



International Public Sector Accounting Standard 22
Disclosure of Financial Information about the General Government Sector
IPSASB Basis for Conclusions – as per 2017 IPSASB Handbook

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Published by:



Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 22.

Introduction

- BC1. The *System of National Accounts 1993* (SNA 1993) (and updates), *Government Finance Statistics Manual 2001* (GFSM) 2001, and the *European System of Accounts 1995* (ESA 1995), all require governments to publish financial information about the GGS. For statistical purposes, the GGS comprises government-controlled entities primarily engaged in nonmarket activities. The GGS is sometimes described as comprising those entities that fulfill the core functions of government as their primary activity. The GGS does not include public corporations, even when all the equity of such corporations is owned by the government or government entities.
- BC2. Current IPSASs do not require entities to disclose information about the GGS in their financial statements. IPSASs require entities to prepare financial statements that include information about all the resources controlled by the reporting entity, and prescribe rules for consolidation of all controlled entities. IPSAS 18, *Segment Reporting*, also requires entities to identify segments and present information about those segments.
- BC3. Some governments prepare, present, and widely publish both financial statements and information about the financial characteristics and performance of the public sector prepared in accordance with statistical bases of reporting.
- BC4. The IPSASB supports the convergence of IPSASs with statistical bases of reporting where appropriate. The statistical community encouraged the IPSASB to develop an IPSAS addressing the presentation of GGS information as part of a government's consolidated financial statements as a means of facilitating convergence.
- BC5. The disclosure of GGS information can provide useful information to users of financial statements, particularly in those jurisdictions in which national or other governments publish both (a) financial statements in accordance with IPSASs, and (b) financial information in accordance with statistical bases of financial reporting. The IPSASB is also of the view that the disclosure of such information can assist users in better understanding the relationship between the market and nonmarket activities of the government. However, the IPSASB is not persuaded that the benefits of making such disclosures may be significantly greater than their costs in those jurisdictions where financial statements prepared in accordance with statistical bases of financial reporting are not routinely prepared and made publicly available. Consequently, these disclosures are not mandatory.
- BC6. This Standard specifies requirements for application only by governments. This is because it is only possible to disclose a meaningful representation of the GGS for a government as a whole. In some jurisdictions, national governments may control provincial and/or local governments. Where this occurs, the financial statements may be further disaggregated to separately disclose information about the GGS for each level of government. Such disclosure is likely to assist users to better understand the relationship between the GGS activities of each level of government. However, in some jurisdictions, such disclosures may impose additional pressure on the accounting system and those responsible for data collection and aggregation, and it is not clear that the benefits of such disclosure for users of the financial statements will exceed their cost. Therefore, this Standard does not require entities that elect to disclose information about the GGS to also disclose separately information about the GGS of each level of government consolidated in the financial statements. However, such disclosures are not precluded.

Consolidation and Disaggregation

- BC7. Statistical bases of financial reporting and IPSASs have many similarities in their treatment of particular transactions and events. However, there are also differences. For example, statistical bases of financial reporting:
 - (a) Require all assets and liabilities (except loans) to be revalued to market value at each reporting date. IPSASs include different measurement requirements, and require or permit cost and current values for certain classes of assets and liabilities;
 - (b) Treat dividends as expenses, while IPSASs treat them as distributions;

- (c) Make a distinction between transactions and other economic flows for presentation of financial information. IPSASs do not currently make a similar distinction; and
 - (d) Focus on the presentation of financial information about the GGS and the other sectors of the public sector as separate components and, in this context, adopt the same rules for recognition and measurement as are adopted for presentation of the rest of the economy, to ensure consistency of the macro-economic totals. Under statistical bases of financial reporting, financial statements prepared for the GGS do not include consolidation of PNFCs, being government-controlled entities that trade in goods and services, and PFCs such as banks. The IPSASs focus on consolidated financial statements which present financial information about all the assets, liabilities, revenues, expenses, and cash flows controlled by the entity.
- BC8. This Standard requires that the disclosure of information about the GGS be a disaggregation of a government's consolidated financial statements. This is a similar perspective that is adopted for disclosure of segment information in accordance with IPSAS 18. Accordingly, the same accounting policies as those adopted for the consolidated financial statements are to be adopted in making GGS disclosures, with one exception as noted below.
- BC9. When GGS disclosures are made in financial statements, the requirements of IPSAS 35 should not be applied in respect of PFCs and PNFCs. This is because the application of IPSAS 35 to the PFC and PNFC sectors would result in the re-presentation of a government's consolidated financial statements rather than the GGS financial statements. This would defeat the purpose of the disclosure of GGS information as a bridge between financial statements prepared in accordance with IPSASs and those prepared in accordance with statistical bases of financial reporting.

Segment Reporting

- BC10. IPSAS 18 requires the separate disclosure of certain information about significant activities or groups of activities for the evaluation of the performance of the entity in achieving its objectives, and for decision-making purposes. IPSAS 18 does not distinguish between exchange and non-exchange transactions and events, or market and nonmarket activity of government. Rather, its focus is on the disclosure of the revenues, expenses, assets, and liabilities associated with the delivery of major services or groups of services – whether these services are delivered by the GGS of the government or by PFCs and PNFCs. The objective of segment reporting is not achieved by the disclosure of information about the GGS. Accordingly, a government electing to disclose information about the GGS needs also to disclose information about segments.
- BC11. Statistical bases of financial reporting present information about expenses or expenditure of the government, classified either by economic nature or the COFOG. Either of these classification bases may be applied to disclose additional information about the GGS. In some cases a COFOG classification may be adopted to disclose segment information in a government's consolidated financial statements.

Reconciliation

- BC12. The information disclosed about the GGS in accordance with the requirements of this Standard may differ in content and form from that presented under statistical bases of financial reporting.
- BC13. The IPSASB considered whether those governments that elect to disclose information about the GGS in accordance with this Standard should be required to disclose a reconciliation of (a) the GGS disclosures in the financial statements, and (b) the GGS disclosures under statistical bases of financial reporting. The IPSASB was concerned that such a requirement may impose significant costs on the preparer, and that those costs may be greater than the benefits in some jurisdictions. This would then discourage governments that might otherwise elect to make such disclosures. Of particular concern to the IPSASB in this respect was, for example, whether the:
- (a) Timing of compilation of financial statements and statistical information is such that a reconciliation could be completed within the timeframe necessary for the financial statements to be audited and signed off or authorized for issue in accordance with legislative requirements and/or requirements of the IPSASs;
 - (b) Inclusion of such a requirement would trigger an audit of the reconciliation, and may also trigger an audit of the statistical reports themselves; and

- (c) Entity may be required to remeasure and reclassify assets, liabilities, revenues, and expenses in accordance with the requirements of the statistical bases of financial reporting, and whether this would discourage disclosure of the GGS information.

BC14. On balance, the IPSASB concluded that such a reconciliation should not be required at this stage. However, a reconciliation of the GGS disclosures, presented in accordance with the requirements of this Standard to the equivalent items in the financial statements of the government prepared in accordance with the requirements of IPSASs, (a) is consistent with enhanced transparency, (b) is not onerous, and (c) would be useful to users. The disclosure of a reconciliation of the GGS disclosures presented in accordance with the requirements of this Standard and the GGS disclosures presented under statistical bases of financial reporting is not prohibited.

Revision of IPSAS 22 as a result of the IPSASB's *The Applicability of IPSASs*, issued in April 2016

BC15. The IPSASB issued *The Applicability of IPSASs* in April 2016. This pronouncement amends references in all IPSASs as follows:

- (a) Removes the standard paragraphs about the applicability of IPSASs to “public sector entities other than GBEs” from the scope section of each Standard;
- (b) Replaces the term “GBE” with the term “commercial public sector entities”, where appropriate; and
- (c) Amends paragraph 10 of the *Preface to International Public Sector Accounting Standards* by providing a positive description of public sector entities for which IPSASs are designed.

The reasons for these changes are set out in the Basis for Conclusions to IPSAS 1.