

Model Public Sector Group

Illustrative IPSAS financial statements

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Building a better
working world

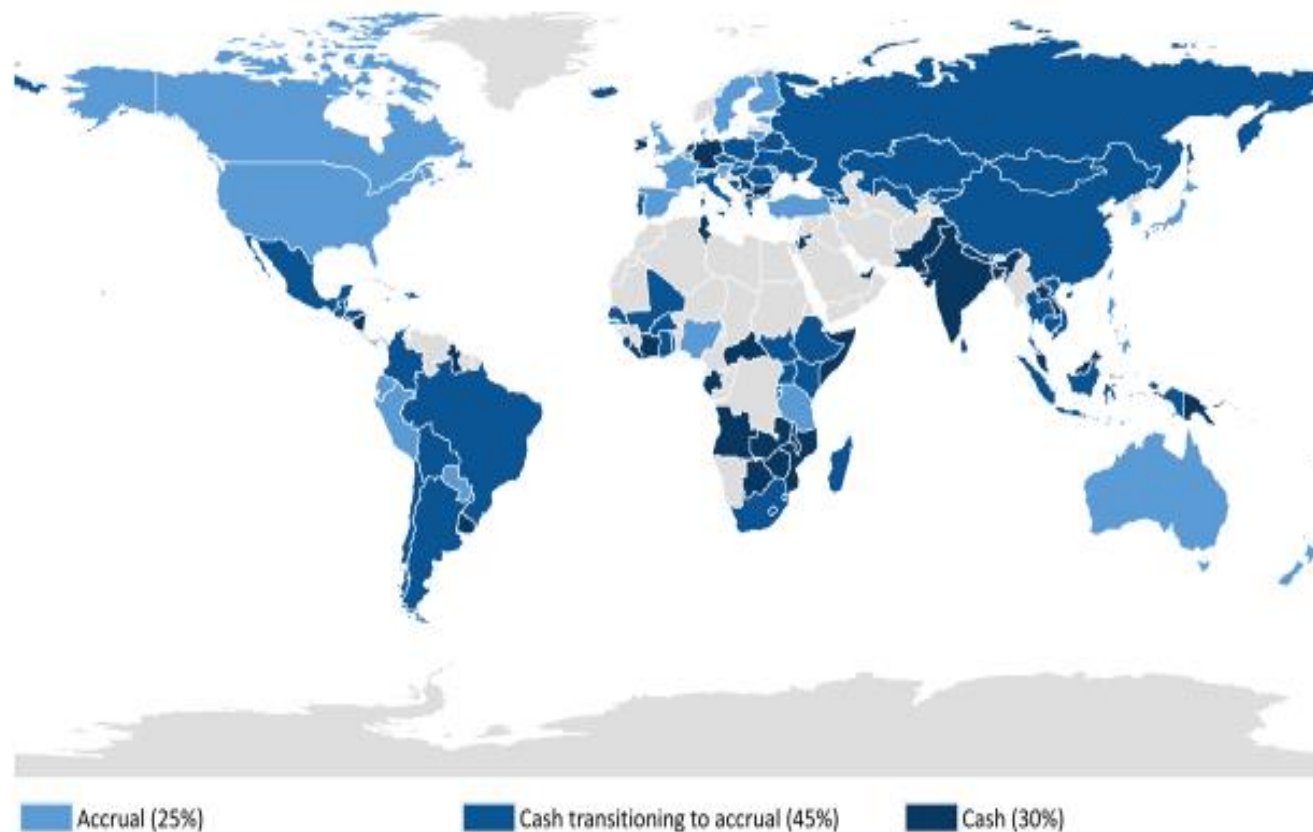
Presentation outline

- ▶ Background
- ▶ The benefits of using a template such as Model Public Sector Group (MPSG)
- ▶ How was MPSG Financial Statements developed?
- ▶ Content overview
- ▶ Use of the MPSG template
- ▶ Key points to consider

Background

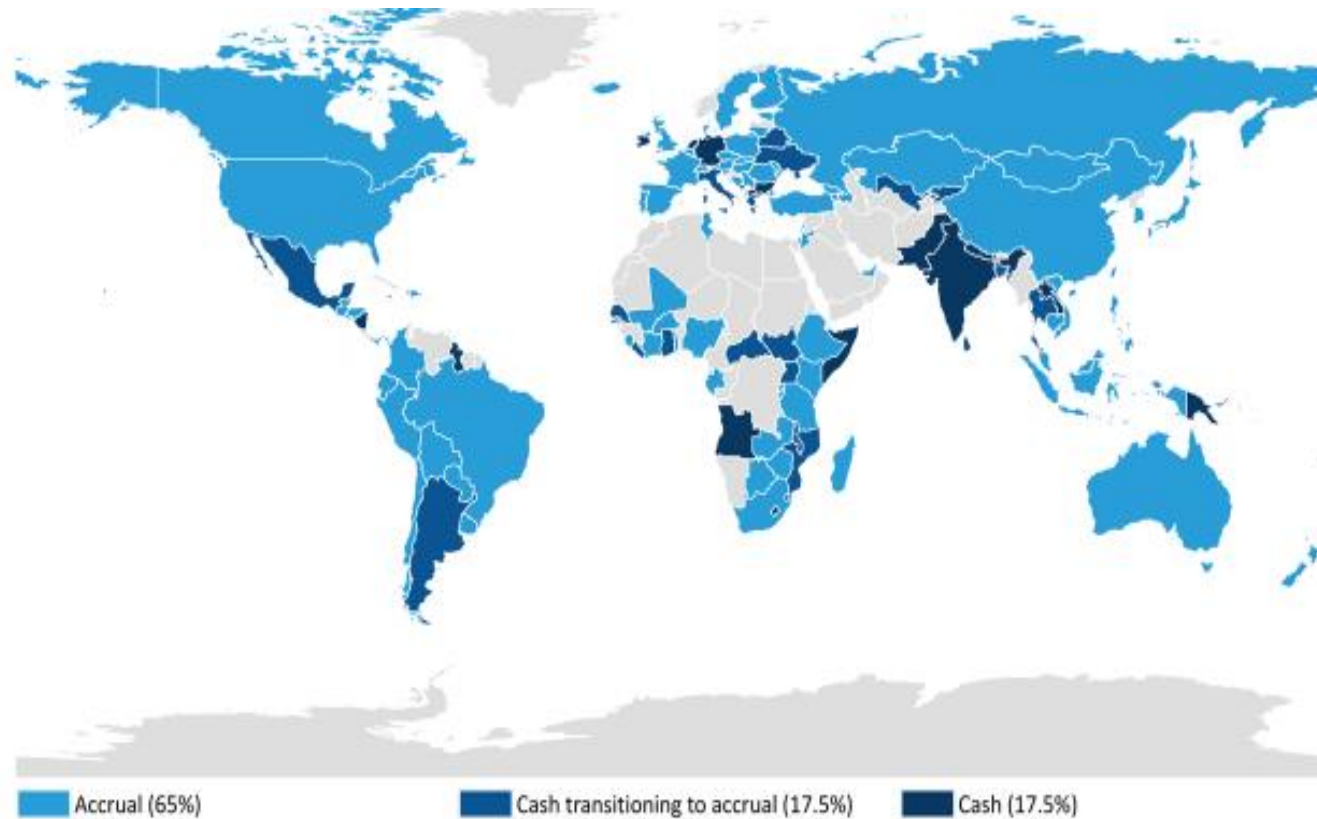


Currently 25% of governments report on accrual.....



Source: IFAC / CIPFA
International Public Sector
Financial Accountability Index
Data from 150 countries

.....within 5 years 65% will report on accrual

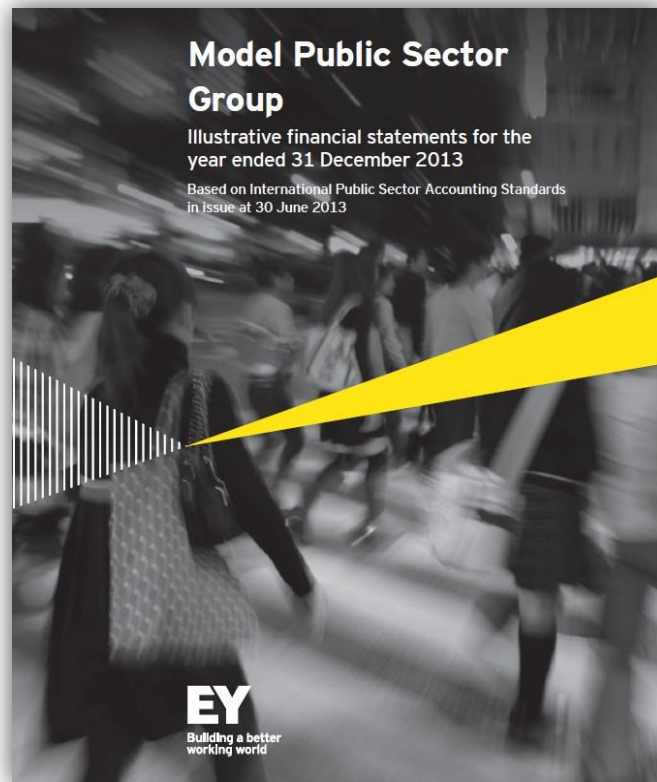


Source: IFAC / CIPFA
International Public Sector
Financial Accountability Index
Data from 150 countries

Model Public Sector Group Ernst & Young

Background

Ernst & Young was one of the first organisations to publish a Model Public Sector Group (MPSG) financial reporting template based on IPSAS, back in 2013.



- This publication (along with other EY publications, such as “IPSAS Explained” and the “IPSAS Disclosure Checklist”) should serve as key reference materials globally for governments and entities **seeking further illustrative guidance** on how IPSAS Financial statements should look.
- Although other illustrative IPSAS financial statements exist, what sets MPSG apart is its educational potential and practical usefulness, since it **includes additional guidance** and **comprehensive references** to the relevant Standards.

With the advent of several new developments in IPSAS in the past few years, it became necessary to **revise and update** MPSG, culminating in a **new edition for 2018**.

Benefits of using MP SG



Benefits of MPSG

- ▶ **IPSAS has continued to grow in complexity**, with extensive disclosure requirements to rival the most complex IFRS standards.
- ▶ But: Understandable, comparable and comprehensive financial reporting is **critical to enable** citizens, regulators and other stakeholders to hold public sector entities
- ▶ Therefore, entities are required to read the IPSAS disclosure requirements **and translate these into practical, useful and understandable disclosures**.
- ▶ However, having each entity completely “reinventing the wheel” is
 - ▶ not only inefficient, but
 - ▶ may also lead to significant inconsistencies in interpretation

MPSG allows reporting entities to

- ▶ *benchmark their understanding* and interpretation of the disclosure and presentation requirements against sector norms and practices,
 - ▶ *assist readers* with cross-referencing each key disclosure back to a requirement in IPSAS.
- **use of MPSG enhances the quality and the credibility of the disclosures**

MPSG also gives an interpretation of disclosure for certain **standards issued, but not yet effective**. This will provide some perspective to preparers of financial statements for standards that will be effective in the near future.

Approach in developing MPSG



Approach in developing Model Public Sector Group (1)

- ▶ Approach followed in development of the **original MPSG 2013**:
 - ▶ A selection of **financial statements** in the public sector were **analyzed in order to identify the best practices** for common disclosure requirements.
 - ▶ This analysis was used as a benchmark for **developing a template for leading practice** in IPSAS presentation and disclosure.
 - ▶ **Accounting policies** were **formulated** using the relevant IPSAS. Consideration was given to the policies in EY's **IFRS Good Group** publication **to guide the style** (length, language and detail) of the accounting policies developed.
 - ▶ The **base template was adjusted** by a team of EY Public Sector Accounting technical specialists **to further enhance the presentation and disclosure** (i.e. set a benchmark for best practice).
 - ▶ **Narrative guidance and cross-referencing** to the IPSAS standards was added.
 - ▶ The final template was **compared against IFRS Good Group to ensure consistency** (same look and feel and consistent messages) **where appropriate**.
 - ▶ **Quality control**: The document underwent several rigorous quality reviews by IPSAS specialists from our Global team to further enhance cross-jurisdictional relevance, technical correctness and quality.

Approach in developing Model Public Sector Group (2)

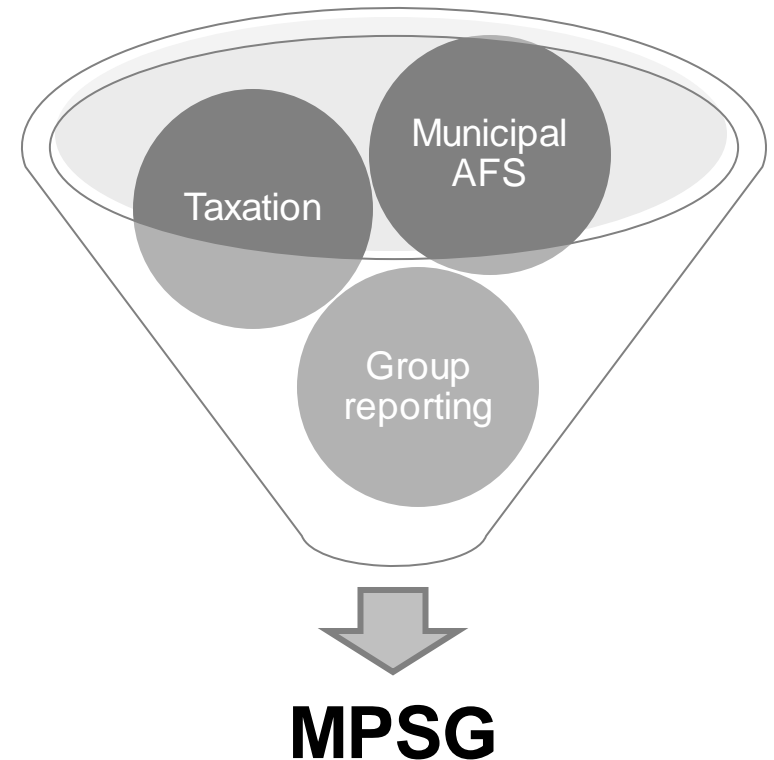
► Update of Model Public Sector Group 2018:

- **Amendments** between IPSAS 2013 standards and IPSAS 2017 standards (i.e. those standards effective from 1 January 2018) **were identified**.
- If the amendments affected disclosure requirements, it was **determined whether those amendments will have an effect** on the specific disclosures previously illustrated in Model Public Sector Group 2013.
- **Amendments** that impacted the Model Public Sector Group 2013 disclosure were **incorporated into the 2018 version**.
- Disclosure on **new standards** replaced the illustrative disclosures included in the 2013 version.
- **Simplification** of disclosures / other minor enhancements made were possible
- **Quality control** measures:
 - Financial statement tick up and detailed tie in
 - Reviews by development team leaders
 - Peer reviewed by Global IPSAS team

Approach in developing Model Public Sector Group (3)

► Applicability:

- Aim to make the MPSG **relevant and useful** for a **wide variety** of IPSAS preparers, auditors, and stakeholders in various forms of public sector organisations.
- Greater degree of **complexity identified in local government** financial statements → thus used municipal financial statements as a basis for preparing the MPSG.
- Furthermore, the MPSG were prepared as a **consolidated set of financial statements**, thereby providing additional guidance on reporting as a group of entities.
- We have also **included taxation disclosures** derived from **IAS 12** as some entities, although reporting on IPSAS, may not necessarily be taxation exempt.
- However, any IPSAS preparer, irrespective of the nature, composition or size of the reporting entity, should find MPSG relevant and useful.



A black and white photograph of rowers in a boat on water. The rowers are wearing dark uniforms and are captured in a rowing stroke. The water is dark and shows ripples and splashes from the oars. The boat is a long, narrow racing shell. The background is slightly blurred, focusing on the rowers and their oars.

Content of the MPSG

Content of Model Public Sector Group 2018

- ▶ All standards effective for periods beginning on 01 January 2018 are presented and disclosed in the Model Public Sector Group **except for**:
- ▶ IPSAS 10 Financial Reporting in **Hyperinflationary Economies***
 - ▶ IPSAS 11 **Construction Contracts***
 - ▶ IPSAS 22 Disclosure of Financial Information about the **General Government Sector****
 - ▶ IPSAS 27 **Agriculture***
 - ▶ IPSAS 33 **First-time Adoption** of Accrual Basis IPSASs (This standard was not incorporated into the accounting policies and/or individual transactions but it was covered in a separate section that summarises the key aspects of the standard).
 - ▶ IPSAS 34 **Separate Financial Statements*****
 - ▶ Note: IPSAS 40 **Public Sector Combination** was **early adopted** in IPSAS MPSG 2018!

*These were omitted because they are relatively uncommon among public sector financial reporters

** The standard focusses on central government / whole of government reporting. MPSG is focused on a reporting entity level rather than a central government / whole of government consolidated level

***The MPSG is based on a set of consolidated financial statements and not separate financial statements

Standards covered (1)

IPSAS as at 31 January 2017

The standards applied in these illustrative financial statements are the versions that were in issue as at 31 January 2017 and effective for annual periods beginning on 1 January 2018. Standards issued, but not yet effective as at 1 January 2018 have not been early adopted, with the exception of IPSAS 40, which is applicable for annual periods beginning on 1 January 2019 and has been early adopted in these illustrative financial statements.

IPSAS illustrated in the Group are as follows, unless otherwise noted:

International Public Sector Accounting Standards		Included
IPSAS 1	<i>Presentation of Financial Statements</i>	✓
IPSAS 2	<i>Cash Flow Statements</i>	✓
IPSAS 3	<i>Accounting Policies, Changes in Accounting Estimates and Errors</i>	✓
IPSAS 4	<i>The Effects of Changes in Foreign Exchange Rates</i>	✓
IPSAS 5	<i>Borrowing Costs</i>	✓
IPSAS 9	<i>Revenue from Exchange Transactions</i>	✓
IPSAS 10	<i>Financial Reporting in Hyperinflationary Economies</i>	1
IPSAS 11	<i>Construction Contracts</i>	2
IPSAS 12	<i>Inventories</i>	✓
IPSAS 13	<i>Leases</i>	✓
IPSAS 14	<i>Events after the Reporting Date</i>	✓
IPSAS 16	<i>Investment Property</i>	✓
IPSAS 17	<i>Property, Plant, and Equipment</i>	✓

Standards covered (2)

IPSAS 17	<i>Property, Plant, and Equipment</i>	✓
IPSAS 18	<i>Segment Reporting</i>	✓
IPSAS 19	<i>Provisions, Contingent Liabilities and Contingent Assets</i>	✓
IPSAS 20	<i>Related Party Disclosures</i>	✓
IPSAS 21	<i>Impairment of Non Cash Generating Assets</i>	✓
IPSAS 22	<i>Disclosure of Financial Information about the General Government Sector</i>	3
IPSAS 23	<i>Revenue from Non-Exchange Transactions (Taxes and Transfers)</i>	✓
IPSAS 24	<i>Presentation of Budget Information in Financial Statements</i>	✓
IPSAS 26	<i>Impairment of Cash Generating Assets</i>	✓
IPSAS 27	<i>Agriculture</i>	2
IPSAS 28	<i>Financial Instruments: Presentation</i>	✓
IPSAS 29	<i>Financial Instruments: Recognition and Measurement</i>	✓
IPSAS 30	<i>Financial Instruments: Disclosures</i>	✓
IPSAS 31	<i>Intangible Assets</i>	✓
IPSAS 32	<i>Service Concession Arrangements: Grantor</i>	✓
IPSAS 33	<i>First-time Adoption of Accrual Basis IPSASs</i>	4
IPSAS 35	<i>Consolidated Financial Statements</i>	✓
IPSAS 36	<i>Investments in Associates and Joint Ventures</i>	✓
IPSAS 37	<i>Joint Arrangements</i>	✓
IPSAS 38	<i>Disclosure of Interests in Other Entities</i>	✓
IPSAS 39	<i>Employee Benefits</i>	✓
IPSAS 40	<i>Public Sector Combinations</i>	✓

Overview of contents

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Overview (continued)

- ▶ MPSG is presented as a comprehensive set of IPSAS Accrual annual financial statements, for a **fictional local government entity**, referred to throughout as “The Group” in the country “Euroland”.
- ▶ Similar to EY’s other model financial statement publications, **amounts have been included** in the document with **proper cross-referencing, casting, tie-in and consistency**.
- ▶ This is to aid users of MPSG to further **understand the relationships** between disclosures in the financial statements (for example, between the face of the statements and the corresponding amounts in the Notes).

For example:

Consolidated statement of financial performance

For the year ended 31 December 2018

		2018	2017	
	Notes	€000	€000	
Revenue from non-exchange transactions				IPSAS 1.53, IPSAS 1.63 (c)
Property taxes revenue	3	4,706,641	4,524,363	IPSAS 1.53, IPSAS 1.63 (d) & IPSAS 1.102 (a)
Public contributions and donations	4	63,661	79,720	IPSAS 1.104, IPSAS 1.106
Fines, penalties and levies	5	1,781,670	1,677,436	IPSAS 1.104, IPSAS 1.106
Licenses and permits		41,471	37,645	IPSAS 1.104, IPSAS 1.106
Transfers from other governments - gifts and services-in-kind	6	3,757,835	2,636,469	IPSAS 1.104, IPSAS 1.106
		10,351,278	8,955,633	

3. Property taxes revenue

	2018
Actual	€000
Taxable land and buildings	
Residential	3,892,385
Commercial	1,315,259
State	306,602
Penalties	89,657
	5,603,903
Income forgone	(897,262)
Total property taxes revenue	4,706,641

Statement of Financial Performance

Notes

Navigating through the document

- ▶ MPSG has the following useful features incorporated to aid users in navigating their way through it:
 - ▶ **Abbreviations and Definitions**
 - ▶ **Overall Contents Page**
 - ▶ **Additional Contents Page for the Notes** section (i.e. quickly find the corresponding)
 - ▶ **Side-margin referencing to the relevant standards** throughout the document
 - ▶ **Additional commentary** in grey text blocks to further guide the user, for example:

Reserves	2,291,718	2,310,604	(f), IPSAS 1.95 (a)
Accumulated surplus	17,002,060	14,468,763	IPSAS 1.88 (o), IPSAS 1.94 (f), IPSAS 1.95 (a)
Non-controlling interest	135,770	132,444	IPSAS 38.19 (f)
Total net assets and liabilities	35,926,973	31,645,628	IPSAS 1.89

Commentary

Neither IPSAS 35 nor IPSAS 1 require the separate financial statements of the controlling entity to accompany the consolidated financial statements. Accordingly, for the presentation of the Group's consolidated financial statements, the separate financial statements are not presented. Preparers of financial statements should, however, be mindful of jurisdiction-specific requirements that may require the separate financial statements of the controlling entity to accompany the consolidated

How to use MPSG



Preparers of IPSAS Accrual Financial Statements

- ▶ Good practice observed to **develop a pre-designed financial statement template** that provides the framework and outline of the financial statements → makes the financial statement preparation process **much more efficient**.
- ▶ **Different scenarios** to be found:
 - ▶ In some jurisdictions such a **template is developed centrally** by, for e.g. the Accountant-General's office. This may **often be Excel** in less advanced IT environments.
 - ▶ In other cases, more advanced financial statement **software supports the preparation**. But: every IT solution is still reliant on human intervention to review and manage quality.
- ▶ Whichever scenario applies, preparers will be supported by **comparing their existing financial statements** against the presentation and disclosure in MPSG.
- ▶ Furthermore, when **encountering a new transaction** or when designing a **new disclosure note**, reference can be made to MPSG to determine how best that specific issue might be presented in the financial statements.
- ▶ **Overall benefit for preparers:** MPSG provides a **concrete illustrative picture** of what the sometimes **abstract disclosure requirements** in the standards would look like, making it invaluable in teaching / capacity building interventions.

Auditors', Regulators', and Analysts' use of IPSAS Accrual Financial Statements

- ▶ It should be noted that MPSG is **not designed to satisfy any country or jurisdiction-specific regulatory requirement**.
- ▶ Someone who is required to review and critique the quality of disclosure and presentation of financial statements in the public sector, such as an **auditor**, will find MPSG useful in **evaluating the quality and extent of disclosures** provided
 - Good practice as outlined in MPSG might **serve as a basis for argumentation**
- ▶ In particular, preparers often struggle with **how to word their accounting policies**, and whether to provide more or less detail in this section of the financial statements.
 - For auditors being consulted, having **example wording at hand is beneficial**.
- ▶ It is however **not to be relied on in isolation as a comprehensive disclosure checklist**, since certain matters are scoped out as explained in the intro earlier.
- ▶ Similarly, any **regulator or analyst** may find it appropriate, when reviewing financial statements, to **cross check the requirements against the standards** themselves. In this sense, MPSG could provide a convenient and **quick reference point** due to the side-margin referencing that is included next to each significant disclosure item.

Key Points to Consider



Key Points to Consider and closing remarks

- ▶ **Presentation and Disclosure often requires judgement**, since the same information can be conveyed in diverse ways, all of which might be acceptable.
- ▶ While great care and effort has gone into developing MPSG, it always **remains the responsibility of the user to ensure it is fit for their purpose** and applied appropriately. The users of MPSG are reminded of the importance of preparing appropriately tailored entity-specific disclosures.
- ▶ As a consequence of **ongoing critique**: general trend among accounting standard-setters to try and **reduce the amount of unnecessary disclosure** and content provided by entities in their F/S, since too much detailed information may at times obscure and detract from information that is truly material.
- ▶ But **responsibility for transparency remains with preparers**: while a publication such as MPSG must be comprehensive and detailed in order to add maximum value to the users of the tool, care should be taken to **only include statements, line items and notes that are actually applicable** to the reporting entity.
- ▶ Any **suggestions on how to further improve** the MPSG are highly welcome → please share these with EY (using the mail address on the last slide).

EY sincerely hopes you find this MPSG useful and that it contributes to building a better working world by enhancing the quality of financial reporting in the public sector!

Thank you for your attention!



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