

# International Federation of Accountants

## International Public Sector Accounting Standards Board (IPSASB)

**Sunlight is the best disinfectant, the  
need for transparency and comparability  
In a connected world**

**Andreas Bergmann, Prof Dr**  
Chair IPSAS Board

**15 March 2011**



# Sunlight as a disinfectant



**Sodis in Indonesia**

## SODIS

**Water put in PET-bottles and exposed to sunlight is disinfected within 3 to 6 hours**

*Source: Swiss Federal Institute of Aquatic Sciences (inventor and global co-ordinator)*

There is more accounting in this slide as a hidden message

## Sunlight ...

- Financial crises are caused by a lack of transparency
- Transparency and accountability in the area of public finances is a fundamental principle of democracy
- Comparability is an essential ingredient for improvement
- User needs are more diverse in the case of governments
- How is transparency, accountability and comparability achieved?
- IPSASB has created a full suite of standards – which are applied world wide and help ...

**... generating growth.**

# Financial crises are caused by a lack of transparency



## Essence of a Financial Crisis

- Unexpected
- Default (or near/partial)
- of Debt
- (likely to spill over in a connected world)

Transparency of financial position and financial performance reduces likelihood of unexpected surprises- and perhaps also default risk

# Financial crises are caused by a lack of transparency

## A closer look ...

- The subprime-debt crisis: Securitization obscured quality of underlying debt
- The government interventions: Financial guarantees are often not disclosed, nationalized entities often not consolidated, toxic assets are not tracked in cash basis of accounting
- The sovereign debt crisis: Accounts/statistics were falsified, at least in the case of Greece, maturity of debt was unknown due to inadequate statistical requirements

# IPSASB/IMF Government Reporting Initiative

Objectives – to learn and be informed:

- How are governments accounting for and reporting assets, obligations, and commitments acquired as a result of their interventions?
- How well do existing accounting standards report the variety of government actions?
- Compare the reporting and valuation approaches

# IPSASB/IMF Government Reporting Initiative

- Results

- IPSAS provide adequate guidance for all types of interventions
- Most interventions should be recognized or disclosed, but unfortunately this is not the case in all countries
- Consolidation issues need further thoughts
- And so does treatment of financial guarantees (provision/contingent liability or financial instrument)
- Sound accounting and reporting does support both transparency and decision making

## Interim conclusion

**The accounting profession has the methods and concepts to improve transparency - even if they are too often not applied ....**

# Transparency and accountability in the area of public finances is a fundamental principle of democracy

## A look back ...

- 1789 French Revolution introduces the separation of powers
- 1791 The new constitution included the government budget in the list of decisions explicitly subject to the separation of powers
- Implementing this democratic principal requires transparency and accountability – solving the principle agent problem



# Transparency and accountability in the area of public finances is a fundamental principle of democracy

... and fast forward to 2011

- Government finances are an issue both in Tunisia and Egypt
- Demonstrators are asking transparency and accountability
- What's different from 1798? Nothing in substance, perhaps technology makes it even easier to achieve today ...



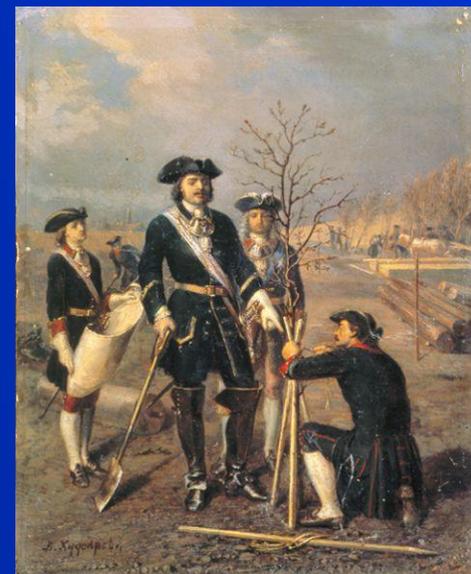
## **Interim conclusion**

**The accounting profession has the methods and concepts to enable democracy**

# Comparability is an essential ingredient for continuous improvement

## A look back - again

- Same time in Russia:  
Tsar Peter the Great introduces accrual accounting for the government
- Not to promote democracy ... but to achieve progress and economic development
- Inspired by private sector accounting he experienced during his visit to the Netherlands



# Comparability is an essential ingredient for continuous improvement

## ... and fast forward to 2011

- Austerity programs are becoming effective around the globe – based on which financial information?
- Comparable information is essential for sanity in the design of austerity measures
  - From personal experience: If you cut across the board, profligacy is once again rewarded and efficiency punished
  - e.g. per capita cost of a high school student varied by factor 2.5 before the 1990's austerity programs in Switzerland kicked in – they could easily be implemented without cuts for the efficient ones

## **Interim conclusion**

**The accounting profession has the methods and concepts to create comparability and enable efficient, continuous improvements**

## How is transparency, accountability and comparability achieved?

- Accounting has a long tradition of formulating principles of financial reporting
- IPSASB is currently creating a first conceptual framework for financial reporting of public sector entities
- Strong reference to user needs – which are broader for the public sector
  - Service recipients and resource providers (IPSAS CF ED)
- The well known qualitative characteristics, such as Relevance, Faithful Representation, Understandability, Timeliness, Comparability, Verifiability

## **Interim conclusion**

**The accounting profession has the principles for the production of financial reports enhancing transparency, accountability and comparability**

## **IPSASB has created a full suite of standards – which are applied world wide and help ...**

- 31 Standards approved (accrual basis) covering all main areas of government activity, 1 cash basis standard
- Substantial convergence at December 31, 2009 with IFRSs at December 31, 2008
  - All relevant IFRS converged
  - 2009 IFRS improvements will be incorporated at 1 January 2011
- Standards include sector specific standards
  - Disclosure of Information about the GGS (Financial Statistics)
  - Revenues from Non-Exchange Transactions (Transfers and Taxes)
  - Presentation of Budget Information

## **IPSASB has created a full suite of standards – which are applied world wide and help ...**

- Independent Accounting Standard Setter under IFAC
- Setting standards for Public Sector Entities except Government Business Enterprises (GBE)
- 18 members, including currently 3 from SAI
- 10 international organizations with formal observers status, including INTOSAI
- 7.5 staff, mainly based in Toronto/Canada
- Funding by IFAC (approx 50 percent) and various Voluntary Contributions from Governments and Observers

**IPSASB has created a full suite of standards – which are applied world wide and help ...**

## IPSASB Strategic Themes 2010-2012

Developing a **conceptual framework** for the public sector

**Public sector critical** projects (public sector specific, IFRSs convergence, maintenance)

**Communications and promoting adoption & implementation**

# IPSASB has created a full suite of standards – which are applied world wide and help ...

- Momentum in adoption

- About 30 countries are adopting accrual basis IPSAS; including France, South Africa, Switzerland, Russia, Israel, Slovakia, Brazil
  - Some adopt IPSAS directly (e.g. Switzerland, Slovakia, Austria)
  - Some adopt IPSAS through national standards (e.g. South Africa, Brazil, Indonesia, Spain)
- Also sub-national governments are adopting IPSAS when the decentralized structure allows them to move independently – e.g. Prefecture of Tokyo, State of Hesse, State of Zurich
- Entire UN system, OECD, NATO, Interpol and EC

# IPSASB has created a full suite of standards – which are applied world wide and help ...

- Momentum in adoption

- A group of about 10 countries are using IPSAS as a reference
  - Some with a long tradition in standard setting: Australia, New Zealand, Canada, United States (both FASAB and GASB), UK
- IASB and FASB are considering IPSASB work
- Close co-operation with NSS and national standard setters

# **IPSASB has created a full suite of standards – which are applied world wide and help ...**

## **Adoption and implementation of Accrual Basis IPSAS adds value**

- Direct value added of fair presentation under IPSAS:
  - Transparency and Accountability: Governments are accountable to citizens, but increasingly also to other stakeholders, like the economy
  - Decision making: Is dramatically improved especially in areas with capital expenditure, e.g. government interventions (loans, asset purchase, nationalization.
- **Both are key areas in sovereign debt crisis**

# IPSASB has created a full suite of standards – which are applied world wide and help ...

## Adoption and implementation of Accrual Basis IPSAS adds value

- There is significant positive correlation between Accounting and PFM performance in general (VANY, 2010)
- Key impacts of good Accounting are according to Vany:
  - Sound Medium Term Expenditure Frameworks
  - Solid Cash & Debt Management, as well as Commitment Control
  - Reliable basis for Audit
- **Accounting is key for sound financial management**

# IPSASB has created a full suite of standards – which are applied world wide and help ...

## Adoption and implementation of IPSAS adds value

- Value added through consequential effects – obviously not exclusively attributable to IPSAS:
  - Reputation: Rating agencies take accounting/reporting into consideration as one of the key elements. Capital markets are increasingly on alert about financial reporting issues of governments following the GFC.
  - Motivation of employees involved.
- **Reputation effects are likely to gain importance in the aftermath of the GFC**

# Sunlight as a disinfectant



**Sodis in Indonesia**

Indonesia also adopts IPSAS

## SODIS

Water put in PET-bottles and exposed to sunlight is disinfected within 3 to 6 hours

*Source: Swiss Federal Institute of Aquatic Sciences (inventor and global co-ordinator)*

SFIAS presents its Financial Reports under IPSAS and is consolidated into Swiss Federal Gov't reports

# Questions and Discussion



- Visit our webpage <http://www.ifac.org/PublicSector/>
- Or contact us by e-mail  
Chair IPSASB [andreasbergmann@ifac.org](mailto:andreasbergmann@ifac.org)  
Technical Director [stepheniefox@ifac.org](mailto:stepheniefox@ifac.org)