

GLOSSARY OF DEFINED TERMS IN IPSAS 1 TO IPSAS 18

Acknowledgment

This Glossary includes all defined terms from International Public Sector Accounting Standards (IPSASs) on issue in June 2002. These IPSASs are based on the corresponding International Accounting Standards (IASs) published by the International Accounting Standards Committee (IASC). The International Accounting Standards Board (IASB) and the International Accounting Standards Committee Foundation (IASCF) were established in 2001 to replace the IASC. The IASs issued by the IASC remain in force until they are amended or withdrawn by the IASB.

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GLOSSARY OF DEFINED TERMS IN IPSAS 1 TO IPSAS 18

This Glossary contains all terms defined in International Public Sector Accounting Standards (IPSASs) on issue at 30 June 2002. At this date, 18 IPSASs were on issue. A list of these IPSASs is located on the inside back cover of the Glossary.

Where multiple definitions of the same term exist, this Glossary indicates all IPSASs in which the term appears and the definition that applies to that particular IPSAS.

Definitions

References to IPSASs are by Standard number and paragraph number. For example, '1.6' refers users to International Public Sector Accounting Standard (IPSAS) 1 "Presentation of Financial Statements," paragraph 6. References set out in brackets indicate a minor variation in wording.

<i>Term</i>	<i>Definition</i>	<i>Location</i>
Accounting policies	The specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting financial statements.	1.6, 3.6, 5.5, 6.8, 7.6, 18.8
Accrual basis	A basis of accounting under which transactions and other events are recognized when they occur (and not only when cash or its equivalent is received or paid). Therefore, the transactions and events are recorded in the accounting records and recognized in the financial statements of the periods to which they relate. The elements recognized under accrual accounting are assets, liabilities, net assets/equity, revenue and expenses.	1.6, 3.6, 4.9, 5.5, 6.8, 7.6, 8.5, (2.8)

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PRONOUNCEMENTS

Assets	Resources controlled by an entity as a result of past events and from which future economic benefits or service potential ¹ are expected to flow to the entity.	1.6, 2.8, 3.6, 4.9, 5.5, 6.8, 7.6, 8.5
Associate	An entity in which the investor has significant influence and which is neither a controlled entity nor a joint venture of the investor.	1.6, 2.8, 4.9, 6.8, 7.6, 8.5
Borrowing costs	Interest and other expenses incurred by an entity in connection with the borrowing of funds.	1.6, 3.6, 5.5
Carrying amount (of investment property)	The amount at which an asset is recognized in the statement of financial position.	16.6
Carrying amount of an asset	The amount at which an asset is recognized in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.	10.7
Carrying amount of a liability	The amount at which a liability is recognized in the statement of financial position.	10.7
Cash	Comprises cash on hand and demand deposits.	1.6, 2.8, 4.9, 5.5, 6.8, 8.5, 10.7
Cash equivalents	Short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject	1.6, 2.8, 3.6, 4.9

¹ *Commentary:* Assets provide a means for entities to achieve their objectives. Assets that are used to deliver goods and services in accordance with an entity's objectives but which do not directly generate net cash inflows are often described as embodying "service potential". Assets that are used to generate net cash inflows are often described as embodying "future economic benefits". To encompass all the purposes to which assets may be put, this series of Standards uses the term "future economic benefits or service potential" to describe the essential characteristic of assets.

	to an insignificant risk of changes in value.	
Cash flows	Inflows and outflows of cash and cash equivalents.	1.6, 2.8, 3.6, 4.9, 8.5
Class of property, plant and equipment	A grouping of assets of a similar nature or function in an entity's operations, that is shown as a single item for the purpose of disclosure in the financial statements.	17.12
Closing rate	The spot exchange rate at the reporting date.	4.9
Consolidated financial statements	The financial statements of an economic entity presented as those of a single entity.	1.6, 4.9, 6.8, 7.6, 8.5
Construction contract	A contract, or a similar binding arrangement, specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use.	11.4
Contingent rent	That portion of the lease payments that is not fixed in amount but is based on a factor other than just the passage of time (e.g., percentage of sales, amount of usage, price indices, market rates of interest).	13.7
Contractor	An entity that performs construction work pursuant to a construction contract.	11.4
Contributions from owners	Future economic benefits or service potential that has been contributed to the entity by parties external to the entity, other than those that result in liabilities of the entity, that establish a financial interest in the net assets/equity of the entity, which:	1.6, 2.8, 3.6, 4.9, 5.5, 6.8, 7.6, 8.5

	(a) Conveys entitlement both to distributions of future economic benefits or service potential by the entity during its life, such distributions being at the discretion of the owners or their representatives, and to distributions of any excess of assets over liabilities in the event of the entity being wound up; and/or	
	(b) Can be sold, exchanged, transferred or redeemed.	
Control	The power to govern the financial and operating policies of another entity so as to benefit from its activities.	1.6, 2.8, 3.6, 4.9, 5.5, 6.8, 7.6, 8.5
Controlled entity	An entity that is under the control of another entity (known as the controlling entity).	1.6, 2.8, 4.9, 5.5, 6.8, 8.5, (7.6)
Controlling entity	An entity that has one or more controlled entities.	1.6, 2.8, 4.9, 5.5, 6.8, 7.6, 8.5
Cost	The amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction.	16.6, 17.12
Cost method	A method of accounting whereby the investment is recorded at cost. The statement of financial performance reflects revenue from the investment only to the extent that the investor receives distributions from accumulated net surpluses of the investee arising subsequent to the date of acquisition.	2.8, 7.6

Cost plus or cost based contract	A construction contract in which the contractor is reimbursed for allowable or otherwise defined costs and, in the case of a commercially-based contract, an additional percentage of these costs or a fixed fee, if any.	11.4
Current replacement cost	The cost the entity would incur to acquire the asset on the reporting date.	12.6
Depreciable amount	The cost of an asset, or other amount substituted for cost in the financial statements, less its residual value.	17.12
Depreciation	The systematic allocation of the depreciable amount of an asset over its useful life.	17.12
Discontinued operation	Results from the sale or abandonment of an operation that represents a separate, major line of business of an entity and of which the assets, net surplus or deficit and activities can be distinguished physically, operationally and for financial reporting purposes.	3.6
Distribution to owners	Future economic benefits or service potential distributed by the entity to all or some of its owners, either as a return on investment or as a return of investment.	1.6, 2.8, 3.6, 4.9, 5.5, 6.8, 7.6, 8.5
Economic entity¹	A group of entities comprising a controlling entity and one or more controlled entities.	1.6, 2.8, 4.9, 5.5, 6.8, 7.6, 8.5

¹ *Commentary:* The term “economic entity” is used in this series of Standards to define, for financial reporting purposes, a group of entities comprising the controlling entity and any controlled entities. Other terms sometimes used to refer to an economic entity include “administrative entity”, “financial entity” (*IPSAS 4: “financial reporting entity”*), “consolidated entity” and “group”.

An economic entity may include entities with both social policy and commercial objectives. For example, a government housing department may be an economic entity which includes entities that provide housing for a nominal charge, as well as entities that provide accommodation on a commercial basis.

Economic life	Either:	13.7
	(a) The period over which an asset is expected to yield economic benefits or service potential to one or more users; or	
	(b) The number of production or similar units expected to be obtained from the asset by one or more users.	
Equity instrument	Any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.	15.9
Equity method	A method of accounting whereby the investment is initially recorded at cost and adjusted thereafter for the post-acquisition change in the investor's share of net assets/equity of the investee. The statement of financial performance reflects the investor's share of the results of operations of the investee.	1.6, 2.8, 4.9, 6.8, 7.6
	A method of accounting and reporting whereby an interest in a jointly controlled entity is initially recorded at cost and adjusted thereafter for the post-acquisition change in the venturer's share of net assets/equity of the jointly controlled entity. The statement of financial performance reflects the venturer's share of the results of operations of the jointly controlled entity.	8.5

Events after the reporting date	Those events, both favorable and unfavorable, that occur between the reporting date and the date when the financial statements are authorized for issue. Two types of events can be identified: (a) Those that provide evidence of conditions that existed at the reporting date (<u>adjusting events after the reporting date</u>); and (b) Those that are indicative of conditions that arose after the reporting date (<u>non-adjusting events after the reporting date</u>).	14.4
Exchange difference	The difference resulting from reporting the same number of units of a foreign currency in the reporting currency at different exchange rates.	1.6, 4.9, 5.5
Exchange rate	The ratio for exchange of two currencies.	2.8, 4.9, 5.5
Expenses	Decreases in economic benefits or service potential during the reporting period in the form of outflows or consumption of assets or incurrences of liabilities that result in decreases in net assets/equity, other than those relating to distributions to owners.	1.6, 2.8, 3.6, 4.9, 5.5, 6.8, 7.6, 8.5
Extraordinary items	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.	1.6, 2.8, 3.6, 4.9
Fair value	The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.	1.6, 4.9, 7.6, 9.11, 15.9, 16.6, 17.12

Financial asset	Any asset that is: (a) Cash; (b) A contractual right to receive cash or another financial asset from another entity; (c) A contractual right to exchange financial instruments with another entity under conditions that are potentially favorable; or (d) An equity instrument of another entity.	1.6, 15.9
Financial instrument	Any contract that gives rise to both a financial asset of one entity and a financial liability or equity instrument of another entity. Commodity-based contracts that give either party the right to settle in cash or some other financial instrument should be accounted for as if they were financial instruments, with the exception of commodity contracts that (a) were entered into and continue to meet the entity's expected purchase, sale, or usage requirements, (b) were designated for that purpose at their inception, and (c) are expected to be settled by delivery.	15.9
Finance lease	A lease that transfers substantially all the risks and rewards incident to ownership of an asset. Title may or may not eventually be transferred.	13.7
Financial liability	Any liability that is a contractual obligation: (a) To deliver cash or another financial asset to another entity; or	15.9

- (b) To exchange financial instruments with another entity under conditions that are potentially unfavorable.

An entity may have a contractual obligation that it can settle either by payment of financial assets or by payment in the form of its own equity securities. In such a case, if the number of equity securities required to settle the obligation varies with changes in their fair value so that the total fair value of the equity securities paid always equals the amount of the contractual obligation, the holder of the obligation is not exposed to gain or loss from fluctuations in the price of its equity securities. Such an obligation should be accounted for as a financial liability of the entity.

Financing activities	Activities that result in changes in the size and composition of the contributed capital and borrowings of the entity.	2.8, 3.6, 4.9, 18.8
Fixed price contract	A construction contract in which the contractor agrees to a fixed contract price, or a fixed rate per unit of output, which in some cases is subject to cost escalation clauses.	11.4
Foreign currency	A currency other than the reporting currency of an entity.	1.6, 2.8, 4.9, 5.5
Foreign entity	A foreign operation, the activities of which are not an integral part of those of the reporting entity.	3.6, 4.9
Foreign operation	A controlled entity, associate, joint venture or branch of the reporting entity, the activities of which are based or conducted in a country other than the country of the reporting entity.	1.6, 3.6, 4.9

Fundamental errors	Errors discovered in the current period that are of such significance that the financial statements of one or more prior periods can no longer be considered to have been reliable at the date of their issue.	1.6, 3.6
Government Business Enterprise¹	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.	1.6, 2.8, 3.6, 4.9, 5.5, 6.8, 7.6, 8.5
Gross investment in The lease	The aggregate of the minimum lease payments under a finance lease from the standpoint of the lessor and any unguaranteed residual value accruing to the lessor.	13.7

¹ Commentary: Government Business Enterprises (GBEs) include both trading enterprises, such as utilities, and financial enterprises, such as financial institutions. GBEs are, in substance, no different from entities conducting similar activities in the private sector. GBEs generally operate to make a profit, although some may have limited community service obligations under which they are required to provide some individuals and organizations in the community with goods and services at either no charge or a significantly reduced charge. International Public Sector Accounting Standard (IPSAS) 6 "Consolidated Financial Statements and Accounting for Controlled Entities" provides guidance on determining whether control exists for financial reporting purposes, and should be referred to in determining whether a GBE is controlled by another public sector entity.

Guaranteed residual value	(a) In the case of the lessee, that part of the residual value which is guaranteed by the lessee or by a party related to the lessee (the amount of the guarantee being the maximum amount that could, in any event, become payable); and (b) In the case of the lessor, that part of the residual value which is guaranteed by the lessee or by a third party unrelated to the lessor who is financially capable of discharging the obligations under the guarantee.	13.7
Inception of the lease	The earlier of the date of the lease agreement or of a commitment by the parties to the principal provisions of the lease.	13.7
Insurance contract	A contract that exposes the insurer to identified risks of loss from events or circumstances occurring or discovered within a specified period, including death (in the case of an annuity, the survival of the annuitant), sickness, disability, property damage, injury to others and interruption of operations.	15.9
Interest rate implicit in the lease	The discount rate that, at the inception of the lease, causes the aggregate present value of: (a) The minimum lease payments; and (b) The unguaranteed residual value to be equal to the fair value of the leased asset.	13.7

Inventories	Assets:	12.6
	(a) In the form of materials or supplies to be consumed in the production process;	
	(b) In the form of materials or supplies to be consumed or distributed in the rendering of services;	
	(c) Held for sale or distribution in the ordinary course of operations; or	
	(d) In the process of production for sale or distribution.	
Investing activities	The acquisition and disposal of long-term assets and other investments not included in cash equivalents.	2.8, 4.9, 18.8
Investment property	Property (land or a building — or part of a building — or both) held to earn rentals or for capital appreciation or both, rather than for:	16.6
	(a) Use in the production or supply of goods or services or for administrative purposes; or	
	(b) Sale in the ordinary course of operations.	
Investor	In a joint venture is a party to a joint venture and does not have joint control over that joint venture.	2.8, 6.8, 7.6, 8.5
Joint control	The agreed sharing of control over an activity by a binding arrangement.	6.8, 8.5
Joint venture	A binding arrangement whereby two or more parties are committed to undertake an activity which is subject to joint control.	1.6, 2.8, 4.9, 6.8, 7.6, 8.5
Lease	An agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time.	13.7

Lease term	The non-cancelable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, which option at the inception of the lease it is reasonably certain that the lessee will exercise.	13.7
Lessee's incremental borrowing rate of interest	The rate of interest the lessee would have to pay on a similar lease or, if that is not determinable, the rate that, at the inception of the lease, the lessee would incur to borrow over a similar term, and with a similar security, the funds necessary to purchase the asset.	13.7
Liabilities	Present obligations of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits or service potential.	1.6, 2.8, 3.6, 4.9, 5.5, 6.8, 7.6, 8.5
Market value	The amount obtainable from the sale, or payable on the acquisition, of a financial instrument in an active market.	15.9
Materiality	Information is material if its omission or misstatement could influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the item or error judged in the particular circumstances of omission or misstatement.	1.6

Minimum lease payments	The payments over the lease term that the lessee is, or can be, required to make, excluding contingent rent, costs for services and, where appropriate, taxes to be paid by and reimbursed to the lessor, together with: (a) In the case of the lessee, any amounts guaranteed by the lessee or by a party related to the lessee; or (b) In the case of the lessor, any residual value guaranteed to the lessor by either: (i) The lessee; (ii) A party related to the lessee; or (iii) An independent third party financially capable of meeting this guarantee. However, if the lessee has an option to purchase the asset at a price which is expected to be sufficiently lower than the fair value at the date the option becomes exercisable, so that at the inception of the lease, the option is reasonably certain to be exercised, the minimum lease payments comprise the minimum payments payable over the lease term and the payment required to exercise this purchase option.	13.7
Minority interest	That part of the net surplus (deficit) and of net assets/equity of a controlled entity attributable to interests which are not owned, directly or indirectly through controlled entities, by the controlling entity.	1.6, 2.8, 4.9, 6.8
Monetary items	Money held and assets and liabilities to be received or paid in fixed or determinable amounts of money.	4.9, 10.7

Monetary financial assets and financial liabilities (monetary financial instruments)	Financial assets and financial liabilities to be received or paid in fixed or determinable amounts of money.	15.9
Net assets/equity¹	The residual interest in the assets of the entity after deducting all its liabilities.	1.6, 2.8, 3.6, 4.9, 5.5, 6.8, 7.6, 8.5
Net investment in a foreign entity	The reporting entity's share in the net assets/equity of that entity.	4.9
Net investment in the lease	The gross investment in the lease less unearned finance revenue.	13.7
Net realizable value	The estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.	12.6
Net surplus/deficit	Comprises the following components: (a) Surplus or deficit from ordinary activities; and (b) Extraordinary items.	1.6, 2.8, 3.6, 4.9, 6.8, 7.6
Non-cancelable lease	A lease that is cancelable only: (a) Upon the occurrence of some remote contingency; (b) With the permission of the lessor;	13.7

¹ *Commentary:* "Net assets/equity" is the term used in this series of Standards to refer to the residual measure in the statement of financial position (assets less liabilities). Net assets/equity may be positive or negative. Other terms may be used in place of net assets/equity, provided that their meaning is clear.

	(c) If the lessee enters into a new lease for the same or an equivalent asset with the same lessor; or	
	(d) Upon payment by the lessee of an additional amount such that, at inception, continuation of the lease is reasonably certain.	
Non-monetary items	Items that are not monetary items.	10.7
Operating activities	The activities of the entity that are not investing or financing activities.	2.8, 3.6, 4.9, 18.8
Operating lease	A lease other than a finance lease.	13.7
Ordinary activities	Any activities which are undertaken by an entity as part of its service delivery or trading activities. Ordinary activities include such related activities in which the entity engages in furtherance of, incidental to, or arising from these activities.	1.6, 3.6, 4.9
Owner-occupied property	Property held (by the owner or by the lessee under a finance lease) for use in the production or supply of goods or services or for administrative purposes.	16.6
Property, plant and equipment	Tangible assets that: (a) Are held by an entity for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and (b) Are expected to be used during more than one reporting period.	17.12
Proportionate consolidation	A method of accounting and reporting whereby a venturer's share of each of the assets, liabilities, revenue and expenses of a jointly controlled entity is combined on a line-by-line basis with similar items in the venturer's financial	2.8, 4.9, 8.5

	statements or reported as separate line items in the venturer's financial statements.	
Qualifying asset	An asset that necessarily takes a substantial period of time to get ready for its intended use or sale.	1.6, 5.5
Reporting currency	The currency used in presenting the financial statements.	1.6, 2.8, 4.9
Reporting date	The date of the last day of the reporting period to which the financial statements relate.	1.6, 2.8, 4.9, 6.8, 7.6, 14.4
Residual value	The net amount which the entity expects to obtain for an asset at the end of its useful life after deducting the expected costs of disposal.	17.12
Revenue	The gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets/equity, other than increases relating to contributions from owners.	1.6, 2.8, 3.6, 4.9, 5.5, 6.8, 7.6, 8.5, 9.11, 18.8
Segment	Distinguishable activity or group of activities of an entity for which it is appropriate to separately report financial information for the purpose of evaluating the entity's past performance in achieving its objectives and for making decisions about the future allocation of resources.	18.9
Segment accounting policies	Accounting policies adopted for preparing and presenting the financial statements of the consolidated group or entity as well as those accounting policies that relate specifically to segment reporting.	18.27
Segment assets	Operating assets that are employed by a segment in its operating activities and that either are directly attributable to the	18.27

segment or can be allocated to the segment on a reasonable basis.

If a segment's segment revenue includes interest or dividend revenue, its segment assets include the related receivables, loans, investments, or other revenue-producing assets.

Segment assets do not include income tax or income tax equivalent assets that are recognized in accordance with accounting standards dealing with obligations to pay income tax or income tax equivalents.

Segment assets include investments accounted for under the equity method only if the net surplus (deficit) from such investments is included in segment revenue. Segment assets include a joint venturer's share of the operating assets of a jointly controlled entity that is accounted for by proportionate consolidation in accordance with IPSAS 8 *"Financial Reporting of Interests in Joint Ventures."*

Segment assets are determined after deducting related allowances that are reported as direct offsets in the entity's statement of financial position.

**Segment
expense**

Expense resulting from the operating activities of a segment that is directly attributable to the segment and the relevant portion of an expense that can be allocated on a reasonable basis to the segment, including expenses relating to the provision of goods and services to external parties and expenses relating to transactions with other segments of the same entity. Segment expense does not include: 18.27

- (a) Extraordinary items;
- (b) Interest, including interest incurred on advances or loans from other segments, unless the segment's operations are primarily of a financial nature;
- (c) Losses on sales of investments or losses on extinguishment of debt unless the segment's operations are primarily of a financial nature;
- (d) An entity's share of net deficit or losses of associates, joint ventures, or other investments accounted for under the equity method;
- (e) Income tax or income-tax equivalent expense that is recognised in accordance with accounting standards dealing with obligations to pay income tax; or
- (f) General administrative expenses, head office expenses, and other expenses that arise at the entity level and relate to the entity as a whole. However, costs are sometimes incurred at the entity level on behalf of a segment. Such costs are segment expenses if they relate to the segment's operating activities and they can be directly attributed or allocated to the segment on a reasonable basis.

Segment expense includes a joint venturer's share of the expenses of a jointly controlled entity that is accounted for by proportionate consolidation in accordance with IPSAS 8 "Financial Reporting of Interests in Joint Ventures."

	For a segment's operations that are primarily of a financial nature, interest revenue and interest expense may be reported as a single net amount for segment reporting purposes only if those items are netted in the consolidated or entity financial statements.	
Segment liabilities	Operating liabilities that result from the operating activities of a segment and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis. If a segment's segment expense includes interest expense, its segment liabilities include the related interest-bearing liabilities. Segment liabilities include a joint venturer's share of the liabilities of a jointly controlled entity that is accounted for by proportionate consolidation in accordance with IPSAS 8 "Financial Reporting of Interests in Joint Ventures." Segment liabilities do not include income tax or income tax equivalent liabilities that are recognized in accordance with accounting standards dealing with obligations to pay income tax or income tax equivalents.	18.27
Segment revenue	Revenue reported in the entity's statement of financial performance that is directly attributable to a segment and the relevant portion of entity revenue that can be allocated on a reasonable basis to a segment, whether from budget appropriations or similar, grants, transfers, fines, fees or sales to external customers or from transactions with other segments of the same entity.	18.27

Segment revenue does not include:

- (a) Extraordinary items;
- (b) Interest or dividend revenue, including interest earned on advances or loans to other segments, unless the segment's operations are primarily of a financial nature; or
- (c) Gains on sales of investments or gains on extinguishment of debt unless the segment's operations are primarily of a financial nature.

Segment revenue includes: an entity's share of net surplus (deficit) of associates, joint ventures, or other investments accounted for under the equity method only if those items are included in consolidated or total entity revenue.

Segment revenue includes a joint venturer's share of the revenue of a jointly controlled entity that is accounted for by proportionate consolidation in accordance with IPSAS 8 "Financial Reporting of Interests in Joint Ventures."

Significant influence

The power to participate in the financial and operating policy decisions of the investee, but is not control over those policies. 6.8, 7.6

The power to participate in the financial and operating policy decisions of an activity but is not control or joint control over those policies. 8.5

Surplus/deficit from ordinary activities	The residual amount that remains after expenses arising from ordinary activities have been deducted from revenue arising from ordinary activities.	1.6, 2.8, 3.6, 4.9
Unearned finance revenue	The difference between: (a) The aggregate of the minimum lease payments under a finance lease from the standpoint of the lessor and any unguaranteed residual value accruing to the lessor; and (b) The present value of (a) above, at the interest rate implicit in the lease.	13.7
Unguaranteed residual value	That portion of the residual value of the leased asset, the realization of which by the lessor is not assured or is guaranteed solely by a party related to the lessor.	13.7
Useful life of a lease	The estimated remaining period, from the beginning of the lease term, without limitation by the lease term, over which the economic benefits or service potential embodied in the asset are expected to be consumed by the entity.	13.7
Useful life of property, plant and equipment	Either: (a) The period of time over which an asset is expected to be used by the entity; or (b) The number of production or similar units expected to be obtained from the asset by the entity.	17.12
Venturer	A party to a joint venture and has joint control over that joint venture.	8.5

IPSASs on Issue at June 2002

International Public Sector Accounting Standards on issue at 30 June 2002 are:

IPSAS 1	“Presentation of Financial Statements” (May 2000)
IPSAS 2	“Cash Flow Statements” (May 2000)
IPSAS 3	“Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies” (May 2000)
IPSAS 4	“The Effects of Changes in Foreign Exchange Rates” (May 2000)
IPSAS 5	“Borrowing Costs” (May 2000)
IPSAS 6	“Consolidated Financial Statements and Accounting for Controlled Entities” (May 2000)
IPSAS 7	“Accounting for Investments in Associates” (May 2000)
IPSAS 8	“Financial Reporting of Interests in Joint Ventures” (May 2000)
IPSAS 9	“Revenue from Exchange Transactions” (June 2001)
IPSAS 10	“Financial Reporting in Hyperinflationary Economies” (June 2001)
IPSAS 11	“Construction Contracts” (June 2001)
IPSAS 12	“Inventories” (June 2001)
IPSAS 13	“Leases” (December 2001)
IPSAS 14	“Events After the Reporting Date” (December 2001)
IPSAS 15	“Financial Instruments: Disclosure and Presentation” (December 2001)
IPSAS 16	“Investment Property” (December 2001)
IPSAS 17	“Property, Plant and Equipment” (December 2001)
IPSAS 18	“Segment Reporting” (June 2002)

July 1990

APPLICABILITY OF INTERNATIONAL STANDARDS ON AUDITING TO AUDITS OF FINANCIAL STATEMENTS OF GOVERNMENT BUSINESS ENTERPRISES

Introduction

1. The Introduction to the Public Sector Committee states that Public Sector Committee (PSC) pronouncements are aimed at developing and harmonizing public sector¹ financial reporting, accounting, and auditing practices. The PSC will consider and make use of pronouncements issued by the International Auditing and Assurance Board IAASB (formerly known as International Auditing Practices Committee) to the extent they are applicable to the public sector. International Standards on Auditing (ISAs) issued by the IAASB and International Public Sector Guidelines (IPSGs) are not intended to, and do not, override authoritative national standards issued by governments, regulatory or professional accounting bodies.
2. The purpose of this Guideline is to describe the applicability of ISAs to audits of financial statements² of government business enterprises.

Government Business Enterprises

3. This Guideline is applicable to such government business enterprises as national railroads, energy utilities, and communication services. Government business enterprises are normally required to operate commercially, that is, to make

¹ As described in the Introduction to the PSC, “the term ‘public sector’ refers to national governments, regional (e.g., state, provincial, territorial) governments, local (e.g., city, town) governments and related governmental entities (e.g., agencies, boards, commissions and enterprises).”

² The term “financial statements,” as defined in the Preface to Statements of International Accounting Standards, covers balance sheets, income statements or profit and loss accounts, statements of changes in financial position, notes and other statements and explanatory material which are identified as being part of the financial statements.

profits or to recoup, through user charges, a substantial proportion of their operating costs. In many countries, the public sector includes business enterprises that are owned or controlled by government. The principal activity of these government business enterprises is similar to that of private sector business enterprises, that is, to sell goods or services to individuals and nongovernment organizations as well as other public sector entities. Additional characteristics which government business enterprises usually possess are set out in IPSG 1 “Financial Reporting by Government Business Enterprises” (paragraphs 5 to 7).

Requirements for Audits of Financial Statements

4. Government business enterprises prepare financial statements for the use of legislators and government departments, outside investors, employees, lenders, the public and other users. Auditors are often required to express an opinion on such financial statements. IAASB has developed ISAs for auditors to use whenever an independent audit of financial statements is carried out.
5. The audit objectives for auditing and reporting on financial statements of government business enterprises are similar to those for private sector entities. As such, the same standards should apply regardless of the nature of the enterprise. Users of financial statements are entitled to a uniform quality of assurance and would not be well served by the application of differing standards. Therefore, audits of financial statements of government business enterprises should conform, in all material respects, with ISAs.
6. ISAs describe:
 - The basic principles which govern the auditor’s professional responsibilities.
 - The qualifications or essential characteristics of auditors (e.g., adequate training, independence, and due care in performing audits of financial statements).
 - The standards and practices for performing audits of financial statements (e.g., adequate planning and supervision, the assessments of inherent and control risks

and their impact on substantive procedures, and the process by which the auditor determines the procedures to be performed when carrying out the audit).

- The form and content of audit reports.
7. Financial statements of government business enterprises may include information that is different from, or in addition to, that contained in the financial statements of business enterprises in the private sector (e.g., comparison of expenditures in the period with limits established by legislation). In such circumstances, appropriate modifications may be required to the nature, timing and extent of audit procedures, and the auditor's report.
 8. Some government business enterprises employ resources to achieve a variety of nonfinancial or social objectives in addition to their commercial objectives. While their audited financial statements provide an accounting of their financial position, results of operations and changes in financial position, these financial statements, by themselves, may not adequately report on the results of their non-commercial activities. Auditors may be required to audit and report on information relating to:
 - (a) Compliance with legislation and regulatory requirements (including applicable local public sector pronouncements);
 - (b) The adequacy of the enterprise's internal control structure; and
 - (c) Economy, efficiency, and effectiveness of programs, projects and activities.

This information may either be included in, or may be in addition to, the enterprise's financial statements. The audit of such information may require auditors to perform work that is in addition to that required solely for the purpose of auditing and reporting on the financial statements.

9. Some government business enterprises may include in their annual reports information on performance in terms of achieving objectives as measured by specified financial or other indicators. Auditors may also be required to audit and report on this additional performance information.
10. This Guideline is not specifically designed to apply to the audit of the information set out in paragraphs 7 to 9; however, this Guideline and ISAs may be useful.
11. A Public Sector Perspective (PSP) on the applicability of ISAs to the audit of financial statements of public sector entities other than government business enterprises is included at the end of each ISA. Where no PSP is added the ISA is applicable in all material respects to the public sector.

The application of ISAs in the public sector was previously dealt with in International Public Sector Guideline 3.

SUMMARY OF OTHER DOCUMENTS

The Committee has issued ten studies, as summarized below. To obtain copies of these documents, please visit the IFAC web site at www.ifac.org or contact the IFAC Secretariat.

Study 1

Financial Reporting by National Governments Issued March 1991

The scope of the Study is to consider:

- Financial reporting by national governments and their major governmental units;
- Financial reports that provide information on government plans, performance and compliance with relevant authorities;
- Information needs of the principal users of government financial reports, with primary emphasis on the needs of external users; and
- The forms of reporting best suited to meeting those information needs.

This Study is of particular interest to senior financial officers in government, politicians, legislative auditors and others who use government financial reports because it addresses the fundamental underpinnings of governmental financial reporting.

Comparative summaries of users, user needs and objectives were prepared. They illustrate that there is concurrence on who users are, what their needs are and, accordingly, the objectives of financial reporting.

The Study develops a logical progression from users and user needs to the objectives of government financial reporting. It provides further context for the discussion of objectives by exploring the governmental environment and the limits of financial reporting.

The Study then discusses financial reporting. Rather than recommending a single, preferred financial reporting model, the Study describes the spectrum of possible bases of accounting and different reporting models (types of reports). It then illustrates their strengths and weaknesses in meeting the objectives of financial reporting. The Study demonstrates that in moving from single displays of cash receipts and

disbursements to summary financial reports that account for total economic resources, more of the objectives of financial reporting are met. Since those objectives are derived from user needs, more complete and better information will better meet those needs.

The Study recognizes that financial reporting by national governments is influenced by government financial reporting policies and practices which are embedded in the provisions of legislation and legal prescription.

Study 2

Elements of the Financial Statements of National Governments Issued July 1993

This Study considers the elements (types or classes of financial information) to be reported in financial statements prepared under the different bases of accounting that may be employed by national governments and their major units and the way in which those elements may be defined. It also considers the implications of reporting particular elements, or subsets thereof, for the messages communicated by financial statements and the achievement of the objectives identified in Study 1.

The Study aims to assist in developing the full potential of the accounting models currently employed in individual jurisdictions to communicate financial information to users. That is useful for accountability and decision making purposes.

This Study focuses on reporting the elements in the financial statements prepared for national governments. However, it is acknowledged that aspects of the delivery of goods and services and the achievement of government objectives will in some cases, be best achieved through the display of financial or non-financial information in notes, schedules or statements other than the statement of financial position or statement of financial performance in the financial report.

Study 3

Auditing for Compliance with Authorities — A Public Sector Perspective Issued October 1994

This Study addresses aspects of the audit for compliance in the public sector which, in many countries, is subject to very different mandates

and objectives than in the private sector. In a democratic system of government, accountability to the public and particularly, to its designated representatives, is an overriding aspect of the management of a public sector entity. Public sector entities are usually established by legislation and their operations governed by various authorities derived from legislation. Management of public sector entities is accountable for operating in accordance with the provisions of the relevant laws, regulations and other authorities governing them. Since legislation and other authorities are the primary means by which legislators control the raising and spending of money by the public sector, auditing for compliance with relevant authorities is usually an important and integral part of the audit mandate, or terms of engagement, for most audits of public sector entities. Because of the variety of authorities, their provisions may be conflicting with one another and may be subject to differing interpretations. Also, subordinate authorities may not adhere to the directions or limits prescribed by the enabling legislation. As a result, an assessment of compliance with authority in the public sector requires considerable professional judgment and is of particular importance.

Study 4

Using the Work of Other Auditors — A Public Sector Perspective Issued October 1994

This Study addresses using the work of other auditors, including both other external and internal auditors, in financial attest and compliance audits. It considers the matters an auditor has to take into consideration when using the work of another auditor and provides a public sector perspective to International Standard on Auditing (ISA) 600 “Using the Work of Another Auditor” and ISA 610 “Considering the Work of Internal Auditing.”

The Study considers the principles stated in the ISAs noted above and describes their applicability to the public sector. It also discusses some of the particular issues arising in the public sector when a principal auditor considers using the work of another auditor. The areas discussed deserving special attention are the autonomy of different tiers of government, the differing mandates of Higher Audit Institutions (HAI), and the particular problems surrounding using the work of other auditors in an international context.

Study 5

Definition and Recognition of Assets Issued August 1995

This Study identifies and describes the variety of views which exist about whether, when and how specific assets should be measured and reported in the public sector. It considers and explores:

- The definition and recognition of assets;
- The effect of different bases of accounting on the definition and recognition of assets; and
- The issues associated with certain types of assets.

The Study acknowledges that the demand for government services has increased. This growth in demand has meant increasing competition for government services, stimulated by education standards, communication and community interest in government actions. Consequently, governments are under pressure to manage their assets efficiently and effectively. Accountability for efficiency and effectiveness of public sector asset management can be shown through better financial reporting. Better reporting provides a basis of understanding by the public, elected decision makers and by management. This, in turn, supports better decision making and asset allocation.

Study 6

Accounting for and Reporting Liabilities Issued August 1995

This Study provides a public sector perspective on the definition and recognition of liabilities. It identifies, considers and explores views held on:

- The definition and classification of liabilities;
- The effect of different bases of accounting on accounting for and reporting liabilities; and
- The issues associated with certain types of liabilities.

The Study describes the variety of views which exist about whether, when and how certain liabilities should be measured and reported. Historically, governments have focused on their outstanding debt as a primary measure of the government's liabilities or indebtedness, particularly in formulating or assessing economic policy. However, governments assume a variety of commitments and obligations that give rise to other liabilities that are often unreported by governments. Yet information about all of a government's liabilities and exposure to potential liabilities is vital if governments are to manage their cash flow and make informed decisions about the financing of future services and resource allocation. While governments have liabilities similar to business enterprises, they also have other potential liabilities, such as recurring commitments under established social programs, guarantees and promises made by politicians. The study distinguishes liabilities, commitments and contingencies.

Study 7

Performance Reporting by Government Business Enterprises

Issued January 1996

This Study identifies principal users of performance information, considers the needs of those users, and outlines forms of reporting that could be available to meet those needs. The Study is thereby concerned primarily with the provision of information about an enterprise's performance (covering both financial and non-financial aspects of performance) supplementary to the information provided in financial statements, in the context of general purpose financial statements.

The need for this Study arises from the fact that financial standards on their own are not always sufficient to give an indication of the overall performance of a particular organization. Public sector bodies can differ from private sector enterprises in both their objectives and finance. Although government business enterprises are normally required to operate commercially and usually take the same legal form as private sector business enterprises, the combination of the fact that they often enjoy a monopoly position and the political context in which they operate means that the user of financial reports can rely less on measures of performance such as return on capital employed. As a result, groups with an interest in the performance such as return on capital employed. As a result, groups with an interest in the performance of government business enterprises — governments, legislators, taxpayers and consumers — may have difficulty in making informed judgments about the efficiency and effectiveness of government business enterprises.

Government business enterprises may not be delivering services in circumstances that are even close to being a competitive market. So the test of relative market efficiency and effectiveness cannot always be applied. The issue therefore is how to formulate performance measures that will enable judgments about efficiency and effectiveness to be made. This Study considers how such measures might be defined and how a government business enterprise's performance in relation to these measures might best be reported to those with an interest in its performance.

Study 8

The Government Financial Reporting Entity

Issued July 1996

This Study considers the implications of different approaches to the definition of the government financial reporting entity and different techniques for the construction of government financial reports to the achievement of objectives of financial reports.

This Study is a companion to Study 1, *Financial Reporting by National Governments*, issued in March 1991, and Study 2, *Elements of the Financial Statement of National Governments*, issued in July 1993. Study 8 builds on the discussions and definitions from Studies 1 and 2. Consistent with Studies 1 and 2, the primary focus of this Study is on

financial reporting of national governments. However, the matters it addresses may be equally applicable for other levels of governments (state, provincial and local governments).

It is hoped that this Study will lead to improvements in financial reporting by governments and greater comparability of financial reports both within and between jurisdictions.

Study 9

Definition and Recognition of Revenues

Issued December 1996

This Study examines concepts, principles and issues related to the definitions and recognition of revenues in the general purpose financial statements of national governments and other non-business public sector entities. Specifically, this Study identifies and discusses the definition and classification of revenues, issues with certain types of revenue and the effect of different bases of accounting on the definition and recognition of revenues.

Information on revenues is important in assisting users to assess the financial condition and performance of governments. Comparing revenues with expenses helps users to assess interperiod equity (that is, whether current revenues are sufficient to cover the costs of programs and services provided in the current period).

This Study extends Study 1, *Financial Reporting by National Governments*, issued in March 1991, and Study 2, *Elements of the Financial Statement of National Governments*, issued in July 1993. It is also a companion to Study 5, *Definition and Recognition of Assets*, Study 6, *Accounting for and Reporting Liabilities*, and Study 10, *Definition and Recognition of Expenses/Expenditures*.

The primary focus of this Study is on the financial statements prepared for national governments and for the entities and units they establish for the delivery of goods and services and the achievement of government objectives. However, the matters it addresses may be equally applicable for other levels of governments (state, provincial and local governments).

Study 10

Definition and Recognition of Expenses/Expenditures

Issued December 1996

This Study examines the concepts, principles and issues related to the treatment of expenses/expenditures in general purpose financial statements of governments and other non-business public sector entities.

Governments are under growing pressures not only to manage their funds effectively, but also to show their management has been effective. To achieve this, governments need complete information about their expenses/expenditures in order to assess their revenue requirements, the sustainability of their programs and their flexibility.

This Study extends Study 1, *Financial Reporting by National Governments*, issued in March 1991, and Study 2, *Elements of the Financial Statement of National Governments*, issued in July 1993. It is also a companion to Study 5, *Definition and Recognition of Assets*, Study 6, *Accounting for and Reporting Liabilities*, and Study 9, *Definition and Recognition of Revenues*.

The primary focus of this Study is on the financial statements prepared for national governments and for the entities and units they establish for the delivery of goods and services and the achievement of government objectives. However, the matters it addresses may be equally applicable for other levels of governments (state, provincial and local governments).

Study 11

Governmental Financial Reporting

Issued May 2000

This Study aims to assist governments at all levels in the identification of issues associated with financial reporting. Although some parts of the Study may relate to national governments only, other parts are applicable to all levels of government.

The Study contains a detailed description of both accrual and cash bases of accounting and provides examples of actual financial

statements prepared under each basis. The document explains common practice within each basis of accounting, and provides examples of the variations within those bases. Governments wishing to change their basis of accounting or modify their accounting policies will be able to use this document as a source of information about a basis of accounting, including accounting policy issues associated with that basis and the format of financial statements prepared under that basis. This may assist governments in changing their basis of accounting and ultimately contribute to greater comparability within and between financial statements of governments.

Study 12

Perspectives on Cost Accounting for Governments

Issued September 2000

This Study intends to aid government financial officers and other government accountants in their efforts to develop and implement cost accounting. It provides government perspectives on cost accounting not available elsewhere, but it is not an in-depth exposition of the subject of cost accounting. The Study includes the following:

- Descriptions of the extent of governmental uses of cost accounting, recent growth, and prospects for future growth.
- Explanations of cost concepts that are relevant to various management objectives.
- Discussions of accounting standards issues where the resolution may affect the values used in the cost accounting exercise.
- Descriptions of how specific concepts and processes might be applied in designing and implementing a cost accounting system.
- Discusses major issues of importance to senior management.

It is designed to help fill the void by providing reference material for governments on this important topic.

Study 13

Governance in the Public Sector: A Governing Body Perspective

Issued July 2001

This Study outlines principles of governance and their application to public sector entities. Governance practices will need to be tailored according to the circumstances of individual public sector entities and the jurisdictions within which they operate. As entities develop and change over time, it will be necessary for the governing body, on an on-going basis, to review and amend governance practices. This Study aims to provide advice by defining common principles and recommendations concerning the governance of public sector entities in certain key areas. Its purpose is to consider an appropriate framework from the perspective of the governing body to assist in ensuring an appropriate balance between freedom to manage, accountability and the legitimate interests of different stakeholders. The Study defines common principles and recommendations concerning the governance of public sector entities with the objective of providing guidance to assist these entities in developing or reviewing their governance practices in such a way to enable them to operate in a more effective, efficient and transparent manner.

Study 14

Transition to the Accrual Basis of Accounting: Guidance for Governments and Government Entities

Issued April 2002

The Study provides guidance to help government entities intending to move to the accrual basis of accounting and present financial statements which comply with the accrual-based IPSASs.

It is separated into 4 parts:

Part I addresses general issues associated with the transition to accrual accounting, including factors influencing the nature and speed of the transition, options in respect of the transition paths, and the management of the transition process. It notes the importance of the identification, design and delivery of training programs, and the involvement of the external auditor in the development process. The potential impact of differing systems of government and the existing political environment on the transition process are also discussed.

Part II outlines the steps required to develop and approve accounting policies. It also identifies the types of issues that need to be addressed in identifying controlled entities for the purpose of preparing consolidated financial statements.

Part III considers the classes of assets, liabilities, revenues and expenses that occur in public sector entities. It outlines how these items should be defined, recognized, measured and disclosed in general purposes financial statements. The Study outlines the requirements of key IPSASs and other sources of relevant authoritative guidance, and the types of implementation tasks and issues that arise when complying with these requirements.

Part IV of this Study discusses implementation issues arising from a range of specific items, for example, cash, intangible assets, financial instruments, employee-related liabilities, liabilities arising from social policy obligations, non-exchange revenue and foreign currencies.

Occasion Paper 1

Implementation of Accrual Accounting in Government: The New Zealand Experience

The New Zealand public sector experienced major reform in the late 1980s and early 1990s. This reform changed public sector management from a system based on compliance with detailed and restrictive rules and budget cash limits to a performance and accountability-based regime. The successful implementation of these reforms demanded considerable effort at both strategic and operational levels and led to fundamental and extensive changes in both the management of public sector operations and also in the financial results of those operations. The New Zealand experience demonstrates that such change is not only possible but can also be highly successful.

This paper focuses on the move ("migration" was the colloquialism) by New Zealand government departments from cash to accrual accounting, and the project to produce the first set of Financial Statements for the New Zealand Government. The paper also attempts to draw out the key management issues in the implementation of full accrual accounting in a national government. The paper is written from the viewpoint of the Treasury which played a central role in the change.

Occasional Paper 2

Auditing Whole of Government Financial Statements: The New Zealand Experience

This paper describes the role played by the Audit Office in the development of the Crown financial statements. Following an explanation of the role of the Audit Office in New Zealand, the role played by the Audit Office is analyzed in terms of fundamental audit characteristics such as independence, criteria (in particular, accounting practices to provide a true and fair view in the absence of relevant accounting standards) and evidence. The audit and management processes involved in auditing the Crown financial statements — including planning, setting of materiality levels, project control, training and reporting — are then described. The paper concludes with lessons for other countries.

Occasional Paper 3

Perspectives on Accrual Accounting

This paper aims to inform readers about a range of perspectives on accrual accounting from a number of contributors who have experience in implementing this accounting reform or who have observed its progress.

The PSC believes that by sharing perspectives of those who have been involved in the use of accrual accounting information for decision making purposes, others may gain insights into the value of this form of financial reporting to their own governments and other public sector entities.

The PSC deliberately set out to obtain the views of a wide range of people with a range of occupational backgrounds. The PSC also set out to focus on people who have experience of changing information outputs. The contributors to this paper are politicians, economists, academics, administrators and accountants.

Occasional Paper 4

The Delegation of Public Services in France: An original Method of Public Administration: Delegated Public Service

Government services can be provided in various ways. Usually they are delivered directly by government agencies. In some cases they can be contracted to private sector entities for them to deliver the public service under agreed conditions.

The public service can be said to be “delegated”. Such delegations occur, at the local authority level, in diverse fields such as water distribution, waste management and heating. Delegations are subject to special rules, and are contractual arrangements which balance the interests of the delegating authority and the private enterprise responsible for delivery of the service. Examples of collaborative arrangements of this type exist in other countries (Australia, Canada and New Zealand for example). This Occasional Paper describes the specific framework designed in France to manage the relationship between the parties and to ensure an adequate level of information and accountability.

Occasional Paper 5

Resource Accounting: Framework of Accounting Standard Setting in the UK Central Government Sector

The challenges for those moving to the accrual basis can be daunting. It can therefore be helpful for jurisdictions to know something of the issues, both anticipated and unanticipated, which have arisen in jurisdictions adopting the accrual basis and how those issues have been dealt with.

This paper considers the experiences of the United Kingdom, which decided to move to an accrual basis for both budgeting and financial reporting in 1995. It highlights some of the key arguments influencing the decision to adopt an accrual system, not just for financial reporting, but also for budgeting. It also locates accrual based budgeting and reporting in a wider performance management context. It particularly considers how the UK undertook the task of creating the infrastructure for accrual accounting and budgeting in the form of a standard-setting framework and an authoritative manual of accounting policies, principles and treatments.

SELECTED BIBLIOGRAPHY OF PUBLIC SECTOR ACCOUNTING AND AUDITING MATERIAL

Issued January 1993

To help developing and coordinating programs to promote education and research and for encouraging and facilitating the exchange of information among member bodies and other interested parties, the PSC issued a Selected Bibliography of Public Sector Accounting and Auditing Material. The Bibliography has been designed to include all authoritative and non-authoritative public sector accounting and auditing material issued by standard-setting bodies and Supreme Audit Institutions.

The listings of publications included in the Bibliography have been provided by the organizations themselves and are currently updated as of June 30, 1992.