proposed items for discussion with Members of the PSC Consultative Group.

Paul drew members’ attention to the summary of projects on the active work plans of standard setters. He noted that he had requested input from PSC members on the active projects on the agendas of standards setters or similar bodies in their jurisdiction and had prepared the summary on the basis of responses he had received. He noted that responses from New Zealand and Argentina had been received after the material was distributed. Members noted that the summary, identified that there was much common ground in the active work projects of standard setters and while only a broad overview, was a useful document and directed that it:
• be included as a standing item in the PSC agenda;
• retain its broad overview format;
• be developed to include projects from all member countries;
• include a column for projects on the PSC’s agenda; and moving forward; and
• identify when projects are completed.

Members noted that the PSC should consider additional opportunities to develop specific projects in partnership with national standards setters. It was noted this had occurred with GASB in respect of the development of ED 23, was occurring in part with the participation of standards setters in the Steering Committees, and could well occur in one form or another with other PSC projects.

Paul noted there was the opportunity for a member country to prepare an Occasional Paper. The USA volunteered to prepare an Occasional Paper on the development of financial reporting by public sector entities, including federal, state and local governments in the USA.

**Action Required:**
- Contact IASCF staff to emphasize importance of speedy progress on Spanish translations of IPSASs.
- Explore translation of Cash Basis IPSAS into key languages. Update register of funding, translation and promotion activities. Update work program.
- Continue monitoring of the IASB work program.
- Develop the overview of projects on work programs of standards setters in PSC member jurisdictions.
Prepare Occasional Paper on USA governmental accounting.

Person Responsible: Members, Technical Advisors, PSC Staff, US delegation.

6.8. STATUS OF IASB PROJECTS

The Committee received and noted a memorandum from Matthew Bohun and Li Hongxia together with appendices on “the IASB project timetable” and the “IASB Illustrative Example of Proposed Format for Performance Reporting”.

Matthew introduced the topic and noted that:

• as was also noted at the last meeting, the IASB has published IFRS 1 First Time Adoption of IFRSs – Agenda Item 15 of this meeting deals with this IFRS and contains a summary of its requirements;

• the IFRSs arising from the General Improvement Project are due for release in the fourth quarter of this year and agenda item 14 discusses the impact of the IASB’s decisions to date on existing IPSASs; and

• the Financial Instruments Improvements Project is still underway, item 14 also discusses this project.

Staff briefed the Committee on tentative changes proposed to IAS 37 Provisions, Contingent Liabilities and Contingent Assets arising from the IASBs Business Combinations II and Short-term Convergence projects. Staff noted that:

• any changes to the definitions in IAS 37 will mean that the IPSAS 19 definitions would not be harmonized;

• the IASB had proposed amendments to the definitions in IAS 37 and had refined its proposals over several meetings and that the IASB’s deliberations on this topic were ongoing; and

• it would not be appropriate to take any action with respect to IPSAS 19 Provisions, Contingent Liabilities and Contingent Assets until such time as the IASB has amended IAS 37.

The Committee acknowledged the other items in the written report. The PSC thanked staff for the update and requested that the monitoring of IASB work continue.

Action Required: Continue monitoring the IASB work.

Person(s) Responsible: PSC Staff.

7. COUNTRY BRIEFING REPORTS

As part of the meeting with the Consultative Group, each PSC member briefly summarized his or her Country Report. In addition to the reports included in the agenda materials, a report was tabled from the Argentinean member. During the meeting with the Consultative Group, PSC members were asked to update their Country Report, the following points were noted:

• Australia: David Boymal has been appointed as Chair of the Australian Accounting Standards Board;

• Netherlands: the National Government has decided to move to the accrual basis of accounting for agencies. GBEs will be consolidated to agencies within
four years. A decision will be taken in 2007 as to when agencies will be consolidated with ministries;

- Norway: the Ministry of Finance has decided that at the National Government level the full accrual basis of accounting will be adopted, but has yet to decide which accounting standards to use; and
- United Nations: the UN has considered a request from its auditors to consider adopting IPSASs. The UN has decided that because external reporting requirements are established in accounting policies and regulations agreed by the member states it would not be possible to adopt IPSASs at this time. The UN will, however, review its accounting standards to ensure that they are harmonized, to the extent possible, with IPSASs.

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

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

8. DRAFT INVITATION TO COMMENT SOCIAL POLICY OBLIGATIONS

The Committee received and considered:

- a memorandum from Kevin Simpkins, the Chair of the Social Policy Obligations Steering Committee; and

Kevin reported on the work of the Steering Committee since the PSC’s last meeting in Vancouver in July 2003 and:

- noted that following the PSC’s July 2003 meeting, he contacted the members of the Steering Committee and requested them to affirm or otherwise their views on accounting for old age pension benefits. This led to a change in the majority view. Option 1 is the majority view. However a minority of SC members support Option 3, using workforce entry as the obligating event;
- noted that the Steering Committee had not met since the July 2003 PSC meeting. However, he had met with the consultant on the project, Joanne Scott, and Paul Sutcliffe, the PSC Technical Director, and reviewed all matters raised by Members at the July 2003 PSC meeting. Subsequent to this review:
  - staff had restructured and revised the draft ITC to respond to substantially all matters identified by the PSC in July 2003 except for a number of formatting issues that would be dealt with when the text was agreed; and
  - the revised draft ITC had been circulated to SC members. SC members had responded and the draft ITC had been further refined to deal with all their issues except for a small number of “new” structural or revised content proposals proposed by individual members;
- identified the remaining few outstanding matters raised by the Steering Committee Members and the reasons for not dealing with them. He noted that the draft ITC was not amended to deal with these matters because they reflect individual views that have not been raised by other SC members (or the PSC) and it is not clear that they would be supported by other SC members - for
example, refocusing the paper so that it does not include preliminary views as such. Kevin also noted that in some cases they would require substantial changes to the ITC which do not seem justified at this late stage - for example restructuring chapter 2, developing a comprehensive definition of social policy obligations and reintroducing text that the PSC had proposed should be deleted. Members agreed that the draft ITC should not be changed to deal with these matters;

• noted that, while there was a broad explanation of social benefits and their characteristics in the ITC, they were not exhaustively defined and it was not intended to define them because:
  o what constituted social benefits may vary from jurisdiction to jurisdiction and it was questionable whether a definition was necessary, particularly when it was generally understood what constituted social benefits in any jurisdiction;
  o there was extensive explanation of social benefits in GFSM 2001, and the ITC identified which “social protection schemes” were, and were not, dealt with by the ITC; and
  o if an item did not qualify for treatment as a social benefit in accordance with the views proposed by the ITC, it was to be dealt with in accordance with IPSAS 19 Provisions, Contingent Liabilities and Contingent Assets.

Members agreed that this was appropriate for the ITC, but directed that a specific matter for comment request input on whether it was necessary for an IPSAS to define social benefits and, if so, how they should be defined.

Kevin outlined the major structural and other changes to the draft ITC since the July meeting and noted that:

• the objective of the discussion of the redrafted ITC at this PSC meeting was to gain PSC approval for issue of the ITC;
• the form of this ITC would be aligned with that of the Non-Exchange Revenue ITC and this would result in some additional formatting changes; and
• staff had identified additional editorial and polishing amendments which would be processed out of session.

Members agreed the format of this ITC should be aligned to that of the Non-Exchange Revenue ITC and that editorial amendments should be provided directly to Kevin or staff and would be processed out of session. Members undertook a page by page review of the document and agreed that:

• the ITC should be issued in Study size and format to differentiate it from Exposure Drafts and IPSASs issued by the PSC;
• where possible, reference to specific countries/jurisdictions should be deleted;
• the existing appendix illustrating application of the principles was appropriate and additional appendices on disclosures or other matters should not be included in the ITC. However, specific matters for comment should request feedback on the propositions for additional disclosures made in Chapter 9;
• specific matters for comment should draw out the issues in Chapters 5, 6 and 7 – particularly those referred to in the covering memo and Kevin’s comments thereon;
the executive summary should be restructured and should note that employee benefits are not dealt with in this ITC, but in a separate project that may be actioned by the PSC;

- a list of key definitions should be included prior to Chapter 1;
- introductory pages should note that the PSC has “cleared” the ITC for issue;
- the ITC should refer to “Steering Committee Views”, rather than “Preliminary Views”;
- the summary of Options 1 to 3 should be part of the executive summary rather than in the “Steering Committee Views” section;
- reference to the GFSM 2001 – ESA 95 – IPSAS convergence group on page 8.15 should be deleted;
- the notions of “due and payable” and “View 1” should be applied and explained consistently throughout the ITC;
- the title of Chapter 3 should be amended to Principles and Approach;
- the reference to the IASB work on provisions, should acknowledge that development work on the standard dealing with provisions is being undertaken and that an exposure draft proposing revisions to the existing standard is being prepared. However, the ITC is not to identify specific tentative decisions of the IASB (a number of previous such decisions have been reversed in recent IASB meetings) because this would prematurely date the ITC;
- reference to exchange and non-exchange transactions should be included around paragraph 3.4;
- a comment should be included in chapter 3 to note that commitments to provide benefits which do not qualify for recognition as liabilities or disclosure as contingent liabilities, may well be included in disclosures considered in Chapter 9 of the ITC;
- the SC should be requested to remove reference to the Chilean experience in paragraph 4.46 (the explanation of the Chilean experience also appears in Chapter 8). The PSC noted that it would prefer that individual jurisdictions not be singled out and identified in the ITC, but rather that the ITC simply note that this was the experience in at least one country. This is because there may also be other jurisdictions with similar experiences and circumstances can change in any one jurisdiction during the shelf life of the ITC. The PSC requested that Kevin make this preference known to the SC;
- the final sentence of paragraph 4.9 should be deleted;
- refinements could usefully be made to paragraphs 4.10 through 4.29 to reduce a sense of repetition and to tighten arguments;
- footnote 5 in Chapter 4 should also note there are alternative views on the appropriateness of the net approach in these circumstances;
- paragraph 4.34 needs to be amended to ensure consistency with Chapter 5. In this context, some members noted that paragraph 4.34 seemed to confuse rather than help and staff should consider whether it should be amended or deleted;
- explanation of Option 1 in Chapter 4 should be strengthened. David Bean agreed to provide input on this;
- drafting of Chapter 5 should be tightened and a reference to the application of the principles identified in the chapter to a hospital waiting list should be included in the chapter. That reference would illustrate that in the circumstances contemplated, a provision would not be recognized – John
Stanford agreed to provide input on the UK experience for inclusion. It was noted that circumstances could differ in different jurisdictions, and the reference should acknowledge this:

- footnote 2 in Chapter 5 should be included in the text to clarify that this conclusion may not reflect option 1;
- paragraph 6.30 should be expanded to clarify that there may be other circumstances that give rise to a present obligation;
- the inconsistency of the Steering Committee’s view on accounting for disaster relief, and the accounting for pollution cleanup in IPSAS 19, should be noted;
- commentary should be included around Chapter 7.17 to note that there may be other views about which costs should be included in the measurement of the provision;
- paragraph 8.8 should be amended to note current practice is closer to Option 1 than Options 2 or 3;
- the latter sections of Chapter 8 should include a reference to the disclosures chapter to note/reinforce the point that “obligations” that do not qualify for recognition would still be included in disclosures proposed in Chapter 9;
- the wording in paragraph 8.34 should be refined to note that governments may find it difficult to reduce or remove old age pensions;
- paragraph 9.18(d) is to be amended to note that information in notes will be covered by an audit opinion. Kevin noted that this amendment had been proposed by a SC member in a recent email. Members agreed it was appropriate;
- the reference to FASAB materials in paragraph 9.20 should be updated for subsequent releases; and
- example 4B should be deleted.

Members discussed the ongoing role of the SC and whether submissions received on the ITC should be provided to the SC for review. Members agreed that:

- submissions should be provided to the PSC, through the PSC Technical Director;
- staff would prepare an analysis of responses for consideration by the PSC; and
- the PSC would decide whether the Steering Committee should have a role in developing the Exposure Draft, or sections thereof, as it made decisions on how the project was to be developed.

Kevin noted that some SC members had expressed the view that if it was considered useful and appropriate, they would welcome the opportunity to provide their views on submissions to the PSC.

The ITC was cleared for finalization and publication in January 2004 for comment by 30 June 2004. During November and December 2003 the ITC is to be:

- amended to reflect directions of the PSC;
- provided to SC members for a final fatal flaw review; and
- cleared for issue by the PSC Chair (Mr. Ian Mackintosh) and the SC Chair (Mr. Kevin Simpkins).

Members noted that:

- the document was comprehensive and well argued, made a significant contribution to the body of knowledge on this topic, provided a sound basis for
informed debate on this critical issue, and identified key issues that would need to deal with in an Exposure Draft and subsequently an IPSAS; and its preparation had involved considerable work by SC members and their technical advisors and the PSC was most grateful to members and their sponsoring organizations and technical support.

The Chair and members expressed their appreciation to Kevin Simpkins for the work he had put in, and his leadership, as the SC Chair.

**Action Required:** Finalize the ITC for review by SC members and, subsequently, PSC Chair. Publish ITC.

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

9. **DRAFT ITC REVENUE FROM NON-EXCHANGE TRANSACTIONS**

The PSC received and considered:

- a memorandum from Rick Neville, the Chair of the Non-Exchange Revenue Steering Committee
- a Draft ITC Revenue from Non-Exchange Transactions (Including Taxes and Transfers); and
- comments from Steering Committee members on the final draft of the ITC.

Rick Neville introduced the topic and advised that the Steering Committee (SC) had met in Paris in September to finalize the draft for presentation to this meeting of the PSC. At that meeting, the SC resolved the outstanding issues and agreed to the final form of the ITC, but not all the detail. The draft of the ITC was circulated for comment to the SC at the time of the first distribution of agenda materials for this meeting. The SC members were asked to provide comments all matters of the ITC.

Rick advised that the Steering Committee had requested that the PSC reconsider the use of the term “contribution from owners” suggesting that the PSC find a more public sector specific term.

Rick noted that he would present a brief overview of the issues raised by the SC members and it was then intended to undertake a page-by-page review with a view to clearing the ITC for issue, subject to the processing of identified amendments and final clearance by the SC and PSC Chairs.

Rick proposed that both this ITC and the Social Policy Obligations ITC be issued in the same format as PSC Studies, so as to distinguish them from IPSASs. The PSC agreed to this proposal. It was agreed that the term “Steering Committee Views” be used instead of “Preliminary Views”. The PSC requested that staff ensure uniformity of presentation between the two ITCs, in particular:

- the ITCs should specify that they have been “cleared” rather than “approved” as the PSC has not approved the content;
- the introduction should be consistent in each ITC (apart from references to the title of the ITC);
- the parts of the Introduction requesting comments should be repeated in the section on Specific Matters for Comment to emphasize that the PSC is seeking comments on any aspect of the ITC;
the commentary below the names of the SC members should specify that the views expressed are majority views;

• there should be a disclaimer before the summary of SC views to note that they should be read in the context of the explanatory text in the body of the ITC;

• both ITCs should include a list of key definitions;

• the sections summarizing the IASB work program should be reviewed before the final release of the ITCs for accuracy; and

• examples should not identify a particular jurisdiction.

Members considered the following eight issues that were raised by members of the SC and staff proposals to respond to those issues:

• definition of “time requirements” – one SC member proposed a change to the definition to refer to the time periods when use of assets is authorized rather than to time periods when use is prohibited. Most SC members agreed with the definition as drafted. The Committee agreed not to change the definition;

• several SC members noted that there was no Steering Committee View on the measurement of assets at fair value. The Committee agreed that a Steering Committee View on measurement of assets at fair value be included in the ITC;

• the component approach where an exchange-like component of a non-exchange transaction is recognized according to the provisions of existing IPSASs – one SC member considered that the explanation of this approach was not clearly articulated. The Committee agreed that consideration should be given to refining the explanation in paragraph 2.31 and related sections in Chapter 5, to ensure that the approach is clearly articulated;

• disclosures concerning the “tax gap – two SC members expressed concern that any disclosures relating to the tax gap would be unreliable and would lead to an audit qualification. The Committee agreed that the prominence of the “reliability” criterion should be increased and that consideration should be given to augmenting the specific matter for comment;

• in relation to paragraph 3.18, the treatment of prepaid taxes (not just overpaid taxes) should be explicitly addressed;

• distinction between “tax expenditures” and “expenses paid through the tax system” – one member dissented from the SC View that such a distinction should be made and wanted the ITC to prominently note that the SC View was a majority view and to request comments on whether such a distinction should be made. The Committee agreed that:
  o paragraph 3.25 should be changed and that no jurisdiction be referred to;
  o it be made clear that this is a majority view, and that the specific matter for comment should also reflect this; and
  o any examples used in this ITC or in Accounting for the Social Policies of Governments should not refer to specific jurisdictions;

• in relation to paragraph 4.2, the discussion of appropriations should note that to the extent that appropriations are merely budget authority, the act of appropriation may not give rise to an asset of the recipient entity;

• receivables and stipulations – one SC member thought that paragraphs 4.13 – 4.16 confused two issues: eligibility requirements and receivables. Staff noted that the ITC was not intended to deal with eligibility requirements because if
eligibility requirements are not met there is no inflow of resources – this could be noted in a relevant part of this section. The Committee agreed that Chapter 4 should specifically note that failure to satisfy eligibility requirements does not result in an inflow of resources;

- “probability” criterion – two SC members noted that in paragraph 4.38 in relation to the settlement of outstanding obligations, only one of four circumstances used the probability criterion. The Committee agreed the probability criterion be deleted from that one circumstance, but that the alternative view that probability should be applied should be included in an additional paragraph and that a specific matter for comment on this matter should be included; and

- voluntary services – two SC members noted that if voluntary services were used to construct an asset, the recognition of that asset at its fair value would necessarily result in the recognition of revenue from voluntary services, and that this could be noted in the text. Staff noted that the SC was quite clear in its decision not to recognize voluntary services. The Committee recommended that consideration should be given to including explanatory text noting that recognition of assets constructed by volunteer labor may involve the indirect recognition of voluntary services.

The Committee proceeded to a page-by-page review of the ITC and, in addition to a number of editorial comments, made the following suggestions for refining the document:

- specific matters for comment on the SC Views on the “component approach”, property taxes, the probability criterion for the discharge of liabilities and voluntary services should be included;

- the PSC discussed whether differences between the Steering Committee’s approach and treatments under GFSM 2001 should be noted in the ITC. The IMF Observer suggested that it would be better for the IMF to note any such differences in its response to the ITC;

- before the Summary of Preliminary Views there should be an introductory paragraph outlining the “assets and liabilities approach”;

- consider substituting “transferor” for “contributor” to avoid confusion with “contributions from owners”;

- paragraph 1.21 on “control of an asset” should be moved before paragraph 1.15 on “transfers” as it is integral to the approach being proposed;

- paragraph 2.3 should be moved to the section on “contributions from owners”. It should also discuss the “credit” entry in addition to the discussion on the “debit” entry;

- the section on measurement of assets in paragraphs 2.21 to 2.24 should include a cross reference the discussion on fair value in IPSAS 16;

- SC View 5(f) on the taxable event for property taxes is not universally applicable, and should be reviewed. It was proposed that the SC View be amended to reflect that the taxable event occurs when the taxpayer incurs the liability to pay tax. Alternatively, the SC View could remain the same and that a Specific Matter for Comment be included on the taxable event for property taxes;

- the section on the “tax gap” should explicitly refer to the underground/blackmarket economy;
paragraph 4.3 should include a cross reference to paragraph 5.11 and SC View 23 on pledges;

consider locating the discussion on central bank accounts (paragraphs 4.23 to 4.25) after SC View 12 on cash transfers;

paragraphs 4.32 and 4.34 should also discuss time requirements;

SC View 22 should make reference to reliable measurement in its encouragement to disclose the contribution of voluntary services;

the last three sentences of paragraph 6.5 do not add any value, are confusing and should be deleted;

example 7 in the appendix should cross reference with paragraph 4.43 and mention substance over form; and

example 12 is wrong and should be deleted.

The PSC cleared the ITC for publication subject to these changes, additional editorial changes, any other changes identified by the SC or Staff that are necessary for internal consistency of the ITC, and subject to a final review by the SC and approval by the SC Chair and PSC Chair.

The PSC expressed its appreciation to Rick Neville, the members of the SC and staff for all the efforts they have contributed since the beginning of this initiative. This is a groundbreaking document which will provide a healthy basis for consideration, deliberation and debate by the public sector accounting community worldwide. Members asked Rick to express their appreciation and congratulations to the Steering Committee in successfully bringing the project to this stage.

**Action Required:** Finalize the ITC for review by SC members and, subsequently, PSC Chair. Publish ITC.

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

10. **PSC STEERING COMMITTEE - BUDGET REPORTING**

The Committee received and considered:

- a memorandum from Dr. Jesse Hughes; and
- the Draft Research Report prepared by Dr. Hughes.

Ron Points, the Steering Committee Chair, introduced the topic and noted that:

- the draft Research Report had been updated to incorporate comments made by members at the last PSC meeting in July 2003 and to include additional materials on best practice;
- the Steering Committee had been established and had provided valuable input in the preparation of this draft;
- linkages between this project and the work of the SPO Steering Committee would arise in the context of disclosure of budget information; and
- Dr. Jesse Hughes, the consultant on the project would make a presentation to the PSC on the updated draft Report.

Jesse made a presentation to the Committee. He outlined major amendments to the draft Report since the last meeting in Vancouver in July 2003, the major conclusions that were starting to take shape and major outstanding issues. He invited comments
from PSC members on these matters. He also sought input on the nature and form of the final report that should be issued and the timetable for its completion.

Members thanked Jesse for his presentation and noted that significant progress had been made since the last meeting. Members also expressed support for the broad directions being proposed in the Report but noted that further work was necessary.

Members undertook a section by section review of the draft Research Report and made the following points:

- the Research Report needed to be restructured to clearly distinguish the financial reporting issues and recommendations thereon from the summary and analysis of best practice in budget formulation and execution. This included moving section 5 (the section on the PSC’s “Mandate on Budget Reporting”) to the front of the document;

- it was appropriate that the Research Report advocate that the PSC have a role in respect of general purpose financial reporting of budget information and comparisons of actual to budget, but issues related to such matters as budget formulation, execution, management should not be addressed by IPSASs. The Research Report need not be restricted to identifying issues appropriate for inclusion in an IPSAS. Consideration should be given to other forms of PSC document, such as a good practice guide;

- it was important that terminology used and processes referred to were sufficiently clear and broad to be understood by all constituents, and to encompass all jurisdictions. Some members noted that some terminology used and processes referred to did not reflect terminology and processes adopted in their jurisdictions;

- the Research Report should briefly acknowledge that budget formulation and execution in some jurisdictions was a centralized function but in other jurisdictions it was decentralized, and draw out the implications of these different approaches for presentation of a consolidated budget. – for example, whether best practice would require presentation of a consolidated budget and the types of issues that would need to be dealt with if an IPSAS was to be developed on this topic;

- in Europe budgets were prepared and reported for the aggregate of three levels of government: national, state or provincial, and local governments. In some cases, it may be argued that the national government did not control the state or local government. The Research Report should explore the implications of this for budget presentation and for reporting compliance in GPFS prepared in accordance with IPSASs;

- the Research Report should acknowledge that ESA 95 was widely adopted in Europe as the methodology for compiling statistical data and:
  - the presentation of ESA 95 data may differ from GFSM 2001; and
  - in some cases GFSM 2001 and IPSAS requirements differed;

- while it was appropriate to advocate inclusion in general purpose financial statements of comparisons of budget to actual, the Research Report should acknowledge that guidance would be needed on such matters as:
  - how budget data should be summarized to avoid information overload;
  - whether comparisons of actual should be made with original and/or revised budgets (and which revision if the budget was revised
periodically during the reporting period to reflect changing policies, economic environment and experience);

o what impact a change in policy settings might have if comparisons were to be made against original budgets, and how such changes should be dealt with if comparisons were to be made with revised budgets;

o how the IPSAS should deal with comparisons if the scope of the budget entity and the IPSAS reporting entity differed;

o how the IPSAS should deal with comparisons if different measurement bases were adopted for such items as inventory, investments and provisions in budget documents and in financial reports;

o how the IPSAS should deal with comparisons if differences in the basis of accounting were adopted in budget and historical financial reports – for example, if accrual and cash or modified cash/accrual basis;

• the components of any reconciliation from budget to actual should be drawn out so that readers may be able to assess what is involved in such a reconciliation;

• the Research Report should acknowledge and discuss the merits of disclosing budgeted versus actual cash flow statements, statements of financial position and financial performance;

• some members noted that they were of the view that comparisons should be made between the original budget and actuals, and expressed the view that a reconciliation from the budget to the actuals may not be practicable but they would welcome the Research Report recommendation on this matter;

• it should be noted that budget information may also be presented in documents other than GPFSs and a cross reference to such documents may be appropriate, particularly to link budget and actual data to non-financial budget and actual service achievements;

• the Research Report should explicitly note the New Zealand standard on prospective financial information, and consider the implications of adoption of the approach required in that standard;

• whether the Research Report was intended to deal only with budgets at the government level or for all reporting entities – members noted that IPSASs generally applied to all reporting entities other than GBEs and if a different approach were to be adopted here it would need to be justified. Some members indicated that it may be that the issues related to general purpose reporting of budgets could be different at the government and the individual entity level and therefore a different approach in this case may be justified;

• the Research Report should consider how the IPSAS explanation of a reporting entity might differ from the legislative specification of what is an entity for budget preparation and presentation purposes, and the implications, if any, this might have for the conclusions in the budget report and the contents of an IPSAS;

• the reference to commitment accounting should be developed to note whether a standards-setter has a role in respect of commitment accounting and what that role might be;

• the Research Report is being too ambitious in including references to management accounting and management reporting within its purview. Members noted that these are significant issues in themselves and warrant
further study. However, they did not “fit” comfortably in a report with the very specific and focused objectives and scope of the PSC Research Report;

- some members noted that the OECD survey results reported in Appendix E did not accurately or clearly illustrate the position in their jurisdiction. It was agreed that this appendix should be deleted and related commentary in the text should be modified to reflect these concerns;

- the Research Report should include clear directions on whether the author was of the view that an IPSAS should encourage preparation of an annual budget within a particular time frame and/or preparation of a medium term financial framework; and

- the Research Report should consider whether it was appropriate that an IPSAS encourage the budget to be prepared consistent with statistical classification bases and requirements – for example GFSM 2001 and/or ESA 95. Some members were of the view that the Research Report should simply note the existence of these statistical systems and point out that while they included similar treatments and disclosures to those required by IPSASs, there were differences – particularly in respect of the reporting entity. It was also noted that in some jurisdictions, budgets may be prepared on the basis of programs relevant for financial management and service delivery in that jurisdiction and the need to complete statistical returns should not undermine that role of the budget.

Members noted that this was an important document, not least because it was dealing with issues of particular interest and concern in the public sector and in that context was broadening the scope of what might conventionally be considered to be financial reporting. It was agreed that the Research Report should:

- be issued as a Study or Occasional Paper;

- be structured to include specific recommendations from the author and invite comments on those recommendations from interested parties; and

- identify issues for further research.

It was agreed that the Report be further developed as indicated and brought back to the PSC’s March 2004 meeting for approval to issue.

**Action Required:** Update draft Research Report for review at the next PSC meeting.

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

11. ACCOUNTING FOR DEVELOPMENT ASSISTANCE

The Committee received and considered a verbal report from Ian Mackintosh PSC Chair and Chair of the PAP. Ian noted that:

- the Key Decisions Questionnaire (KDQ) has been updated by the Consultant in accordance with the PSC’s directions at the last PSC meeting;

- the Project Advisory Panel (PAP) is almost fully established. Its formation had been delayed because of some restructuring of the OECD-Development Assistance subcommittee arrangements. The PAP includes members of the OECD-DAC Working Party on Aid Effectiveness and Harmonization and members of the Multi-Lateral Development Banks (MDB) Financial Management Harmonization Working Group;
• the revised KDQ will be dispatched to the PAP by the end of November/early December 2003 with responses due by 31 January 2004. The PAP is being provided with background materials on this project; and
• given the delay in formulation of the PAP, it is not anticipated that a first draft ED will be prepared for the March 2004 PSC meeting. Rather, it is intended to provide a summary of PAP responses for PSC review together with recommendations on key requirements to be included in the ED. The first draft of the ED would then be prepared for consideration by the PSC at its July 2004 meeting.

Ian sought PSC views on whether he should remain as the PAP Chair given that his term on the PSC was drawing to a close. Members agreed that he should remain Chair of the PAP and that it would be useful if he could present the PAP views on the nature of the Exposure Draft at the next PSC meeting.

Members noted that this remained a major project for the PSC and looked forward to its development in 2004.

**Action Required:** Forward Key Decisions Questionnaire to PAP. Prepare report on PAP responses for consideration at the next PSC meeting. Commence drafting the Exposure Draft.

**Person(s) Responsible:** Ian Mackintosh, PSC Staff, Consultant.

### 12. STUDY 14 UPDATE

The Committee received and noted:

• a memorandum from Li Li Lian;
• extracts from Study 14 identifying the main changes; and
• report from the drafting subcommittee.

Li Li spoke to the report and noted that, as agreed in the meeting in Vancouver, the drafting subcommittee had reviewed the updated draft Study 14 (2nd edition). In general, the drafting subcommittee was supportive of the changes proposed by Staff. The PSC thanked the drafting subcommittee for their work.

The PSC approved the publication of Study 14 (2nd edition), subject to a final review by the PSC Chair. PSC Members were requested to provide editorial comments to Staff after the meeting to process before finalization of the document.

**Action Required:** Update Study 14 (2nd edition) for issue.

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

### 13. GFS, ESA 95, IPSAS HARMONIZATION

The Committee received and considered a verbal report from Ian Mackintosh on a meeting of the Steering Committee OECD Taskforce on Harmonization of Public Sector Accounting on 3 October 2003.3 Draft minutes of this meeting were tabled. Paul Sutcliffe indicated that revisions to these draft minutes had been proposed and accepted by the OECD staff.
Ian noted that:

- in June 2003 the PSC had initiated a meeting of a IPSAS-GFSM 2001-ESA 95 “convergence group” which he had chaired. In addition to Paul as the PSC Technical Director, the meeting was attended by the IMF, OECD, Eurostat, AASB, UK Treasury and Office of National Statistics. At that meeting it was agreed that an OECD Taskforce on Harmonization of Public Sector Accounting be established and that the “convergence group” become the Steering Group for that Task Force;

- the purpose of the Taskforce is to promote convergence of the requirements of IPSASs, GFSM 2001 and ESA 95 where appropriate, and make recommendations for the revision of SNA (scheduled for 2008). Membership of the Task Force is still being finalized but it is appropriate that the PSC Chair or his nominee secure a place on that Task Force;

- in October 2003, the Steering Group of the Task Force held its first meeting in Paris, France. The Steering Group comprises representatives of the PSC, IMF, OECD, Eurostat, European Central Bank, Australia, UK Treasury and UK Office of National Statistics. The meeting was chaired jointly by himself as the PSC Chair, and the IMF;

- it was agreed that the IMF will chair the Taskforce. The Taskforce will have two Working Groups. Working Group I will be chaired by the PSC and will focus on convergence of IPSASs, GFSM 2001 and ESA 95, and will provide input to the SNA review from this perspective. Working Group II will be chaired by the OECD and will focus on a number of specific issues to be addressed in the revision of SNA. The OECD will provide the secretariat for the Task Force and Working Groups;

- much of the meeting was taken up by process issues, but some progress was made on the GFS – IPSAS harmonization issues. In this respect, Ian noted that an IMF paper outlining differences was considered at this meeting. It was agreed that the paper required reworking and Australia had agreed to revise the paper for consideration by Working Group I at its next meeting; and

- the next meeting of Working Group I would take place on 9 and 10 February 2004 at the OECD in Paris. This would overlap with the OECD annual Accruals Symposium. The first meeting of the OECD Task Force would take place on 11 February 2004 at the OECD.

Ian noted that Working Group I intended to complete its report on identifying differences between IPSAS, GFSM 2001 and ESA 95 and potential avenues for convergence in the first half of 2004. He sought the PSC’s views on whether PSC involvement in Working Group I and the Task Force should be continued, at least in the short term. Members agreed that he and Paul Sutcliffe should continue to be involved in representing the PSC on Working Group I. It was also agreed that the new PSC Chair should consider involvement in the Task Force as appropriate. Members noted that support of the OECD Task Force and Working Groups long term involved considerable PSC resources and ongoing support for the OECD program would need to be assessed in the context of resource availability and PSC work program priorities.

Paul Sutcliffe noted that a range of technical differences between accounting and statistical bases, and mechanisms that would progress their convergence, were discussed at the October meeting. While those discussions were far from exhaustive,
some potential avenues for convergence began to emerge. In this context, it is likely that Working Group I and/or the Task Force will request the PSC to consider:

• providing guidance on disclosure of information about the general government sector (determined in accordance with the provisions of GFS) in addition to segment information in notes to general purpose financial statements;

• allowing public sector entities which revalued property, plant and equipment to fair value in accordance with the allowed alternative measurement basis in IPSAS 17 to also value inventories at market value, and to alert the IASB to this proposition;

• to amend IPSAS 3 to replicate the requirements of the forthcoming improved IAS 8 on correction of errors; and

• to encourage the IASB to progress its project on reporting of comprehensive income.

The task Force will also recommend that:

• expenditure on military assets which provide ongoing service potential be capitalized in accordance with the requirements of IPSASs (the PSC staff paper on this issue is being forwarded to the relevant OECD groups); and

• the statistical bases consider whether the IPSAS notion of control provides a better delineation between public and private sectors than that currently adopted in the statistical bases.

Paul noted that the draft minutes of the Steering Committee meeting outlined the issues included on the agenda of Working Group II. They included the treatment of such items as capital contributions and dividends between government and GBEs; privatization and restructuring; provisions; and tax revenue. On this last issue, the group will consider the ITC on non-exchange revenue. The Task Force would also provide input to other OECD working groups and task forces.

Action Required: Continue involvement with Working Group I and consider involvement in the OECD Task Force.

Person(s) Responsible: Current and Future PSC Chairs, PSC Staff.

14. IPSAS REVIEW AND UPDATE – HARMONIZATION WITH IFRS

The Committee received and noted:

• a memorandum from Li Li Lian;

• a Paper on the PSC Strategy for harmonization with IASs/IFRSs;

• papers outlining anticipated differences between IPSASs and the improved IASs as at March 2004; and

• a media release from the IASB on the General Improvements Project.

Li Li introduced the topic and noted that, as directed by the PSC at its July 2003 meeting, Staff prepared a strategy paper for the PSC to consider on the process for harmonization of IPSASs with IASs/IFRSs. The strategy paper outlined three approaches available to the PSC and their resource implications:

• do nothing and rely on the hierarchy;
• “wrap-around” (this means that IPSAS will adopt the content and wording of the IASs/IFRSs, but with an introduction (or postscript) to the original text of the IASs/IFRSs will be added; and
• review and rewrite IASs/IFRSs where necessary (this means only redrafting sections that pertain to public sector specific issues).

Staff proposed that:
• the PSC undertake the General Improvements Project in three groups of related Standards as it would reflect a more manageable work load. However, some members were of the view that a “big bang” approach to update the IPSASs was advantageous because it would enable PSC to finalize the IPSASs as soon as possible; and
• IPSAS 20 should not be reviewed as part of this Project because IPSAS 20 is different from its equivalent IAS. The PSC has previously decided that the proposed changes to IAS 24 Related Party Disclosures should not be applied in the public sector.

The PSC agreed that at the next meeting, they will:
• review the changes made by the IASB in their General Improvements Project in the next meeting; and
• decide whether to harmonize IPSASs with the improved IASs and the process to be adopted if such amendments are made.

Staff were directed to mark-up the 10 IPSASs impacted by the IASB’s General Improvements Project to reflect the changes made in their equivalent improved IASs. Erna Swart noted that South Africa, in developing its own equivalent public sector accounting standards, had adopted IPSASs but had marked them up to incorporate the proposed changes based on the Exposure Draft of Proposed Improvements to International Accounting Standards. Erna volunteered to send to PSC staff the available marked-up versions. The PSC welcomed the offer and agreed to work with South Africa to mark-up the IPSASs to the final improved IASs. Staff also requested some latitude in getting all 10 IPSASs ready for the next meeting as it was a large undertaking. It was agreed that Staff would provide as many marked-up IPSASs as possible for the PSC to review in the next meeting and the remaining ones will be reviewed in the following meeting.

It was agreed that going forward the PSC would, when harmonizing its IPSASs with IASs/IFRSs, change as little as possible of the original IAS/IFRS text and provide clear indications what changes were made and why a change was made.

Action Required: Obtain the marked-up versions of the IPSASs from Erna. Mark-up IPSASs that are impacted by the ED of Proposed Improvements to IASs.

Persons Responsible: PSC Staff, South African delegation.

15. FIRST-TIME ADOPTION OF IFRSs

The Committee received and noted:
• a memorandum from Li Li Lian;
• a Strategy Paper;
- a summary of IFRS 1;
- IFRS 1 *First-time Adoption of International Financial Reporting Standards*; and
- a media release from the IASB on the issue of IFRS 1.

Li Li introduced the topic and noted that, as directed by the PSC at the last meeting, Staff have prepared a Paper outlining the reasons why the PSC should or should not develop an IPSAS on first-time adoption. Li Li also noted that:

- in most cases, IPSASs provide more generous relief than does IFRS 1. However, IFRS 1 provides relief in respect of two items for which there are no transitional provisions in IPSASs:
  - the identification of existing cumulative translation differences in foreign operations (IAS 21 (IPSAS 4) *The Effects of Changes in Foreign Exchange Rates*); and
  - the treatment of changes of estimates made under previous GAAP in (IAS 10 (IPSAS 14) *Events After the Balance Sheet Date*); and
- IPSAS 1 provides relief for first-time adopters of IPSAS 1 not to provide comparative information. However, IPSAS 3 requires entities that change their accounting policies to change their comparative information, unless there is a transitional provision that allows otherwise. The relief in IPSAS 1 is not formally headed “transitional provisions” and could cause confusion to users.

The PSC discussed the issues outlined in the Paper and:

- noted that the content of IFRS 1 (including the relief available to first-time adopters of IFRSs) was largely included in existing IPSASs. It was agreed that, for the time being, an IPSAS on first-time adoption of IPSASs would not be considered; and
- agreed to include:
  - additional relief that was introduced by IFRS 1 in IPSAS 4 and 14; and
  - commentary noting that paragraph 60 in IPSAS 1 is not overridden by the requirements in IPSAS 3 to restate comparative information on changing accounting policies, thus overcoming any perceived contradiction in the requirements for comparative information in IPSASs 1 and 3.

The PSC also noted that the additional guidance and relief would impact on the IPSASs that are part of the IPSAS General Improvements Project and they would review all the proposed changes in the next meeting.

**Action Required:** Incorporate the additional transitional provisions from IFRS 1 into IPSAS 4 and 14. Include clarification on the relief from preparing comparative information in IPSAS 1.

**Persons Responsible:** PSC Staff.

16. **PSC CONSULTATIVE GROUP**

Members received and considered:
- a memorandum from Jerry Gutu regarding the PSC Consultative Group;
- a report on the current status of appointments to the Consultative Group;
Jerry Gutu provided an update on the status of the Consultative Group, noting that 55 out of 66 individuals and organizations had confirmed their membership and participation in the group. He confirmed that some of the group members had participated in a survey on conversion of Study 14 to a web-based document. The views from the members were very much appreciated by staff and it was hoped that the level of participation of the group members would continue to increase. Jerry pointed out that 11 appointments remained outstanding with the bulk being from the Middle East and Latin America. Jerry appealed to the members and participants for assistance in finalizing the outstanding appointments. The meeting was advised of, and agreed to, the three nominations from FEE, which had been cleared by the PSC members from Europe. Jerry advised the meeting that the French member of the group representing the Body of Professional Accountants, Mr. Michel Prada, was going to step down and would be replaced.

The meeting noted the presence of the Consultative Group members from Europe, the Middle East and Canada who were going to participate in a lunch meeting in the afternoon of the second day of the PSC meeting.

**Action Required:** Finalize the remaining nominations to the Consultative Group.

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

### 17. PUBLIC SECTOR PERSPECTIVES ON ISAs

Members received and noted:
- a progress report on the progress of the assumption of responsibility for PSPs by INTOSAI and the IAASB from Jerry Gutu; and
- an update on the Public Sector Perspectives (PSPs) currently being considered.

Jerry advised the meeting that progress was being made in finalizing the outstanding issues concerning the Memorandum of Understanding (MOU) between INTOSAI and IAASB. The issues raised by IAASB at its meeting in October which required attention include the following:
- clarification of the position of PSPs – within the ISAs or in separate section at the end of each IAS;
- explanation of the relationship of PSPs to be included in the ISAs (as part of IAASB pronouncements) to the guidance to be provided in INTOSAI pronouncements (as audit practice notes etc);
- clarification of the IAASB staff’s involvement in appointment of the Reference Panel of Experts to IAASB Taskforces; and
- the inclusion of an additional paragraph in the MOU indicating that the project structure and cooperation process will be reviewed from time to time.

The meeting was advised that:
the IAASB had agreed that a Reference Panel of Experts be invited to participate in IAASB Taskforces in advance of finalization of the MOU which is expected to occur at the December 2003 IAASB meeting; and

IAASB staff were confident that the outstanding issues would be resolved and the MOU would be approved at the December meeting. This would trigger the assumption of responsibility for preparation of PSPs by INTOSAI and IAASB.

Ron Points indicated that he expected the process to be fully operational by mid 2004 at which point the PSC would cease drafting PSPs. He also confirmed that funding for the initiative was in place from the World Bank and that the Secretariat was currently being established. John Fretwell indicated that some had expressed concern about the due process but he did not expect the current IAASB procedures on exposure and due process to change. He indicated that the panel of experts from INTOSAI would be involved in drafting of both ISAs (which may contain public sector considerations) and/or separate audit guidelines which may be issued by INTOSAI. The UK delegation pointed out that, in some jurisdictions, audit appointments to public sector entities extend beyond supreme audit institutions to sub-national audit offices and auditors from the private sector. The due process for guidance on the application of ISAs needs to be appropriate to these varied arrangements.

Jerry expressed appreciation to the PSP subcommittee for the assistance they had given staff since the meeting in Vancouver.

In providing an update on PSPs Jerry made reference to item 17.3 “Table on Progress on PSPs” on page 17.3 of the agenda papers. He advised the meeting that PSPs were outstanding on four standards proposed by IAASB for issue in early 2004. These included:

- a revised ISA 700 on auditor’s responsibility;
- a new IAPS on Group Audits;
- a revised ISA 540 on accounting estimates audit; and
- a revised ISA 320 audit materiality.

The committee noted that draft PSPs would be prepared with the assistance of the subcommittee and circulated, as agreed, prior to submission to the IAASB.

**Action Required:** PSP subcommittee and Staff to draft PSPs and to circulate to PSC and forward the PSPs to IAASB.

**Person(s) Responsible:** PSP Subcommittee and Secretariat.

18. FUTURE MEETINGS & GENERAL BUSINESS

The Committee discussed the venues of the meetings for 2004 following a proposal to swap the March and July venues. The Committee agreed its 2004 meetings as follows:

- March 24 – 26, Buenos Aires, Argentina;
- July 5 – 7, New York, United States; and
- November 10 – 12, New Delhi, India (pending agreement with the host, Institute of Chartered Accountants in India).

Staff were instructed to confirm with IFAC that the changes in venues were in order, to advise members, and to proceed with the necessary arrangements for the next meeting in Argentina. Staff were also directed to make early preparations for the meeting in
New York which is proposed to coincide with a busy public holiday (United States Independence Day) on July 4.

On behalf of members, technical advisors, observers, Philippe Adhémar farewelled Ian Mackintosh as Chair and Australian member of the IFAC Public Sector Committee. Philippe thanked Ian for his leadership and noted that he had made a major contribution to standard setting. Paul Sutcliffe thanked Ian on behalf of staff and presented Ian with a farewell gift that all PSC members and staff had contributed.

The Committee also thanked the retiring New Zealand member Kevin Simpkins for his contribution to the PSC both as a member of the PSC and of various sub-committees and his Chairmanship of the Social Policy Obligations Steering Committee.

**Action Required:** Liaise with the Federación Argentina de Consejos Profesionales de Ciencias Económicas, IADB and others as necessary to co-ordinate the March 2004 PSC meeting in Buenos Aires. PSC staff to check with IFAC on swapping of March and July venues and to do some preliminary work on the proposed July 2004 New York meeting.

**Person(s) Responsible:** PSC staff and Secretariat.

19. **CONSULTATIVE GROUP MEETING**

The PSC Chair welcomed the Consultative Group (CG) Members and asked them to introduce themselves. Those participating were:

- Abu Ghazaleh – CEO Talal Abu Ghazaleh International. Mr. Ghazaleh noted that he is working mainly in 22 Arab countries providing accountancy training;
- Erik Peters – member of the Canadian Accounting and Auditing Oversight Board, former member of PSC and technical advisor to Canadian PSC member, retired Auditor-General, Ontario, Canada. Mr. Peters noted that he is currently preparing an assessment of the fiscal outlook for the current year for the government of Ontario. He is also interested in the non-exchange revenue project, particularly as it relates to accounting for transfers;
- Marinos Athanassiou – Poland, member of FEE. Mr. Athanassiou is currently involved in training in the public sector in Poland, but noted that many public sector accountants in Poland have no accounting knowledge they are engineers etc. He stated that he would value any additional implementation guidance/training materials on the IPSASs that can be provided;
- Brian Gray – Chief Financial Officer, European Commission. Mr. Gray noted that the EC is implementing IPSASs for its own financial statements, but has no authority to require it of member states;
- Andy Wynne – ACCA Global. Mr. Wynne noted that 50% of ACCA’s members and 75% of its students are outside the UK in English speaking countries in Asia, Sub-Saharan Africa and the Caribbean. He also noted that ACCA is very interested in the work of the PSC as a support to its members in developing countries;
• Ricardo Mussari – Siena University, Italy. Professor of Public Accounting and Management. Professor Mussari noted that he also provides consulting support to several levels of government: national, regional and local; and

• Andreas Bergmann – Zurich University, Switzerland. Professor of Public Management. Professor Bergmann noted that in Switzerland the Federal Government currently prepares financial reports on a cash basis but has decided to move to the accruals basis using IPSASs, with a particular emphasis on the cash flow statement. He explained that the twenty-six Cantons and over 3000 local governments in Switzerland prepare financial reports using a modified accruals basis but are considering implementing IPSASs by 2005. Switzerland is looking to forge a closer relationship with the PSC and its CG;

The PSC members also introduced themselves to the CG and briefly summarized and updated their Country Reports (see item 7). The CG then discussed issues of importance to them:

• some members of the CG expressed the view that the CG was not working as effectively as it could and that the PSC should give consideration to devoting a full day to meeting with the CG at each PSC meeting, rather than an hour or two; and

• members of the CG discussed translations, some expressing the view that translations were a good idea and others expressing the opposite view. Those opposing translation did so on the grounds that the meaning of English texts is often altered when translated into another language. CG members asked whether it would be possible to post translations on the IFAC PSC website.

The CG discussions with PSC members continued over lunch.

**Action Required:** Consider Consultative Group Operations.

**Person(s) Responsible:** PSC Chair and Staff.

20. **IDW SYMPOSIUM**

The Institut Der Wirtschaftprüfer organized a one-and-a-half day symposium coinciding beginning on the afternoon of Thursday, November 6, 2003. The members of the PSC attended the Symposium and Ian Mackintosh presented a paper on the work of the IFAC Public Sector Committee. Norbert Vogelpoth also presented a paper entitled “Comparison between the IPSAS and the German Public Sector Accounting Approach”.