



## **International Public Sector Accounting Standard 1 *Presentation of Financial Statements***

### **IPSASB Basis for Conclusions – as per 2017 IPSASB Handbook**

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## Basis for Conclusions

*This Basis for Conclusions accompanies, but is not part of, IPSAS 1.*

### Revision of IPSAS 1 as a result of the IASB's General Improvements Project 2003

#### Background

- BC1. The IPSASB's IFRS convergence program is an important element in the IPSASB's work program. The IPSASB policy is to converge the accrual basis IPSASs with IFRSs issued by the IASB where appropriate for public sector entities.
- BC2. Accrual basis IPSASs that are converged with IFRSs maintain the requirements, structure, and text of the IFRSs, unless there is a public sector-specific reason for a departure. Departure from the equivalent IFRS occurs when requirements or terminology in the IFRS are not appropriate for the public sector, or when inclusion of additional commentary or examples is necessary to illustrate certain requirements in the public sector context. Differences between IPSASs and their equivalent IFRSs are identified in the *Comparison with IFRS* included in each IPSAS.
- BC3. In May 2002, the IASB issued an exposure draft of proposed amendments to 13 IASs<sup>1</sup> as part of its General Improvements Project. The objectives of the IASB's General Improvements Project were to "reduce or eliminate alternatives, redundancies and conflicts within the Standards, to deal with some convergence issues and to make other improvements." The final IASs were issued in December 2003.
- BC4. IPSAS 1, issued in January 2000, was based on IAS 1 (revised 1997), which was reissued in December 2003. In late 2003, the IPSASB's predecessor, the Public Sector Committee (PSC),<sup>2</sup> actioned an IPSAS improvements project to converge, where appropriate, IPSASs with the improved IASs issued in December 2003.
- BC5. The IPSASB reviewed the improved IAS 1 and generally concurred with the IASB's reasons for revising the IAS and with the amendments made. (The IASB's Basis for Conclusions is not reproduced here. Subscribers to the IASB's *Comprehensive Subscription Service* can view the Basis for Conclusions on the IASB's website at [www.iasb.org](http://www.iasb.org)). In those cases where the IPSAS departs from its related IAS, the Basis for Conclusions explains the public sector-specific reasons for the departure.
- BC6. IAS 1 has been further amended as a consequence of IFRSs issued after December 2003. IPSAS 1 does not include the consequential amendments arising from IFRSs issued after December 2003. This is because the IPSASB has not yet reviewed and formed a view on the applicability of the requirements in those IFRSs to public sector entities.

#### Income

- BC7. IAS 1 uses the term income, which is not used in IPSAS 1. IPSAS 1 uses revenue, which corresponds to income in the IASs/IFRSs. The term income is broader than revenue, encompassing gains in addition to revenue. The IPSASs do not include a definition of income, and introducing such a definition was not part of the improvements project and was not included in ED 26.

#### Extraordinary Items

- BC8. IAS 1 prohibits an entity from presenting any item of income or expense as extraordinary items, either on the face of the income statement or in the notes. The IASB concluded that items treated as extraordinary result from the normal business risks faced by an entity, and do not warrant presentation in a separate component of the income statement. The nature or function of a transaction or other event, rather than its frequency, should determine its presentation within the income statement.
- BC9. The definition of extraordinary items in IPSAS 1 (2000) differed from the definition included in the previous (1993) version of IAS 8, *Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting*

<sup>1</sup> IASs were issued by the IASB's predecessor, the IASC. The Standards issued by the IASB are entitled International Financial Reporting Standards (IFRSs). The IASB has defined IFRSs to consist of IFRSs, IASs, and Interpretations of the Standards. In some cases, the IASB has amended, rather than replaced, the IASs, in which case the old IAS number remains.

<sup>2</sup> The PSC became the IPSASB when the IFAC Board changed the PSC's mandate to become an independent standard-setting board in November 2004.

*Policies.*<sup>3</sup> This difference reflected the public sector view of what constituted an extraordinary item for public sector entities.

BC10. This Standard does not explicitly preclude the presentation of items of revenue and expense as extraordinary items, either on the face of the statement of financial performance or in the notes. IAS 1 prohibits any items of income and expense to be presented as extraordinary items, either on the face of the income statement or in the notes. The IPSASB is of the view that IPSASs should not prohibit entities from disclosing extraordinary items in the notes to, or on the face of, the statement of financial performance. This is because they believe that the disclosure of information about extraordinary items may be consistent with the objectives and qualitative characteristics of financial reporting. However, other members are of the view that there is not a public sector-specific reason to depart from the requirements of IAS 1 in respect of this matter. They also noted that IPSAS 1 does not preclude the separate presentation of items that are distinct from the ordinary activities of a government, either on the face of the financial statements or in the notes, as long as these items are material. They are not convinced that there is a public sector-specific reason to depart from the IASB's prohibition on presenting "extraordinary items" in the financial statements.

#### **Revision of IPSAS 1 as a result of the IASB's *Improvements to IFRSs* issued in 2008**

BC11. The IPSASB reviewed the revisions to IAS 1 included in the *Improvements to IFRSs* issued by the IASB in May 2008 and generally concurred with the IASB's reasons for revising the standard. The IPSASB concluded that there was no public sector specific reason for not adopting the amendments.

#### **Revision of IPSAS 1 as a result of the IASB's *Improvements to IFRSs* issued in 2009**

BC12. The IPSASB reviewed the revisions to IAS 1 included in the *Improvements to IFRSs* issued by the IASB in April 2009 and generally concurred with the IASB's reasons for revising the standard. The IPSASB concluded that there was no public sector specific reason for not adopting the amendment.

#### **Revision of IPSAS 1 as a result of IASB's *Improvements to IFRSs* issued May 2012**

BC13. The IPSASB reviewed the revisions to IAS 1 included in the *Improvements to IFRSs* issued by the IASB in May 2012 and generally concurred that there was no public sector specific reason for not adopting certain amendments. The IPSASB noted some of the amendments impact IFRS 1, *First-time Adoption of International Financial Reporting Standards* and IAS 34, *Interim Financial Reporting* for which equivalent standards do not exist in IPSASs, and therefore such amendments have been excluded. Further, a portion of the amendments propose changes related to presenting a statement of financial position at the beginning of a preceding period for retrospective changes resulting from accounting policy changes, restatements and reclassifications. Presentation of an opening statement of financial position is currently not a requirement of IPSAS 1 and introducing changes related to these IASB amendments, is not considered minor and therefore these have been excluded. A further portion of the amendment related to presenting additional comparative information was not considered a minor change and has also been excluded.

#### **Revision of IPSAS 1 as a result of the first four chapters of the IPSASB's Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities**

BC14. Following completion of the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (the Conceptual Framework) the IPSASB initiated a limited scope project to make changes to IPSASs to reflect the first four chapters of the Conceptual Framework. These chapters address role and authority; objectives and users; qualitative characteristics (QCs) and constraints on information in general purpose financial reports; and the reporting entity. The Conceptual Framework adopted the QC of "faithful representation" rather than "reliability".

BC15. Both the version of IPSAS 1 issued in May 2000 and the revised version of IPSAS 1 issued in December 2006 included an appendix that summarized the QCs and constraints that IPSASB had indirectly adopted. These QCs and constraints were drawn from the former International Accounting Standards Committee's 1989 Conceptual Framework. The IPSASB considered whether this Appendix should be deleted completely or amended to reflect the QCs and constraints in the IPSASB's own Conceptual Framework. The IPSASB decided that it is important that the concepts in the Conceptual Framework are considered directly rather

<sup>3</sup> IPSAS 1 (2000) defined extraordinary items as "revenue or expenses that arise from events or transactions that are clearly distinct from the ordinary activities of the entity, are not expected to recur frequently or regularly and are outside the control or influence of the entity." IAS 8 defined "extraordinary items" as "income or expenses that arise from events or transactions that are clearly distinct from the ordinary activities of the enterprise and therefore are not expected to recur frequently or regularly."

than being mediated through secondary sources. The IPSASB therefore decided to delete Appendix A completely. Consistent with this decision the IPSASB also decided to delete a replication of Appendix A in IPSAS 18, *Segment Reporting*.

BC16. The IPSASB noted that recognition criteria in IPSASs include the words “reliably” or “reliable”. Many other IPSASs do not include explicit recognition criteria, but include references to “reliably” and “reliable” in more general guidance on recognition, estimation, allocation and other issues related to measurement. The IPSASB did not consider it appropriate to make piecemeal changes to recognition criteria in advance of a fuller review of recognition criteria and related guidance. The IPSASB therefore decided to include a footnote explaining the meaning of “reliability” in each IPSAS with recognition criteria or related guidance on aspects of measurement. This footnote states that “information that is reliable is free from material error and bias, and can be depended on by users to faithfully represent that which it purports to represent or could reasonably be expected to represent.”

### **Revision of IPSAS 1 as a result of the IPSASB’s The Applicability of IPSASs, issued in April 2016**

#### *Background*

BC17. IPSAS 1 included the following definition of a Government Business Enterprise (GBE):

*Government Business Enterprise means an entity that has all the following characteristics:*

- (a) *Is an entity with the power to contract in its own name;*
- (b) *Has been assigned the financial and operational authority to carry on a business;*
- (c) *Sells goods and services, in the normal course of its business, to other entities at a profit or full cost recovery;*
- (d) *Is not reliant on continuing government funding to be a going concern (other than purchases of outputs at arm’s length); and*
- (e) *Is controlled by a public sector entity.*

BC18. The purpose of the definition was to exclude commercial public sector entities that met the above definition of a GBE from the scope of IPSASs. However, feedback received by the IPSASB indicated that there is a wide range of entities being described as GBEs, some of which clearly do not meet the IPSASB definition of a GBE. There also appeared to be different interpretations of components of the definition.

BC19. To address this problem, in August 2014 the IPSASB issued a Consultation Paper (CP), *The Applicability of IPSASs to Government Business Enterprises and Other Public Sector Entities*. The CP proposed two main approaches to communicate its policy on the public sector entities for which it is developing accounting standards and on GBEs.

BC20. Approach 1 proposed (i) deleting the definition of a GBE; and (ii) providing a high-level description of the characteristics of public sector entities for which IPSASs are intended. This approach had two options: using the IPSASB’s current and developing literature (Option 1a) or using Government Finance Statistics (GFS) reporting guidelines and explanatory guidance (Option 1b).

BC21. Under Option 1a, the IPSASB would describe the characteristics of the public sector entities in the following way:

IPSASs are designed to apply to entities that:

- (a) Are responsible for the delivery of services to the public with assets held primarily for their service potential and/or to make transfer payments to redistribute income and wealth;
- (b) Finance their activities, directly or indirectly, by means of taxes and/or transfers from other levels of government, social contributions, debt or fees and do not have capital providers that are seeking a return on their investment or a return of the investment.

BC22. Approach 2 proposed retaining and modifying the definition of a GBE in IPSAS 1 in order to resolve problems in its application, and proposed two options for the definition’s modification. Option 2a proposed clarifying the current definition of a GBE and Option 2b proposed narrowing the existing definition of a GBE.

BC23. The IPSASB expressed a unanimous Preliminary View in the CP that Approach 1 was most appropriate because it focuses on the characteristics of public sector entities for which IPSASs are intended. A majority of IPSASB members supported Option 1a because it is a high level, principles-based approach that draws on *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (the Conceptual Framework), and acknowledges the role of regulators and other relevant authorities in determining which entities should apply IPSASs.

BC24. There was strong support from respondents for Option 1a. In general, respondents supported Option 1a for the reasons stated in the previous paragraph. Some respondents also gave additional reasons for supporting Option 1a. These reasons included reliance on the literature of a third-party over which the IPSASB has no control, and the possibility of inconsistency with the IPSASB's own literature, which were identified as risks with Option 1b.

BC25. Respondents' reasons for not supporting Option 1a included:

- (a) A lack of resource capacity of regulators in less developed countries, making it difficult to develop detailed criteria for reporting requirements;
- (b) Different national regulators using different criteria, which would reduce consistency between jurisdictions; and
- (c) The complexities of public sector entities compared with private sector entities that demand a different approach to the determination of reporting requirements.

BC26. In coming to its decision, the IPSASB considered:

- (a) The role of regulators in determining the accounting framework for public sector entities in their jurisdiction may vary;
- (b) The alignment between IPSASs and GFS reporting guidelines;
- (c) The meaning of the term "public sector" with reference to the Preface to the Conceptual Framework;
- (d) How holding assets for service potential instead of for cash generation is a distinctive characteristic of public sector entities for which IPSASs are intended; and
- (e) Replacing the term government business enterprise with the terms "commercial entities" and "commercial public sector entities", where appropriate.

#### *The role of regulators and other relevant authorities*

BC27. The IPSASB acknowledged that regulators and other relevant authorities might form different views from the IPSASB on the applicability of IPSASs in each jurisdiction. Many jurisdictions develop their own criteria to decide which entities should apply IPSASs. These criteria may vary for legal, economic or fiscal reasons. Therefore, the IPSASB is of the view that a principles-based approach is appropriate, because that approach allows flexibility in each jurisdiction.

#### *Alignment between IPSASs and GFS reporting guidelines*

BC28. The IPSASB has a policy of reducing unnecessary differences between IPSASs and GFS reporting guidelines, where appropriate. The IPSASB decided that, on the issue of the applicability of IPSASs, the objectives of financial reporting are better served by developing characteristics that are based on the IPSASB's current and developing literature over which it has control rather than relying on third-party guidelines.

#### *The meaning of the term "public sector"*

BC29. According to paragraph 1.8 of the Conceptual Framework, the term "public sector" includes national, regional, state/provincial and local governments. It also includes international governmental organizations. The IPSASB acknowledges that the public sector also includes other entities that seek a return on equity to investors. IPSASs are not intended to apply to the general purpose financial reports of this type of entity. However, when they are included in consolidated financial statements by a controlling entity that applies IPSASs, appropriate adjustments are made to ensure conformity with the economic entity's accounting policies. Therefore, the IPSASB is of the view that the term public sector is related to single and group entities as described in the Conceptual Framework.

*Assets held for service potential*

BC30. The IPSASB is of the view that the description “are responsible for the delivery of services to the public” provided in the *Preface to International Public Sector Accounting Standards* indicates that IPSASs are intended for public sector entities that hold assets primarily for service potential rather than the generation of cash flows.

*Commercial entities and commercial public sector entities*

BC31. The IPSASB was of the view that only removing the term “GBE” would leave a vacuum in the IPSASB’s literature because the public sector comprises not only entities for which IPSASs are designed, but also commercial entities. Therefore, the IPSASB proposed to replace the term “GBE” with the term “commercial public sector entities” and “commercial entities”, where appropriate.

*Modification of Preface to International Public Sector Accounting Standards*

BC32. In August 2015, the IPSASB issued Exposure Draft (ED) 56, *The Applicability of IPSASs*. The ED reflected the IPSASB’s decision to delete the definition of a GBE from IPSAS 1 and from other IPSASs and RPGs. The IPSASB considered that this approach best serves the public interest because it removes a definition that has been ambiguous and difficult to implement, and describes the characteristics of public sector entities for which IPSASs are designed. The IPSASB proposed to provide this description in the *Preface to International Public Sector Accounting Standards* and to base that proposed description on the IPSASB’s literature. Although not subject to the IPSASB’s due process, the IPSASB made the revised characteristics available in the Executive Summary of ED 56.

*Responses to the ED*

BC33. Overall respondents supported the proposed approach and most of the comments related to:

- (a) The characteristics of public sector entities in paragraph 10 of the Preface to IPSASs;
- (b) The use of wording “commercial entities” and “commercial public sector entities”; and
- (c) Other amendments to IPSASB’s literature.

*Characteristics of public sector entities in paragraph 10 of the Preface to IPSASs*

BC34. The characteristics of public sector entities in paragraph 10 of the Preface to IPSASs have been amended to reflect the IPSASB’s agreement with respondents’ suggestions to increase consistency with the Conceptual Framework, while retaining a principles-based approach to the description of those characteristics.

BC35. Some respondents questioned whether the reference to “capital providers” in paragraph 10(b) should be amended to “equity providers” to be consistent with terminology in the Conceptual Framework. Other respondents indicated that the reference to “capital providers” is not necessary, as it is clear that entities should not have a profit objective. The IPSASB agreed with this suggestion and decided to delete the reference to “capital providers”.

*Commercial public sector entities*

BC36. In the ED, the IPSASB proposed replacing the term “GBE” with the terms “commercial public sector entities” and “commercial entities”. The term “commercial entities” was used for economy of expression in those contexts where the IPSASB considered it clear that the discussion was about the public sector. However, some respondents were of the view that having different terms for the same type of entity might create confusion. The IPSASB decided therefore to replace the term “GBE” with one term - “commercial public sector entities” - and acknowledge that regulators can interpret the term taking account of jurisdictional factors.

*Other amendments to IPSASB’s literature*

BC37. Some respondents suggested focusing IPSASs on the public sector entities for which they are designed by removing the wording “other than GBEs” from the IPSASB literature. The ED had proposed the wording “other than commercial entities”. The IPSASB agreed with respondents’ suggestion and has removed the wording because it is in accordance with the ED’s approach of communicating the public sector entities for

which IPSASs are designed in a positive way, rather than focusing attention on entities for which IPSASs are not intended, which include commercial public sector entities.

BC38. Other respondents proposed changes to IPSASB's literature that had previously been discussed, including:

- Provide explanation for borderline cases—Some constituents suggested more explanation about the distinction between “pure” public sector entities and “pure” profit seeking entities. For example, a public sector entity might not be profit seeking but may have profits. The IPSASB is of view that regulators may decide which entities apply IPSASs.
- Change of objectives may imply change of the applicability of IPSASs—The IPSASB is of the view that regulators have a role to develop the transitional requirements when public sector entities change their accounting framework.