PULSAR

Public Sector Accounting Assessment

PULSE

FRAMEWORK HANDBOOK

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Centre for Financial Reporting Reform (CFRR),
Governance Global Practice,
Europe and Central Asia Region, The World Bank
Address: Praterstrasse 31, 1020 Vienna, Austria
Web: www.worldbank.org/cfrr
Email: cfrr@worldbank.org
Phone: +43-1-217-0700



The Public Sector Accounting and Reporting Program

Web: www.pulsarprogram.org

© 2021 International Bank for Reconstruction and Development / The World Bank
1818 H Street NW
Washington DC 20433
Telephone: 202-473-1000
Internet: www.worldbank.org

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ACRONYMS AND ABBREVIATIONS

CIPFA	Chartered Institute of Public Finance and Accountancy
CN	Concept Note
CoA	Chart of Accounts
FTE	Fiscal Transparency Evaluation
GFS	Government Finance Statistics
GPFR	General Purpose Financial Reports
IFAC	International Federation of Accountants
IFMIS	Integrated Financial Management Information Systems
IPSAS	International Public Sector Accounting Standards
IPSFA	International Public Sector Financial Accountability Index
MG	Measurement Guidance
MoF	Ministry of Finance
NA	Not applicable
PAO	Professional Accounting Organizations
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PSA	Public Sector Accounting
QA	Quality Assurance
QC	Qualitative Characteristics
PULSAR	Public Sector Accounting and Reporting Program
PULSE	Public Sector Accounting Assessment
REPF	Report on the Enhancement of Public Financial Reporting
SAI	Supreme Audit Institution

PREFACE

The Public Sector Accounting and Reporting (PULSAR) Program, launched in 2017, is a regional and country level program in 13 beneficiary countries in Europe and Central Asia.[1] Its objective is to support the enhancement of Public Sector Accounting (PSA) and financial reporting frameworks, in accordance with international standards and good practices, in order to improve government accountability, transparency, and performance.

The PULSAR Partners – Austria, Switzerland, and the World Bank – jointly determine the objectives and scope of the PULSAR Program, and also provide institutional support for its implementation and mobilize the resources needed for its activities. Beneficiary countries help shape the program through regional cooperation platforms and input to two Communities of Practice: the FinCoP on Financial Reporting and the EduCoP on Education.

The Public Sector Accounting Assessment (PULSE) aims to support national and subnational governments in developing efficient and effective PSA systems. For the first time, it provides one single tool to measure and report on both: the conceptual and actual implementation of accrual accounting standards for the public sector according to the International Public Sector Accounting Standards (IPSAS). This two-perspective approach allows identifying any disconnect between the national and international PSA frameworks as well as the level of actual compliance with IPSAS based practices.

The assessment methodology is similar to the Public Expenditure and Financial Accountability (PEFA) assessment framework. The subjects to be assessed are based on the latest set of IPSAS pronouncements, but also go beyond the IPSAS framework by assessing the current status of PSA systems and the state of reform. The quality of the assessment and its reporting is ensured through multilayer Quality Assurance (QA) arrangements, including an independent external validation process and the PULSE Check.

[1] PULSAR's beneficiary countries are Albania, Armenia, Azerbaijan, Belarus, Bosnia and Herzegovina, Croatia, Georgia, Kosovo, North Macedonia, Moldova, Montenegro, Serbia, and Ukraine.

CHAPTER 1.
PULSE OVERVIEW

1.1. Introduction

1.1.1. Context of PULSE

Efficient and effective PSA systems enable governments to provide information on an entity's overall financial position, its assets and liabilities, and its revenues and expenditures. Governments and other users may need this information for various reasons, including, for example, to: (i) demonstrate accountability and transparency; and (ii) plan for future funding requirements of asset maintenance and replacement or the repayment of, or satisfaction of, existing liabilities. Various studies confirm the many benefits associated with accrual basis PSA systems, particularly in the following areas:

* **Accountability**
  - Higher quality and improved reliability and comparability of the financial information.
  - Enhanced political participation and inclusiveness.
  - Improved trust in governments.
* **Transparency**
  - Complete picture of public finances.
  - Better quality of financial information.
* **Financial management**
  - Improved basis for decision-making.
  - Improved management of fiscal risks.
  - Strengthened management and disclosure of assets and liabilities.

The implementation of accrual basis PSA systems, based on robust international standards such as IPSAS, represents an opportunity for governments to not only improve the transparency, quality, and reliability of their financial information, but also to achieve further indirect benefits, including:

* Improving and enhancing the quality of public services provided.
* Ensuring fiscal stability and the promotion of national economic growth.
* Improving the acceptability and credibility of governments.

There is agreement that preparation for the transition from cash to accrual accounting and for IPSAS implementation requires an understanding of a country's PSA and financial reporting framework and the gap between the country's current public sector financial reporting standards and practices, and IPSAS.

1.1.2. Objectives and benefits of PULSE

The PULSE was developed under the FinCoP of the PULSAR Program. PULSAR[2] is a regional and country-level program that supports the development of PSA and financial reporting frameworks in beneficiary countries.[3] It was established to scale up World Bank support of Public Financial Management (PFM) reforms.

[2] More information is available on the PULSAR website: https://www.pulsarprogram.org/.

[3] PULSAR's beneficiary countries are Albania, Armenia, Azerbaijan, Belarus, Bosnia and Herzegovina, Croatia, Georgia, Kosovo, North Macedonia, Moldova, Montenegro, Serbia, and Ukraine.

The PULSE aims to support national and subnational governments in developing efficient and effective PSA systems. To achieve that goal, it is essential for governments to have a comprehensive understanding of the status of their PSA system and the associated public sector environment.

The PULSE methodology also aims to serve public sector entities to develop an understanding of the local PSA system and environment, the gap between national and international PSA frameworks, and the gap in actual application between national PSA standards and IPSAS. In particular, the PULSE enables governments to:

* Systematically collect information on the current performance of PSA systems, standards, and practices.
* Assess and report on conceptual and actual compliance with the IPSAS framework.
* Benchmark the performance of the current PSA systems in a user-friendly way, through a web-based assessment tool.
* Provide inputs for development of a comprehensive PSA reform strategy and roadmap.
* Use the assessment to develop policy recommendations and action planning to enable further strengthening of PSA systems and practices.
* Promote enhanced consistency and comparability with peers at both regional and global levels.

1.2. Structure of PULSE

The PULSE framework assesses six pillars of performance embracing a total of 29 indicators and 105 dimensions of a transparent, efficient, and effective PSA system. This assessment framework provides information useful for decision making and focus on key measurable aspects of the PSA system. PULSE uses the results of the individual indicator calculations, which are based on available evidence, to provide an integrated assessment of the PSA system according to the six pillars of PSA performance.

The six pillars are briefly outlined in the following (see Annex 1 for a complete list of IPSAS covered by PULSE methodology):

1. **Pillar I – PSA Framework,** assesses overarching IPSAS principles, including the definition and application of IPSAS qualitative characteristics (QC), the definition of the reporting entity, changes to accounting policies and to estimates, and the capturing and reporting of transactions in foreign currency.

   IPSAS covered in this pillar: IPSAS Conceptual Framework, IPSAS 3, 4, 10, and 14

2. **Pillar II – Financial assets & liabilities,** assesses the presentation, recognition, measurement, and disclosure of financial assets and liabilities.

   IPSAS covered in this pillar: IPSAS 5, 28, 30, and 41

3. **Pillar III – Non-financial assets and liabilities, assesses the recognition,** measurement, and disclosure of non-financial assets (such as, inventories, biological assets, property, plant & equipment, intangible assets), non-financial liabilities (including provisions and contingent liabilities) and cross-cutting issues (such as leases, service concessions, employee benefits, and impairment).

   IPSAS covered in this pillar: IPSAS 12, 13, 16, 17, 21, 26, 27, 31, 32, 33, 39, and 42

4. **Pillar IV – Expenses & revenue recognition,** assesses the recognition, measurement, and disclosure of expenses and revenues, including exchange transactions, non-exchange transactions, and social benefits.

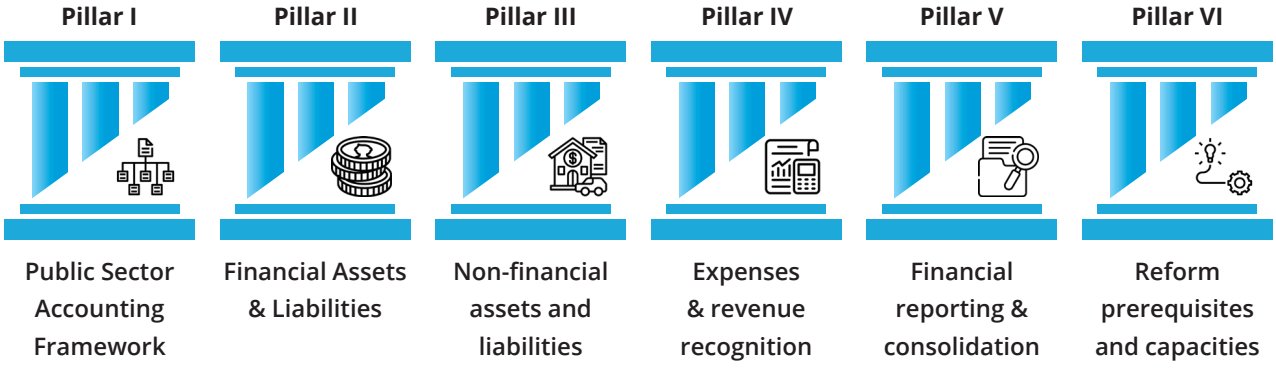
   IPSAS covered in this pillar: IPSAS 9, 11, 23, and 42

5. **Pillar V – Financial reporting & consolidation,** assesses the presentation of financial statements and their notes, accounting for non-controlled entities, public sector combinations, as well as the key principles of consolidation.

   IPSAS covered in this pillar: IPSAS 1, 2, 18, 20, 24, 35, 36, 37, and 38

6. **Pillar VI – Reform prerequisites and capacities,** assesses fundamental prerequisites and capacities to be addressed to efficiently and effectively operate PSA systems or to successfully undertake PSA reforms, for example, technical abilities (Information Technology systems) to operate a PSA system, the availability of sufficient human resources and capacities, the organization of accounting (accounting function and standard-

Figure 1. Overview of PULSE Pillars



setting), the level of integration with other PFM systems and the political capacity (reform mandate and ownership) to conduct PSA reforms.

No specific IPSAS is covered in this pillar. The World Bank, through the PULSAR Program, has developed a PSA Reform Roadmap,[4] which covers important prerequisites for a successful accounting reform.

Figure 1 illustrates the six pillars of a PSA system.

1.3. Application of PULSE

The PULSE has been developed for public sector reporting entities around the globe as a free "global good" and a user-friendly web-based self-assessment framework. It has been particularly designed for national and subnational governments but may be also applied by any reporting entity applying PSA standards, such as international organizations, central banks, public corporations, and other government agencies.

The PULSE process has four phases and ten steps, described further in Chapters 2 to 4. As indicated in **Figure 2** (see inner ring), the estimated duration of the entire assessment process is about six months. In order to ensure an efficient assessment process and keep costs as low possible, it is strongly recommended to adhere to the given period, particularly for steps 1 to 8.

- Planning a PULSE assessment (Chapter 2)
  - Step 1: Dialogue initiation and ownership definition
  - Step 2: Concept Note (CN)
  - Step 3: Preparation for the assessment
- Conducting a PULSE assessment (Chapter 3)
  - Step 4: Assessment launch
  - Step 5: Data collection and analysis
- Reporting PULSE assessment (Chapter 4)
  - Step 6: Draft PULSE report
  - Step 7: Peer review and PULSE Check
  - Step 8: Final report and publication
- PSA Reform Action (Chapter 5)
  - Step 9: Reform dialogue
  - Step 10: Monitoring, evaluation, and follow-up

[4] The Public Sector Accounting Reform Roadmap publication is available at the following link: https://cfrr.worldbank.org/publications/roadmap-public-sector-accounting-reform-good-practice-template

Figure 2. PULSE Process



1.4. Quality assurance process

Various QA components will increase internal and external users' confidence in the findings of PULSE and provide a level of QA that the assessment is delivering reliable information on PFM performance.

The key stakeholder throughout the PULSE QA process is the external validation team, which consists of at least three PSA experts with demonstrated expertise in the field, including, when possible, at least, one local expert. This arrangement ensures objective and independent quality review of the draft CN, raw assessment data, and the draft PULSE report. The review is conducted based on available evidence, as documented by the assessment team.

Table 1 outlines the key components of the PULSE QA process. The coloring scheme reflects whether a component is mandatory (white) and not mandatory (grey).

PULSE QA process systematically integrates all major parties in the assessment process, including internal stakeholders (e.g., Central Financing Agency or Ministry of Finance (MoF), Treasury, and PSA office[5]), external stakeholders (e.g., development partners and donors), and the PULSAR team.

Table 1. PULSE QA Process

No.	QA elements	Reference	Responsibility
1.1	The draft CN is prepared	Chapter 2	Assessment team leader
1.2	The draft CN is submitted for peer review	Chapter 2	Assessment team leader
1.3	The CN is reviewed and commented	Chapter 2	Peer reviewers, oversight and PULSAR teams
1.4	The CN is revised and submitted for approval	Chapter 2	Assessment team leader
1.5	The revised CN is approved	Chapter 2	Oversight team
1.6	The final CN is shared for information purposes with all peer reviewers and PULSE stakeholders	Chapter 2	Assessment team leader
2.1	The self-assessment is conducted	Chapter 3	Assessment team and its leader
2.2	The raw data from the self-assessment is submitted for external validation	Chapter 3	Assessment team leader
2.3	The raw data from the self-assessment is reviewed and validated	Chapter 3	External validation team
2.4	The raw data from the self-assessment is revised, as needed	Chapter 3	Assessment team and its leader
3.1	The first draft of the complete PULSE report is prepared	Chapter 4	Assessment team and its leader
3.2	The first draft of the complete PULSE report is submitted for review	Chapter 4	Assessment team leader
3.3	The first draft of the complete PULSE report is reviewed and commented	Chapter 4	External validation team
3.4	The revised draft PULSE report is prepared along with the matrix of comments received and team responses	Chapter 4	Assessment team and its leader

[5] PSA office usually acts as standards setting body for public sector accounting.

No.	QA elements	Reference	Responsibility
3.5	The revised PULSE report is submitted for PULSE Check	Chapter 4	Assessment team leader
3.6	The revised PULSE report is commented, and PULSE check is conducted	Chapter 4	PULSAR team
3.7	The revised PULSE report is further revised, as needed, and finalized	Chapter 4	Assessment team and its leader
3.8	The pre-final PULSE report is submitted for approval	Chapter 4	Assessment team leader
3.9	The final PULSE report is approved	Chapter 4	Oversight team
4.1	The final PULSE report is distributed to all, including PULSE and external, stakeholders	Chapter 4	Lead agency/ Assessment team leader

1.5. Roles and responsibilities of stakeholders

The PULSE process typically includes the following types of stakeholders, defined as follows:

LEAD AGENCY

Description: Lead agency (usually MoF) is the main sponsor of the PULSE. However, the MoF could delegate this role to the Treasury or PSA office.

Responsibilities:

1. Assume the full ownership and leadership over the assessment process.
2. Ensure, jointly with the oversight team, that the key PULSE counterparts, including assessment team leader, assessment, and external validation teams, are identified and assigned.
3. Ensure that resources required for assessment completion are allocated.
4. Host the assessment team and its leader.
5. Host and facilitate organization of the PULSE preparation and dissemination workshops and events.
6. Disseminate the final PULSE Report.

ASSESSMENT TEAM LEADER

Description: The assessment team leader is appointed by the lead agency, in consultation with oversight team, and he/she is the day-to-day manager of the PULSE process and the ultimate responsible for the quality of the assessment.

The assessment team leader needs to have good leadership, communication, and organizational skills as well as the ability to build strong working relationships with the assessment team members and other PULSE stakeholders.

Responsibilities:

1. Establish, in collaboration with the lead agency and oversight team, the assessment team in terms of size, composition, and qualifications.
2. Procure and appoint, in collaboration with the lead agency and PULSAR team, the members of the external validation team.
3. Prepare and keep updated the assessment timetable and meeting schedules.
4. Ensure that all contributions by assessment team members are made on time, and the first draft PULSE report is prepared as a coherent, integrated assessment and not simply a collation of separate individual contributions.

5. Conduct, in coordination with the PULSAR team, the QA process, including the PULSE Check.
6. Draft, finalize, and distribute PULSE CN.
7. Periodically report on assessment progress to lead agency and oversight team.
8. Lead, in coordination with the lead agency, organization and delivery of PULSE preparation and dissemination workshops and events.
9. Consult with the lead agency, oversight team, and other PULSE stakeholders.

OVERSIGHT TEAM

Description: The oversight team may be an existing body, such as a PFM or PSA reform steering committee, or a technical task force reporting to a high-level steering committee. If there is no suitable body emerging from an existing reform governance arrangement, an oversight team could be comprised of: (i) public officials from the lead agency; (ii) relevant government and non-government stakeholders, including line ministries, Supreme Audit Institution (SAI), accounting standard-setters, and the statistics office; and/or (iii) development partners, if they are involved in similar reforms. The involvement of Parliament, academics, and Professional Accounting Organizations (PAO) could be also considered.

Responsibilities:

1. Direct the assessment, monitors progress, and addresses any policy or communication issue.
2. Facilitate access to data, information or institutions that may arise throughout the assessment process.
3. Ensure, jointly with the lead agency, that key assessment counterparts, including assessment team leader, assessment, and external validation teams, are identified and assigned.
4. Review and approve the CN and final PULSE report.
5. Participate in PULSE preparation and dissemination workshops and events organized by the lead agency and assessment team leader.
6. Facilitate the process of PSA reform dialogue, planning, and implementation following the completion of the assessment.

ASSESSMENT TEAM

Description: Usually, all or most of the assessment team members will be lead agency's official (e.g., MoF, Treasury or PSA office) or officials from other public sector entities, who are directly involved in operation of PSA system or reform.

In some cases, when the leading agency requires additional support, it might be considered hiring consultants to support the assessment process.

It is important that all members of the assessment team have good analytical and written communication skills. More information on the role of assessment team is provided in the section 2.3.1. "Key task 3.1: Mobilize the assessment team."

Responsibilities:

1. Conduct, in coordination with the assessment team leader and using PULSE web-based tool, assessment, in accordance with the PULSE handbook.
2. Assist the assessment team leader in carrying out the QA process, including revision of assessment's raw data, draft and final PULSE reports, and preparation of matrix of comments and responses, based on the feedback received from peer reviewers.
3. Prepare the first draft and the pre-final version of PULSE report.
4. Assist assessment team leader in organization and delivery of PULSE preparation and dissemination workshops and events.

EXTERNAL VALIDATION TEAM

Description: External validation team takes a crucial role throughout the entire assessment process and is involved in most of the QA steps.

The members of the external validation team should be identified by the assessment team leader, and appointed by the lead agency, in consultation with the oversight team.

It is recommended that the team is comprised of, at least, three international and/or national PFM/PSA experts, who are familiar with the national/jurisdictional PSA system and reform.

Responsibilities:

1. Provide guidance and orientation to the assessment team and its leader.
2. Actively participate in the QA process, including: (i) review and validation of assessment's raw data; (ii) review and provision of feedback on the first draft of the complete PULSE report.
3. Participate in PULSE preparation and dissemination workshops and events organized by the lead agency and assessment team leader.

PULSAR TEAM

Description: PULSAR team is comprised of World Bank officials and/or consultants, who are involved in implementation of PULSAR Program, or those parties delegated by the PULSAR team.

Responsibilities:

1. Development, maintenance, and further updating of the PULSE methodology and web-based tool.
2. Provide guidance and orientation to the assessment team and its leader regarding: (i) interpretation of the PULSE handbook, including the assessment methodology; (ii) clarification of any doubts and questions related to the assessment process; (iii) use and functionality of the web-based tool.
3. Provide feedback on the PULSE CN.
4. Conduct PULSE Check.
5. Participate in PULSE preparation and dissemination workshops and events organized by the lead agency and assessment team leader.

EXTERNAL STAKEHOLDERS

Description: The list of external stakeholders includes, and it is not limited to the following actors and institutions: (i) line ministries; (ii) SAI; (iii) development partners and donors; (iv) accounting standard setters and PAOs; (v) PFM/PSA related NGOs and civil society groups; (vi) academia.

Responsibilities:

1. Participate in PULSE preparation and, particularly, dissemination workshops and events organized by the lead agency and assessment team leader.

PEER REVIEWERS

Description: Peer reviewers are identified and nominated by the assessment team leader, in consultation with lead agency and oversight team. They usually would include representatives from oversight and PULSAR teams, as well as from external stakeholders.

Responsibilities:

1. Review draft PULSE CN.
2. Participate in PULSE preparation and dissemination workshops and events organized by the lead agency and assessment team leader.

1.6. PULSE Check

Another aspect of the QA process is the PULSE Check, which is an additional touch point conducted by the PULSAR team. The PULSE Check ensures that: (i) the PULSE methodology has been applied correctly; (ii) general scoring is evidenced; (iii) current overall IPSAS adoption status and financial reporting basis are properly documented; (iv) the report structure and content follow the PULSE handbook; and (v) proposed recommendations and action plan are reasonable and feasible for implementation, taking into consideration global/regional expertise of the PULSAR team.

Key PULSE Check criteria is defined below:

1. The draft PULSE CN is submitted for peer review before the assessment work starts. The draft CN should be reviewed by, at least, four peer reviewers, which should include the representatives from the following stakeholders: (i) one representative from the oversight team; (ii) one representative from the PULSAR team; (iii) two representatives from external stakeholders

that are different from those that are already represented in the PULSE oversight team.

2. A final version of the CN is shared with all peer reviewers and PULSE stakeholders.
3. The first draft of complete PULSE report is submitted to all members of external validation team for review. They are expected to provide comments or acknowledge "no comment" if they consider no changes are needed.
4. The assessment team prepares the revised draft PULSE report along with a matrix of peer reviewers' comments and the assessment team's responses.
5. The PULSAR team conducts a follow-up review, which evaluates whether its comments have been addressed, and to ensure that the compliance indices for dimensions and indicators and the report coverage index are both higher than 75 percent. If any of the indices' scores is below 75 percent, the PULSAR team will inform the assessment team leader and highlight areas where compliance or coverage can be improved to meet or exceed 75 percent threshold.

Under some circumstances, the PULSE Check can be omitted, for instance when the PULSE Report is not intended to be publicly disclosed. However, it is recommended to conduct it whenever possible. The inclusion of the PULSE Check (or the lack of it) should be highlighted in the distribution and dissemination version of the PULSE report.

1.7. Coverage of PULSE

The PULSE recognizes that governments and other public sector entities are organized differently around the world. For example, a government may establish or operate through administrative units, such as ministries or departments. It may also operate through trusts, statutory authorities, government corporations, and other entities with separate legal identities or operational autonomy to undertake or otherwise support the provision of services to constituents.[6]

The wide universe of public sector entities is the reason that the PULSE framework does not mechanically define entities to be covered within the assessment scope but acknowledges contextual factors. While it is likely that PULSE will usually be conducted by national and subnational governments, such assessments may also be conducted by other reporting entities such as State-Owned Enterprises (SOEs) or international organizations reporting under IPSAS.

IPSAS defines a public sector reporting entity as a government or any other organization, program, or identifiable activity that prepares General Purpose Financial Reports (GPFR). A public sector reporting entity exists if there are service recipients or resource providers which are dependent on GPFRs for information. A public sector reporting entity may have a separate legal identity or be, for example, an organization, administrative arrangement, or program without a separate legal identity.

PULSE coverage may differ from jurisdiction to jurisdiction depending on the local context and the definition of the *reporting entity*. There might also exist differences with respect to the level of consolidation. The PULSE has been developed based on IPSAS consolidation principles, following the concept of control. IPSAS requires the full consolidation of any controlled entities even when its activities are dissimilar to those of the other entities within the reporting entity.[7]

Hence, the coverage of consolidated entities will depend on the local context and the number of controlled entities by the reporting entity. For

[6] IPSAS Conceptual Framework, Chapter 4.
[7] IPSAS Conceptual Framework, Chapter 4.

example, a national government, which controls a wide range of entities, will be benchmarked against whether it meets IPSAS consolidation principles. There might also be the need to consolidate subnational governments, but only if the national government controls these subnational governments, unless the financial statements are prepared in accordance with statistical bases of financial reporting.[8]

1.8. Assessment modes

It is expected that the PULSE be conducted using a *full self-assessment* approach, as a primary assessment mode. In this case, the PULSE is undertaken by the lead agency with mandatory external validation. In exceptional cases, the following two modes are also possible: (i) *external assessment mode*, which is conducted by external experts; and (ii) *blended mode*, which combines self-assessment with the assistance of external experts. The option to choose these modes depends on the jurisdictional situation, including resource availability and institutional capacity.

1.9. Scoring methodology

Scoring of the 29 performance indicators, which in turn consist of 105 dimensions, is the heart of the PULSE process. The scoring and assessment methodology has been aligned to the PEFA methodology, including a four-point calibration scale between A and D for each dimension. Each indicator score considers two or more dimensions, which are aggregated according to the methodology described in Chapter 3.

1.10. Complementarity with other diagnostic tools

PULSE serves as a tool to benchmark the conceptual and actual compliance of an entity's PSA system compared to IPSAS standards and serves as a basis to develop policy recommendations and action planning for further strengthening or reform of PSA systems and practices. It is important to clarify the role of the PULSE within the universe of other PFM assessment frameworks. The PEFA Secretariat identifies in total 45 different PFM diagnostic tools, ranging from broader PFM assessment frameworks to tools focusing on individual PFM elements, institutions, or sub-systems.[9]

The PULSE was designed to complement other PFM assessment tools. In particular, the PULSE is closely aligned to the following three diagnostic instruments:

* **Report on the Enhancement of Public Financial Reporting (REPF).**[10] The PULSE considers the REPF assessment methodology but simplifies the assessment process by using a PEFA consistent approach and a web-based tool. The PULSE methodology aims to replace the REPF. However, the REPF framework will continue to be available, but it will not be further maintained and updated.
* **PEFA.**[11] The PULSE framework was designed to closely align with the fundamental principles of a PEFA assessment, including the principles of evidence-based scoring and mandatory QA procedures, as outlined in section 1.4 "Quality assurance process."
* **Fiscal Transparency Evaluation (FTE).**[12] The PULSE framework takes into accounting the Fiscal Transparency Handbook (2018) and Fiscal Transparency Code, issued by the International Monetary Fund. It has been particularly aligned to Pillar 1 "Fiscal Reporting" of the Fiscal Transparency Handbook.

[8] IPSAS 22, paragraphs 9-11.

[9] PEFA (2018). Stocktaking of PFM diagnostic tools 2016.

[10] The REPF tool can be found at the following link: https://cfrr.worldbank.org/publications/report-enhancement-public-sector-financial-reporting-repf-diagnostic-tool.

[11] The PEFA web site can be found at the following link: https://www.pefa.org/

[12] More information on the FTE framework can be found at the following link: https://www.imf.org/en/Topics/fiscal-policies/fiscal-transparency

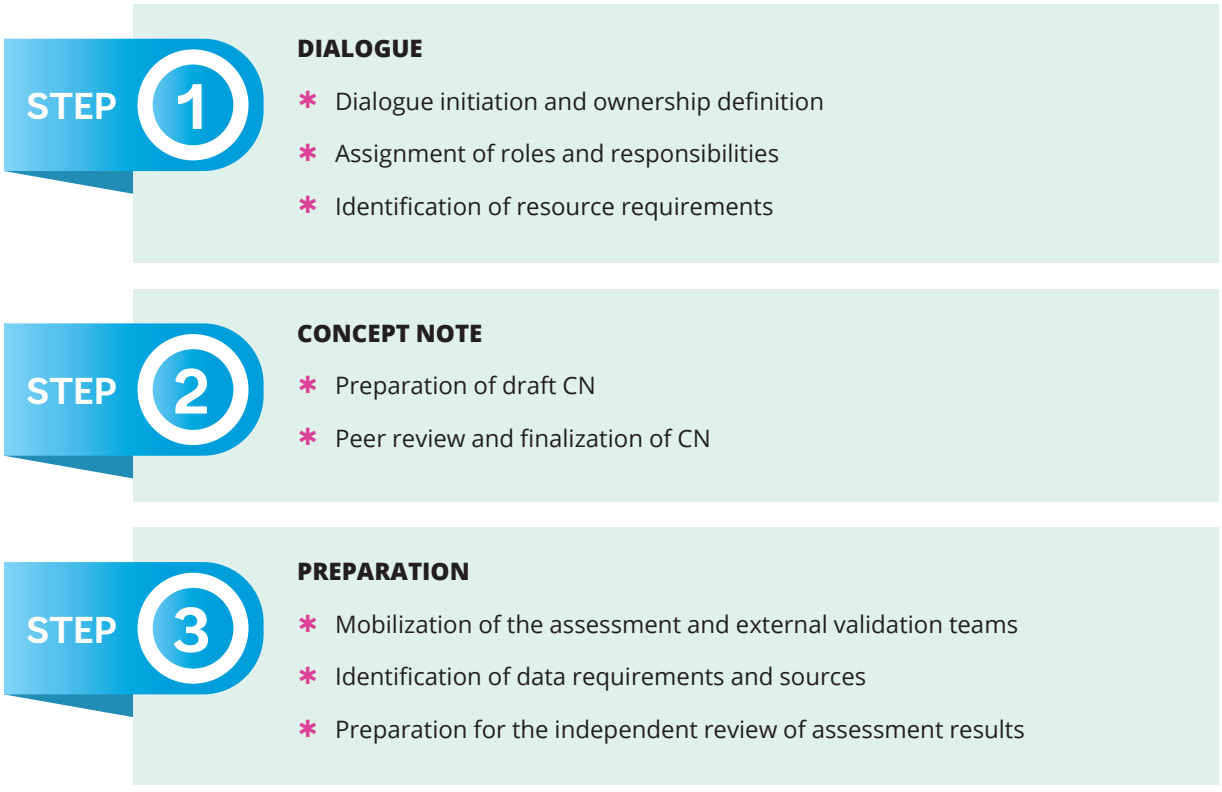
CHAPTER 2.
PHASE 1: PLANNING THE PULSE

This chapter explains the planning phase of the PULSE process. Careful planning and preparation are critical to the success of the assessment, as they establish the basis for the government's engagement and ownership of the assessment process. Phase one can take up to two months, but may be longer or shorter, depending on the extent of agreement between stakeholders and readiness to undertake the assessment.

The planning phase is divided into three key steps:

* Step 1: Dialogue on the need for a PULSE.
* Step 2: Development of the CN.
* Step 3: Preparation for the assessment.

Figure 3. Main steps and key tasks in the planning phase



2.1. Step 1: Dialogue initiation and ownership definition

2.1.1. Key task 1.1: Initiate dialogue to ensure broad ownership

Task 1.1 examines the need for the PULSE through a dialogue between the lead agency (such as the MoF, the Treasury, or PSA office), senior government officials, and other relevant stakeholders, and is considered the starting point for PSA reform initiatives. The dialogue may be initiated as part of development support strategic discussions between the jurisdiction and development partners, or as part of preparation for a broader PFM or public administration reform program. The dialogue may also be the result of an internal discussion within government or between a government and development partners and/or civil society organizations/representatives.

The purpose of task 1.1 is to:

1. Identify and secure broad ownership of the process.
2. Ensure commitment of all relevant stakeholders.
3. Review related ongoing reform actions that might be relevant to the assessment process.
4. Identify other recent diagnostic assessments of PSA or related matters that should be considered.

2.1.2. Key task 1.2: Assign roles and responsibilities

Based on the roles and responsibilities of PULSE stakeholders, described in the section 1.5, this task involves defining the assessment oversight team and appointing an assessment team leader. While the identification and selection of assessment and external validation teams is performed during step 3 of the assessment, "Preparation for the assessment," establishment of the oversight team and appointment of the assessment team leader are crucial for development and approval of the PULSE CN, which is further explained in the section 2.2, "Step 2: Development of the Concept Note."

2.1.3. Key task 1.3: Identify resource requirements

As resource requirements will vary from jurisdiction to jurisdiction, it is not practical to estimate a standardized budget for PULSE. The possibility of conducting the assessment via the online tool will, however, allow for a lean cost structure.

Resources required will be specified in the CN and depend on many factors, including:

* The scope of the assessment (baseline or successive, central government or subnational government).
* Predicted ease of obtaining information, including limitations in data availability.
* The human resources required for the assessment.
* Translation and editing costs.
* Need to hire external consultants.
* Travel requirements.
* Assessment mode (see section 1.8 "Assessment modes" for more detailed information).

2.2. Step 2: Development of the CN

2.2.1. Key task 2.1: Prepare a draft CN

Once the decision to undertake the PULSE is made, the next step in the process involves developing a formal document to be agreed upon and shared with all relevant stakeholders according to the QA process (see **Table 1** "PULSE QA Process" in section 1.4). This document will be prepared in the format of a CN, using a template available in the online assessment

tool. Its main goal is to set out the background, purpose, objectives, scope, timing, team composition, and other resources required for the assessment.

The document will explain how the assessment is to be performed, including the methodology to be applied, main references and information sources, relationship to other assessments, consultation and reporting as well as resources used/budget.

The purpose of the CN is to: (i) plan and guide the assessment process by articulating intention; and (ii) inform stakeholders of the upcoming assessment and seek their input to the process. It is, therefore, important that the draft and final versions of the document be widely shared with all relevant stakeholders, and that the draft CN is finalized well in advance of the start of the assessment work.

The CN should, at a minimum, include the following information:

* Country/jurisdiction background and context.
* PSA reform, including the mention of: (i) any recent PSA assessments; and (ii) recent, ongoing, and planned PSA reform.
* Purpose, scope, coverage, and mode of the assessment.
* Timeline, including assessment implementation schedule, and estimated cost of the assessment, including a raw breakdown of the main cost items.
* Assessment management, including: (i) management and oversight arrangements; (ii) composition of the assessment team; and (iii) QA arrangements.
* Approach and methodology, including data collection, structure of the PULSE report.
* Key deliverables, including the workshop to be delivered as part of assessment launch and any PULSE report dissemination event(s), if any.

2.2.2. Key task 2.2: Peer review and finalize CN

Once a draft of the CN has been prepared by the assessment team leader, the process follows the structure of the QA process which is reproduced in **Table 2**.

Table 2. QA Process CN preparation and peer-review

No.	QA elements	Responsibility
1.1	The draft CN is prepared	Assessment team leader
1.2	The draft CN is submitted for peer review	Assessment team leader
1.3	The CN is reviewed and commented	Peer reviewers, oversight and PULSAR teams
1.4	The CN is revised and submitted for approval	Assessment team leader
1.5	The revised CN is approved	Oversight team
1.6	The final CN is shared for information purposes with all peer reviewers and PULSE stakeholders	Assessment team leader

2.3. Step 3: Preparation for the assessment

2.3.1. Key task 3.1: Mobilize the assessment and external validation teams

As per stakeholders' roles and responsibilities, explained in section 1.5, the assessment team leader, in consultations with the lead agency and oversight team, identifies, assembles, and mobilizes the assessment team. The size of the team will depend on the country context; however, the following generic composition is suggested: assessment team leader, PSA expert, public debt expert, and treasury expert, as needed. Depending on the institutional and/or organizational structure of the jurisdiction some functions can be fulfilled by the same team member.

In case it is necessary to hire external consultants, they should be experienced PSA practitioners with prior knowledge of the country/jurisdiction or entity to be assessed and its PSA system and reforms. Considering local consultants is advisable for the assessment phase, as it will facilitate communication with the main stakeholders, enhance understanding of the PFM/PSA systems and the context in which it operates, and help to fill data gaps.

If the decision is made to hire external consultants to conduct the assessment (or part of it),[13] it is vital to avoid any overlap and, therefore, conflict of interest with the external validation team according to the PULSE QA process. This means that a member of the external validation team may not act as an external consultant to the assessment team and vice versa.

In turn, the members of the external validation team should be identified by the assessment team leader, and appointed by the lead agency, in consultation with the oversight team. It is recommended that the external validation team is comprised of at least three international and/or national PFM/PSA experts who are familiar with the national/jurisdictional PSA system and reform.

2.3.2. Key task 3.2: Identify data requirements and their sources

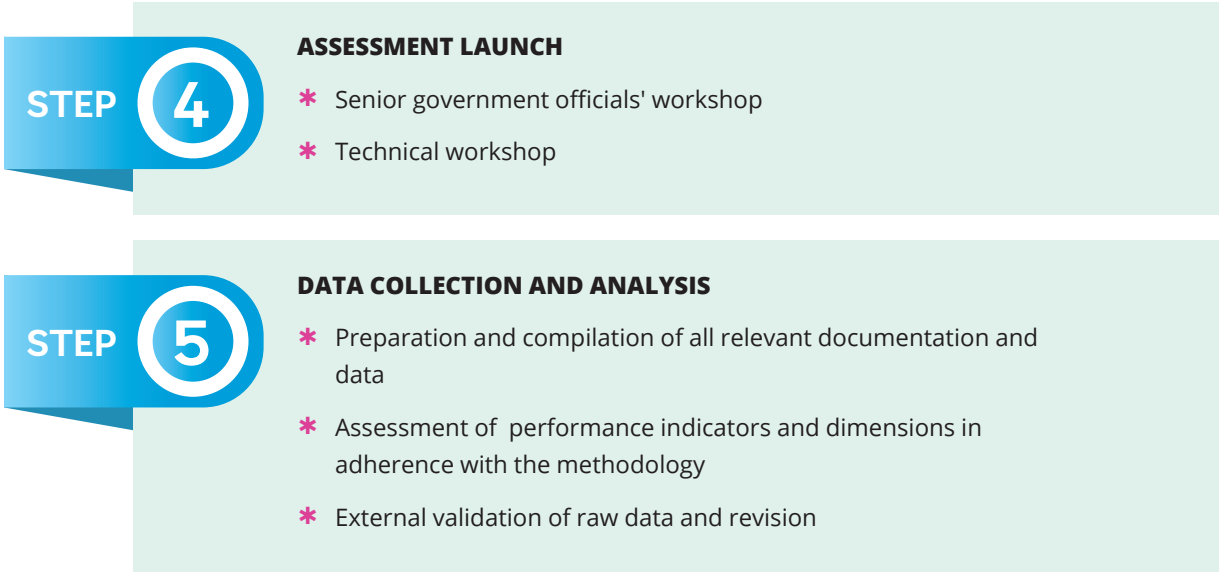
The assessment team leader, with support from the assessment team, should identify data requirements, location, and means to obtain such data, as well as respective stakeholders as part of the initial phase of information gathering. An important part of this step is collecting and reviewing all available information and data that is relevant for the assessment, such as existent PSA regulatory frameworks, annual financial statements/reports (including their notes), and audit reports issued by the SAI. This documentation should be obtained before the start of the actual assessment. Collecting as much information and data as possible in advance will enable more effective use of time during the rest of the assessment.

[13] This would be the case if a jurisdiction opts for *external assessment mode* or *blended mode* as described in section 1.8 "Assessment modes."

CHAPTER 3.
PHASE 2: CONDUCTING THE PULSE

This chapter provides an overview of the steps to conduct the actual assessment. While the analysis of the dimensions, indicators, and pillars is at the core of the PULSE (step 5), it is important to follow a few preparatory steps before starting the actual assessment.

Figure 4. Main steps and key tasks in the assessment phase



3.1. Step 4: Assessment launch

PULSE launch aims at strengthening awareness and understanding of the exercise, including its process and methodology. It also aims at onboarding all relevant. The assessment launch event typically includes the following two parts: (i) a workshop with the senior government officials and other relevant stakeholders involved in the assessment; and (ii) a technical workshop with the key stakeholders, such as assessment team leader, and the assessment, external validation, and PULSAR teams.

Both parts of the event would be usually organized, including development of the event's materials, by the lead agency under leadership of the assessment team leader and in close coordination with PULSAR and external validation teams.

3.1.1. Key task 4.1: Senior officials' workshop

The main objective of the senior officials' workshop is to actively involve all relevant stakeholders that have a leading role throughout the assessment process. This workshop is attended by senior officials from the MoF (and other agencies involved in PSA reform and operation, as appropriate), the lead agency, assessment team and its leader, and the PULSAR and external validation teams.[14]

The workshop should, at a minimum, include discussions of the following topics:

* The assessment processes.[15]
* Team composition: roles and responsibilities.
* QA process, including PULSE Check.
* Brief overview of the assessment methodology and scoring.
* Timeframe of the assessment.
* PULSE report and dissemination activities.
* Monitoring and evaluation of the reform implementation, and discussion of how the results and findings presented in the PULSE report will be followed up.

3.1.2. Key task 4.2: Technical workshop

The main goal of the technical workshop is to inform the key stakeholders in detail about the assessment process. It is attended by the members of the assessment, external validation, and PULSAR teams. Participation from other interested parties (e.g., lead agency and other agencies involved in PSA reform and operation) is encouraged.

At a minimum, the technical workshop should include of the following topics:

* The assessment process.
* Composition of the assessment team: roles and responsibilities.
* Assessment methodology, including the introduction to each pillar, indictor, and dimension.
* Scoring methodology.
* QA process, including the PULSE Check.
* Data collection and analysis.
* Use of the web-based assessment tool.
* PULSE report preparation.

3.2. Step 5: Data collection and analysis

At the heart of the PULSE lies the actual analysis of the 29 performance indicators. The indicators cover the extensive field of PSA, but also go beyond it by including elements of reform readiness and capacity as outlined in Chapter 1.

[14] Either in person or virtual participation of the entire team is recommended.
[15] See Figure 2, Chapter 1.

3.2.1. Key task 5.1: Preparation and compilation of all relevant documentation and data

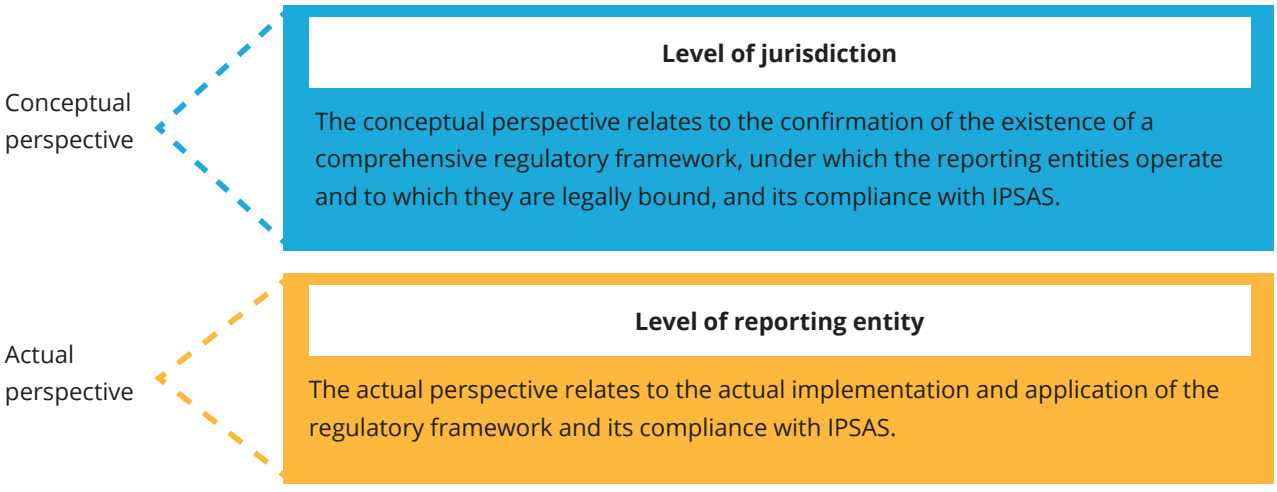
3.2.1.1. Conceptual and actual performance, and data sources

The scoring of the indicators follows a comprehensive framework for periodic assessment and reporting on the performance of accrual basis PSA systems. In order to assess both the existing PSA legal and regulatory framework, and the actual implementation of those rules and standards, the assessment process includes both the conceptual and actual compliance with the IPSAS framework. This applies to all indicators in Pillars I to Pillar V with the exception of Indicator 1 "Conceptual framework." Please see **Figure 5** for a description of the perspectives.

The two perspectives are complementary in nature. Depending on the strategy and goals that led to the assessment, it is possible in exceptional cases[16] to solely conduct an assessment for the conceptual or the actual perspective. However, assessing both perspectives is strongly recommended as it creates a full picture of the current status of the PSA environment of the reporting entity. Moreover, only the assessment of both perspectives will show any implementation gaps, as a result of the comparison of both perspectives. Therefore, to obtain the PULSE Check, it is mandatory to assess both perspectives.

This two-perspectives approach has certain implications on the data requirements for assessing the dimensions. Data sources might overlap, or different data sources might be necessary, depending on the dimension. The following table presents a list of documents and data required to be sourced (if they exist) for the PULSE, as they serve as basic evidence for the assessment and scoring processes.

Figure 5. Conceptual and actual perspectives of the assessment



[16] Such cases might include entities that have already fully implemented IPSAS and only wish to assess the actual perspective of this implementation. Or, in other cases, where an entity has laid the groundwork on a conceptual level without any implementation and would like to assess therefore only the conceptual perspective.

Table 3. Data sources

Data sources applicable to...	Conceptual perspective	Actual perspective
The constitution under which the reporting entity operates	x	
Any laws and bylaws relating to budget and/or accounting	x	
Annual budget law/documentation/estimates, as appropriate, approved by the legislature	x	
Accounting standards	x	x
Accounting policies/frameworks	x	x
Accounting manual/procedures	x	x
Internal memos/guidelines/process descriptions	x	x
Asset register for fixed and non-fixed assets		x
Chart of accounts		x
Annual financial statements or reports		x
Interim (e.g., monthly, quarterly, etc.) financial statements or reports		x
Audit reports		x
FMIS outputs/screenshots		x
Job profiles/responsibilities		x

Based on **Table 3**, a compendium of all required data sources for both the conceptual and actual perspective should be prepared as a digital repository. This repository can then be used during the assessment process as an information pool.

3.2.1.2. Time horizon and scope

The PULSE is usually based on the most recently completed fiscal year. In general, the scope of each indicator is the reporting entity as outlined in section 1.7 "Coverage of PULSE." Thus, depending on the organizational structure of the reporting entity, the scope of the assessment may vary. In turn, scope has implications on the data requirements. Therefore, it is imperative to clearly define the scope, based on the reporting entity that is being assessed in the planning phase as highlighted in Chapter 2 "Phase 1: Planning the PULSE" of this handbook.

3.2.1.3. Issues of national security and commercial confidentiality

During the assessment, information on aspects of defense, public order, and safety functions may in rare cases be unavailable for reasons of national security. Similarly, information on certain projects or separate costs may be unavailable or unpublished to maintain commercial confidentiality.

However, it should be noted that the IPSAS and, therefore, also the indicators based on these standards do not require the presentation of information at sub-entity or even project level. For the sake of completeness, all controlled entities and projects should be included in the financial reporting, but the information is to be presented at a consolidated or aggregated level, with no requirement whatsoever to disclose national security or commercially confidential information.

Nonetheless, wherever practical, the members of the assessment team should ensure that the reasons for lack of published information are adequately justified. Therefore, any limitations of this nature should be noted in the introduction of the report, at the relevant point in the report (i.e., at the indicator level) or in both places. Finally, it may happen that the assessment as a whole contains unfavorable outcomes or sensitive information. Although a high degree of transparency is strongly encouraged, it is ultimately the government's decision to publish the full report, but in any event at least the Executive Summary of the PULSE report should be made available on the PULSAR website. For more information on the report's content, please refer to section 4.1 "Step 6: Draft PULSE report" of this handbook.

3.2.1.4. Definitions and technical guidance

Definitions of commonly used terms are underlined and included in the Glossary (see Annex 2). Key definitions about specific indicators and dimensions are included in the respective Measurement Guidance (MG). In addition, each pillar is equipped with a technical introduction, giving an overview of the relevant terminology.

3.2.1.5. PULSE framework

The PULSE framework contains a total of 105 dimensions, which can assess the performance of even the most complex reporting entity and give a detailed picture of its overall PSA environment. **Table 4** presents a complete list of all pillars, indicators, and dimensions of the PULSE framework. The full set with a detailed description of each pillar, indicator, and dimension can be found in Annex 3 of this handbook.

The following list provides information on those IPSAS not included in the assessment methodology outlined in **Table 4**:

* IPSAS 6 to 8: Superseded by IPSAS 34 to 38.
* IPSAS 11: Limited applicability and planned to be retracted by IPSASB in 2022.
* IPSAS 15: Superseded by IPSAS 28 and IPSAS 30.
* IPSAS 22 and 34: Voluntary standards, i.e., full IPSAS-compliance can be achieved without the application of this standard.
* IPSAS 25: Superseded by IPSAS 39.
* IPSAS 29: Replaced by IPSAS 41 (except for a transition option to continue to apply the hedge accounting requirements in IPSAS 29, which are not part of the assessment methodology).

Table 4. PULSE framework

Indicator	Dimension	IPSAS
	Pillar I. PSA Framework	
1. Conceptual framework	1.1. Qualitative Characteristics 1.2. Reporting Entity 1.3. Elements	Conceptual Framework
2. Accounting policies, estimates, errors, and events after the reporting date	2.1. Accounting policies 2.2. Estimates 2.3. Errors 2.4. Reporting of events after reporting date	IPSAS 3, 14
3. Foreign currency transactions and hyperinflation effects	3.1. Initial recognition of exchange differences resulting from foreign currency transactions 3.2. End of year reporting of foreign currencies transactions 3.3. Compliance with hyperinflation requirements	IPSAS 4, 10
	Pillar II. Financial assets and liabilities	
4. Financial Assets	4.1. Short-term receivables at cost 4.2. Financial assets at amortized cost 4.3. Financial assets at fair value through surplus and deficit 4.4. Financial assets at fair value through net assets/equity	IPSAS 5, 41
5. Financial liabilities	5.1. Short-term payables at cost 5.2. Financial liabilities at amortized cost 5.3. Financial liabilities at fair value through surplus and deficit 5.4. Financial liabilities with other bases of measurement	IPSAS 5, 41
6. Derivatives, hedge accounting, loss allowance and borrowing cost	6.1. Derivative instruments 6.2. Hedge accounting 6.3. Loss allowance 6.4. Borrowing costs	IPSAS 5, 41
7. Presentation, offsetting, and disclosures	7.1. Presentation 7.2. Offsetting 7.3. Disclosures relating to significance of financial instruments 7.4. Risk management disclosures	IPSAS 28, 30
	Pillar III. Non-financial assets and liabilities	
8. Inventories	8.1. Definition and recognition 8.2. Measurement 8.3. Disclosure	IPSAS 12

Indicator	Dimension	IPSAS
9. Biological assets	9.1. Definition and recognition 9.2. Measurement 9.3. Disclosure	IPSAS 17, 27
10. Leases	10.1. Definition and classification 10.2. Recognition from the perspective of lessor and lessee 10.3. Measurement (Finance Lease) 10.4. Disclosure	IPSAS 13
11. Property, plant & equipment - recognition and measurement	11.1. Definition and recognition 11.2. Initial measurement 11.3. Subsequent measurement: Cost model 11.4. Subsequent measurement: Revaluation model	IPSAS 16, 17
12. Property, plant & equipment - First time adoption and depreciation	12.1. Measurement at first time adoption 12.2. Depreciation 12.3. Disclosure	IPSAS 16, 17, 33
13. Intangible assets	13.1. Definition and recognition 13.2. Initial measurement 13.3. Subsequent measurement 13.4. Disclosure	IPSAS 31
14. Service concessions	14.1. Definition and recognition: control of asset by grantor 14.2. Recognition of liability 14.3. Recognition of guarantees made by a grantor	IPSAS 32
15. Impairment	15.1. Identification and recognition 15.2. Measurement 15.3. Loss reversal 15.4. Disclosure	IPSAS 21, 26
16. Provisions, contingent liabilities, and contingent assets	16.1. Definition and recognition of provisions and contingent liabilities 16.2. Definition and disclosure of contingent assets 16.3. Estimation of provisions 16.4. Disclosures in respect of provisions and contingent liabilities	IPSAS 19
17. Employee benefits	17.1. Short-term benefits 17.2. Defined benefit plans 17.3. Other long-term employee benefits 17.4. Termination benefits	IPSAS 39

Indicator	Dimension	IPSAS
	Pillar IV. Expenses and revenue recognition	
18. Exchange transactions	18.1. Rendering of services 18.2. Sale of goods 18.3. Interest, royalties, and dividends or similar distributions	IPSAS 9
19. Revenue from non-exchange transactions	19.1. Tax revenues 19.2. Transfer revenues 19.3. Revenue or liability recognition 19.4. Measurement of non-exchange revenue	IPSAS 23
20. Social benefits	20.5. Scope 20.6. Recognition and measurement 20.7. Disclosure	IPSAS 42
	Pillar V. Financial Reporting and consolidation	
21. Presentation of financial statements	21.1. Degree of completeness: statement of financial position 21.2. Degree of completeness: statement of financial performance 21.3. Degree of completeness: statement of changes in net assets/equity 21.4. Degree of completeness: cash flow statement	IPSAS 1, 2
22. Notes	22.1. Notes 22.2. Degree of completeness: budget information 22.3. Segment reporting 22.4. Key management personnel	IPSAS 1, 18, 20, 24
23. Accounting for non-controlled entities and public sector combinations	23.1. Associates and joint ventures/Equity method 23.2. Joint operations 23.3. Public sector combinations	IPSAS 36, 37, 38, 40
24. Consolidated financial statements	24.1. Reporting scope and investment entities 24.2. Consolidation procedures 24.3. Transactions between related parties 24.4. Disclosures of interests in other entities	IPSAS 20, 35, 38

Indicator	Dimension	IPSAS
	Pillar VI. Reform prerequisites and capacities	
25. Integration with other PFM systems	25.1. Multipurpose CoA 25.2. Treasury Single Account	Not applicable
26. Integrated Financial Management Information Systems	26.1. Accrual information 26.2. Capturing of transactional information 26.3. Integration of accounting and PFM systems 26.4. Automated consolidation process	Not applicable
27. Human resources and capacity	27.1. Accrual accounting competencies 27.2. Professionalization of the PSA function 27.3. Appropriate staffing level	Not applicable
28. Accounting function	28.1. Accounting function 28.2. Independence of standard-setter 28.3. Independence of standard-setting process	Not applicable
29. Reform ownership	29.1. Mandate for reform 29.2. Political commitment 29.3. Stakeholder involvement	Not applicable

3.2.2. Key task 5.2: Assessing performance indicators and dimensions

This section provides detailed technical guidance on the scoring of each indicator and dimension. The underlying principle for the scoring is that each score must be linked to a data reference. This reference can be either a data source itself or a reference to a specific item, chapter, paragraph, or section within a data source. Due to the two different perspectives that are assessed in the majority of indicators, different data references might be required for the conceptual and actual perspective within the same dimension.

3.2.2.1. General guidance on scoring

The measurement of the 29 performance indicators is at the heart of the PULSE framework. For each indicator, the score considers between two and four dimensions, which are averaged to obtain an overall score for the indicator. Each dimension is scored separately on a four-point ordinal scale: A, B, C, or D, according to precise criteria established for each dimension. To justify a particular score for a dimension, every aspect specified in the scoring requirements must be fulfilled. If the requirements are only partly met or the criteria are not satisfied, a lower score is given that coincides with achievement of the requirements for the lower performance rating.

For those indicators referring to IPSAS, to achieve an "A" score, full compliance with the respective requirements of the standards is necessary. The "B" score is awarded for a high degree of compliance, but still certain gaps to the IPSAS requirements exist. A "C" score reflects the basic level of performance for each indicator and dimension, consistent with good international practices, which is aligned with what is established in the respective IPSAS for those indicators (see **Table 4** for IPSAS references). "D" score means that the feature being measured is nonexistent or presented at less than the basic level of performance.

3.2.2.2. Designation of "D" score for lack of sufficient information

The "D" score indicates performance that falls below the basic level. A "D" score is warranted when sufficient information is not available to establish the actual level of performance. The "D" score, due to insufficient information, is differentiated from "D" scores for lower-level performance by the use of an asterisk following the letter: "D*." The aggregation of an indicator with dimensions containing "D*" scores is no different from aggregation with other "D" scores. Aggregate indicator scores do not include an asterisk, and thus cases of insufficiency of information are only denoted at the dimension level.

3.2.2.3. Scoring where indicators are not applicable

In certain cases, an indicator or dimension may not be applicable to the reporting entity being assessed. In such cases "NA" (not applicable) is assigned instead of a score. This situation might arise if certain laws and regulations prohibit a reporting entity from being in possession of certain assets or liabilities. For example, a national law may not allow a subnational government to buy, sell, or trade in any way with derivative products. This would render Dimension 6.1 - Derivative instruments, "not applicable."

It should be stressed that if assessors use the "NA" option, a clear and rigorous disclosure is required about the reason(s). Thus, the explanatory information for all "NA" scores must be provided in the introduction section of the report and in the section for each respective dimension. For the assessment to be meaningful, only a few dimensions can be deemed "NA." If more than 25% (i.e., 28 or more out of 107) of dimensions are deemed "NA", the entire assessment cannot be subject to external validation and therefore will not qualify for the PULSE Check. Further, lack of information is not a valid reason for the use of "NA" but qualifies instead as a "D*" as described in the previous section.

3.2.2.4. Indicator design and structure

Each indicator is designed similarly, starting with a short introduction of the indictor and its scope, including the relevant IPSAS, if applicable. The scoring options for each dimension are presented in a concise table format, listing the relevant performance requirements next to the respective score. The scoring table is followed by a short description of the dimension and the MG. The MG provides detailed information on how the dimension should be assessed. It clarifies and specifies the relevant concepts and terminology and enriches the information provided in the scoring table. In addition, it provides background information and in some cases examples to better support the self-assessment process. Thus, it is an essential tool, which helps to assess each dimension according to the overall PULSE framework.

3.2.2.5. Materiality, size, and significance

The size and materiality of aspects of performance are important considerations in many PULSE dimensions. The majority of dimensions state a given number of items that must be present to attain a certain score. For instance, for an "A" score, in most dimensions all of the stated items must be present.

In some indicators there is no definitive number of items, but a standardized system, which uses the terminology "all," "most", and "majority". The definitions of these terms are as follows:

* "All" refers to 90 percent or more (by number of items/elements).
* "Most" refers to 75 percent or more (by number of items/elements).
* "Majority" refers to 50 percent or more (by number of items/elements).

In all dimensions, either the number of items/elements or the standardized values are highlighted in bold. In addition, the MG provides further description on the items/elements that are of relevance for the scoring.

3.2.2.6. Scoring system and measurement methodology

All indicators have between two and four dimensions, each of which must be assessed separately. The overall score for an indicator is the average score of the individual dimensions of an indicator using the *averaging method*.[17] The averaging method is based on an approximate average of the scores for the individual dimensions of an indicator, as specified in the conversion table (**Table 5**).

As all dimensions measure the overall concept of the indicator, this method allows for a balanced evaluation of the indicator, in which no single dimension score determines the overall score of the indicator. Thus, it allows a reporting entity to achieve a reasonable assessment result, even if in some respects performance is below the basic level.

The steps in determining the aggregate indicator score are as follows:

1. Assess each dimension separately and determine a score from "A" to "D."
2. Find the appropriate section of the conversion table (**Table 5**) which has the same number of dimensions as the indicator.
3. Identify the row in that section that matches the scores for each dimension of the indicator; this row yields the appropriate indicator score. Note that the order of the dimension scores does not matter to the overall indicator score.

Table 5. Conversion tables

2-Dimensional indicators		Indicator score
D	D	**D**
D	C	**D+**
D	B	**C**
D	A	**C+**
C	C	**C**
C	B	**C+**
C	A	**B**
B	B	**B**
B	A	**B+**
A	A	**A**

3-Dimensional indicators			Indicator score
D	D	D	**D**
D	D	C	**D+**
D	D	B	**D+**
D	D	A	**C**
D	C	C	**D+**
D	C	B	**C**

[17] In contrast to PEFA, the PULSE framework has only one aggregation method, which is the averaging method. The option "weakest link" (from PEFA) is not applicable to any of the PULSE performance indicators.

3-Dimensional indicators			Indicator score
D	C	A	**C+**
D	B	B	**C+**
D	B	A	**B**
D	A	A	**B**
C	C	C	**C**
C	C	B	**C+**
C	C	A	**B**
C	B	B	**B**
C	B	A	**B**
C	A	A	**B+**
B	B	B	**B**
B	B	A	**B+**
B	A	A	**A**
A	A	A	**A**

4-Dimensional indicators				Indicator score
D	D	D	D	**D**
D	D	D	C	**D**
D	D	D	B	**D+**
D	D	D	A	**D+**
D	D	C	C	**D+**
D	D	C	B	**D+**
D	D	C	A	**C**
D	D	B	B	**C**
D	D	B	A	**C+**

4-Dimensional indicators				Indicator score
D	D	A	A	**C+**
D	C	C	C	**D+**
D	C	C	B	**C**
D	C	C	A	**C+**
D	C	B	B	**C+**
D	C	B	A	**C+**
D	C	A	A	**B**
D	B	B	B	**C+**
D	B	B	A	**B**
D	B	A	A	**B**
D	A	A	A	**B+**
C	C	C	C	**C**
C	C	C	B	**C+**
C	C	C	A	**C+**
C	C	B	B	**C+**
C	C	B	A	**B**
C	C	A	A	**B**
C	B	B	B	**B**
C	B	B	A	**B**
C	B	A	A	**B+**
C	A	A	A	**B+**
B	B	B	B	**B**
B	B	B	A	**B+**
B	B	A	A	**B+**
B	A	A	A	**A**
A	A	A	A	**A**

The conversion table is for use on individual indicators only. The calculation is based on operationalization of the individual indicator scores from the assessment into numerical values according to **Table 6**. It should be noted that the aggregation at pillar-level and the overall pillar score[18] are calculated automatically by the web-based assessment tool.

Table 6. Aggregation table

PULSE score	Numerical value	Min. average value
A	7	≥6.5
B+	6	≥5.5
B	5	≥4.5
C+	4	≥3.5
C	3	≥2.5
D+	2	≥1.5
D	1	<1.5

To get the overall result for a pillar, all indicator scores of a pillar are transformed by the web-based tool into numerical values, aggregated, and then divided by the total number of indicators of that pillar. The resulting average value is then assigned to the respective pillar score as indicated in **Table 6** above.

3.2.3. Key task 5.3: External validation of raw data

When all necessary data has been gathered and all dimensions, indictors, and pillars have been assessed the entire data set will be subject to a first review, as outlined in the QA process (see excerpt of the QA process below).

The external validation includes a validity-check of the raw assessment data and a cross-check with supporting documentation provided by the team as part of the assessment process, to ensure integrity and completeness of data obtained in the assessment. The validity- and cross-checks are led by the external validation team in close cooperation with the assessment team, and should, at a minimum, cover the following elements:

* Availability of supporting documentation (as outlined in **Table 3** "Data sources") and use of the evidence-based approach.
* Comparison of the data entered in the web-based tool with the documents provided.
* Reasonability of proposed scores at the dimension level.
* Confirmation of the eligibility of all NA scores, and correct application of "D*" scores.

Table 7. QA Process external validation of raw data

No.	QA elements	Responsibility
2.1	The self-assessment is conducted	Assessment team and its leader
2.2	The raw data from the self-assessment is submitted for external validation	Assessment team leader
2.3	The raw data from the self-assessment is reviewed and validated	External validation team
2.4	The raw data from the self-assessment is revised, as needed	Assessment team and its leader

[18] In another contrast to the PEFA methodology, the PULSE assessment includes the calculation of an overall *pillar* score (using data from Table 6).

CHAPTER 4.
PHASE 3: REPORTING ON THE PULSE

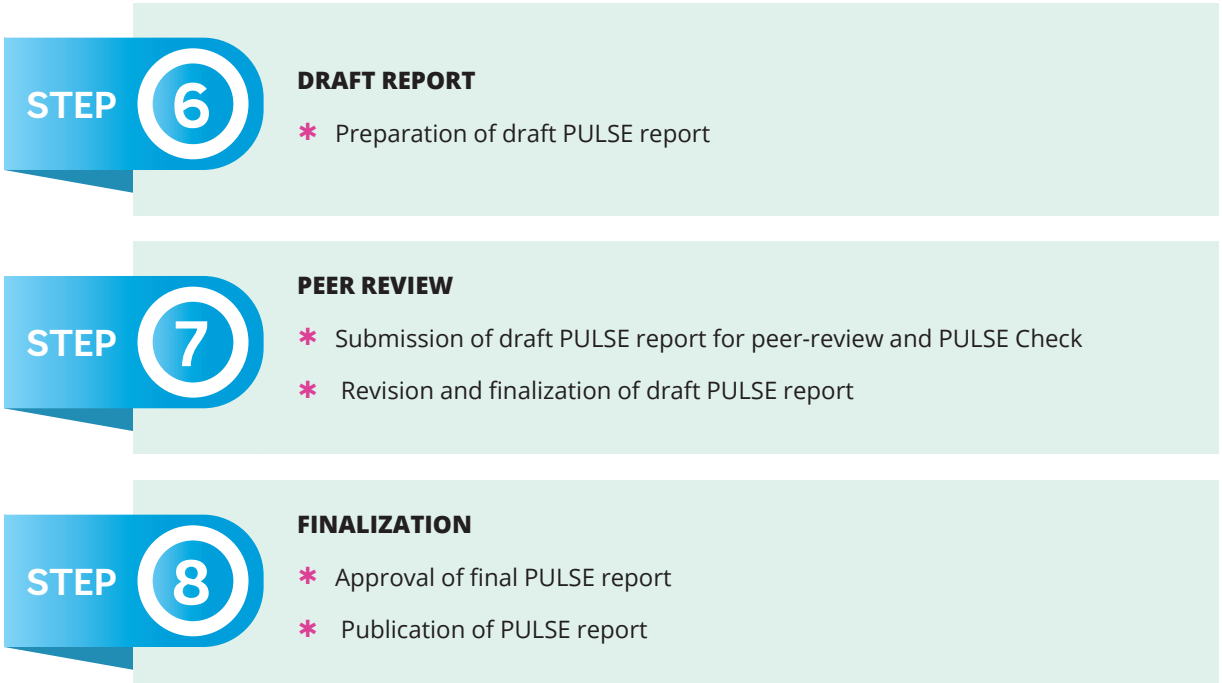
The objective of this chapter is to provide guidance on the drafting process of the PULSE report and the substance of the report. The purpose of the assessment is to provide an evidence-based analysis of PSA performance and thereby benchmark national PSA legislation in comparison to IPSAS standards. The report, as the final product depicting the results of the assessment, serves the purpose of giving recommendations for further reforms and action planning (for short, medium, and long terms) and therefore improving the overall performance of the PSA system.

The report is intended to be owned by the government and is expected to inform PSA reform initiatives. The primary audience for the PULSE report consists of government policy makers, senior officials, heads of relevant public sector agencies and ministries, development partners, academia, PAOs, and civil society organizations, among others.

Stages of preparation of the PULSE report: The preparation of the PULSE report is divided into three key steps:

* Step 6: Draft PULSE report.
* Step 7: Peer-review and PULSE Check.
* Step 8: Final report and publication.

Figure 6. Main steps and key tasks in preparing the PULSE report



4.1. Step 6: Draft PULSE report

The draft report is prepared as soon as possible after the external validation of the raw assessment data, with any supplementary data being incorporated when it is received. A basic outline for the report format and content can be developed during the assessment phase, once the information required for the introductory chapter is available. Following discussion of the preliminary findings within the project oversight team, the assessment team will finalize and submit the first draft of the complete PULSE report for peer review.

4.1.1. Structure of the PULSE report

Relevant information is included in the body of the report. Annexes are used only to present large data tables and detailed information on matters such as the outcomes of the review processes and internal financial control, but not to elaborate on the analysis and findings of the report. The PULSE report is structured according to the following sections with their respective content and length as specified in **Table 8**.

Table 8. Generic structure of PULSE report

Section Title	Content	Maximum length
General information	Cover page, table of contents, abbreviations and acronyms, acknowledgements.	6 pages
Executive summary	Brief description of: (i) rationale, purpose, scope, coverage, and mode of the assessment; (ii) overview of the main findings on PSA system performance; including the confirmation of the current overall IPSAS adoption status and the financial reporting basis;[19] (iii) action plan for further PSA reform; and (iv) reform monitoring, evaluation, and follow-up arrangements.	4 pages
Introduction	This section should, at a minimum, include the following information: (i) rationale, purpose, scope, coverage, and mode of the assessment; (ii) assessment management, including team composition; (iii) QA arrangement, including PULSE Check requirement; (iv) assessment methodology; and (v) report structure.	3 pages
Country background and PSA environment	This section should, at a minimum, include the following information: (i) country/jurisdiction background and context; (ii) public sector structure, including entity's concept; (iii) PFM systems and their link with PSA system; (iv) PSA legal and regulatory arrangements; (v) PSA institutional arrangements; (vi) current accounting and financial reporting arrangements; and (vii) recent, ongoing, and planned PSA reform.	5 pages

[19] The confirmation of the current overall IPSAS adoption status and financial reporting basis should be consistent with the classification used in the International Public Sector Financial Accountability Index (IPSFA), issued by the International Federation of Accountants (IFAC) and the Chartered Institute of Public Finance and Accountancy (CIPFA). For instance, for IPSAS adoption status, the options are: (i) IPSAS with no modifications (direct adoption); (ii) IPSAS modified for the local context (indirect adoption); (iii) national standards with reference to IPSAS; (iv) national standards based on IFRS; (v) national standards. For the financial reporting basis, the classification is as follows: (i) cash; (ii) partial accrual; (iii) accrual.

Section Title	Content	Maximum length
Results	This section should provide an assessment of the key elements of the PSA system from conceptual and actual compliance perspectives, as captured by the dimension description and indicators, including the documentation of the current overall IPSAS adoption status and the financial reporting basis The structure of the section is based on the six pillars as follows: 1. Pillar I: PSA Framework 2. Pillar II: Financial assets & liabilities 3. Pillar III: Non-financial assets & liabilities 4. Pillar IV: Expenses & revenue recognition 5. Pillar V: Financial reporting & consolidation 6. Pillar VI: Reform prerequisites and capacities In turn, the analysis of each dimension should include the following elements: 1. Performance level explanation and evidence for scoring of each dimension, including conceptual and performance compliance, as needed. 2. Reference to specific supporting document(s), including the page numbers, as needed. 3. Performance change since the previous assessment in case repeated assessments, where applicable.	30 pages
Findings and recommendations	This section should, at least, include the analysis of key findings and recommendations for: (i) further reforms and action planning (for short, medium, and long terms) to improve the overall performance of the PSA system; and (ii) reform monitoring, evaluation, and follow-up arrangements.	5 pages

4.2. Step 7: Peer review and PULSE Check

The relevant elements for step 7 are summarized in **Table 9** (key components shaded in grey are not mandatory).

Once the first draft of the complete PULSE report has been prepared (QA element 3.1), it should be shared for comments and suggested refinement with the external validation team (QA elements 3.2 and 3.3) to: (i) verify that data and evidence are correct and complete; and (ii) assess whether conclusions and scoring reflect reality as experienced by the assessment team.

Table 9. QA Process for PULSE report & PULSE Check

No.	QA elements	Responsibility
3.1	The first draft of the complete PULSE report is prepared	Assessment team and its leader
3.2	The first draft of the complete PULSE report is submitted for review	Assessment team leader
3.3	The first draft of the complete PULSE report is reviewed and commented	External validation team
3.4	The revised draft PULSE report is prepared along with the matrix of comments received and team responses	Assessment team and its leader
3.5	The revised PULSE report is submitted for PULSE Check	Assessment team leader
3.6	The revised PULSE report is commented, and PULSE check is conducted	PULSAR team
3.7	The revised PULSE report is further revised, as needed, and finalized	Assessment team and its leader
3.8	The pre-final PULSE report is submitted for approval	Assessment team leader
3.9	The final PULSE report is approved	Oversight team
4.1	The final report is distributed to all stakeholders	Lead agency / Assessment team leader

After its revision (QA element 3.4), the revised version of the report is either submitted to: (i) the PULSAR team for the PULSE Check (QA elements 3.5 to 3.7); or (ii) the oversight team for final approval. As noted earlier, the PULSE Check is not mandatory but strongly recommended to ensure credibility and comparability of the presented results.

The peer review process can only improve the quality of assessment if the assessment team addresses peer reviewers' comments. This can be done either by making appropriate changes to the report or by giving a reasonable explanation in the annex why the changes suggested by the comments are not appropriate. It is suggested that the assessment team prepares a matrix of comments and the team's responses, which displays all proposed changes as a result of the peer review process. Preparation of this matrix is also one of the requirements for the PULSE Check.

4.3. Step 8: Final report and publication

After the PULSE Check, approval, and finalization of the report (QA elements 3.5 to 3.9), the final PULSE report should be distributed to all stakeholders (QA element 4.1). All reports that have undergone a complete PULSE Check will be made available through the PULSAR website.

It is expected that the final PULSE report is also published on the lead agency webpage in the interest of transparency and to encourage dialogue with development partners on further development and implementation of PSA, and other relevant PFM reforms. Since the publication of the PULSE report is only possible if the PULSE Check has been obtained, it is strongly recommended to follow the entire QA process.[20]

Once the final PULSE report is completed, it should be made available to the public either in print or in readable form on a publicly accessible website. The term "made available to the public" means that a document (in this case, the final assessment report) is available without restrictions, within a reasonable time, without a requirement to register, and free of charge, unless otherwise justified by specific country circumstances. Justification provided by government for limits on access, if applicable, should be noted in the introduction section of the PULSE report. Publication also involves an expectation that users are made aware of the document's availability and means of access.

As part of the last step of the PULSE process, it is strongly recommended to hold a dissemination workshop with an extended audience that includes, in addition to all PULSE stakeholders, other interested parties, such as third-party donor agencies or other international organizations that might be interested in the results of the assessment. The goal of such a workshop is to present and disseminate the key findings of the PULSE report, as well as the proposed action plan and recommendations.

[20] For any issues regarding confidentiality (e.g., due to reasons of national security) please refer to section 3.2.1 "Key task 5.1: Preparation and compilation of all relevant documentation and data" which includes a subsection entitled "Issues of national security and commercial confidentiality."

CHAPTER 5.
PHASE 4: PSA REFORM ACTION

This chapter describes the next steps to be undertaken following the completion of the PULSE report. These ensuing steps are necessary for the effective use of the PULSE report since the principal objective of the PULSE is to develop an understanding of the local PSA system and environment, which presents the necessary guidance for PSA reform actions. General guidance on how to approach any PSA reform can be found in the good practice template produced by the World Bank.[21] The main issues for consideration are included in the two steps listed in **Figure 7**.

Figure 7. Main steps and key tasks for PSA reform action



[21] The document is available under the following link: https://cfrr.worldbank.org/publications/roadmap-public-sector-accounting-reform-good-practice-template

5.1. Step 9: Reform dialogue

The fully reviewed PULSE report[22] should be used by the government to start and/or continue its dialogue with the relevant stakeholders regarding the implications of the PULSE and to start and/or continue the reform process. In practice, the path to reform is not static and requires reform plans to be flexible and adaptable to changes to ensure that desired outcomes are achieved.

5.1.1. Key task 9.1: Managing the reform dialogue

The PSA reform dialogue should involve all key stakeholders, such as the government representatives, line ministries, accounting standard setters, SAI, and development partners. Ideally, PULSE lead agency should be responsible for managing the dialogue and therefore responsible and accountable for the outcome and the decisions from the dialogue. The goal of the reform dialogue is to build and maintain the foundations on which the reform actions can be established and executed.

5.1.2. Key task 9.2: Reform design, planning, and implementation

The reform dialogue should include a framework for designing, planning, and implementing the reform priorities. The development of a comprehensive reform plan by the governments, based on the PULSE report, could follow one of the following approaches: (i) as part of a wider PFM or government reform strategy; or (ii) as a specific PSA reform plan.

As a general guidance, the following areas should be covered by most PSA reform frameworks:

1. **Political support and willingness of the key stakeholders to initiate and carry out the reform:** An effective PSA reform requires the commitment and support of the government and other relevant stakeholders to ensure responsibility, accountability, and sustainability of reform plans, and the process by which those plans are implemented. This, in some cases, might imply the support from the highest level of authorities, such as the President or Prime Minister. In most cases, the MoF, through the PSA office, assumes the leading role in PSA reform implementation. Other key players, for example, the Treasury, SAI, and PAOs, should also be identified and involved to ensure the success of the reform process.
2. **Agreement on a reform strategy and feasible implementation timeline:** Usually, PSA reforms are ambitious, long-term initiatives that require a lot of planning and coordination. The government should develop a comprehensive reform strategy through clear identification of the general and specific objectives and incentives of the reform while considering country context and lessons learned from the implementation of similar reforms in the past. Unrealistic objectives and timelines should be avoided.
3. **Establishment of proper reform coordination and management arrangements:** The definition of the reform's governance structure (i.e., agreement on the reform's lead or champion and establishment of high-level steering and operational committees) is another critical element of the reform planning and implementation.
4. **Availability of required resources, including financial, human, and IT:** Governments should be aware that PSA reform, like any other reform, has a cost and will require a considerable IT strengthening and modernization, as well as capacity building effort to train public sector officials affected by the reform. In some cases, additional personnel need to be involved to

[22] According to the QA process in Chapter 1, the PULSE Check is not mandatory but strongly recommended if the goal of the PULSE is to use it as a basis for future reforms.

ensure timely and smooth implementation of the reform without jeopardizing the day-to-day operation of the current system. The role of academia and PAO is crucial to ensure the long-term supply of trained professionals.

5. **Amendment of legal and regulatory frameworks:** It will be necessary to assess the compatibility and compliance levels of the current legal and regulatory frameworks with the good international practices or the benchmark framework that is intended to be achieved. The enactment of a primary law on PSA is recommended. Delays in updating the legal and regulatory framework might significantly compromise the overall success of the reform.
6. **Definition of structure of the new PSA system:** This includes the definition of the standard-setting mechanism, as well as the roles and responsibilities of the accounting methodology and operational units within the MoF or other government agency to lead the reform. It worth mentioning that, in some countries, the standard-setting function falls on an intergovernmental collegial body that has been specifically created as part of reform implementation arrangements and is comprised of representatives from key stakeholders. The organization and structure of the accounting function (i.e., centralized versus decentralized accounting) might also be agreed at this point.
7. **Definition of risk management and mitigation mechanisms:** As with any other reform, the lead agency or reform implementation team should design adequate risk management and mitigation mechanisms to minimize, among other things, the bottlenecks and implementation delays.
8. **Development of change management and capacity building strategy:** Resistance to change at different organizational levels is one of the main reasons for the failure of reforms. The benefits and implementation status of the reform should be effectively communicated to the key stakeholders. The lead agency should also develop and implement proper communication, dissemination, and training strategies to minimize the risk of reform sabotage and disruption. Availability of proper capacity building resources is particularly important to the success of the reform.
9. **Integration between different PFM functions, and upgrading the existing or development of a new Integrated Financial Management Information Systems (IFMIS):** PSA is an integrated part of the broader PFM system, which also includes, among other systems or modules: budgeting, treasury, revenue, debt, fiscal statistics, procurement, etc. The revised PSA system should be interconnected, ideally through an IFMIS, with the rest of the PFM systems. In practice, many countries use obsolete and isolated systems that use different sources of information and frequently produce inconsistent data that need to be reconciled. Thus, to ensure proper integration between different PFM functions and systems, while improving the quality of financial information, it is recommended to consider updating or developing a new IFMIS in parallel with the implementation of the PSA reform.
10. **Establishment of monitoring and evaluation arrangements:** PSA reform is an ambitious and long-term effort. The existence of arrangements for continuous monitoring and evaluation of the reform's progress is crucial to ensure achievement of the reform's results and outcomes during and after the reform implementation is completed.

The results of a PULSE provide valuable inputs on the PSA related areas that need to be further strengthened and reflected in the PSA strategy. However, while designing the reform strategy, it is also important to consider any previous PSA-related assessments, such as REPF. In addition, the local circumstances and anticipated developments (especially in the political domain), must be considered.

It is suggested to start addressing some of the most challenging issues that will take the longest to be implemented (such as fixed asset management, including development and/or maintenance of fixed asset register, cleaning off the bad and outdated balances, and definition of the consolidation rules) as soon as possible, even during the preparation for reform's implementation.

At the same time, the implementation team should also work on elements that will yield results in the short time (known as "quick wins"). The latter will help to ensure political support as steady progress of the reform can be presented.

5.2. Step 10: Monitoring, evaluation, and follow-up

Monitoring and evaluation are vital for continuous learning, risk mitigation, and for adjusting reform objectives and actions. Monitoring should be undertaken continuously and entails using the relevant PULSE indicators to measure the improvement in PSA systems. Evaluation, on the other hand, is a long-term assessment of reform initiative to observe the efficiency and effectiveness of the reforms and their impact on the PSA systems. The best way to evaluate the PSA reform's results is to conduct a repeated PULSE every five years.

Monitoring and evaluation can be incorporated into the PSA reform strategy as follows:

1. Establish a PSA reform monitoring body. It is suggested to make use of the reform's Steering Committee or PULSE oversight team to monitor progress.
2. Develop the reform's results framework, which should clearly capture the essential elements of the logical and expected cause-effect relationships among inputs, outputs, intermediate results or outcomes, and impacts. The results framework might need to be periodically revised based on the PULSE findings, including definition of baseline, intermediate, and final targets for most critical areas.
3. Monitor and analyze the reform progress by tracking actions and deliverables, prepare and submit semiannual progress reports to the monitoring body.
4. Conduct a repeated PULSE every five years, as needed. This would support the monitoring and evaluation efforts and help to identify any additional PSA areas that need to be further strengthened.

ANNEXES

1. IPSAS COVERED BY PULSE METHODOLOGY

Pillar I. PSA Framework

* IPSAS "Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities"
* IPSAS 3 "Accounting Policies, Changes in Accounting Estimates and Errors"
* IPSAS 4 "The Effects of Changes in Foreign Exchange Rates"
* IPSAS 10 "Financial Reporting in Hyperinflationary Economies"
* IPSAS 14 "Events after the Reporting Date"

Pillar II. Financial assets & liabilities

* IPSAS 5 "Borrowing cost"
* IPSAS 28 "Financial Instruments: Presentation"
* IPSAS 30 "Financial Instruments: Disclosures"
* IPSAS 41 "Financial Instruments"

Pillar III. Non-financial assets & liabilities

* IPSAS 12 "Inventories"
* IPSAS 13 "Leases"
* IPSAS 16 "Investment Property"
* IPSAS 17 "Property, Plant and Equipment"
* IPSAS 19 "Provisions, Contingent Liabilities, and Contingent Assets"
* IPSAS 21 "Impairment of Non-Cash-Generating Assets"
* IPSAS 26 "Impairment of Cash-Generating Assets"
* IPSAS 27 "Agriculture"
* IPSAS 31 "Intangible Assets"
* IPSAS 32 "Service Concession Arrangements: Grantor"
* IPSAS 33 "First Time Adoption of Accrual Basis IPSAS"
* IPSAS 39 "Employee Benefits"

Pillar IV. Expenses & revenue recognition

* IPSAS 9 "Revenues from Exchange Transactions"
* IPSAS 23 "Revenues from Non-Exchange Transactions" (Taxes and Transfers)
* IPSAS 42 "Social Benefits"

Pillar V. Financial Reporting & Consolidation

* IPSAS 1 "Presentation of Financial Statements"
* IPSAS 2 "Cash Flow Statements"
* IPSAS 18 "Segment Reporting"
* IPSAS 20 "Related Party Disclosures"
* IPSAS 24 "Presentation of Budget Information in Financial Statements"
* IPSAS 35 "Consolidated Financial Statements"
* IPSAS 36 "Investments in Associates and Joint Ventures"
* IPSAS 37 "Joint Arrangements"
* IPSAS 38 "Disclosure of Interests in Other Entities"
* IPSAS 40 "Public Sector Combinations"

The following list provides information on those IPSAS not covered by the assessment methodology:

* IPSAS 6 to 8: Superseded by IPSAS 34 to 38.
* IPSAS 11: Limited applicability and planned to be retracted by IPSASB in 2022.
* IPSAS 15: Superseded by IPSAS 28 and IPSAS 30.
* IPSAS 22 and 34: Voluntary standards, i.e., full IPSAS-compliance can be achieved without the application of this standard.
* IPSAS 25: Superseded by IPSAS 39.
* IPSAS 29: Replaced by IPSAS 41 (except for a transition option to continue to apply the hedge accounting requirements in IPSAS 29, which are not part of the assessment methodology).

2. GLOSSARY

The main objective of this glossary is to provide definitions of the key terminology used in the PULSE handbook and assessment methodology, which, in turn, as based on terminology used by IPSAS framework.

Table 10. Glossary

Term	Definition
accounting policies	The specific principles, bases, conventions, rules, and practices applied by an entity in preparing and presenting financial statements.
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.
acquired operation	The operation that the acquirer gains control of in an acquisition.
acquirer	The entity that gains control of one or more operations in an acquisition.
acquisition	A public sector combination in which one party to the combination gains control of one or more operations, and there is evidence that the combination is not an amalgamation.
acquisition date	The date on which the acquirer gains control of the acquired operation.
active market	A market in which all the following conditions exist: a. The items traded within the market are homogeneous; b. Willing buyers and sellers can normally be found at any time; and c. Prices are available to the public.

Term	Definition
actual perspective	The actual implementation and application of the regulatory framework and its compliance with IPSAS
actuarial gains and losses	Changes in the present value of the defined benefit obligation resulting from: a. Experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred); and b. The effects of changes in actuarial assumptions.
agricultural activity	The management by an entity of the biological transformation and harvest of biological assets for: Sale; Distribution at no charge or for a nominal charge; or Conversion into agricultural produce or into additional biological assets for sale or for distribution at no charge or for a nominal charge.
agricultural produce	The harvested produce of the entity's biological assets.
amalgamation	Gives rise to a resulting entity and is either: a. A public sector combination in which no party to the combination gains control of one or more operations; or b. A public sector combination in which one party to the combination gains control of one or more operations, and in which there is evidence that the combination has the economic substance of an amalgamation.
amalgamation date	The date on which the resulting entity obtains control of the combining operations.
amortization	The systematic allocation of the depreciable amount of an intangible asset over its useful life.
approved budget	The expenditure authority derived from laws, appropriation bills, government ordinances, and other decisions related to the anticipated revenue or receipts for the budgetary period.
assets	Resources controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity.
bearer plant	A living plant that: a. Is used in the production or supply of agricultural produce: b. Is expected to bear produce for more than one period: and c. Has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales.
binding arrangement (for a service concession arrangement)	Describes contracts and other arrangements that confer similar rights and obligations on the parties to it as if they were in the form of a contract.

Term	Definition
binding arrangement (for a joint arrangement)	An arrangement that confers enforceable rights and obligations on the parties to it as if it were in the form of a contract. It includes rights from contracts or other legal rights.
biological asset	A living animal or plant.
borrowing costs	Interest and other expenses incurred by an entity in connection with the borrowing of funds.
carrying amount (of an intangible asset)	The amount at which an asset is recognized after deducting any accumulated amortization and accumulated impairment losses.
carrying amount (of investment property)	The amount at which an asset is recognized in the statement of financial position.
carrying amount (of property, plant, and equipment)	The amount at which an asset is recognized after deducting any accumulated depreciation and accumulated impairment losses.
carrying amount of a liability	The amount at which a liability is recognized in the statement of financial position.
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.
cash	Comprises cash on hand and demand deposits.
cash equivalents	Short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.
cash flows	Inflows and outflows of cash and cash equivalents.
cash-generating assets	Assets held with the primary objective of generating a commercial return.
cash-generating unit	The smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are independent of the cash inflows from other assets or groups of assets.
change in accounting estimate	An adjustment of the carrying amount of an asset or a liability, or the amount of the periodic consumption of an asset, which results from the assessment of the present status of, and expected future benefits and obligations associated with, assets and liabilities. Changes in accounting estimates result from new information or new developments and, accordingly, are not correction of errors.

Term	Definition
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.
close members of the family of an individual	Close relatives of the individual or members of the individual's immediate family who can be expected to influence, or be influenced by, that individual in their dealings with the entity.
closing rate	The spot exchange rate at the reporting date.
combining operation	An operation that combines with one or more other operations to form the resulting entity in an amalgamation.
commencement of the lease term	The date from which the lessee is entitled to exercise its right to use the leased asset. It is the date of initial recognition of the lease (i.e., the recognition of the assets, liabilities, revenue, or expenses resulting from the lease, as appropriate).
comparable basis	The actual amounts presented on the same accounting basis, same classification basis, for the same entities, and for the same period as the approved budget.
conceptual perspective	The comprehensive regulatory framework, under which the reporting entity operates and to which it is legally bound, and its compliance with IPSAS.
consolidated financial statements	The financial statements of an economic entity in which the assets, liabilities, net assets/equity, revenue, expenses and cash flows of the controlling entity and its controlled entities are presented as those of a single economic entity.
constructive obligation	An obligation that derives from an entity's actions where: a. By an established pattern of past practice, published policies, or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities; and b. As a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.
contingent asset	A potential asset that arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.
contingent consideration	Usually, an obligation of the acquirer to transfer additional assets or equity interests to the former owners of an acquired operation as part of the exchange for control of the acquired operation if specified future events occur or conditions are met. However, contingent consideration also may give the acquirer the right to the return of previously transferred consideration if specified conditions are met.

Term	Definition
contingent liability	a. A potential obligation that arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or b. A present obligation that arises from past events, but is not recognized because: (i) It is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; or (ii) The amount of the obligation cannot be measured with sufficient reliability.
contingent rent	That portion of the lease payments that is not fixed in amount but is based on the future amount of a factor that changes other than with the passage of time (e.g., percentage of future sales, amount of future use, future price indices, future market rates of interest).
ownership contributions	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, which establish a financial interest in the net assets/equity of the entity, which: a. Conveys entitlement both to (i) 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 (ii) 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	An entity controls another entity when the entity is exposed, or has rights, to variable benefits from its involvement with the other entity and has the ability to affect the nature or amount of those benefits through its power over the other entity.
control of an asset	Arises when the entity can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.
controlled entity	An entity that is controlled by another entity.
controlling entity	An entity that controls one or more entities.
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.
costs to sell	The incremental costs directly attributable to the disposal of an asset, excluding finance costs and income taxes. Disposal may occur through sale or through distribution at no charge or for a nominal charge.

Term	Definition
credit-impaired financial asset	A financial asset that is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired include observable data about the following events: a. Significant financial difficulty of the issuer or the borrower; b. A breach of contract, such as a default or past due event; c. The lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; d. It is becoming probable that the borrower will enter bankruptcy or other financial reorganization; e. The disappearance of an active market for that financial asset because of financial difficulties; or f. The purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses. It may not be possible to identify a single discrete event - instead, the combined effect of several events may have caused financial assets to become credit-impaired.
credit loss	The difference between all contractual cash flows that are due to an entity in accordance with the contract and all the cash flows that the entity expects to receive (i.e., all cash shortfalls), discounted at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets). An entity shall estimate cash flows by considering all contractual terms of the financial instrument (for example, prepayment, extension, call and similar options) through the expected life of that financial instrument. The cash flows that are considered shall include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms. There is a presumption that the expected life of a financial instrument can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the expected life of a financial instrument, the entity shall use the remaining contractual term of the financial instrument.
credit risk	The risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.
credit risk rating grades	A rating of credit risk based on the risk of a default occurring on the financial instrument
currency risk	The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Term	Definition
current replacement cost	The cost the entity would incur to acquire the asset on the reporting date.
deemed cost	An amount used as a surrogate for acquisition cost or depreciated cost at a given date.
deficit or surplus	Is: a. The present value of the defined benefit obligation less b. The fair value of plan assets (if any).
defined benefit plans	Post-employment benefit plans other than defined contribution plans.
defined contribution plans	Post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.
depreciable amount	The cost of an asset, or other amount substituted for cost, less its residual value.
depreciation	The systematic allocation of the depreciable amount of an asset over its useful life.
derecognition	The removal of a previously recognized financial asset or financial liability from an entity's statement of financial position.
derivative	A financial instrument or other contract with all three of the following characteristics. a. Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying'). b. It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors. c. It is settled at a future date.
development	The application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems or services before the start of commercial production or use.
dividends or similar distributions	Distributions to holders of equity instruments in proportion to their holdings of a particular class of capital
economic entity	A controlling entity and its controlled entities.

Term	Definition
economic life	Either: 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.
effective interest method	The method that is used in the calculation of the amortized cost of a financial asset or a financial liability and in the allocation and recognition of the interest revenue or interest expense in surplus or deficit over the relevant period.
effective interest rate	The rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset or to the amortized cost of a financial liability. When calculating the effective interest rate, an entity shall estimate the expected cash flows by considering all the contractual terms of the financial instrument (for example, prepayment, extension, call and similar options) but shall not consider the expected credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).
employee benefits	All forms of consideration given by an entity in exchange for service rendered by employees or for the termination of employment.
equity instrument	Any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.
equity method (relating to interests in other entities)	Method of accounting whereby the investment is initially recognized at cost and adjusted thereafter for the post-acquisition change in the investor's share of the investee's net assets/equity of the associate or joint venture. The investor's surplus or deficit includes its share of the investee's surplus or deficit, and the investor's net assets/equity includes its share of changes in the investee's net assets/equity that have not been recognized in the investee's surplus or deficit.
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 (adjusting events after the reporting date); and

Term	Definition
	b. Those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).
exchange difference	The difference resulting from translating a given number of units of one currency into another currency at different exchange rates.
exchange rate	The ratio of exchange for two currencies.
exchange transactions	Transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.
expected credit loss	The weighted average of credit losses with the respective risks of a default occurring as the weights.
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.
expenses paid through the tax system	Amounts that are available to beneficiaries regardless of whether or not they pay taxes.
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.
fair value less costs to sell	The amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.
final budget	The original budget, adjusted for all reserves, carry-over amounts, transfers, allocations, supplemental appropriations, and other authorized legislative or similar authority changes applicable to the budget period
finance lease	A lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred.
financial asset	Any asset that is: a. Cash; b. An equity instrument of another entity; c. A contractual right: (i) To receive cash or another financial asset from another entity; or (ii) To exchange financial assets or financial liabilities with another entity under conditions that are potentially favorable to the entity; or d. A contract that will or may be settled in the entity's own equity instruments and is:

Term	Definition
	(i) A non-derivative for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments; or (ii) A derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose, the entity's own equity instruments do not include puttable financial instruments classified as equity instruments, instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation and are classified as equity instruments, or instruments that are contracts for the future receipt or delivery of the entity's own equity instruments.
financial guarantee contract	A contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.
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.
financial liability	Any liability that is: a. A contractual obligation: (i) To deliver cash or another financial asset to another entity; or (ii) To exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the entity; or b. A contract that will or may be settled in the entity's own equity instruments and is: (i) A non-derivative for which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments; or (ii) A derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose, rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments if the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. Also, for these purposes the entity's own equity instruments do not include puttable financial instruments classified as equity instruments, instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation and are classified as equity instruments, or instruments that are contracts for the future receipt or delivery of the entity's own equity instruments.
financing activities	Activities that result in changes in the size and composition of the contributed capital and borrowings of the entity.

Term	Definition
fines	Economic benefits or service potential received or receivable by public sector entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.
firm commitment	A binding agreement for the exchange of a specified quantity of resources at a specified price on a specified future date or dates.
first IPSAS financial statements	The first annual financial statements in which an entity complies with the accrual basis IPSASs and can make an explicit and unreserved statement of compliance with those IPSASs because it adopted one or more of the transitional exemptions in this IPSAS that do not affect the fair presentation of the financial statements and its ability to assert compliance with accrual basis IPSASs.
first-time adopter	An entity that adopts accrual basis IPSASs for the first time and presents its first transitional IPSAS financial statements or its first IPSAS financial statements.
forecast transaction	An uncommitted but anticipated future transaction.
foreign currency	A currency other than the functional currency of the entity.
foreign operation	An entity that is a controlled entity, associate, joint venture, or branch of a reporting entity, the activities of which are based or conducted in a country or currency other than those of the reporting entity.
future economic benefits	Monetary resources in the form of net cash inflows generated from the use or sale of the asset.
functional currency	The currency of the primary economic environment in which the entity operates.
general government sector	Comprises all organizational entities of the general government as defined in statistical bases of financial reporting
goodwill	An asset representing the future economic benefits arising from other assets acquired in an acquisition that are not individually identified and separately recognized.
grantor (in a service concession arrangement)	Is the entity that grants the right to use the service concession asset to the operator.
gross carrying amount of a financial asset	The amortized cost of a financial asset, before adjusting for any loss allowance.
gross investment in the lease	The aggregate of: a. The minimum lease payments receivable by the lessor under a finance lease; and b. Any unguaranteed residual value accruing to the lessor.

Term	Definition
group of biological assets	An aggregation of similar living animals or plants.
harvest	The detachment of produce from a biological asset or the cessation of a biological asset's life processes.
hedged item	An asset, liability, firm commitment, highly probable forecast transaction or net investment in a foreign operation that (a) exposes the entity to risk of changes in fair value or future cash flows and (b) is designated as being hedged.
hedge ratio	The relationship between the quantity of the hedging instrument and the quantity of the hedged item in terms of their relative weighting.
hedging instrument	A designated derivative or (for a hedge of the risk of changes in foreign currency exchange rates only) a designated non-derivative financial asset or non-derivative financial liability whose fair value or cash flows are expected to offset changes in the fair value or cash flows of a designated hedged item.
held for trading	A financial asset or financial liability that: a. Is acquired or incurred principally for the purpose of selling or repurchasing it in the near term; b. On initial recognition is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or c. Is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).
identifiable	An asset is identifiable if it either: a. Is separable, i.e., is capable of being separated or divided from the entity and sold, transferred, licensed, rented, or exchanged, either individually or together with a related binding arrangement, identifiable asset or liability, regardless of whether the entity intends to do so; or b. Arises from binding arrangements (including rights from contracts or other legal rights), regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.
impairment	A loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation.
impairment loss of a cash-generating asset	The amount by which the carrying amount of an asset exceeds its recoverable amount.
impairment loss of a non-cash-generating asset	The amount by which the carrying amount of an asset exceeds its recoverable service amount.

Term	Definition
inception of the lease	The earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease. As at this date: a. A lease is classified as either an operating or a finance lease; and b. In the case of a finance lease, the amounts to be recognized at the commencement of the lease term are determined.
intangible asset	An identifiable non-monetary asset without physical substance.
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 sum of (i) the fair value of the leased asset, and (ii) any initial direct costs of the lessor.
interest rate risk	The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.
inventories	Assets: 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.
investment entity	An entity that: a. Obtains funds from one or more investors for the purpose of providing those investor(s) with investment management services; b. Has the purpose of investing funds solely for returns from capital appreciation, investment revenue, or both; and c. Measures and evaluates the performance of substantially all of its investments on a fair value basis.
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: a. Use in the production or supply of goods or services, or for administrative purposes; or b. Sale in the ordinary course of operations.
joint arrangement	An arrangement of which two or more parties have joint control.
joint control	The agreed sharing of control of an arrangement by way of a binding arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

Term	Definition
joint operation	A joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement.
joint venture	A joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.
key management personnel	a. All directors or members of the governing body of the entity; and b. Other persons having the authority and responsibility for planning, directing and controlling the activities of the reporting entity. Where they meet this requirement, key management personnel include: (i) Where there is a member of the governing body of a whole-of-government entity who has the authority and responsibility for planning, directing, and controlling the activities of the reporting entity, that member; (ii) Any key advisors of that member; and (iii) Unless already included in (a), the senior management group of the reporting entity, including the chief executive or permanent head of the reporting entity.
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.
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, when at the inception of the lease it is reasonably certain that the lessee will exercise the option.
legal obligation	An obligation that derives from: a. A contract (through its explicit or implicit terms); b. Legislation; or c. Other operation of law.
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.
lifetime expected credit losses	The expected credit losses that result from all possible default events over the expected life of a financial instrument.
liquidity risk	The risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.
loans payable	Financial liabilities, other than short-term trade payables on normal credit terms.

Term	Definition
loss allowance	The allowance for expected credit losses on financial assets, lease receivables, the accumulated impairment amount for financial assets and the provision for expected credit losses on loan commitments and financial guarantee contracts.
market risk	The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk, and other price risk.
material	Omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature and size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the item, or a combination of both, could be the determining factor.
measurement guidance	Detailed information on how to measure dimension-specific scores.
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. For a lessee, any amounts guaranteed by the lessee or by a party related to the lessee; or b. For a lessor, any residual value guaranteed to the lessor by: (i) The lessee; (ii) A party related to the lessee; or (iii) An independent third party unrelated to the lessor that is financially capable of discharging the obligations under the guarantee. However, if the lessee has an option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised, the minimum lease payments comprise the minimum payments payable over the lease term to the expected date of exercise of this purchase option and the payment required to exercise it.
modification gain or loss	The amount arising from adjusting the gross carrying amount of a financial asset to reflect the renegotiated or modified contractual cash flows. The entity recalculates the gross carrying amount of a financial asset as the present value of the estimated future cash payments or receipts through the expected life of the renegotiated or modified financial asset that are discounted at the financial asset's original effective interest rate (or the original credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets) or, when applicable, the revised effective interest rate.

Term	Definition
	When estimating the expected cash flows of a financial asset, an entity shall consider all contractual terms of the financial asset (for example, prepayment, call and similar options) but shall not consider the expected credit losses, unless the financial asset is a purchased or originated credit-impaired financial asset, in which case an entity shall also consider the initial expected credit losses that were considered when calculating the original credit-adjusted effective interest rate.
monetary items	Units of currency held and assets and liabilities to be received or paid in a fixed or determinable number of units of currency.
net assets/equity	The residual interest in the assets of the entity after deducting all its liabilities. The components of net assets/equity are contributed capital, accumulated surpluses or deficits, reserves, and non-controlling interests.
net investment in a foreign operation	The amount of the reporting entity's interest in the net assets/equity of that operation.
net investment in the lease	The gross investment in the lease discounted at the interest rate implicit in the lease.
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.
non-cash-generating assets	Assets other than cash-generating assets.
non-controlling interest	The net assets/equity in a controlled entity not attributable, directly or indirectly, to a controlling entity.
non-exchange transactions	Transactions that are not exchange transactions. In a non-exchange transaction, an entity either receives value from another entity without directly giving approximately equal value in exchange or gives value to another entity without directly receiving approximately equal value in exchange.
non-financial assets	Nonfinancial assets generally refer to any possessions of a reporting entity that are of use in the pursuit of its objectives other than financial assets. They are differentiated according to their nature, purpose and/or contractual arrangements in property plant and equipment (PPE), investment property, inventories, biological assets, service concession assets, lease assets and intangibles
non-financial liabilities	Nonfinancial liabilities relate to contingencies and commitments due under certain conditions. Commitments made, but whose actual need for settlement depends upon the occurrence of a future event, are conditional. Typical examples include provisions, retirement benefit obligations or performance guarantees in service concession arrangements

Term	Definition
non-monetary items	Items that are not monetary items. Examples of non-monetary items include amounts prepaid for goods and services, intangible assets, property plant and equipment (PPE), and inventory
notes	Contain information in addition to that presented in the statement of financial position, statement of financial performance, statement of changes in net assets/equity and cash flow statement. Notes provide narrative descriptions or disaggregation of items disclosed in those statements and information about items that do not qualify for recognition in those statements.
operating activities	The activities of the entity that are not investing or financing activities.
operating lease	A lease other than a finance lease.
operation	An integrated set of activities and related assets and/or liabilities that is capable of being conducted and managed for the purpose of achieving an entity's objectives, by providing goods and/or services.
operator (in a service concession arrangement)	Is the entity that uses the service concession asset to provide public services subject to the grantor's control of the asset.
original budget	The initial approved budget for the budget period.
other long-term employee benefits	All employee benefits other than short-term employee benefits, post-employment benefits and termination benefits.
other price risk	The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.
oversight	The supervision of the activities of an entity, with the authority and responsibility to control, or exercise significant influence over, the financial and operating decisions of the entity.
party to a joint arrangement	An entity that participates in a joint arrangement, regardless of whether that entity has joint control of the arrangement.
past due	A financial asset is past due when a counterparty has failed to make a payment when that payment was contractually due.
post-employment benefit plans	Formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.
post-employment benefits	Employee benefits (other than termination benefits and short-term employee benefits) that are payable after the completion of employment.

Term	Definition
power	Consists of existing rights that give the current ability to direct the relevant activities of another entity.
property, plant, and equipment (PPE)	Tangible items that: a. Are held 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.
prospective application	Prospective application of a change in accounting policy and of recognizing the effect of a change in an accounting estimate, respectively, are: a. Applying the new accounting policy to transactions, other events and conditions occurring after the date as at which the policy is changed; and b. Recognizing the effect of the change in the accounting estimate in the current and future periods affected by the change
provision	A liability of uncertain timing or amount.
public sector combination	The bringing together of separate operations into one public sector entity.
purchased or originated credit-impaired financial asset	Credit-impaired on initial recognition.
qualifying asset	An asset that necessarily takes a substantial period of time to get ready for its intended use or sale.
recoverable amount (of an asset or a cash-generating unit)	The higher of an asset's or a cash-generating unit's fair value less costs to sell and its value in use.
recoverable service amount	The higher of a non-cash-generating asset's fair value less costs to sell and its value in use.
regulatory framework	Combination of all legally binding documents (laws, bylaws, etc.) that regulate PSA in the reporting entity
related party	Parties are considered to be related if one party has the ability to (a) control the other party, or (b) exercise significant influence over the other party in making financial and operating decisions, or if the related party entity and another entity are subject to common control. Related parties include: a. Entities that directly, or indirectly through one or more intermediaries, control, or are controlled by, the reporting entity; b. Associates;

Term	Definition
	c. Individuals owning, directly or indirectly, an interest in the reporting entity that gives them significant influence over the entity, and close members of the family of any such individual; d. Key management personnel, and close members of the family of key management personnel; and e. Entities in which a substantial ownership interest is held, directly or indirectly, by any person described in (c) or (d), or over which such a person is able to exercise significant influence.
related party transaction	A transfer of resources or obligations between related parties, regardless of whether a price is charged. Related party transactions exclude transactions with any other entity that is a related party solely because of its economic dependence on the reporting entity or the government of which it forms part.
remuneration of key management personnel	Any consideration or benefit derived directly or indirectly by key management personnel from the reporting entity for services provided in their capacity as members of the governing body, or otherwise as employees of the reporting entity.
reporting entity	A government or any other organization, program or identifiable activity that prepares GPFRs
reporting date	The date of the last day of the reporting period to which the financial statements relate.
research	Original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding.
residual value (of property, plant, and equipment or an intangible asset)	The estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.
restrictions on transferred assets	Stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.
restructuring	A program that is planned and controlled by management, and materially changes either: a. The scope of an entity's activities; or b. The manner in which those activities are carried out.
resulting entity	The entity that is the result of two or more operations combining in an amalgamation
retrospective application	Applying a new accounting policy to transactions, other events, and conditions as if that policy had always been applied.

Term	Definition
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.
segment	A distinguishable activity or group of activities of an entity for which it is appropriate to separately report financial information for the purpose of (a) evaluating the entity's past performance in achieving its objectives and (b) making decisions about the future allocation of resources.
segment assets	Are those operating assets that are employed by a segment in its operating activities, 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 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. Segment assets are determined after deducting related allowances that are reported as direct offsets in the entity's statement of financial position.
segment expense	An 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: a. Interest, including interest incurred on advances or loans from other segments, unless the segment's operations are primarily of a financial nature; b. Losses on sales of investments or losses on extinguishment of debt, unless the segment's operations are primarily of a financial nature; c. An entity's share of net deficit or losses of associates, joint ventures, or other investments accounted for under the equity method; d. Income tax or income tax-equivalent expense that is recognized in accordance with accounting standards dealing with obligations to pay income tax or income tax equivalents; or e. 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.

Term	Definition
	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	Those 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. 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.
segment revenue	Is 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. Segment revenue does not include: a. 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 b. 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.
separate financial statements	Those presented by an entity, in which the entity could elect, subject to the requirements to account for its investments in controlled entities, joint ventures and associates either at cost, or using the equity method
service concession arrangement	Is a binding arrangement between a grantor and an operator in which: a. The operator uses the service concession asset to provide a public service on behalf of the grantor for a specified period of time; and b. The operator is compensated for its services over the period of the service concession arrangement.

Term	Definition
service concession asset	It is an asset used to provide public services in a service concession arrangement that: a. Is provided by the operator which: (i) The operator constructs, develops, or acquires from a third party; or (ii) Is an existing asset of the operator; or b. Is provided by the grantor which: (i) Is an existing asset of the grantor; or (ii) Is an upgrade to an existing asset of the grantor.
service cost	Comprises: a. Current service cost, which is the increase in the present value of the defined benefit obligation resulting from employee service in the current period; b. Past service cost, which is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting from a plan amendment (the introduction or withdrawal of, or changes to, a defined benefit plan) or a curtailment (a significant reduction by the entity in the number of employees covered by a plan); and c. Any gain or loss on settlement.
service potential	An asset's capacity to facilitate the provision of services to citizens at no or only marginal cost.
settlement	A transaction that eliminates all further legal or constructive obligations for part or all of the benefits provided under a defined benefit plan, other than a payment of benefits to, or on behalf of, employees that is set out in the terms of the plan and included in the actuarial assumptions.
short-term employee benefits	Employee benefits (other than termination benefits) that are due to be settled wholly before twelve months after the end of the reporting period in which the employees render the related service.
significant influence	The power to participate in the financial and operating policy decisions of an entity, but not control those policies. Significant influence may be exercised in several ways, usually by representation on the board of directors or equivalent governing body but also by, for example, participation in; a. the policy making process; b. material transactions between entities within an economic entity; c. interchange of managerial personnel; or d. dependence on technical information. Significant influence may be gained by an ownership interest, statute, or agreement.

Term	Definition
social benefits	Are cash transfers provided to: a. Specific individuals and/or households who meet eligibility criteria; b. Mitigate the effect of social risks; and c. Address the needs of society as a whole.
social risks	Are events or circumstances that: a. Relate to the characteristics of individuals and/or households – for example, age, health, poverty and employment status; and b. May adversely affect the welfare of individuals and/or households, either by imposing additional demands on their resources or by reducing their income.
tax expenditures	Preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.
taxable event	The event that the government, legislature, or other authority has determined will be subject to taxation.
taxes	Economic benefits or service potential compulsorily paid or payable to public sector entities, in accordance with laws and/or regulations, established to provide revenue to the government. Taxes do not include fines or other penalties imposed for breaches of the law.
termination benefits	Are employee benefits provided in exchange for the termination of an employee's employment as a result of either: a. An entity's decision to terminate an employee's employment before the normal retirement date; or b. An employee's decision to accept an offer of benefits in exchange for the termination of employment.
transaction costs	Incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.
transfers	Inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.
unearned finance revenue	The difference between: a. The gross investment in the lease; and b. The net investment in the lease.
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.

Term	Definition
useful life	Either: a. The period over which an asset is expected to be available for use by an entity; or b. The number of production or similar units expected to be obtained from the asset by an entity.
value in use of a cash-generating asset	The present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.
value in use of a non-cash-generating asset	The present value of the asset's remaining service potential.

3. THE FULL SET OF PULSE INDICATORS AND DIMENSIONS

Pillar I. PSA framework

Pillar I assesses whether a public sector reporting entity has established a PSA Framework in accordance with the IPSAS Conceptual Framework, IPSAS 3 "Accounting Policies, Changes in Accounting Estimates and Errors", IPSAS 4 "The Effects of Changes in Foreign Exchange Rates", IPSAS 10 "Financial Reporting in Hyperinflationary Economies", and IPSAS 14 "Events after the Reporting Date."

The Conceptual Framework (CF) establishes the very basis for the IPSAS themselves and thus builds the starting point for the fundamental concepts that define a reporting entity's PSA environment. The key pieces of the CF measured under this pillar are: (i) QC; (ii) the reporting entity; and (iii) elements in financial statements.

The QC consist of six guiding principles that all financial and non-financial information presented in GPFR should adhere to. The characteristics are relevance, faithful representation, understandability, timeliness, comparability, and verifiability. In addition to the QC certain constraints must be considered when preparing GPFR, which include materiality, cost-benefit, and balance between the QC.

The key elements that define a reporting entity are two-fold. First, to qualify as an entity, it both raises resources (e.g., taxes and fees) and undertakes activities (e.g., producing goods and services for its taxpayers). Second, it presents GPFR that provide both accountability and a basis for decision-making for their service recipients (e.g., citizens) and their resource providers (e.g., taxpayers).

The third concept assessed by this pillar are the elements in financial statements. The IPSASB CF defines eight different elements including: (i) assets; (ii) liabilities; (iii) net financial position; (iv) revenues; (v) expenses; (vi) surplus or deficit; (vii) ownership contributions; and (viii) ownership distributions.

Those eight elements, in turn, make up the overarching structure of the necessary financial statements.[23] In this sense, the statement of financial position (i.e., balance sheet) is made up of the following elements: assets, liabilities and net financial position. The statement of financial performance is structured according to revenues, expenses, ownership contributions, ownership distributions, and surplus or deficit. Finally, the statement of changes in net-assets/equity is a combination of the results of the aforementioned financial statements and their respective elements.

IPSAS 3 and IPSAS 14 directly relate to the QC "faithful representation", "comparability", and "timeliness." IPSAS 3 requires an entity to base its accounting policies on IPSAS or, if no standard for a given situation exists, to apply an IPSAS-based hierarchy of other sources for standards (e.g., IFRS). Implementing changes in accounting policies, estimates, correcting errors, and reporting on events after the reporting date in a timely fashion allow for comparability over time and ensure a faithful representation of the actual events.

[23] More details on the different financial statements can be found in IPSAS 1 and the technical introduction to Pillar V. The notes to the GPFR as well as the cash-flow statement in accordance with IPSAS 2 are excluded from this technical introduction.

IPSAS 4 explains how to handle transactions in currencies other than the functional currency of the reporting entity, and the exchange differences that might arise from such transactions. IPSAS 10 prescribes how to cope with a hyperinflationary economic environment. The definition of such an environment strongly relates to the functional currency of reporting entity and the changes of its purchasing power over time.

Pillar I contains the following three indicators:

* PI-1: Conceptual framework
* PI-2: Accounting policies, estimates, errors, and events after the reporting date
* PI-3: Foreign currency transactions and hyperinflation effects

PI-1: Conceptual framework

This indicator assesses whether the current conceptual framework adopted by the jurisdiction is consistent with the IPSASB Conceptual Framework. This includes key definitions and QC. This indicator has 3 dimensions.

Dimension 1.1 – Qualitative Characteristics

Dimension 1.1 assesses the level of conceptual compliance of the regulatory framework in respect to the QC and the constraints described in the IPSASB Conceptual Framework.

Table 11. Dimension 1.1 – Qualitative Characteristics

Score	Requirements
A	The regulatory framework defines **all six** qualitative characteristics and **all three** constraints in accordance with IPSAS.
B	The regulatory framework defines **at least five** qualitative characteristics and **one constraint** in accordance with IPSAS.
C	The regulatory framework defines **at least four** qualitative characteristics and **one constraint** in accordance with IPSAS.
D	Performance is less than required for a C score.

MEASUREMENT GUIDANCE

The QCs are a comprehensive concept, therefore a missing characteristic cannot be compensated for by other characteristic. The IPSASB also made it clear that there is no distinction between fundamental and enhancing characteristics in the public sector. However, some of the characteristics may be defined in different ways, e.g., split into parts, which should not affect scoring if all parts are included. The comprehensive nature of the QCs means that significant damage to the financial reports may result if only one or two characteristics are missing; therefore, the scoring requirements are stringent.

The QC which apply to GPFR are the following:

1. Relevance - information has confirmatory or predictive value
2. Faithful representation - information is neutral, free of material error, and based on the economic substance rather than legal form
3. Understandability - the presentation enables the users to understand the information
4. Timeliness - the information is available to users before it loses its usefulness
5. Comparability - the information is comparable between entities and different reporting periods
6. Verifiability - the information is free of material error or bias

The constraints on information included in GPFR are:

1. Materiality - the omission of information could influence the users
2. Cost-Benefit - the cost of presenting some information exceeds the benefit to the users

3. Balance between the six QC

Further guidance can be found in Chapter 3 of the IPSASB Conceptual Framework.

Dimension 1.2 – Reporting Entity

Dimension 1.2 assesses whether the regulatory framework states that the reports are used for accountability and decision-making purposes and the entity is raising resources as well as undertaking activities.

Table 12. Dimension 1.2 – Reporting Entity

Score	Requirements
A	The regulatory framework requires the reporting entity, which is presenting GPFR for accountability and decision-making purposes, to be an entity that raises resources **and** uses the resources to undertake activities.
B	The regulatory framework requires the reporting entity, which is presenting GPFR for accountability and decision-making purposes, to be an entity that raises resources **or** uses the resources to undertake activities.
C	The regulatory framework defines the reporting entity, which is presenting GPFR, to be one based on legal or historical considerations (not economic ones).
D	Performance is less than required for a C score.

MEASUREMENT GUIDANCE

According to IPSAS (IPSAS CF 4.3 ff.), the reports are used for accountability and decision-making purposes and the entity is raising resources and undertaking activities. For instance, one financial report consolidating all entities controlled by the central government would qualify as a reporting entity, including all three branches of the central government (executive, legislative, and judiciary) and autonomous entities, if any, unless they are not comprising the central government (Score A).

However, unlike the IPSASB Conceptual Framework, many governments present reports at the level of sub-entity (e.g., Ministry) and therefore many entities might either raise resources or undertake activities, but not both, which increases the number of entities and therefore the complexity significantly and is not compliant with the IPSAS CF (Score B).

The minimum requirement for a C score is that there is a defined entity presenting GPFR (IPSAS CF 1.4 ff.). This score is achieved if the reporting entity is defined based on legal or historical considerations, rather than economic ones. For instance, consolidating all entities listed in an administrative decree without reference to the criteria defined in the IPSAS CF would fall into this score. Further guidance can be found in Chapter 5 of the IPSASB Conceptual Framework.

Dimension 1.3 – Elements of financial statements

Dimension 1.3 assesses if all necessary elements are defined in the regulatory framework in accordance with IPSAS.

Table 13. Dimension 1.3 – Elements of financial statements

Score	Requirements
A	The regulatory framework defines **all eight** elements in accordance with IPSAS.
B	The regulatory framework defines **at least six** elements, including the **two** basic elements (assets and liabilities) plus **at least four** dependent elements, in accordance with IPSAS.

Score	Requirements
C	The regulatory framework defines the **two** basic elements in accordance with IPSAS.
D	Performance is less than required for a C score.

MEASUREMENT GUIDANCE

Applying the same element definition as IPSASB is crucial for the compliance with IPSAS. Elements 7 "ownership contributions" and 8 "ownership distributions" may not be relevant for some entities within central government, but are relevant for decentralized entities and SOE, which are to be consolidated. The basic elements of the IPSASB Conceptual Framework are 1 "assets" and 2 "liabilities", because all the other elements refer to those and therefore are dependent. Therefore, basic elements are even required for a C score.

Basic Elements

1. Assets are defined as a resource presently controlled by the entity because of a past event.
2. Liabilities are defined as a present obligation of the entity for an outflow of resources that results from a past event.

Dependent Elements

3. The net financial position is defined as the residual amount of assets and liabilities.
4. Revenues are defined as increases to the net financial position (other than from ownership contributions, if defined).
5. Expenses are defined as decreases to the net financial position (other than from ownership distributions, if defined).
6. The surplus or deficit of the period is defined as the difference between revenues and expenses.

Dependent Elements relevant for consolidation of decentralized entities

7. Ownership contributions are defined as inflows of resources contributed by external parties in their capacity as owners.
8. Ownership distributions are defined as outflows of resources distributed to external parties in their capacity as owners.

Further guidance can be found in Chapter 5 of the IPSASB Conceptual Framework.

PI-2: Accounting policies, estimates, errors, and events after the reporting date

This indicator assesses the way changes to accounting policies and to estimates, as well as the correction of errors, are accounted for, by referring to IPSAS 3. In addition, it examines how events occurring after the reporting date (IPSAS 14) are treated. This indicator has 4 dimensions.

Dimension 2.1 – Accounting policies

Dimension 2.1 assesses how the accounting policies are determined and applied both on a conceptual and actual level.

MEASUREMENT GUIDANCE

For score A, accounting policies are based on IPSAS and an IPSAS based hierarchy defined in case no specific IPSAS exists, and, additionally, any changes to the accounting policy are applied retrospectively. For score B, there is no requirement to apply changes retrospectively. For score C there is no requirement to apply changes retrospectively and no hierarchy of references defined.

Table 14. Dimension 2.1 – Accounting policies

Score		
Conceptual	Actual	Requirements
A	A	Accounting policies are determined by the relevant IPSAS and by applying a specific hierarchy of references. Changes in accounting policies are applied retrospectively, unless impracticable, and only made, when required by an IPSAS or to improve relevance and faithful representation.
B	B	Accounting policies are determined by the relevant IPSAS and by applying a specific hierarchy of references. Changes in accounting policies are only made when required by an IPSAS or to improve relevance and faithful representation.
C	C	Accounting policies are determined by the relevant IPSAS, but there is no hierarchy defined in the absence of a specific IPSAS.
D	D	Performance is less than required for a C score.

IPSAS 3 requires that accounting policies be based on IPSAS and any changes to the accounting policies are applied retrospectively, i.e., by adjusting the opening balance for the earliest period presented, unless this is impracticable, and only made, when required by an IPSAS or in order to improve relevance and faithful representation.

In absence of an IPSAS, the accounting policies shall be determined by applying the following hierarchy of references in this order: (a) reference to similar IPSAS; (b) the IPSASB Conceptual Framework, or (c) pronouncements of other standard-setters.

Dimension 2.2 – Estimations

Dimension 2.2 assesses how the revision and changes to estimates are implemented, both on a conceptual and actual level.

MEASUREMENT GUIDANCE

The core requirement is to review and change estimates, ideally at each reporting date (Score A). IPSAS require annual reporting and neither encourage nor prohibit interim reporting. In practice, most governments do not present interim reports as IPSAS compliant financial statements. However, if they voluntarily decide to do so, all requirements without exception should also apply to interim reports.

Less frequent (Score B) or irregular (Score C) changes are clearly not ideal. If estimates are not at all reviewed, e.g., because they are defined by law, the score is D. The changes should be applied prospectively (Score A and B), which is also the simpler option. However, on occasion, the changes are applied using a more difficult and in this case incorrect retrospective method (Score C).

Table 15. Dimension 2.2 – Estimations

Score		
Conceptual	Actual	Requirements
A	A	Accounting estimates, e.g., actuarial assumptions, tax revenues, depreciation method or useful life of assets, are reviewed at least at each reporting date and changed if necessary. Changes of estimates are applied prospectively.
B	B	Accounting estimates, e.g., actuarial assumptions, tax revenues, depreciation method or useful life of assets, are reviewed regularly, but less frequently than at each reporting date, and changed if necessary. Changes of estimates are applied prospectively.
C	C	Accounting estimates e.g., actuarial assumptions, tax revenues, depreciation method or useful life of assets, are reviewed irregularly and changed if necessary.
D	D	Performance is less than required for a C score.

Dimension 2.3 – Errors

Dimension 2.3 assesses how errors in the financial statement are treated both on a conceptual and actual level.

MEASUREMENT GUIDANCE

For score A, errors are corrected in the first financial statements after their discovery, retrospectively, i.e., including adjustment of comparative information.

For score B, they are still corrected in the first financial statements after their discovery, but there is no retrospective correction. For both score A and B, the errors are additionally also explained in the notes. For score C, they are corrected in the first financial statements after their discovery, but there is no retrospective correction and no explanation.

Table 16. Dimension 2.3 – Errors

Score		
Conceptual	Actual	Requirements
A	A	Errors in respect of recognition, measurement, presentation, or disclosure are corrected retrospectively in the first financial statements issued after their discovery. Additionally, errors corrected are explained in the disclosures.
B	B	Errors in respect of recognition, measurement, presentation, or disclosure are corrected prospectively in the first financial statements issued after their discovery. Additionally, errors corrected are explained in the disclosures.
C	C	Errors in respect of recognition, measurement, presentation, or disclosure are corrected prospectively in the first financial statements issued after their discovery.
D	D	Performance is less than required for a C score.

Dimension 2.4 – Reporting of events after reporting date

Dimension 2.4 assesses if and how events after the reporting date are reported, both on a conceptual and actual level.

MEASUREMENT GUIDANCE

In the period between the reporting date (e.g., December 31) and the date of the authorization for issuance of the financial statements, certain events can occur that may call for an adjustment of said financial statements. In general, it is distinguished between adjusting and non-adjusting events. Adjusting events have a direct effect on the financial statements, since they require changing the amounts in the financial statements or recognize items that have not been recognized previously, i.e., by the end of the reporting period. Non-adjusting events have no effect on the amounts or items within the financial statements but require their disclosure in the notes to the financial statement.

For score A and B, the required distinction between adjusting and non-adjusting events must be made and all events have to be disclosed in the notes accompanying the financial statement. For score A, adjusting events also must be recognized financially.

Score C, however, does not require any specific distinction and there is no restriction on the form how events after the reporting date are made transparent.

Examples of adjusting events include, but are not limited to, the following:

* Settlement of litigations, which would require to adjust the provisions accordingly (see PI-16 "Provisions, Contingent Liabilities and Assets").
* New information regarding a (material) impairment of an asset.
* The discovery of fraud or errors that show that the financial statements were incorrect.

Examples of non-adjusting events include, but are not limited to, the following:

* New information that the entity will be involved in litigations, however, with no information on the outcome or the amount. This would affect the qualitative information on contingent liabilities (see PI-16 "Provisions, Contingent Liabilities and Assets").
* Changes in the distribution policy of a social program.
* Entering significant commitments such as financial guarantees.

Table 17. Dimension 2.4 – Reporting of events after reporting date

Score		
Conceptual	Actual	Requirements
A	A	Adjusting events after the reporting date are recognized and disclosed and non-adjusting events after the reporting date are disclosed in the financial statements.
B	B	Both, adjusting and non-adjusting events after the reporting date are disclosed in the financial statements.
C	C	Any additions or adjustments to the financial statements after the reporting date are disclosed in their notes.
D	D	Performance is less than required for a C score.

PI-3: Foreign currency transactions and hyperinflation effects

This indicator assesses the comprehensiveness with which an entity is capturing and reporting transactions in foreign currencies. It does so using IPSAS 4 as a reference for dimension 3.1 and 3.2. In addition, this indicator examines if the entity's economic environment qualifies as hyperinflationary, and if applicable, whether the necessary requirements are followed, by referring to IPSAS 10 (dimension 3.3). This indicator has 3 dimensions.

Dimension 3.1 – Initial recognition of exchange differences resulting from foreign currency transactions

Dimension 3.1 assesses how exchange differences from foreign currency transactions are recognized, both on a conceptual and actual level.

MEASUREMENT GUIDANCE

An entity's foreign activities can result in transactions in foreign currencies. This dimension assesses if the conceptual and actual requirements are met to capture and recognize the exchange differences resulting from these activities.

Monetary items are monetary units held in cash, as well as assets and liabilities to be received or paid by means of a fixed or determinable amount. Examples of monetary items include accounts payable or receivable and employee benefits to be paid in cash.

Non-monetary items include assets (or liabilities) for which there is no right to receive (or obligation to deliver) a fixed or determinable amount. Examples of non-monetary items include amounts prepaid for goods and services, intangible assets, property plant and equipment (PPE), and inventory.

Minimum items to be disclosed are (IPSAS 4.60-4.66):

* The amount of exchange rate differences recognized in surplus/deficit.
* The amount of exchange rate difference recognized in net assets/equity, including a reconciliation with opening and closing balances.
* An explanation of any changes or differences of the presentation and/or functional currency.

Table 18. Dimension 3.1 – Initial recognition of exchange differences resulting from foreign currency transactions

Score		
Conceptual	Actual	Requirements
A	A	Exchange differences resulting from transactions with monetary and non-monetary items are recognized in the surplus or deficit in the period they arise. In addition, the total amount of exchange differences is disclosed in the notes.
B	B	Exchange differences resulting from transactions with monetary and non-monetary items are recognized in the surplus or deficit in the period they arise.
C	C	Exchange differences resulting from transactions with monetary items are recognized in the surplus or deficit in the period they arise.
D	D	Performance is less than required for a C score.

Dimension 3.2 – End of year reporting of foreign currencies transactions

Dimension 3.2 assesses to what extent the required exchange rate has been used for foreign currency items at the end of the year, both on a conceptual and actual level. Please refer to the guidance for this and other similarly worded dimensions that use the terms "all," "most," and "the majority of."

MEASUREMENT GUIDANCE

The main element of this dimension is the determination of a functional currency and the definition of the different accounting treatments for monetary and non-monetary items. For the latter, it depends on the measurement method that is used for the underlying asset type (i.e., historical cost or fair value).

Table 19. Dimension 3.2 – End of year reporting of foreign currencies transactions

Score		
Conceptual	Actual	Requirements
A	A	**All** foreign currency items are reported according to the required exchange rate: i. Monetary items are translated using the closing rate. ii. Non-monetary items that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction. iii. Non-monetary items that are measured at fair value are translated using the exchange rates at the date when the fair value was determined.
B	B	**Most** foreign currency items are reported according to the required exchange rate: i. Monetary items are translated, using the closing rate. ii. Non-monetary items that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction. iii. Non-monetary items that are measured at fair value are translated using the exchange rates at the date when the fair value was determined.
C	C	**The majority** of foreign currency items are reported according to the required exchange rate: i. Monetary items are translated, using the closing rate. ii. Non-monetary items that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction. iii. Non-monetary items that are measured at fair value are translated using the exchange rates at the date when the fair value was determined.
D	D	Performance is less than required for a C score.

Dimension 3.3 – Compliance with hyperinflation requirements

Dimension 3.3 applies only if the economic environment of a country is defined as hyperinflationary. If this is the case, it assesses whether the restatement of the financial statements has been conducted according to IPSAS at both a conceptual and actual level. If the economic environment is not classified as hyperinflationary the score N/A is awarded for this dimension.

MEASUREMENT GUIDANCE

The determination of whether a country's economic environment is hyperinflationary is primarily determined through the change of purchasing power of its functional currency. Therefore, this dimension identifies characteristics of a hyperinflationary economic environment and, if they apply, how financial information presented in the functional currency must be restated to be useful.

Hyperinflation is typically indicated by the following characteristics, although the list is non-exhaustive:

* The general population prefers to keep its wealth in non-monetary assets or in a relatively stable foreign currency. Amounts of local currency held are immediately invested to maintain purchasing power.
* The general population regards monetary amounts, not in terms of local currency, but in terms of a relatively stable foreign currency. Prices may be quoted in that currency.
* Sales and purchases on credit take places at prices that compensate for the expected loss of purchasing power during the credit period, even if the period is short.
* Interest rates, wages, and prices are linked to a price index.
* The cumulative inflation rate over three years is approaching, or exceeds, 100%.

Steps for the restatement of the financial statements:

1. Use a general price index and describe its identity and level in the notes to the financial statements;
2. Apply the measurement unit that is current at the reporting date;

Table 20. Dimension 3.3 – Compliance with hyperinflation requirements

Score		
Conceptual	Actual	Requirements
A	A	If the economic environment of a country is defined as hyperinflationary (see measurement guidance), a restatement of the financial statements is being performed by applying **all steps 1 to 4** as outlined in the measurement guidance.
B	B	If the economic environment of a country is defined as hyperinflationary (see measurement guidance), a restatement of the financial statements is being performed by applying **steps 1 to 3** as outlined in the measurement guidance.
C	C	If the economic environment of a country is defined as hyperinflationary (see measurement guidance), a restatement of the financial statements is being performed by applying **steps 1 and 2** as outlined in the measurement guidance.
D	D	Performance is less than required for a C score.

3. Disclose the surplus or deficit on the net monetary position separately in the statement of financial performance; and
4. Use the measurement unit current at the end of the previous reporting period as the basis for the carrying amounts in its subsequent financial statements, if the economy ceases to be hyperinflationary.

Pillar II. Financial assets and liabilities

Pillar II assesses whether a public sector reporting entity recognizes, measures, presents, and discloses its financial assets and liabilities in accordance with IPSAS 5 "Borrowing cost", IPSAS 28 "Financial Instruments: Presentation", IPSAS 30 "Financial Instruments: Disclosures", and IPSAS 41 "Financial Instruments."

IPSAS related to financial instruments address the accounting treatment of financial assets and liabilities which include: (i) primary instruments, such as accounts, notes, loans, and bonds (both receivables and payables); and (ii) derivatives instruments, such as financial options, futures and forwards, interest rate swaps, and currency swaps. In addition, the same standards prescribe the accounting treatment of equity instruments.

The assessment does not include: (i) hybrid contracts that also includes a non-derivative host; (ii) financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies; and (iii) contingent consideration recognized by an acquirer in a public sector combination. The assessment does not include them because these transactions are unusual in the public sector.

IPSAS 28 explains that financial assets and liabilities arise from contracts or other binding arrangements that create a right or obligation to receive or deliver cash or another financial asset, or exchange financial assets. IPSAS do not explicitly define binding arrangements, but generally use this term to refer to arrangements that are binding upon the parties and that represent a sort of contract in substance. These types of arrangements may be known by distinct names in different jurisdictions, e.g., a government order or an inter-administrative or cooperation agreement. The criteria that enable the identification of contracts or binding arrangements in the context of the IPSAS, include: (i) willing parties entering into an arrangement; (ii) the terms of the arrangement create rights and obligations for the parties; and (iii) there is a remedy for non-performance, which is enforceable by law.

IPSAS 28 further explains that rights and obligations arising out of non-contractual arrangements do not qualify as financial assets and liabilities, and, therefore, are outside the scope of IPSAS related to financial instruments, except individual payments currently due and payable.[24] Furthermore, those assets which future economic benefit is the receipt of goods or services rather than the right to receive cash or another financial asset are not financial assets.

Regarding equity instruments, the standard indicates that issuance of shares and other forms of unitized capital[25] because of a transfer of resources is not essential for the transfer to meet the definition of a contribution from owners. IPSAS 28 also specifies that the nature of the transfers of resources is assessed based on their substance and not merely their legal form. For this reason, the term equity instrument is used to denote both a form of unitized capital, such as shares, and transfers of resources that evidence a residual interest in the net assets of another entity. But it is also used for instruments in the legal form of debt that, in substance, represent an interest in an entity's net assets.

[24] Examples of such rights and obligations include statuary rights and obligations within scope of IPSAS 23 "Revenue from Non-Exchange Transactions" (Taxes and Transfers), IPSAS 42 "Social Benefits", and constructive obligations within scope of IPSAS 19 "Provision, Contingent Liabilities and Contingent Assets".

[25] Pooled capital that is reported in a distinct unit, such as units in a property trust.

Regarding presentation, IPSAS 28 prescribes the definitions of financial assets, financial liabilities and equity instruments, the principles for presenting financial instruments as liabilities or net assets/ equity and for offsetting financial assets and financial liabilities.

In relation to initial measurement, IPSAS 41 sets that financial assets and liabilities are measured at fair value, plus or minus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Measurement at nominal amount is only permitted for short-term receivables and payables held until maturity.

With regard to subsequent measurement, financial assets are to be measured at amortized cost, fair value through net assets/equity, or fair value through surplus or deficit, on the basis of both the entity's management model for financial assets and its contractual cash flow characteristics. Financial liabilities are to be measured at amortized cost unless fair value or another measurement basis is required. IPSAS related to financial instruments do not prescribe either initial or subsequent measurement of equity instruments issued by the entity.

IPSAS 41 also requires the calculation of a loss allowance for expected credit losses on both financial assets measured at amortized cost and at fair value through surplus or deficit as well as receivables.[26] Likewise, it requires the calculation of the loss allowance on loan commitments and financial guarantee contracts which are financial liabilities. In respect of hedge accounting, it specifies how to present the effect of its risk management activities using financial instruments. The standard prescribes the accounting treatment of three types of hedging relationships: (i) fair value hedge; (ii) cash flow hedge; and (iii) hedge of a net investment in a foreign operation, and establishes the qualifying requirements for hedging instruments, hedged items, and the hedging relationship.

With respect to borrowing cost, IPSAS 5 clarifies that an entity may decide to apply the benchmark treatment to recognize borrowing cost as an expense or the allowed alternative treatment which involves the capitalization of borrowing costs that are directly attributable to the acquisition, construction, or production of a qualifying asset.

IPSAS 30 establishes the minimum disclosures of information that an entity should provide enabling users of its financial statements to evaluate: (i) the significance of financial instruments for its financial position and performance; and (ii) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the end of the reporting period, and how the entity manages those risks.

Pillar II includes the following four indicators:

* PI-4: Financial assets
* PI-5: Financial liabilities
* PI-6: Derivatives, hedge accounting, loss allowance and borrowing cost
* PI-7: Presentation, offsetting, and disclosures

PI-4: Financial assets

This indicator assesses the recognition, initial measurement, subsequent measurement, and derecognition of financial assets according to IPSAS 41 – Financial Instruments. This indicator has 4 dimensions.

A financial asset is any asset that consists of: (i) cash; (ii) equity instruments of another entity; (iii) contractual rights to receive cash or another financial asset from another entity; or (iv) contractual rights to exchange financial assets or financial liabilities with another entity under conditions that might generate a favorable economic effect to the entity. They may include receivables, equity instruments, debt

[26] This refers to the concepts elaborated within IPSAS 9 "Revenue from Exchange Transactions", IPSAS 23 "Revenue from Non-Exchange Transactions" (Taxes and Transfers), IPSAS 13 "Leases" and their respective indicators in this chapter.

instruments, and derivative instruments. However, derivative instruments are not in the scope of this indicator, as they are covered in indicator PI-6.

This indicator does not include hybrid contracts because they are unusual operations in the public sector.

Dimension 4.1 – Short-term receivables at cost

Dimension 4.1 assesses the extent to which short-term receivables at cost are recognized, measured, and derecognized in accordance with IPSAS 41 – Financial Instruments.

MEASUREMENT GUIDANCE

Short-term receivables at cost are those held until maturity that will be recovered at an initial expected date not exceeding 12 months and the effect of discounting is immaterial.

Requirement of recognition

1. A short-term receivable at cost is recognized when an entity becomes a party to any contract to receive cash or another financial asset.

Requirement of initial measurement

1. Short-term receivables at cost are initially measured at the original invoice amount.

Requirements of subsequent measurement

1. Short-term receivables at cost are subsequently measured at the original invoice amount.
2. Impairment losses are required and recognized in surplus and deficit.
3. Loss allowance reduces the carrying amount of the short-term receivable using an allowance account. It means using a different account to accumulate the impairment amount.

Requirements of derecognition

Short-term receivables at cost are totally or partially derecognized when:

1. The corresponding payment is received.
2. The contractual rights to receive a financial asset expire.
3. The contractual rights to receive a financial asset are waived.

Table 21. Dimension 4.1 – Short-term receivables at cost

Score		
Conceptual	Actual	Requirements
A	A	Short-term receivables at cost fulfill the requirement of recognition, the requirement of initial measurement, **all** requirements of subsequent measurement, and **all** requirements of derecognition.
B	B	Short-term receivables at cost fulfill the requirement of recognition, the requirement of initial measurement, **at least two** requirements of subsequent measurement, and **at least two** requirements of derecognition.
C	C	Short-term receivables at cost fulfill the requirement of recognition, the requirement of initial measurement, **at least one** requirement of subsequent measurement, and **at least one** requirement of derecognition.
D	D	Performance is less than required for a C score.

Dimension 4.2 – Financial assets at amortized cost

Dimension 4.2 assesses the extent to which financial assets at amortized cost are recognized, measured, and derecognized in accordance with IPSAS 41 – Financial Instruments.

MEASUREMENT GUIDANCE

Financial assets at amortized cost are those: (i) held within a management model, whose objective is to collect contractual cash flows; and (ii) the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest. They may include short-term receivables when the effect of discounting is material, long-term receivables, and debt instruments.

* Long-term receivables are those that will be recovered at an initial expected date exceeding 12 months. Short-term receivables are 12 months or less.
* A debt instrument is a financial instrument that requires payments of interest and/or principal by the debtor to the creditor at a date, or dates, in the future, such as bonds, debentures, capital notes, and loans.

Requirement of recognition

1. Financial assets at amortized cost are recognized when an entity becomes a party to any contract to receive cash or another financial asset.

Requirements of initial measurement

1. Financial assets at amortized cost are initially measured at fair value plus transaction costs incurred at acquisition, if they are applicable, such as: (i) fees or commissions paid to agents, advisers, brokers, and dealers; (ii) levies by regulatory agencies and security exchanges; and (iii) transfer taxes and duties.
2. Fair value is determined based on quoted prices if the market for the financial instrument is active or using a valuation technique which incorporates observable market data if the market for the financial instrument is not active.

Requirements of subsequent measurement

1. Financial assets at amortized cost are subsequently measured at amortized cost.
2. Amortized cost is calculated by using the effective interest method, which corresponds to the amount initially recognized plus the effective interest revenue minus: (i) the repayments of the principal and interest; and (ii) any loss allowance. Effective interest revenue is recognized in surplus

Table 22. Dimension 4.2 – Financial assets at amortized cost

Score		
Conceptual	Actual	Requirements
A	A	Financial assets at amortized cost fulfill the requirement of recognition, **all** requirements of initial measurement, **all** requirements of subsequent measurement, and **all** requirements of derecognition.
B	B	Financial assets at amortized cost fulfill the requirement of recognition, **all** requirements of initial measurement, **at least two** requirements of subsequent measurement, and **at least two** requirements of derecognition.
C	C	Financial assets at amortized cost fulfill the requirement of recognition, **at least one** requirement of initial measurement, **at least one** requirement of subsequent measurement, and **at least one** requirement of derecognition.
D	D	Performance is less than required for a C score.

and deficit, and it is calculated by using the effective interest rate. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset to its amount initially recognized.

3. Impairment losses are recognized in surplus and deficit reducing the carrying amount of the financial asset using an allowance account.

Requirements of derecognition

Financial assets at amortized cost are derecognized when:

1. The corresponding payment is received.
2. The contractual rights to receive a financial asset expire.
3. The contractual rights to receive a financial asset are waived.

Dimension 4.3 – Financial assets at fair value through surplus and deficit

Dimension 4.3 assesses the extent to which financial assets at fair value through surplus and deficit are recognized, measured, and derecognized in accordance with IPSAS 41 – Financial Instruments. This dimension also covers the receivables and debt instruments designated irrevocably at fair value through surplus and deficit.

MEASUREMENT GUIDANCE

Financial assets at fair value through surplus and deficit are those held within a management model whose objective is achieved by selling it. They may include receivables, debt instruments and equity instruments.

* A debt instrument is a financial instrument that requires payments of interest and/or principal by the debtor to the creditor at a date or dates in the future, such as bonds, debentures, capital notes and loans.
* An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all its liabilities.

Requirement of recognition

1. Financial assets at fair value through surplus and deficit are recognized when an entity becomes party in any contract to receive cash or another financial asset.

Table 23. Dimension 4.3 – Financial assets at fair value through surplus and deficit

Score		
Conceptual	Actual	Requirements
A	A	Financial assets at fair value through surplus and deficit fulfill the requirement of recognition, **all** requirements of initial measurement, **all** requirements of subsequent measurement, and **all** requirements of derecognition.
B	B	Financial assets at fair value through surplus and deficit fulfill the requirement of recognition, **at least two** requirements of initial measurement, **at least two** requirements of subsequent measurement, and **at least three** requirements of derecognition.
C	C	Financial assets at fair value through surplus and deficit fulfill the requirement of recognition, **at least one** requirement of initial measurement, **at least one** requirement of subsequent measurement, and **at least two** requirements of derecognition.
D	D	Performance is less than required for a C score.

Requirements of initial measurement

1. Financial assets at fair value through surplus and deficit are initially measured at fair value.
2. Transaction costs are not included at initial measurement and are recognized as an expense in surplus or deficit.
3. Fair value is determined based on quoted prices if the market for the financial instrument is active or using a valuation technique which incorporates observable market data if the market for the financial instrument is not active.

Requirements of subsequent measurement

1. Financial assets at fair value through surplus and deficit are subsequently measured at fair value.
2. Gains and losses for changes in fair value are recognized in surplus or deficit. Recognition of impairment losses is not required.
3. Recognition of interest revenue of debt instruments is not required. Dividends or similar distribution of equity instruments are recognized in surplus or deficit only when payments of dividends have been declared in favor of the entity. It is probable that the economic benefits associated with the dividend will flow to the entity, and the amount of the dividend may be measured reliably.

Requirements of derecognition

Financial assets at fair value through surplus and deficit are totally or partially derecognized when:

1. The contractual rights to receive a financial asset expire.
2. The contractual rights to receive a financial asset are waived.
3. The entity transfers substantially all the risks and rewards of ownership of the financial assets.
4. The entity neither transfers nor retains substantially all the risks and rewards of ownership of the financial assets and the entity has not retained control.

Dimension 4.4 – Financial assets at fair value through net assets/equity

Dimension 4.4 assesses the extent to which financial assets at fair value through net assets/equity are recognized, measured, and derecognized in accordance with IPSAS 41 – Financial Instruments. This dimension also covers the equity instruments designated irrevocably at fair value through surplus and deficit.

Table 24. Dimension 4.4 – Financial assets at fair value through net assets/equity

Score		
Conceptual	Actual	Requirements
A	A	Financial assets at fair value through net assets/equity fulfill the requirement of recognition, **all** requirements of initial measurement, **all** requirements of subsequent measurement, and **all** requirements of derecognition.
B	B	Financial assets at fair value through net assets/equity fulfill the requirement of recognition, **all** requirements of initial measurement, **at least two** requirements of subsequent measurement, and **at least three** requirements of derecognition.
C	C	Financial assets at fair value through net assets/equity fulfill the requirement of recognition, **at least one** requirement of initial measurement, **at least one** requirement of subsequent measurement, and **at least two** requirements of derecognition.
D	D	Performance is less than required for a C score.

MEASUREMENT GUIDANCE

Financial assets at fair value through net assets/equity are those: (i) held within a management model, whose objective is achieved by both collecting contractual cash flows and selling them; and (ii) the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest. They may include receivables, debt instruments, and those equity instruments designated irrevocably at fair value through surplus and deficit.

* A debt instrument is a financial instrument that requires payments of interest and/or principal by the debtor to the creditor at a date or dates in the future, such as bonds, debentures, capital notes, and loans.
* An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

Requirement of recognition

1. Financial assets at fair value through net assets/equity are recognized when an entity becomes party in any contract to receive cash or another financial asset.

Requirements of initial measurement

1. Financial assets at fair value through net assets/equity are initially measured at fair value plus transaction costs incurred at acquisition. However, if the financial asset is an equity instrument, transaction costs are not included at initial measurement.
2. Fair value is determined based on quoted prices if the market for the financial instrument is active or using a valuation technique which incorporates observable market data if the market for the financial instrument is not active.

Requirements of subsequent measurement

1. Financial assets at fair value through net assets/equity are subsequently measured at fair value.
2. Gains and losses for changes in fair value are recognized in net assets/equity. Recognition of impairment losses is required for debt instruments. Impairment losses for debt instruments are recognized in surplus a deficit, but loss allowance is recognized in net assets/equity. Therefore, the carrying amount of the financial asset is not reduced.
3. Interest revenue of debt instruments is calculated by using the effective interest method and it is recognized in surplus and deficit. Dividends or similar distribution of equity instruments are recognized in surplus or deficit only when payments of dividends have been declared in favor of the entity; it is probable that the economic benefits associated with the dividends will flow to the entity; and the amount of the dividends may be measured reliably.

Requirements of derecognition

Financial assets at fair value through net assets/equity are totally or partially derecognized when:

1. The contractual rights to receive a financial asset expire.
2. The contractual rights to receive a financial asset are waived.
3. The entity transfers substantially all the risks and rewards of ownership of the financial assets.
4. The entity neither transfers nor retains substantially all the risks and rewards of ownership of the financial assets and the entity has not retained control.

PI–5: Financial liabilities

This indicator assesses the recognition, initial measurement, subsequent measurement, and derecognition of financial liabilities according to IPSAS 41 – Financial instruments. This indicator has 4 dimensions.

A financial liability is a contractual obligation that consists of: (i) delivering cash or another financial asset to another entity; and (ii) exchanging financial assets or financial liabilities with another entity under conditions that might generate an unfavorable economic effect to the entity. In some circumstances, it could be a contract that might be settled in the entity's own equity instruments. They may include payables, loans, bonds, debentures, capital notes, and derivative instruments. However, derivative

instruments are not in the scope of this indicator, as they are covered in indicator PI – 6

This indicator does not include: (i) hybrid contracts, (ii) financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies; and (ii) contingent consideration recognized by an acquirer in a public sector combination. This is because these transactions are unusual in the public sector.

Dimension 5.1 – Short-term payables at cost

Dimension 5.1 assesses the extent to which short-term payables at cost are recognized, measured, and derecognized in accordance with IPSAS 41 – Financial Instruments.

MEASUREMENT GUIDANCE

Short-term payables at cost are those due to be settled at an initial expected date not exceeding 12 months and the effect of discounting is immaterial.

Requirement of recognition

1. A short-term payable at cost is recognized when an entity becomes party in any contract to deliver cash or another financial asset.

Requirement of initial measurement

1. Short-term payables at cost are initially measured at the original invoice amount.
2. Transaction cost are not included at initial measurement.

Requirements of subsequent measurement

1. Short-term payables at cost are subsequently measured at the initially recognize amount.
2. Interest cost calculated by using the effective interest method is not required.

Requirements of derecognition

Short-term payables at cost are totally or partially derecognized when:

1. The contractual obligation is discharged.
2. The contractual obligation is waived.
3. The contractual obligation is cancelled.
4. The contractual obligation expires.

Table 25. Dimension 5.1 – Short-term payables at cost

Score		
Conceptual	Actual	Requirements
A	A	Short-term payables at cost fulfill the requirement of recognition, **all** requirements of initial measurement, **all** requirements of subsequent measurement, and **all** requirements of derecognition.
B	B	Short-term payables at cost fulfill the requirement of recognition, **all** requirements of initial measurement, **at least one** requirements of subsequent measurement, and **at least three** requirements of derecognition.
C	C	Short-term payables at cost fulfill the requirement of recognition, **at least one** requirement of initial measurement, **one** requirement of subsequent measurement, and **at least two** requirements of derecognition.
D	D	Performance is less than required for a C score.

Dimension 5.2 – Financial liabilities at amortized cost

Dimension 5.2 assesses the extent to which financial liabilities at amortized cost are recognized, measured, and derecognized in accordance with IPSAS 41 – Financial Instruments.

MEASUREMENT GUIDANCE

Financial liabilities at amortized cost are contractual obligations that include short-term payables when the effect of discounting is material, long-term payables, and debt instruments; but do not include those irrevocably designated at fair value through surplus and deficit.

* Long-term payables are those due to be settled at an initial expected date exceeding 12 months.
* A debt instrument is a financial instrument that requires payments of interest and/or principal by the debtor to the creditor at a date, or dates, in the future, such as bonds, debentures, capital notes, and loans.

Requirement of recognition

1. Financial liabilities at amortized cost are recognized when an entity becomes party in any contract to deliver cash or another financial asset.

Requirements of initial measurement

1. Financial liabilities at amortized cost are initially measured at fair value minus transaction costs incurred at issue, if they are applicable, such as: (i) fees or commissions paid to agents, advisers, brokers, and dealers; (ii) levies by regulatory agencies and security exchanges; and (ii) transfer taxes and duties.
2. Fair value is determined based on quoted prices if the market for the financial instrument is active or using a valuation technique which incorporates observable market data if the market for the financial instrument is not active.

Requirements of subsequent measurement

1. Financial liabilities at amortized cost are subsequently measured at amortized cost.
2. Amortized cost is calculated by using the effective interest method, which corresponds to the amount initially recognized plus the effective interest expense minus the repayments of the principal and interest. Effective interest expense is recognized in surplus and deficit, and it is calculated by using the effective interest rate. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial liability to its amount initially recognized.

Table 26. Dimension 5.2 – Financial liabilities at amortized cost

Score		
Conceptual	Actual	Requirements
A	A	Financial liabilities at amortized cost fulfill the requirement of recognition, **all** requirements of initial measurement, **all** requirements of subsequent measurement, and **all** requirements of derecognition.
B	B	Financial liabilities at amortized cost fulfill the requirement of recognition, **at least one** requirement of initial measurement, **at least two** requirements of subsequent measurement, and **at least three** requirements of derecognition.
C	C	Financial liabilities at amortized cost fulfill the requirement of recognition, **at least one** requirement of initial measurement, **at least one** requirement of subsequent measurement, and **at least two** requirements of derecognition.
D	D	Performance is less than required for a C score.

Requirements of derecognition

Financial liabilities at amortized cost are totally or partially derecognized when:

1. The contractual obligation is discharged.
2. The contractual obligation is waived.
3. The contractual obligation is cancelled.
4. The contractual obligation expires.

Dimension 5.3 – Financial liabilities at fair value through surplus and deficit

Dimension 5.3 assesses the extent to which financial liabilities at fair value through surplus and deficit are recognized, measured, and derecognized in accordance with IPSAS 41 – Financial Instruments.

MEASUREMENT GUIDANCE

Financial liabilities at fair value through surplus and deficit are contractual obligations: (i) held to trading; or (ii) irrevocably designated at fair value through surplus and deficit. They include payables, debt instruments, financial guarantee contracts, and commitments to provide a loan at a below-market interest rate.

* A debt instrument is a financial instrument that requires payments of interest and/or principal by the debtor to the creditor at a date or dates in the future, such as bonds, debentures, capital notes, and loans.
* Financial guarantee contracts are those requiring the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.
* Commitments to provide a loan at a below-market interest rate are binding agreements requiring the issuer to give a loan with a favorable interest rate in comparison with the interest rate for a similar loan.

Requirement of recognition

1. Financial liabilities at fair value through surplus and deficit are recognized when an entity becomes party in any contract to deliver cash or another financial asset.

Requirements of initial measurement

1. Financial liabilities at fair value through surplus and deficit are initially measured at fair value.
2. Transaction costs are not included at initial measurement and are recognized as an expense in surplus or deficit.
3. Fair value is determined based on quoted prices if the market for the financial instrument is active or using a valuation technique which incorporates observable market data if the market for the financial instrument is not active.

Requirements of subsequent measurement

1. Financial liabilities at fair value through surplus and deficit are subsequently measured at fair value.
2. Gains and losses for changes in fair value are recognized in surplus or deficit. Except for the change in fair value that is attributable to changes in the credit risk of a financial liability irrevocably designated at fair value through surplus and deficit, which is recognized in net assets/equity.
3. Recognition of interest expense is not required.

Requirements of derecognition

Financial liabilities at fair value through surplus and deficit are totally or partially derecognized when:

1. The contractual obligation is discharged.
2. The contractual obligation is waived.
3. The contractual obligation is cancelled.
4. The contractual obligation expires.

Dimension 5.3 – Financial liabilities at fair value through surplus and deficit

Dimension 5.3 assesses the extent to which financial liabilities at fair value through surplus and deficit are recognized, measured, and derecognized in accordance with IPSAS 41 – Financial Instruments.

MEASUREMENT GUIDANCE

Financial liabilities at fair value through surplus and deficit are contractual obligations: (i) held to trading; or (ii) irrevocably designated at fair value through surplus and deficit. They include payables, debt instruments, financial guarantee contracts, and commitments to provide a loan at a below-market interest rate.

* A debt instrument is a financial instrument that requires payments of interest and/or principal by the debtor to the creditor at a date or dates in the future, such as bonds, debentures, capital notes, and loans.
* Financial guarantee contracts are those requiring the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.
* Commitments to provide a loan at a below-market interest rate are binding agreements requiring the issuer to give a loan with a favorable interest rate in comparison with the interest rate for a similar loan.

Requirement of recognition

1. Financial liabilities at fair value through surplus and deficit are recognized when an entity becomes party in any contract to deliver cash or another financial asset.

Requirements of initial measurement

1. Financial liabilities at fair value through surplus and deficit are initially measured at fair value.
2. Transaction costs are not included at initial measurement and are recognized as an expense in surplus or deficit.
3. Fair value is determined based on quoted prices if the market for the financial instrument is active or using a valuation technique which incorporates observable market data if the market for the financial instrument is not active.

Table 27. Dimension 5.3 – Financial liabilities at fair value through surplus and deficit

Score		
Conceptual	Actual	Requirements
A	A	Financial liabilities at fair value through surplus and deficit fulfill the requirement of recognition, **all** requirements of initial measurement, **all** requirements of subsequent measurement, and the **four** requirements of derecognition.
B	B	Financial liabilities at fair value through surplus and deficit fulfill the requirement of recognition, **at least two** requirements of initial measurement, **at least two** requirements of subsequent measurement, and **at least three** requirements of derecognition.
C	C	Financial liabilities at fair value through surplus and deficit fulfill the requirement of recognition, **at least one** requirement of initial measurement, **at least one** requirement of subsequent measurement, and **at least two** requirements of derecognition.
D	D	Performance is less than required for a C score.

Requirements of subsequent measurement

1. Financial liabilities at fair value through surplus and deficit are subsequently measured at fair value.
2. Gains and losses for changes in fair value are recognized in surplus or deficit. Except for the change in fair value that is attributable to changes in the credit risk of a financial liability irrevocably designated at fair value through surplus and deficit, which is recognized in net assets/equity.
3. Recognition of interest expense is not required.

Requirements of derecognition

Financial liabilities at fair value through surplus and deficit are totally or partially derecognized when:

1. The contractual obligation is discharged.
2. The contractual obligation is waived.
3. The contractual obligation is cancelled.
4. The contractual obligation expires.

Dimension 5.4 – Financial liabilities with other bases of measurement

Dimension 5.4 assesses the extent to which financial liabilities with other bases of measurement are recognized, measured, and derecognized in accordance with IPSAS 41 – Financial Instruments.

MEASUREMENT GUIDANCE

Financial liabilities with other bases of measurement include financial guarantee contracts and commitments to provide a loan at a below-market interest rate, that are not irrevocably designated at fair value through surplus and deficit.

* Financial guarantee contracts are contracts requiring the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.
* Commitments to provide a loan at a below-market interest rate are binding agreements requiring the issuer to give a loan with a favorable interest rate in comparison with the interest rate for a similar loan.

Table 28. Dimension 5.4 – Financial liabilities with other bases of measurement

Score		
Conceptual	Actual	Requirements
A	A	Financial liabilities with other bases of measurement fulfill the requirement of recognition, all requirements of initial measurement, all requirements of subsequent measurement, and all requirements of derecognition.
B	B	Financial liabilities with other bases of measurement fulfill the requirement of recognition, at least one requirement of initial measurement, at least two requirements of subsequent measurement, and at least three requirements of derecognition.
C	C	Financial liabilities with other bases of measurement fulfill the requirement of recognition, at least one requirement of initial measurement, one requirement of subsequent measurement, and at least two requirements of derecognition.
D	D	Performance is less than required for a C score.

Requirement of recognition

1. Financial liabilities with other bases of measurement are recognized when an entity becomes party in any contract to deliver cash or another financial asset.

Requirements of initial measurement

1. Financial liabilities with other bases of measurement are initially measured at fair value minus transaction costs incurred at issue, if they are applicable, such as: (i) fees or commissions paid to agents, advisers, brokers, and dealers; (ii) levies by regulatory agencies and security exchanges; and (iii) transfer taxes and duties.
2. Fair value is determined based on quoted prices if the market for the financial instrument is active or using a valuation technique, which incorporates observable market data if the market for the financial instrument is not active.

Requirements of subsequent measurement

1. Financial liabilities with other bases of measurement are subsequently measured at the higher of: (i) the amount of the loss allowance, and (ii) the amount initially recognized less, when appropriate, the cumulative amount of amortization of any deferred revenue.
2. Gains and losses for changes in the carrying amount are recognized in surplus and deficit.

Requirements of derecognition

Financial liabilities with other bases of measurement are totally or partially derecognized when:

1. The contractual obligation is discharged.
2. The contractual obligation is waived.
3. The contractual obligation is cancelled.
4. The contractual obligation expires.

PI–6: Derivatives, hedge accounting, loss allowance, and borrowing cost

This indicator assesses other matters related to financial instruments, such as: (i) derivative instruments; (ii) hedge accounting (iii) and loss allowance, according to IPSAS 41 – Financial instruments; and (iv) borrowing costs, in accordance with IPSAS 5 – Borrowing costs. This indicator has 4 dimensions.

Dimension 6.1 – Derivative instruments

Dimension 6.1 assesses the extent to which derivative instruments are recognized, measured, and derecognized in accordance with IPSAS 41 – Financial Instruments.

Table 29. Dimension 6.1 – Derivative instruments

Score		
Conceptual	Actual	Requirements
A	A	Derivative instruments fulfill all requirements of recognition, all requirements of initial measurement, all requirements of subsequent measurement, and all requirements of derecognition.
B	B	Derivative instruments fulfill all requirements of recognition, at least two requirements of initial measurement, all requirements of subsequent measurement, and at least two requirements of derecognition.
C	C	Derivative instruments fulfill at least one requirement of each of the following sets of requirements: recognition, initial measurement, subsequent measurement, and derecognition.
D	D	Performance is less than required for a C score.

MEASUREMENT GUIDANCE

A derivative instrument is a contract that meets all the following characteristics: (i) its value changes in response to the change in a specified variable commonly called underlying, such as an interest rate, a financial instrument price, a commodity price, a foreign exchange rate, an index of prices or rates, a credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract; (ii) it requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors; and (iii) it is settled at a future date.

* Derivative instruments include forward, future, swap, and option contracts.
* Forwards are contracts traded in the over-the-counter market to buy or sell a financial or non-financial item at a certain time in the future for a determined price.
* Futures are contracts traded on an exchange to buy or sell a financial or non-financial item at a certain time in the future for a determined price.
* Swaps are contracts traded in the over-the-counter market to exchange cash flows in the future.
* Options are contracts traded both in the over-the-counter market and on exchanges. Options have two types: (i) call options which give the holder the right to buy a financial or non-financial item at a certain time in the future for a determined price; and (ii) put options which give the holder the right to sell a financial or non-financial item at a certain time in the future for a determined price.

Requirements of recognition

A derivative is recognized when:

1. An entity becomes party in any contract to buy or sell a financial item at a certain time in the future for a determined price.
2. An entity becomes party in any contract to buy or sell a non-financial item that: (i) can be settled net in cash, another financial instrument, exchanging financial instruments; or (ii) will be settled receiving or delivering the non-financial item in accordance with the entity's expected purchase, sale, or usage requirements if it is irrevocably designated as measured at fair value through surplus or deficit and eliminates or significantly reduces a recognition inconsistency.

Requirements of initial measurement

1. Derivatives are initially measured at fair value.
2. Transaction costs are not included at initial measurement and are recognized as an expense in surplus or deficit.
3. Fair value is determined based on quoted prices if the market for the financial instrument is active or using a valuation technique which incorporates observable market data if the market for the financial instrument is not active.

Requirements of subsequent measurement

1. Financial liabilities at fair value through surplus and deficit are subsequently measured at fair value.
2. Gains and losses for changes in fair value are recognized in surplus or deficit.

Requirements of derecognition

Derivatives are totally or partially derecognized when:

1. The contractual rights or obligations are settled.
2. The contractual rights or obligations expire.
3. The contractual rights to receive a financial asset are waived.

Dimension 6.2 – Hedge accounting

Dimension 6.2 assesses the extent to which an entity represents, in its financial statements, the effect of its risk management activities using financial instruments to manage exposures arising from particular risks that could affect surplus or deficit or net assets/equity in accordance with the requirements of hedge accounting of IPSAS 41 – Financial Instruments.

MEASUREMENT GUIDANCE

An entity may designate a hedging relationship between a hedging instrument and a hedged item, and apply the requirements of hedge accounting, if hedging instruments, hedged item and hedging relationship meet the qualifying requirements.

There are three types of hedging relationships as follows:

1. Fair value hedge: a hedge of the exposure to changes in fair value of a recognized asset or liability or an unrecognized firm commitment, or a component of any such item, that is attributable to a particular risk and could affect surplus (or deficit or net asset/equity if the hedged item is an equity instrument for which an entity has elected to present changes in fair value in net assets/equity).
2. Cash flow hedge: a hedge of the exposure to variability in cash flows that could affect surplus or deficit and is attributable to a particular risk associated with all, or a component of, a recognized asset or liability or a highly probable forecast transaction.
3. Hedge of a net investment in a foreign operation: a hedge of the exposure in the amount of the reporting entity's interest in the net assets/equity of a foreign operation that could affect surplus or deficit.

Financial instruments qualifying to be hedging instruments could be:

1. A derivative (or a component of it) measured at fair value through surplus or deficit.
2. A non-derivative financial asset or a non-derivative financial liability (or a component of them) measured at fair value through surplus or deficit, unless it is a financial liability designated as at fair value through surplus or deficit whose change in fair value that is attributable to changes in the credit risk is presented in net assets/equity.
3. A foreign currency risk component of a non-derivative financial asset or a non-derivative financial liability for a hedge of foreign currency risk, if it is not an investment in an equity instrument for which an entity has elected to present changes in fair value in net assets/equity.

Table 30. Dimension 6.2 – Hedge accounting

Score		
Conceptual	Actual	Requirements
A	A	**All** basic and additional requirements of hedge accounting are met.
B	B	**All** basic requirements of hedge accounting, the additional requirement for hedging instruments, **all** additional requirements for hedge items and **at least two** additional requirements for hedging relationships are met.
C	C	**All** basic requirements of hedge accounting, the additional requirement for hedging instruments, **at least one** additional requirement for hedge items and **at least two** additional requirements for hedging relationships are met.
D	D	Performance is less than required for a C score.

Items qualifying to be hedge items could be:

* A recognized asset or liability.
* An unrecognized firm commitment.
* A highly probable forecast transaction.
* A net investment in a foreign operation.
* A group or a component of the items mentioned above.
* An aggregated exposure that is a combination of an exposure of one or more items mentioned above and a derivative.

Basic requirements of hedge accounting

For fair value hedge:

1. The gain or loss on the hedging instrument is recognized in surplus or deficit (or in net assets/equity, if the hedging instrument hedges an equity instrument for which an entity has elected to present changes in fair value in net assets/equity).
2. The hedging gain or loss on the hedged item adjusts the carrying amount of the hedged item (if applicable) and is recognized in surplus or deficit (or in net assets/equity, if the hedged item is an equity instrument for which an entity has elected to present changes in fair value in net assets/equity). When a hedged item is an unrecognized firm commitment (or a component thereof), the cumulative change in the fair value of the hedged item subsequent to its designation is recognized as an asset or a liability with a corresponding gain or loss recognized in surplus or deficit.

For cash flow hedge:

1. The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized in net assets/equity. The ineffective portion is recognized in surplus or deficit.
2. The cumulative gain or loss on the hedging instrument relating to the effective portion of the hedge that has been accumulated in net assets/equity is measured at the lower of: (i) the cumulative gain or loss on the hedging instrument from inception of the hedge; or (ii) the cumulative change in fair value of the hedged item from inception of the hedge.
3. The cumulative gain or loss on the hedging instrument accumulated in net assets/equity is accounted as follows: (i) as part of the initial cost or other carrying amount of the asset or the liability if the hedge item is a forecast transaction that results in the recognition of a non-financial asset or non-financial liability, or is a forecast transaction for a non-financial asset or a non-financial liability that becomes a firm commitment for which fair value hedge accounting applied; (ii) as gain or loss in surplus or deficit in the same period or periods during which the hedged expected future cash flows affect surplus or deficit for other cash flow hedges; and (iii) as loss in surplus or deficit if the entity expects that all or a portion of that loss will not be recovered in one or more future periods.

For net investment in a foreign operation hedge:

1. The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized in net assets/equity. The ineffective portion is recognized in surplus or deficit.
2. The cumulative gain or loss on the hedging instrument relating to the effective portion of the hedge that has been accumulated in net assets/equity is measured at the lower of: (i) the cumulative gain or loss on the hedging instrument from inception of the hedge; or (ii) the cumulative change in fair value of the hedged item from inception of the hedge.
3. The cumulative gain or loss on the hedging instrument accumulated in net assets/equity is accounted as gain or loss in surplus or deficit on the disposal or partial disposal of the foreign operation.

Additional requirements of hedge accounting

For hedging instruments:

1. Only contracts with a party external to the reporting entity can be designated as hedging instruments.

For hedge items:

1. The hedged item must be reliably measurable.
2. Only assets, liabilities, firm commitments or highly probable forecast transactions with a party external to the reporting entity can be designated as hedged items. However, the foreign currency risk of a monetary item within an economic entity could be designated as hedged items if the results in an exposure to foreign exchange rate gains or losses that are not fully eliminated on consolidation.

   Additionally, hedge accounting may be applied to transactions between entities in the same economic entity in:

   - The individual or separate financial statements of those entities.
   - The consolidated financial statements of an investment entity where the transactions measured at fair value through surplus or deficit are not eliminated in the consolidated financial statements.
   - The consolidated financial statements of a controlling entity of an investment entity, that is not itself an investment entity, where the transactions measured at fair value through surplus or deficit are not eliminated in the consolidated financial statements.

For hedging relationship:

A hedging relationship qualifies for hedge accounting if:

1. The hedging relationship consists only of eligible hedging instruments and eligible hedged items.
2. There is formal designation and documentation of the hedging relationship and the entity's risk management objective and strategy for undertaking the hedge.
3. The hedging relationship is effective. It means:
   - There is an economic relationship between the hedged item and the hedging instrument.
   - The effect of credit risk does not dominate the value changes that result from that economic relationship.
   - The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the entity actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item.

Dimension 6.3 – Loss allowance

Dimension 6.3 assesses the extent to which an entity recognizes and measures the loss allowance of: (i) financial assets classified at cost, amortized cost, and fair value through net assets/equity; and (ii) financial liabilities that are loan commitments and financial guarantee contracts, in accordance with IPSAS 41 – Financial Instruments.

Table 31. Dimension 6.3 – Loss allowance

Score		
Conceptual	**Actual**	**Requirements**
A	A	The requirement of the simplified approach, **all** basic and additional requirements of the general approach, and **all** requirements of measurement are met.
B	B	The requirement of the simplified approach, **all** basic requirements of the general approach, and **at least two** requirements of measurement are met.
C	C	The requirement of the simplified approach, **at least two** basic requirements of the general approach, and **at least one** requirement of measurement is met.
D	D	Performance is less than required for a C score.

MEASUREMENT GUIDANCE

This dimension considers the two different approaches to measure the loss allowance depending on the type of financial instrument: the simplified and the general approach. The simplified approach is applied to either: (i) receivables that result from exchange and non-exchange transactions; or (ii) lease receivables, if the entity chooses as its accounting policy to measure the loss allowance at an amount equal to lifetime expected credit losses. Meanwhile, the general approach is applied in all other cases.

Requirement of the simplified approach

1. Loss allowance for a financial instrument is measured at each reporting date at an amount equal to the lifetime expected credit losses.

Basic requirement of the general approach

1. Loss allowance for a financial instrument is measured at each reporting date at an amount: (i) equal to the lifetime expected credit losses, if the credit risk on that financial instrument has increased significantly since initial recognition, or if the financial instrument is a purchased or originated credit-impaired financial assets; or (ii) equal to 12-month expected credit losses, if the credit risk on a financial instrument has not increased significantly since initial recognition.
2. Impairment gain or loss is recognized in surplus or deficit at the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized. However, the loss allowance is recognized in net assets/equity for financial assets that are measured at fair value through net assets/equity.
3. Loss allowance reduces the carrying amount of the financial asset in the statement of financial position, except for those measured at fair value through net assets/equity.

Additional requirement of the general approach

1. The assessment to determinate if there is a significant increase in credit risk on a financial instrument is made comparing the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition, even if the financial instrument is a modified financial asset.

Requirement of measurement

An entity shall measure expected credit losses of a financial instrument in a way that reflects:

1. An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes.
2. The time value of money.
3. Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions. If the entity does not have reasonable and supportable information that is available without undue cost or effort to measure lifetime expected credit losses on an individual instrument basis, lifetime expected credit losses is recognized on a collective basis that considers comprehensive credit risk information.

Dimension 6.4 – Borrowing costs

Dimension 6.4 assesses the extent to which borrowing costs are recognized in accordance with IPSAS 5 – Borrowing costs.

MEASUREMENT GUIDANCE

This dimension considers that an entity may decide to apply the benchmark treatment to recognize the borrowing cost which requires the immediate expensing of borrowing costs or the allowed alternative treatment which involves the capitalization of borrowing costs that are directly attributable to the acquisition, construction, or production of a qualifying asset.

If the entity choses to apply the allowed alternative treatment, it must identify the borrowing costs eligible for capitalization as follows:

* If the funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for

Table 32. Dimension 6.4 – Borrowing costs

Score		
Conceptual	Actual	Requirements
A	A	Borrowing costs are recognized based on **at least one** basic requirement and **all** additional requirements.
B	B	Borrowing costs are recognized based on **at least one** basic requirement and **at least one** additional requirement.
C	C	Borrowing costs are recognized based on **at least one** basic requirement.
D	D	Performance is less than required for a C score.

capitalization on that asset shall be determined as the actual borrowing costs incurred on that borrowing during the period, less any investment income on the temporary investment of those borrowings.

* If the funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalization shall be determined by applying a capitalization rate to the outlays on that asset. The capitalization rate shall be the weighted average of the borrowing costs applicable to all borrowings of the entity that are outstanding during the period.

The application of the allowed alternative treatment, also requires that the entity identifies the commencement, suspension, and cession of capitalization, as follows:

* Capitalization of borrowing costs begins when outlays for the asset are being incurred; borrowing costs are being incurred, and the necessary activities to prepare the qualifying asset for its intended use or sale are in progress.
* Capitalization of borrowing costs is suspended when the necessary activities to prepare the qualifying asset for its intended use or sale are interrupted during extended periods.
* Capitalization of borrowing costs ceases when all the necessary activities to prepare the qualifying asset for its intended use or sale are complete.

In accordance with the above, the basic requirements captured by this dimension are as follows:

Basic requirements

1. Borrowing costs are recognized as an expense in surplus and deficit when they are incurred.
2. Borrowing costs are capitalized when they are directly attributable to the acquisition, construction, or production of a qualifying asset in accordance with the allowed alternative treatment.

This dimension also assesses the extent to which borrowing costs are recognized in compliance with the accrual basis accounting as is defined in IPSAS 1 – Presentation of financial statements and what they should include according to IPSAS 5 - Borrowing costs.

Accrual basis accounting is a basis of accounting under which transactions and other events are recognizes when they occur and not only when cash or its equivalent is received or paid. Borrowing costs should include the interest expense calculated using the effective interest method, the finance charges that arise from finance leases and service concession arrangements, and exchange differences that arise from foreign currency borrowings, if they are an adjustment to interest costs.

In accordance with the above, the additional requirements captured by this dimension are as follows:

Additional requirements

1. Borrowing costs are recognized under accrual basis accounting.
2. Borrowing costs include the interest expense calculated using the effective interest method, the finance charges that arise from finance leases and service concession arrangements, and exchange differences that arise from foreign currency borrowings, if they are an adjustment to interest costs.

PI–7: Presentation, offsetting, and disclosures

This indicator assesses the extent to which financial instruments are presented, offset, and disclosed in the financial statements according to IPSAS 28 "Financial instruments: presentation" and IPSAS 30 "Financial instruments: disclosures". This indicator has 4 dimensions.

Dimension 7.1 – Presentation

Dimension 7.1 assesses the extent to which financial instruments are presented according to the definitions set out in IPSAS 28 "Financial Instruments: Presentation."

MEASUREMENT GUIDANCE

A financial asset is any asset that is one of the following:

1. Cash.
2. An equity instrument of another entity.
3. A contractual right to:
   a. Receive cash or another financial asset from another entity; or
   b. Exchange financial assets or financial liabilities with another entity under conditions that might generate a favorable economic effect to the entity.
4. A contract that will or may be settled in the entity's own equity instruments and is:
   a. A non-derivative for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments; or
   b. A derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose, the entity's own equity instruments do not include financial liabilities presented as equity instruments.

A financial liability is any liability that is one of the following:

1. A contractual obligation to:
   a. Deliver cash or another financial asset to another entity; or

Table 33. Dimension 7.1 – Presentation

Score		
Conceptual	Actual	Requirements
A	A	The basic and **all** additional requirements of presentation of financial instruments are met.
B	B	The basic and **at least one** additional requirement of presentation of financial instruments are met.
C	C	The basic requirement of presentation of financial instruments is met.
D	D	Performance is less than required for a C score.

b. Exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the entity.

2. A contract that will or may be settled in the entity's own equity instruments and is:

   a. A non-derivative for which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments; or

   b. A derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose, the entity's own equity instruments do not include financial liabilities presented as equity instruments.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all its liabilities.

A financial liability shall be presented as an equity instrument in the following two cases:

1. When it is a financial liability that includes a contractual obligation for the issuer to repurchase or redeem that financial liability for cash or another financial asset on exercise of the put and it has all the following features:

   a. It entitles the holder to a pro rata share of the entity's net assets in the event of the entity's liquidation.

   b. It has no priority over other claims to the assets of the entity on liquidation and it does not need to be converted into another instrument before it has no priority.

   c. All financial instruments that do not have priority over other claims to the assets of the entity on liquidation have identical features.

   d. It does not include any contractual obligation to deliver cash or another financial asset to another entity, or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the entity, and it is not a contract that will or may be settled in the entity's own equity instruments.

   e. The total expected cash flows attributable to the instrument over the life of the instrument are based substantially on the surplus or deficit, the change in the recognized net assets or the change in the fair value of the recognized and unrecognized net assets of the entity over the life of the instrument.

   f. The issuer must have no other financial instrument or contract that has total expected cash flows attributable to the instrument over the life of the instrument are based substantially on: (i) the surplus or deficit; (ii) the change in the recognized net assets; or (iii) the change in the fair value of the recognized and unrecognized net assets of the entity over the life of the instrument.

   g. The issuer must have no other financial instrument or contract that has the effect of substantially restricting or fixing the residual return to the financial liability holders.

2. When it is a financial liability that includes a contractual obligation for the issuing entity to deliver to another entity a pro rata share of its net assets only on liquidation and it has all the following features:

   a. It entitles the holder to a pro rata share of the entity's net assets in the event of the entity's liquidation.

   b. It has no priority over other claims to the assets of the entity on liquidation and it does not need to be converted into another instrument before it has no priority.

   c. All financial instruments that do not have priority over other claims to the assets of the entity on liquidation have an identical contractual obligation for the issuing entity to deliver a pro rata share of its net assets on liquidation.

   d. The issuer must have no other financial instrument or contract that has total expected cash flows attributable to the instrument over the life of the instrument are based substantially on: (i) the surplus or deficit; (ii) the change in the recognized net assets; or (iii) the change in the fair value of the recognized and unrecognized net assets of the entity over the life of the instrument.

   e. The issuer must have no other financial instrument or contract that has the effect of substantially restricting or fixing the residual return to the financial liability holders.

Basic requirement

1. Financial instruments or its component parts are presented as a financial asset, financial liability, or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial asset, a financial liability, and an equity instrument.

Additional requirements

A financial instrument is presented as an equity instrument rather than a financial liability if both conditions below are met:

1. The instrument includes no contractual obligation: (i) to deliver cash or another financial asset to another entity; or (ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the issuer.
2. The instrument will or may be settled in the issuer's own equity instruments and it is: (i) a non-derivative that includes no contractual obligation for the issuer to deliver a variable number of its own equity instruments; or (ii) a derivative that will be settled only by the issuer exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

Dimension 7.2 – Offsetting

Dimension 7.2 assesses the extent to which a financial asset and a financial liability are offset, and the net amount is presented in the statement of financial position in accordance with IPSAS 28 "Financial Instruments: Presentation." This dimension also assesses the extent to which an entity discloses information to enable users of its financial statements to evaluate the effect or potential effect of this offsetting.

MEASUREMENT GUIDANCE

Requirements of offsetting

A financial asset and a financial liability are offset, and the net amount presented in the statement of financial position when:

1. The entity currently has a legally enforceable right to set off the recognized amounts.
2. The entity intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Requirements of disclosures

The entity discloses in the notes to the financial statements, in a tabular format, unless another format is more appropriate:

1. The gross amounts of the recognized financial assets and liabilities.
2. The amounts that are set off when determining the net amounts presented in the statement of financial position.

Table 34. Dimension 7.2 – Offsetting

Score		
Conceptual	Actual	Requirements
A	A	**All** requirements of offsetting and **all** requirements of disclosures are met.
B	B	**All** requirements of offsetting and **at least three** requirements of disclosures are met.
C	C	**All** requirements of offsetting and **at least two** requirements of disclosures are met.
D	D	Performance is less than required for a C score.

3. The net amounts presented in the statement of financial position.
4. The amounts subject to any enforceable master netting arrangement or similar agreement, including the amounts related to: (i) any financial instruments that do not meet some or all the offsetting criteria and the amounts related; and (ii) any financial collateral.
5. The difference between the net amounts presented in the statement of financial position and the amounts subject to any enforceable master netting arrangement or similar agreement.

Dimension 7.3 – Disclosures relating to significance of financial instruments

Dimension 7.3 assesses the extent to which an entity discloses information enabling users of its financial statements to evaluate the significance of financial instruments for its financial position and performance in accordance with IPSAS 30 "Financial instruments: disclosures". This dimension does not include disclosures related to compound financial instruments with multiple embedded derivatives and accounting for credit exposures designated at fair value through surplus or deficit because they are unusual operations in the public sector. The disclosures related to offsetting financial assets and financial liabilities are covered in dimension 7.2 Offsetting.

MEASUREMENT GUIDANCE

General requirements of disclosures

The entity discloses the following information:

1. In the notes: the summary of significant accounting policies, the measurement basis (or bases) used in preparing the financial statements and the other accounting policies used that are relevant to an understanding of the financial statements.
2. In the statement of financial position or in the notes: the carrying amount of each of the categories of financial assets and financial liabilities, showing separately those irrevocably designated in these categories and those mandatorily measured as such.
3. In the statement of financial performance or in the notes: net gains or losses recognized in (i) surplus or deficit or (ii) net asset/equity, on each of the categories of financial assets and liabilities, showing separately net gains or losses on financial instruments irrevocably designated in these categories and those on financial instruments that are mandatorily measured as such.

Specific requirements of disclosures

The entity discloses the following information in the statement of financial position or in the notes:

1. If the entity has designated, as measured at fair value through surplus or deficit, a financial asset (or group of financial assets) that would otherwise be measured at fair value through net assets/

Table 35. Dimension 7.3 – Disclosures relating to significance of financial instruments

Score		
Conceptual	Actual	Requirements
A	A	**All** general and **all** specific requirements of disclosures that are applicable are met.
B	B	**All** general requirements and the **majority** of specific requirements of disclosures that are applicable are met.
C	C	**All** general requirements of disclosures are met.
D	D	Performance is less than required for a C score.

equity or amortized cost, it discloses: (i) the maximum exposure to credit risk at the end of the reporting period; (ii) the amount by which any related credit derivatives or similar instruments mitigate that maximum exposure to credit risk; (iii) the amount of change and cumulatively, in the fair value of the financial asset (or group of financial assets) that is attributable to changes in the credit risk of the financial asset and the method to determine it; and (iv) the amount of the change in the fair value of any related credit derivatives or similar instruments that has occurred during the period and cumulatively.

2. If the entity has designated, as measured at fair value through surplus or deficit, a financial liability (or group of financial assets) and is required to present the effects of changes in that liability's credit risk in net assets/equity, it discloses: (i) the amount of change and cumulatively, in the fair value of the financial liability that is attributable to changes in the credit risk of that liability and the method to determinate it; (ii) the difference between the financial liability's carrying amount and the amount the entity would be contractually required to pay at maturity to the holder of the obligation; (iii) any transfers of the cumulative gain or loss within net assets/equity during the period including the reason for such transfers; and (iv) if a liability is derecognized during the period, the amount (if any) presented in net assets/equity that was realized at derecognition.

3. If the entity has designated a financial liability as at fair value through surplus or deficit and is required to present all changes in the fair value of that liability (including the effects of changes in the credit risk of the liability) in surplus or deficit, it discloses: (i) the amount of change and cumulatively, in the fair value of the financial liability that is attributable to changes in the credit risk of that liability and the method to determinate it; and (ii) the difference between the financial liability's carrying amount and the amount the entity would be contractually required to pay at maturity to the holder of the obligation.

4. If the entity has designated investments in equity instruments to be measured at fair value through net assets/equity, it discloses: (i) the investments in equity instruments designated at fair value through net assets/equity; (ii) the reasons for using this presentation alternative; (iii) the fair value at the end of the reporting period; (iv) dividends recognized during the period; and (iv) any transfers of the cumulative gain or loss within net assets/equity during the period including the reason for such transfers.

5. If the entity derecognized investments in equity instruments measured at fair value through net assets/equity during the reporting period, it discloses: (i) the reasons for disposing of the investments; (ii) the fair value of the investments at the date of derecognition; and (iii) the cumulative gain or loss on disposal.

6. If the entity has reclassified any financial assets in the current or previous reporting periods, it discloses: (i) the date of reclassification; (ii) the detailed explanation of the change in management model and a qualitative description of its effect on the entity's financial statements; and (iii) the amount reclassified into and out of each category.

7. If the entity has reclassified any financial assets out of the fair value through surplus or deficit category and into amortized cost or fair value through net assets/equity category, it discloses: (i) the effective interest rate determined on the date of reclassification; and (ii) the interest revenue recognized.

8. If the entity has reclassified any financial assets out of the fair value through net assets/equity category and into amortized cost category or out of the fair value through surplus or deficit category and into amortized cost or fair value through net assets/equity category, it discloses: (i) the fair value of the financial assets at the end of the reporting period; and (ii) the fair value gain or loss that would have been recognized in surplus or deficit or net assets/equity during the reporting period if the financial assets had not been reclassified.

9. If the entity has financial assets pledged as collateral for liabilities or contingent liabilities, it discloses: (i) the carrying amount of the financial assets; and (ii) the terms and conditions relating to its pledge.

10. If the entity holds collateral (of financial or non-financial assets) and is permitted to sell or repledge the collateral in the absence of default by the owner of the collateral, it discloses: (i) the fair value of the collateral held; (ii) the fair value of any such collateral sold or repledged, and whether the entity has an obligation to return it; and (iii) the terms and conditions associated with its use of the collateral.
11. If the entity holds financial assets measured at fair value through net assets/equity and has recognized loss allowance in the net assets/equity, it discloses the loss allowance in the notes to the financial statements.
12. If the entity has defaults and breaches recognized loans payable, it discloses: (i) details of any defaults during the period of principal, interest, sinking fund, or redemption terms of those loans payable; (ii) the carrying amount of the loans payable in default at the end of the reporting period; and (iii) whether the default was remedied, or the terms of the loans payable were renegotiated, before the financial statements were authorized for issue.

The entity discloses the following information in the statement of financial performance or in the notes:

13. If the entity has (i) financial assets or financial liabilities measured at amortized cost, (ii) financial assets at fair value through net assets/equity, or (iii) financial liabilities that are not measured at fair value through surplus or deficit, it discloses the total interest revenue and total interest expense calculated using the effective interest method, showing the amounts separately for financial assets or liabilities measured at amortized cost and financial assets at fair value through net assets/equity.
14. If the entity has (i) financial assets or financial liabilities that are not at fair value through surplus or deficit or (ii) trust and other fiduciary activities that result in the holding or investing of assets on behalf of individuals, trusts, retirement benefit plans, and other institutions, it discloses the fee revenue and expense, other than amounts included in determining the effective interest rate.
15. If the entity derecognized financial assets measured at amortized cost, it discloses an analysis of the gain or loss recognized in the statement of financial performance, showing separately gains and losses arising from derecognition of those financial assets. This disclosure includes the reasons for derecognizing those financial assets.

The entity discloses the following information in the notes:

16. If the entity applies the requirements of hedge accounting, it discloses: (i) the entity's risk management strategy and how it is applied to manage risk; (ii) how the entity's hedging activities may affect the amount, timing, and uncertainty of its future cash flows; and (iii) the effect that hedge accounting has had on the entity's statement of financial position, statement of financial performance and statement of changes in net assets/equity.
17. The fair value of each class of financial assets and liabilities, in a way that permits it to be compared with the carrying amount. The entity may offset the fair value of each class if the carrying amounts are offset in the statement of financial position.
18. The methods and, when a valuation technique is used, the assumptions applied in determining fair values of each class of financial assets or liabilities. If there has been a change in valuation technique, the entity discloses that change and the reasons for making it.
19. The following information related to fair value hierarchy of each class of financial assets or liabilities:
    a. The level in the fair value hierarchy into which the fair value measurements are categorized in their entirety as follows: (i) Level 1 (quoted prices unadjusted in active markets for identical assets or liabilities); (ii) Level 2 (inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly); and (iii) Level 3 (inputs for the asset or liability that are not based on observable market data).

b. Any significant transfers between Level 1 and Level 2 of the fair value hierarchy and the reasons for those transfers. Transfers into each level are disclosed and discussed separately from transfers out of each level.

c. For fair value measurements in Level 3, a reconciliation from the beginning balances to the ending balances, disclosing separately changes during the period attributable to the following: (i) total gains or losses for the period recognized in surplus or deficit or in net assets/equity, showing the gains or losses recognized in surplus or deficit separately for financial assets or liabilities held at the end of the reporting period; (ii) purchases, sales, issues, and settlements; and (iii transfers into or out of Level 3 and the reasons for those transfers. For significant transfers, transfers into Level 3 shall be disclosed and discussed separately from transfers out of Level 3.

d. If changing one or more of the inputs to reasonably possible alternative assumptions would change fair value significantly for fair value measurements in Level 3, the entity states that fact and discloses the effect of those changes. Also, it discloses how the effect of a change to a reasonably possible alternative assumption was calculated.

20. If the market for a financial instrument is not active and the entity concludes that there is a difference between the transaction price and the amount that would be determined at initial recognition using a valuation technique, it discloses by class of financial instrument: (i) its accounting policy for recognizing that difference in surplus or deficit to reflect a change in factors (including time) that market participants would consider in setting a price; and (ii) the aggregate difference yet to be recognized in surplus or deficit at the beginning and end of the period and a reconciliation of changes in the balance of this difference.

The entity also discloses the following information in the notes:

21. If the entity has an insurance contract containing a discretionary participation feature when the fair value of that feature cannot be measured reliably, it discloses information to help users of the financial statements make their own judgments about the extent of possible differences between the carrying amount of those contracts and their fair value, including:

- The fact that fair value information has not been disclosed for these instruments.
- A description of the financial instruments, their carrying amount, and an explanation of why fair value cannot be measured reliably.
- Information about the market for these instruments.
- Information about whether and how the entity intends to dispose of these financial instruments.
- The fact when financial instruments whose fair value previously could not be reliably measured are derecognized, their carrying amount at the time of derecognition, and the amount of gain or loss recognized.

22. If the entity has concessionary loans (loans granted on below market terms) measured at amortized, it discloses: (i) nominal value of the loans at the end of the period; (ii) the purpose and terms of the various types of loans; (iii) valuation assumptions; and (iv) a reconciliation between the opening and closing carrying amounts of the loans, including: (a) nominal value of new loans granted during the period; (b) the fair value adjustment on initial recognition; (c) loans repaid during the period; (d) impairment losses recognized; (e) any increase during the period in the discounted amount arising from the passage of time; and (f) other changes.

23. If the entity has concessionary loans measured at fair value, it discloses: (i) nominal value of the loans at the end of the period; (ii) the purpose and terms of the various types of loans, including the nature of the concession; (iii) valuation assumptions; and (iv) a reconciliation between the opening and closing carrying amounts of the loans, including: (a) nominal value of new loans granted during the period; (b) the fair value adjustment on initial recognition; (c) loans repaid during the period; (d) the fair value adjustment during the period (separate from initial recognition); and (e) other changes.

24. If the entity has transferred financial assets that are not derecognized in their entirety, it discloses for each class of transferred financial assets that are not derecognized in their entirety:
    - The nature of the transferred assets.
    - The nature of the risks and rewards of ownership to which the entity is exposed.
    - A description of the nature of the relationship between the transferred assets and the associated liabilities, including restrictions arising from the transfer on the reporting entity's use of the transferred assets.
    - When the counterparty to the associated liabilities has recourse only to the transferred assets, a schedule that sets out the fair value of the transferred assets, the fair value of the associated liabilities and the net position (the difference between the fair value of the transferred assets and the associated liabilities).
    - When the entity continues to recognize all the transferred assets, the carrying amounts of the transferred assets and the associated liabilities.
    - When the entity continues to recognize the assets to the extent of its continuing involvement, the total carrying amount of the original assets before the transfer, the carrying amount of the assets that the entity continues to recognize, and the carrying amount of the associated liabilities.
25. If the entity has transferred financial assets that are derecognized in their entirety but has continuing involvement in them, it discloses for each type of continuing involvement:
    - The carrying amount of the assets and liabilities recognized in the entity's statement of financial position and represent the entity's continuing involvement in the derecognized financial assets, and the line items in which the carrying amount of those assets and liabilities are recognized.
    - The fair value of the assets and liabilities that represent the entity's continuing involvement in the derecognized financial assets.
    - The amount that best represents the entity's maximum exposure to loss from its continuing involvement in the derecognized financial assets, and information showing how the maximum exposure to loss is determined.
    - The undiscounted cash outflows that would or may be required to repurchase derecognized financial assets or other amounts payable to the transferee in respect of the transferred assets.
    - A maturity analysis of the undiscounted cash outflows that would or may be required to repurchase the derecognized financial assets or other amounts payable to the transferee in respect of the transferred assets, showing the remaining contractual maturities of the entity's continuing involvement.
    - Qualitative information that explains and supports the quantitative disclosures previously mentioned.
    - The gain or loss recognized at the date of transfer of the assets.
    - Revenue and expenses recognized, both in the reporting period and cumulatively, from the entity's continuing involvement in the derecognized financial assets.
    - If the total amount of proceeds from transfer activity that qualifies for derecognition in a reporting period is not evenly distributed throughout the reporting period: (i) when the greatest transfer activity took place within that reporting period; (ii) the amount recognized from transfer activity in that part of the reporting period; and (iii) the total amount of proceeds from transfer activity in that part of the reporting period.

Dimension 7.4 – Risk management disclosures

Dimension 7.4 assesses the extent to which an entity discloses information enabling users of its financial statements to evaluate the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the end of the reporting period, and how the entity manages those risks in accordance with IPSAS 30 – Financial instruments: disclosures.

MEASUREMENT GUIDANCE

This dimension considers the general and specific information that should be disclosed by the entities regarding to credit risk, liquidity risk, and market risk.

* Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.
* Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.
* Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk, and other price risk.

General requirements of disclosures

The entity discloses the following information in the notes for each type of risk arising from financial instruments:

1. The exposures to risk and how they arise, and any change from the previous period.
2. Its objectives, policies, and processes for managing the risk and the methods used to measure the risk, and any change from the previous period.
3. A summary of quantitative data about its exposure to that risk at the end of the reporting period.

Specific requirements of credit risk disclosures

The entity discloses the following information in the notes for financial instruments to which the impairment requirements are applied:

1. How an entity determined whether the credit risk of financial instruments has increased significantly since initial recognition, including, if and how: (i) financial instruments are considered to have low credit risk, including the classes of financial instruments to which it applies; and (ii) the presumption that there have been significant increases in credit risk since initial recognition when financial assets are more than 30 days past due, has been rebutted.
2. The entity's definition of default, including the reasons for selecting this definition.

Table 36. Dimension 7.4 – Risk management disclosures

Score		
Conceptual	Actual	Requirements
A	A	**All** general requirements of disclosures and **all** specific requirements of credit, liquidity, and market risk disclosures that are applicable are met.
B	B	**All** general requirements of disclosures and the **majority** of specific requirements of credit, liquidity, and market risk disclosures that are applicable are met.
C	C	**All** general requirements of disclosures are met.
D	D	Performance is less than required for a C score.

3. How the instruments were grouped if expected credit losses were measured on a collective basis.
4. How an entity determined that financial assets are credit-impaired financial assets.
5. The entity's write-off policy, including the indicators that there is no reasonable expectation of recovery and information about the policy for financial assets that are written-off but are still subject to enforcement activity.
6. How the requirements for the modification of contractual cash flows of financial assets have been applied, including how an entity: (i) determines whether the credit risk on a financial asset that has been modified while the loss allowance was measured at an amount equal to lifetime expected credit losses, has improved to the extent that the loss allowance reverts to being measured at an amount equal to 12-month expected credit; and (ii) monitors the extent to which the loss allowance on financial assets meeting the previously mentioned criteria is subsequently remeasured at an amount equal to lifetime expected credit losses.
7. The basis of inputs and assumptions and the estimation techniques used to: (i) measure the 12-month and lifetime expected credit losses; (ii) determine whether the credit risk of financial instruments has increased significantly since initial recognition; and (iii) determine whether a financial asset is a credit-impaired financial asset.
8. How forward-looking information has been incorporated into the determination of expected credit losses, including the use of macroeconomic information.
9. Changes in the estimation techniques or significant assumptions made during the reporting period and the reasons for those changes.
10. For each class of financial instrument, a reconciliation from the opening balance to the closing balance of the loss allowance, in a table, showing separately the changes during the period for: (i) the loss allowance measured at an amount equal to 12-month expected credit losses; (ii) the loss allowance measured at an amount equal to lifetime expected credit losses; (iii) financial assets that are purchased or originated credit-impaired. In addition to the reconciliation, an entity discloses the total amount of undiscounted expected credit losses at initial recognition on financial assets initially recognized during the reporting period.
11. How significant changes in the gross carrying amount of the financial instruments during the period contributed to changes in the loss allowance.
12. If modifications of contractual cash flows on financial assets have not resulted in derecognition, the entity discloses:
    - the amortized cost before the modification and the net modification gain or loss recognized for financial assets for which the contractual cash flows have been modified during the reporting period while they had a loss allowance measured at an amount equal to lifetime expected credit losses.
    - the gross carrying amount at the end of the reporting period of financial assets that have been modified since initial recognition at a time when the loss allowance was measured at an amount equal to lifetime expected credit losses and for which the loss allowance has changed during the reporting period to an amount equal to 12-month expected credit losses.
13. For each class of financial instrument, the effect of any collateral and other credit enhancements on the amounts arising from expected credit losses, showing:
    - the amount that best represents its maximum exposure to credit risk at the end of the reporting period without taking account of any collateral held or other credit enhancements.
    - a narrative description of collateral held as security and other credit enhancements, including: (i) a description of the nature and quality of the collateral held; (ii) an explanation of any significant changes in the quality of that collateral or credit enhancements as a result of deterioration or changes in the collateral policies of the entity during the reporting period; and (iii) information about financial instruments for which an entity has not recognized a loss allowance because of the collateral.
    - quantitative information about the collateral held as security and other credit enhancements for financial assets that are credit-impaired at the reporting date.

14. The contractual amount outstanding on financial assets that were written off during the reporting period and are still subject to enforcement activity.
15. The gross carrying amount of financial assets and the exposure to credit risk on loan commitments and financial guarantee contracts by credit risk rating grades, showing separately financial instruments: (i) for which the loss allowance is measured at an amount equal to 12-month expected credit losses; (ii) for which the loss allowance is measured at an amount equal to lifetime expected credit losses; and (iii) that are purchased or originated credit-impaired financial assets. In that case, receivables that result from exchange or non-exchange transactions or lease receivables the information provided may be based on a provision matrix.

The entity discloses the following information in the notes for financial instruments to which the impairment requirements are not applied:

16. The amount that best represents its maximum exposure to credit risk at the end of the reporting period without taking account of any collateral held or other credit enhancements. Except for those financial instruments whose carrying amount best represents the maximum exposure to credit risk.
17. A description of any collateral held as security and other credit enhancements, and their financial effect in respect of the amount that best represents the maximum exposure to credit risk, even whether the amount that best represents the maximum exposure to credit risk is the carrying amount of the financial instrument.

If the entity obtains financial or non-financial assets during the period by taking possession of any collateral it holds as security or calling on other credit enhancements, and such assets meet the recognition criteria in the financial statements, it discloses:

18. The nature and carrying amount of the assets.
19. If the assets are not readily convertible into cash, its policies for disposing of such assets or for using them in its operations.

Specific requirements of liquidity risk disclosures

An entity shall disclose:

1. A maturity analysis for non-derivative financial liabilities, including issued financial guarantee contracts, that shows the remaining contractual maturities, and how the entity manages the liquidity risk.
2. A maturity analysis for derivative financial liabilities, if applicable, that includes the remaining contractual maturities for those derivative financial liabilities for which contractual maturities are essential for an understanding of the timing of the cash flows, and how the entity manages the liquidity risk.

Specific requirements of market risk disclosures

1. If the entity prepares a sensitivity analysis, that does not reflect interdependencies between risk variables and does not use it to manage financial risks, it discloses:
   - a sensitivity analysis for each type of market risk to which the entity is exposed at the end of the reporting period, showing how surplus or deficit and net assets/equity would have been affected by changes in the relevant risk variable that were reasonably possible at that date.
   - the methods and assumptions used in preparing the sensitivity analysis.
   - changes from the previous period in the methods and assumptions used, and the reasons for such changes.
2. If the entity prepares a sensitivity analysis, such as value-at-risk, that reflects interdependencies between risk variables and uses it to manage financial risks, it may use that sensitivity analysis as disclosure and it additionally discloses:
   - an explanation of the method used in preparing such a sensitivity analysis, and of the main parameters and assumptions underlying the data provided.
   - an explanation of the objective of the method used and of limitations that may result in the information not fully reflecting the fair value of the assets and liabilities involved.

3. If any of the sensitivity analyses previously mentioned is unrepresentative of a risk inherent in a financial instrument, the entity discloses that fact and the reason it believes the sensitivity analysis is unrepresentative.

Pillar III. Non-financial assets and liabilities

Pillar III is concerned with accounting for nonfinancial assets and liabilities in financial statements in accordance with IPSAS 12 "Inventories", IPSAS 13 "Leases", IPSAS 16 "Investment Property", IPSAS 17 "Property, Plant and Equipment", IPSAS 19 "Provisions, Contingent Liabilities, and Contingent Assets", IPSAS 21 "Impairment of Non-Cash-Generating Assets", IPSAS 26 "Impairment of Cash-Generating Assets", IPSAS 27 "Agriculture", IPSAS 31 "Intangible Assets", IPSAS 32 "Service Concession Arrangements: Grantor", IPSAS 33 "First Time Adoption of Accrual Basis IPSAS", and IPSAS 39 "Employee Benefits". Those IPSAS provide overarching principles that fundamentally define what properties should be considered non-financial assets and under which circumstances a non-financial liability is present.

Nonfinancial assets generally refer to any possessions of a reporting entity that are of use in the pursuit of its objectives other than financial assets (see Pillar II for the definition of financial assets). IPSAS essentially differentiates nonfinancial assets according to their nature, purpose and/or contractual arrangements in property plant and equipment (PPE), investment property, inventories, biological assets, service concession assets, lease assets and intangibles. Beyond this broad classification, IPSAS provides a list of examples of assets deemed to be PPE. PPE is one of the largest asset class of governments and includes military equipment as well as heritage assets of cultural, environmental, and historical significance.

Following the generic IPSAS definition, as contained in the Conceptual Framework,[27] an asset provides the reporting entity a resource to achieve its objectives. A resource is present and thus provides future economic benefits or service potential to the reporting entity.

Future economic benefits relate to monetary resources in the form of net cash inflows generated from the use or sale of the asset. However, given that public sector reporting entities' primary objective typically is not revenue generation but rather the provision of public services (within its policy mandate), an asset's economic substance to qualify as a resource is not exclusively determined based on net cash inflows. Rather, public sector assets could also be in the form of service potential.

Service potential relates to an asset's capacity to facilitate the provision of services to citizens at no or only marginal cost. Thus, possessions of a public sector reporting entity could be considered assets if they provide resources deployable in the provision of public services and public goods or in the implementation of public policies.

Typical examples for assets that carry service potential rather than economic benefits are heritage or military assets. Those assets contribute to the preservation of cultural or natural heritage or to the provision of public security, respectively, and thus benefit the public at large but do not provide net cash inflows.

However, it should be noted that the two concepts, future economic benefits and service potential, could both apply and are not mutually exclusive. For example, in addition to having heritage value, a historic building could also accommodate government offices or be rented to third parties such that revenue is realized.

Recognition and presentation of an asset within the financial statement generally requires the reporting entity to have control of the asset to harness its service potential or to profit from its economic benefits. In most cases legal ownership is a good indicator of control. However, in some arrangements, such as lease or service concession arrangements, an entity can access economic benefits and harness service potential even if it is not the legal owner of the asset.

[27] See for further details the technical introduction to Pillar I: PSA Framework and PI-1 Conceptual Framework.

Another key requirement in accounting for nonfinancial assets and their recognition is the possibility of reliable measurement. The possibility to reliably measure an asset is fundamental to its capitalization. If the value of an asset cannot be accurately estimated, the validity of financial statements is significantly compromised. IPSAS provides different measurement approaches and respective alternatives for the case that certain necessary information is not available. If an asset cannot be measured by one of the measurement approaches, it is not considered reliably measurable.

IPSAS requires the application of different measurement approaches for different types of assets, but commonly requires adherence to a clear hierarchy in the application of those approaches. Mainly, the availability of information required for reliable and accurate measurement determines which measurement approach is to be applied. In absence of certain information, an inferior alternative lower in the hierarchy must be chosen.

During first-time adoption of IPSAS it may become necessary to use 'deemed costs' as a surrogate value if acquisition or depreciated cost are not available and thereby to treat the asset as if it has been just acquired at the given measurement date. The measurement hierarchy for determining deemed costs under first-time adoption follows a different logic than the ordinary measurement hierarchy.

Nonfinancial liabilities relate to contingencies and commitments due under certain conditions. Commitments made, but whose actual need for settlement depends upon the occurrence of a future event, are conditional. Typical examples include provisions, retirement benefit obligations or performance guarantees in service concession arrangements.[28] Upon occurrence of the event confirming the need for settlement, nonfinancial liabilities might convert into a financial liability. IPSAS does not consider the term "nonfinancial liabilities", but provides separate measurement, recognition, and disclosure principles for different economic events and contractual arrangements giving rise to liabilities generally considered as nonfinancial. This includes general provisions, lease arrangements, service concessions, and employee benefits.

Pillar III is the largest pillar and includes the following ten indicators:

* PI-8: Inventories
* PI-9: Biological assets
* PI-10: Leases
* PI-11: PPE recognition and measurement
* PI-12: PPE first time adoption and depreciation
* PI-13: Intangibles
* PI-14: Service concessions
* PI-15: Impairment
* PI-16: Provisions, contingent liabilities, and assets
* PI-17: Employee benefits

PI-8: Inventories

This indicator assesses the extent to which a reporting entity recognizes and measures inventories, such as materials or supplies to be consumed or distributed in the ordinary course of operations, in line with accrual accounting principles of IPSAS 12. This indicator has 3 dimensions.

[28] Service concession arrangements are often commonly referred to as Private-Public Partnerships i.e., PPPs

Dimension 8.1 – Definition and recognition

Dimension 8.1 assesses the extent to which the jurisdiction recognizes inventories in line with the definition of IPSAS 12.

MEASUREMENT GUIDANCE

The following types of assets are defined and recognized as inventories:

1. Materials or supplies to be consumed in the production process.
2. Materials or supplies to be consumed or distributed (or work required) in the rendering of services.
3. Assets held for sale or distribution in the ordinary course of operations.
4. Materials and supplies held for distribution (i.e., given away at no or nominal charge). For example, a school that distributes textbooks (purchased or donated) to its pupils should recognize the textbooks once acquired and any remaining after distribution. Inclusion of assets held for distribution is required for an A and B score, but not for a C score.
5. Work-in-progress: Assets in the process of production for sale or distribution (IPSAS 12.9), except work-in-progress of services provided for no or nominal consideration.

An A score requires that the inventory of service providers include the accrued costs of services rendered for an adequate fee or compensation (services to be provided for no or nominal consideration in return are not considered) (IPSAS 12.11 / IPSAS 12.28). For example, a public university that provides research support to a private engineering company in the testing of materials or appliances should recognize the labor and other costs of personnel. Services produced but not yet rendered should be recognized as inventories as expenses occur (IPSAS 12.44/45).

For a B score or less, the recognition of accrued costs for the rendering of service as inventory is not a requirement.

Table 37. Dimension 8.1 – Definition and recognition

Score		
Conceptual	Actual	Requirements
A	A	All materials or supplies held for consumption, distribution, or sale (either in the production process, rendering of services, or ordinary course of operations), and work-in-progress including services, are recognized as inventory.
B	B	All materials or supplies, held for consumption, distribution, or sale (either in the production process, rendering of services or ordinary course of operations), and work-in-progress other than services, are recognized as inventory.
C	C	All materials or supplies, held for consumption or sale either in the production process or ordinary course of operations, and those in the process of production for sale are recognized as inventory.
D	D	Performance is less than required for a C score.

Dimension 8.2 – Measurement

Dimension 8.2 assesses the extent to which inventories are measured in line with IPSAS 12.

MEASUREMENT GUIDANCE

Measurement of inventories

1. Inventories should be measured at the lower value of the following (IPSAS 12.15):
   - **a. Cost:** The cost of inventories consists mostly of its purchase price, among other elements (see "Elements of cost inventories" just below); or
   - **b. Net realizable value:** The net realizable value is the net amount expected to be realizable when selling an inventory item during the normal course of its operations (IPSAS 12.10).
2. Inventories, that are held for distribution or for the production of goods intended for distribution at no or for a nominal charge, should be measured at the lower value between the following (IPSAS 12.17):
   - a. **Cost:** The cost of inventories consists mostly of its purchase price, among other elements.
   - **b. Current replacement cost:** Replacement costs of inventories is the value the entity would have to spend to newly acquire the asset (at reporting date).
3. Inventories that are acquired through a non-exchange transaction should be initially measured based on the fair value at acquisition date (IPSAS 12.16), which corresponds to market value.
4. The cost of inventory items which cannot be distinguished from the stock of identical or interchangeable items is identified based on one of the following approaches:
   - a. **First-in-first-out (FIFO) cost formula (IPSAS 12.32-25):** Under the application of the FIFO cost identification strategy, it is assumed that the inventory that is purchased first was used, consumed, or distributed first. Consequently, the current stock at reporting date is presumed to consist of the items more recently purchased.
   - **b. Weighted average cost formula:** Interchangeable items' cost is determined by the weighted average of inventory regardless of its acquisition date.

Whichever option for cost measurement is chosen, the same approach must be applied to all inventories with similar nature and use to the entity.

Table 38. Dimension 8.2 – Measurement

Score		
Conceptual	Actual	Requirements
A	A	Inventories are measured at the lower value of cost (or fair value) or net realizable value (or current replacement cost), cost being defined as the purchase price plus or minus all elements of cost. The cost formula is first-in-first-out (FIFO) or weighted average.
B	B	Inventories are measured at the lower value of cost (or fair value) or net realizable value, cost being defined as the purchase price plus or minus at least three elements of cost. The cost formula is FIFO or weighted average.
C	C	Inventories are measured at their cost. Cost is defined as the purchase price plus or minus at least two elements of cost.
D	D	Performance is less than required for a C score.

Elements of cost of inventories

Apart from the purchase price, purchase costs also include:

1. Taxes: Import duties and other taxes (e.g., VAT).
2. Transaction costs: Transport, handling, and other costs directly attributable to the acquisition of finished goods, materials, or supplies. (IPSAS 12.19).
3. Cost of conversion: Cost of converting work-in-progress inventories to finished goods inventories includes costs directly related to the units of production, such as direct labor as well as systematic allocation of fixed and variable production overheads (IPSAS 12.20) based on the normal capacity of the production facilities (IPSAS 12.21).
4. It should be noted, however, that purchase costs does not include trade discounts, rebates, and other similar items (IPSAS 12.19). Hence, these elements should be excluded from the cost of inventories.

Dimension 8.3 – Disclosure

Dimension 8.3 assesses the extent to which all disclosures related to inventories are made.

MEASUREMENT GUIDANCE

Methodological disclosures

1. The accounting policies adopted in measuring inventories, including the cost formula that was used.

Disclosure elements within the table of changes

1. The total carrying amount of inventories and the carrying amount in classifications appropriate to the entity.
2. The carrying amount of inventories carried at fair value less costs to sell.
3. The amount of inventories recognized as an expense during the period.
4. The amount of any write-down of inventories recognized as an expense in the period.
5. The amount of any reversal of any write down that is recognized in the statement of financial performance in the period.
6. The circumstances or events that led to the reversal of a write down of inventories.
7. The carrying amount of inventories pledged as security for liabilities (IPSAS 12.47).

Table 39. Dimension 8.3 – Disclosure

Score		
Conceptual	Actual	Requirements
A	A	**All** items of the table of changes and the methodological disclosures are provided in the notes.
B	B	**At least 5 out of 7** items of the table of changes and the methodological disclosures are provided in the notes.
C	C	**At least 4 of 7** of the items of the table of changes are provided in the notes.
D	D	Performance is less than required for a C score.

PI-9: Biological assets

This indicator assesses the extent to which a reporting entity recognizes, measures, and discloses biologicals assets in line with accrual accounting principles as provided by IPSAS 27 and in line with general, overarching asset recognition principles as provided in the IPSAS conceptual framework. This indicator has 3 dimensions.

Dimension 9.1 – Definition and recognition

Dimension 9.1 assesses the extent to which the jurisdiction recognizes biological assets in line with IPSAS 27 and its definition of biological assets.

MEASUREMENT GUIDANCE

Principles specific to the recognition of a biological asset

1. **Definition / Biological Liveliness:** Biological assets are defined as living animals or plants (IPSAS 27.9). Agricultural produce that is harvested from biological assets is classified as inventory (IPSAS 27.18), since with harvest the biological life process ceases. Specific to the recognition of an asset as biological asset is its biological liveliness. For an A score liveliness is a required recognition principle.

General asset recognition principles equally applicable to biological assets

The following asset recognition principles are of generic nature in IPSAS and apply not exclusively to biological assets, but equally to any types of assets (e.g., also for property, plant, and equipment):

1. **Control:** An entity shall recognize biological assets only if it controls it based on a past event (IPSAS 27.13). Control of a resource is given if the reporting entity possesses the ability to use the resource to derive its economic benefit or service potential (IPSAS CF 5.11) and thus it is probable that future economic benefits or service potential will flow to the entity (IPSAS 27.13). If control is not determined on the probability that economic benefits or service potential will flow to the entity, and recognition is also not based on control but rather on other criteria, such as legal structures or ownership, it would at best qualify for a C score.
2. **Reliable measurement:** The possibility of reliable measurement (by either cost or fair value) exists (IPSAS 27.13).

Table 40. Dimension 9.1 – Definition and recognition

Score		
Conceptual	Actual	Requirements
A	A	Biological assets are defined as living animals or plants and are recognized based on liveliness, control, and the possibility of reliable measurement.
B	B	Biological assets are recognized based on control and the possibility of reliable measurement, but not defined as a separate asset class.
C	C	Biological assets are recognized based on legal aspects and reliable measurement, but not defined as a separate asset class.
D	D	Performance is less than required for a C score.

Dimension 9.2 – Measurement

Dimension 9.2 assesses the extent to which the jurisdiction has specified / implements the criteria for initial and subsequent measurement of biological assets in line with IPSAS 27.

MEASUREMENT GUIDANCE

Key guidelines for the measurement of biological assets:

* **Timing of measurement:** biological assets are measured at each reporting date (IPSAS 27.16).
* **Measurement hierarchy for fair value of biological assets:**

  The following three measurement approaches should be considered in order. Whenever possible, fair value should be determined based on quoted prices from an active market.

1. Biological assets are measured at fair value, whereby fair value is best determined based on quoted prices from an active market (IPSAS 27.16; IPSAS 27.21). Fair value is determined based on the asset's attributes (including location and condition) (IPSAS 27.14; IPSAS 27.19).
2. In the absence of an active market, other market indices (such as the most recent market transaction price, market prices for similar assets and/or sector benchmarks) are considered (IPSAS 27.22).
3. In case fair value cannot be measured reliably, biological assets are measured at cost less any accumulated depreciation and any accumulated impairment losses (IPSAS 27.34).

Table 41. Dimension 9.2 –Measurement

Score		
Conceptual	Actual	Requirements
A	A	Biological assets are initially and at each reporting date measured at fair value less costs to sell based on the measurement hierarchy. Where fair value cannot be measured reliably, biological assets are measured at cost less any accumulated depreciation and impairment losses.
B	B	Biological assets are initially and at each reporting date measured at fair value less costs to sell. Where fair value cannot be measured reliably, biological assets are measured at cost less any accumulated depreciation and impairment losses.
C	C	Biological assets are initially and at each reporting date measured at cost less any accumulated depreciation.
D	D	Performance is less than required for a C score.

Dimension 9.3 – Disclosure

Dimension 9.3 assesses the extent to which the jurisdiction discloses all additional information required by IPSAS 27.

MEASUREMENT GUIDANCE

Disclosure requirements related to biological assets are the following:

1. Aggregate gain or loss which arises during the current period on initial recognition of biological assets and agricultural produce and from the change in fair value less costs to sell (IPSAS 27.38).
2. Description of biological assets that distinguishes between consumable and bearer biological assets and between biological assets held for sale and those held for distribution at no charge or for a nominal charge (IPSAS 27.39).
3. Methods and significant assumptions applied in determining the fair value of each group of agricultural produce at the point of harvest and each group of biological assets? (IPSAS 27.45).
4. Fair value less costs to sell of agricultural produce harvested during the period (IPSAS 27.46).
5. Existence and carrying amounts of assets whose title is restricted or pledged as security, nature and extent of restrictions and amount of commitments as well as financial risk management strategies (IPSAS 27.47).
   - The existence and carrying amounts of biological assets whose title is restricted, and the carrying amounts of biological assets pledged as security for liabilities.
   - The nature and extent of restrictions on the entity's use or capacity to sell biological assets.
   - The amount of commitments for the development or acquisition of biological assets.
   - Financial risk management strategies related to agricultural activity.
6. Reconciliation of changes in the carrying amount of biological assets between the beginning and the end of the current period. (IPSAS 27.48).
7. For biological assets, whose fair value cannot be reliably measured, additional disclosures on the nature, applied depreciation method and parameters (useful lives and depreciation rates), possible estimates or value ranges, and a statement on why fair value cannot be reliably measured, are made. cf. IPSAS 27 paras. 52 – 54.

Table 42. Dimension 9.3 – Disclosure

Score		
Conceptual	Actual	Requirements
A	A	**All** significant disclosures related to biological assets are included in the notes of the financial statements.
B	B	**At least five** of the significant disclosures related to biological assets are included in the notes of the financial statements.
C	C	**At least three** of the significant disclosures related to biological assets are included in the notes of the financial statements.
D	D	Performance is less than required for a C score

PI-10: Leases

This indicator assesses the extent to which a reporting entity recognizes, measures, and discloses assets and liabilities stemming from lease arrangements in line with IPSAS 13. This indicator has 4 dimensions.

Dimension 10.1 – Definition and classification

Dimension 10.1 assesses the extent to which the jurisdiction has specified / implements the definition and classification criteria to effectively distinguish operating and finance leases.

MEASUREMENT GUIDANCE

Definition

* A lease is as an agreement in which 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 (IPSAS 13.8).

Classification of leases

1. Finance lease: A lease is classified as finance lease if it substantially transfers all the risks and rewards incidental to ownership (IPSAS 13.13).
2. Operating lease: A lease is classified as operating lease if it does not transfer substantially all the risks and rewards incidental to ownership (IPSAS 13.13).
3. Classification depends on the economic substance of the transaction rather than the form of the contract (IPSAS 13.15). The following situations are normally considered to be a finance lease (non-exhaustive):
   a. The lease transfers ownership of the asset to the lessee by the end of the lease term.
   b. The lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised.
   c. The lease term is for a major part of the economic life of the asset, even if title is not transferred.
   d. At the inception of the lease, the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset.
   e. The leased assets are of such a specialized nature that only the lessee can use them without major modifications.
   f. The leased assets cannot easily be replaced by another asset.

Table 43. Dimension 10.1 – Definition and classification

Score		
Conceptual	Actual	Requirements
A	A	Transfer of the right to use an asset for an agreed period of time in return of a payment or series of payments is recognized either as a finance or operating lease based on the economic substance of the transaction.
B	B	Transfer of the right to use an asset for an agreed period of time in return of a payment or series of payments is recognized either as a finance lease or operating lease based on a legal definition.
C	C	Transfer of the right to use an asset for an agreed period of time in return of a payment or series of payments is recognized as operating leases.
D	D	Performance is less than required for a C score.

In case an entity/jurisdiction does not consider the above listed indications in assessing the substance of the contractual arrangement underlying the transaction, but rather considers legal definitions and ownership (and thereby deviates from the "substance over form principle"), then it would qualify at best for a B score.

Dimension 10.2 – Recognition from the perspective of lessor and lessee

Dimension 10.2 assesses the extent to which the jurisdiction has specified / implements the recognition criteria in line with IPSAS 13.

MEASUREMENT GUIDANCE

If a reporting entity only acts as either lessee or lessor (and not both), the corresponding requirements should be considered when assessing the actual perspective of this dimension. For the identification of conceptual gaps (between the existing accounting framework and IPSAS), the requirements of both perspectives (lessee and lessor) shall be considered.

Recognition from the perspective of a lessee

Finance lease:

* At the commencement of the lease term, the lessee recognizes assets acquired under finance lease as assets (IPSAS 13.28).
* The associated lease obligations are recognized as liabilities (IPSAS 13.28).
* The finance charge shall be allocated to each period during the lease term (IPSAS 13.34).
* Any excess of sales proceeds resulting within sale and leaseback transaction/arrangement, that qualifies as finance lease, should not be recognized as revenue immediately but rather be deferred and amortized over the lease term (IPSAS 13.71).

Table 44. Dimension 10.2 – Recognition from the perspective of lessor and lessee

Score		
Conceptual	Actual	Requirements
A	A	If the entity is a lessee, it recognizes assets acquired under finance leases as assets, and the associated lease obligations as liabilities. The finance charge is allocated to each period during the lease term. Lease payments under operating leases are recognized as expenses. If the entity is a lessor, it recognizes lease payments receivable under financial leases as assets and finance revenue based on a pattern reflecting a constant periodic rate of return. Lessor assets subject to operating leases are presented according to the nature of the assets.
B	B	If the entity is a lessee, it recognizes assets acquired under finance leases as assets, and the associated lease obligations as liabilities. Lease payments under operating leases are recognized as expenses. If the entity is a lessor, it recognizes lease payments receivable under financial leases as assets.
C	C	Lease payments are recognized as expenses. Lease payments receivable are recognized as revenues.
D	D	Performance is less than required for a C score

Operating lease:

* Lease payments under operating leases are to be recognized as expenses (IPSAS 13.42).
* Any gains and losses resulting within a sale and leaseback transaction/arrangement, that qualifies as operating lease, should be recognized immediately (IPSAS 13.73).

Recognition from the perspective of a lessor

Finance lease:

* Recognition of lease payments as assets in the statements of financial position (IPSAS 13.48).
* Recognition of finance revenue based on a pattern reflecting a constant periodic rate of return on the net investment in the finance lease (IPSAS 13.51).

Operating lease:

* Presentation of assets subject to operating leases in the statements of financial position as according to the nature of the asset (IPSAS 13.62).
* Recognition of revenue from operating leases on a straight-line basis over the lease term (unless another systematic basis is more representative of the time pattern in which benefits are derived) (IPSAS 13.63).

Dimension 10.3 – Measurement (Finance Lease)

Dimension 10.3 assesses the extent to which the jurisdiction has specified / implements the criteria for measurement of assets and liabilities in conjunction with a finance lease in line with IPSAS 13.

Table 45. Dimension 10.3 – Measurement (Finance Lease)

Score		
Conceptual	Actual	Requirements
A	A	If an entity is a lessee, assets and liabilities are measured at the lower of fair value and the present value of the minimum lease payments using the implicit interest rate under finance lease. Finance charge and the reduction of the outstanding liability are allocated separately and to each period in the lease term. The asset recognized by the lessee is depreciated like other items of PPE. If an entity is a lessor, payments receivable are measured at an amount equal to the net investment in the lease.
B	B	If an entity is a lessee, assets and liabilities are measured at the lower of fair value and the present value of the minimum lease payments using the implicit interest rate under finance lease. The asset recognized by the lessee is depreciated like other items of PPE. Where an entity is a lessor, payments receivable are measured at an amount equal to the net investment in the lease.
C	C	Where an entity is a lessee, assets and liabilities are measured at fair value or the present value of the minimum lease payments using the implicit interest rate under finance lease. Where an entity is a lessor, payments receivable are measured at an amount equal to the net investment in the lease.
D	D	Performance is less than required for a C score.

MEASUREMENT GUIDANCE

Measurement of finance leases for lessees:

* The assets and liabilities shall be recognized at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease (IPSAS 13.28).
* The discount rate to be used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease, if this is practicable to determine; if not, the lessee's incremental borrowing rate shall be used (IPSAS 13.28).
* Minimum lease payments shall be apportioned between the finance charge and the reduction of the outstanding liability. The finance charge shall be allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability (IPSAS 13.34).
* The depreciation policy for depreciable leased assets shall be consistent with that for depreciable assets that are owned (IPSAS 13.36). The recognized depreciation must be calculated in accordance with IPSAS 17 and IPSAS 31 as appropriate.

Measurement of finance leases for lessors

* Lease payments receivable are to be recognized as asset and presented as a receivable at an amount equal to the net investment in the lease (IPSAS 13.48).
* The recognition of finance revenue must be based on a pattern reflecting a constant periodic rate of return on the lessor's net investment (IPSAS 13.51).

Dimension 10.4 – Disclosure

Dimension 10.4 assesses the extent to which all disclosures related to leases are made.

Table 46. Dimension 10.4 – Disclosure

Score		
Conceptual	Actual	Requirements
A	A	In the existence of finance leases and/or operating leases, **all** items of disclosures for lessees and **all** items of disclosures for lessors are provided in the notes (as applicable).
B	B	In the existence of operating leases, **at least three** items of disclosures for lessees and **at least two** items of disclosures for lessors are provided in the notes (as applicable). In the existence of finance leases, **at least four** items of disclosures for lessees and **at least five** items of disclosures for lessors are provided in the notes (as applicable).
C	C	In the existence of operating leases, **at least two** items of disclosures for lessees and **at least one** item of disclosures for lessors are provided in the notes (as applicable). In the existence of finance leases, **at least two** items of disclosures for lessees and **at least three** items of disclosures for lessors are provided in the notes (as applicable).
D	D	Performance is less than required for a C score

MEASUREMENT GUIDANCE

Disclosures for lessees

Operating leases (IPSAS 13.44):

1. The total of future minimum lease payments under non-cancelable operating leases for a short (< one year), medium (1-5 years) and long (> 5 years) period.
2. The total of future minimum sublease payments expected to be received under non-cancelable subleases at the reporting date.
3. Lease and sublease payments recognized as an expense in the period, with separate amounts for minimum lease payments, contingent rents, and sublease payments.
4. A general description of the lessee's significant leasing arrangements including, but not limited to the basis on which contingent rent payments are determined; the existence and terms of renewal or purchase options and escalation clauses; and restrictions imposed by lease arrangements, such as those concerning return of surplus, return of capital contributions, dividends or similar distributions, additional debt, and further leasing.

Finance leases (IPSAS 13.40):

1. For each class of assets, the net carrying amount at the reporting date.
2. A reconciliation between the total of future minimum lease payments at the reporting date, and their present value.
3. Disclosure of the total of future minimum lease payments at the reporting date, and their present value for a short (< one year), medium (1-5 years) and long (> 5 years) period.
4. Contingent rents recognized as an expense in the period.
5. The total of future minimum sublease payments expected to be received under non-cancelable subleases at the reporting date.
6. A general description of the lessee's material leasing arrangements including, but not limited to the basis on which contingent rent payable is determined, the existence and terms of renewal or purchase options and escalation clauses; and restrictions imposed by lease arrangements (such as those concerning return of surplus, return of capital contributions, dividends or similar distributions, additional debt, and further leasing).

Disclosures for Lessors

Operating leases (IPSAS 13.69):

1. The future minimum lease payments under non-cancellable operating leases in the aggregate and for a short (< one year), medium (1-5 years) and long (> 5 years) period.
2. Total contingent rents recognized in the statement of financial performance in the period.
3. A general description of the lessor's leasing arrangements.

Finance leases (IPSAS 13.60)

1. A reconciliation between the total gross investment in the lease at the reporting date, and the present value of minimum lease payments receivable at the reporting date.
2. Gross investment in the lease and the present value of minimum lease payments receivable at the reporting date, for a short (< one year), medium (1-5 years) and long (> 5 years) period.
3. Unearned finance revenue.
4. The unguaranteed residual values accruing to the benefit of the lessor.
5. The accumulated allowance for uncollectible minimum lease payments receivable.
6. Contingent rents recognized in the statement of financial performance.
7. A general description of the lessor's material leasing arrangements.

PI-11: Property, plant, and equipment – recognition and measurement

This indicator assesses the extent to which a reporting entity recognizes and measures all types of property, plant, and equipment and investment property in line with IPSAS 17 and IPSAS 16, respectively. The indicator further considers general, overarching principles relevant in asset accounting as entailed in the IPSAS conceptual framework. This indicator has 4 dimensions.

If an entity / jurisdiction does not possess or is restricted in possessing investment property, the requirements should not be further considered in the assessment of actual practice. However, in the conceptual assessment, requirements for investment property should be considered regardless of whether these are currently relevant in practice, as non-consideration in a jurisdiction's accounting framework would mark a significant deviation.

Dimension 11.1 – Definition and recognition

Dimension 11.1 assesses the extent to which the jurisdiction has specified / implemented the recognition criteria for PPE and investment property in line with IPSAS 16 and 17, respectively, as well as its congruence to the overarching principles of the IPSASB conceptual framework.

MEASUREMENT GUIDANCE

Definition

* PPE is defined as tangible items held for use in the production or supply of goods or services, for rental to others, or for administrative purposes, with an expected use of more than one reporting period (IPSAS 17.13). In contrast to PPE, investment property is held for the purpose of earning rent and for capital appreciation (IPSAS 16.7).

Recognition principles

* **Control:** Control of a resource is given if the reporting entity possesses the ability to use the resource to derive its economic benefit or service potential (IPSAS CF 5.11) and thus it's probable that future economic benefits or service potential will flow to the entity (IPSAS 17.14 / IPSAS 16.20).
    - If control is not determined on the probability that economic benefits or service potential will flow to the entity, and recognition is also not based on control but rather on other criteria, such as legal structures or ownership, it would at best qualify for a C score.

Table 47. Dimension 11.1 – Definition and recognition

Score		
Conceptual	Actual	Requirements
A	A	All assets defined as PPE or investment property according to the definition are recognized based on control, the possibility of reliable measurement, and differentiated capitalization thresholds.
B	B	Most assets defined as PPE or investment property according to the definition are recognized based on control and the possibility of reliable measurement.
C	C	A majority of the assets defined as PPE or investment property according to the definition are recognized based on other criteria, but only if they are reliably measurable.
D	D	Performance is less than required for a C score.

* **Reliable measurement:** Possibility of reliable measurement (of either cost or fair value) must be given (IPSAS 17.14 / IPSAS 16.20).
* **Capitalization thresholds:** Although IPSAS 17 does not explicitly require governments and public sector entities to establish capitalization thresholds, it is a key condition to achieve an A score in dimension 11.1 as it ensures implementation of materiality (IPSAS CF 3.32-3.34) and cost benefit (IPSAS CF 3.35-3.40) considerations.

Scope of recognition

* The scope of assets considered for recognition should include all the following types (IPSAS 16, IPSAS 17.21, IPSAS 17.52):
    1. Investment property
    2. Land
    3. Operational buildings
    4. Roads
    5. Electricity transmission networks
    6. Oil rigs
    7. Other infrastructure
    8. Weapon systems
    9. Aircraft
    10. Ships
    11. Motor vehicles
    12. Machinery
    13. Furniture and fixtures
    14. Office equipment
    15. Bearer plants

Dimension 11.2 – Initial measurement

Dimension 11.2 assesses the extent to which the jurisdiction has specified / implemented the criteria for initial measurement of property, plant, and equipment and investment property in line with IPSAS 16 and 17.

MEASUREMENT GUIDANCE

Property, plant and equipment and investment property should be measured at cost in case of an exchange transaction or at fair value at acquisition date in case of a non-exchange transaction (IPSAS 16.26-27; IPSAS 17.26-27).

Table 48. Dimension 11.2 – Initial measurement

Score		
Conceptual	Actual	Requirements
A	A	PPE and investment property are measured initially at cost, defined as the purchase price plus or minus **all** elements of cost applicable to PPE and excluding any resources incurred in the start-up, construction, or development phase of investment property in the case of an exchange transaction, or fair value at acquisition date in the case of a non-exchange transaction.
B	B	PPE and investment property are measured initially at cost, defined as the purchase price plus or minus **at least four** elements of cost applicable to PPE and excluding any resources incurred in the start-up, construction, or development phase of investment property in the case of an exchange transaction, or fair value at acquisition date in the case of a non-exchange transaction.
C	C	PPE and investment property are measured initially at cost, defined as the purchase price plus or minus **at least three** elements of cost applicable to PPE.
D	D	Performance is less than required for a C score.

Elements of cost of PPE

1. Import duties and nonrefundable purchase taxes (IPSAS 17.30).
2. Transportation costs (IPSAS 17.30), including initial delivery and handling costs (IPSAS 17.31).
3. Installation costs (IPSAS 17.30), including employee benefits arising directly from the construction or acquisition of the item of PPE, and including site preparation, installation and assembly costs, costs of testing, and professional fees (IPSAS 17.31).
4. Estimated future dismantlement, removal, or restoration cost (IPSAS 17.30).
5. It should be noted that cost of PPE does not comprise any potential discounts and rebates and, thus, they should not be included in the cost.

Elements of cost of investment property

1. Purchase price and any directly attributable expenditure (IPSAS 16.28).
2. Cost of investment property does not comprise start-up costs, operating losses incurred before the investment property achieves the planned level of occupancy, abnormal amounts of wasted material, labor or other resources incurred in constructing or developing property (IPSAS 16.30).

Dimension 11.3 – Subsequent measurement: Cost model

Dimension 11.3 assesses the extent to which a jurisdiction that opted for the cost model approach for subsequent measurement of PPE and investment property has specified / implemented the criteria in line with IPSAS 16 and 17.

MEASUREMENT GUIDANCE

If the cost model is not applied to any PPE or investment property and the revaluation model is applied instead, this score should be n/a.

Measurement at cost for PPE

* Subsequent measurement of PPE at cost less any accumulated depreciation (IPSAS 17.43).
* Deduction of any impairment losses (IPSAS 17.43).
* Application of the same subsequent measurement method for an entire class of PPE (IPSAS 17.42).

Measurement at cost for investment property

* Subsequent measurement of investment property at cost less any accumulated depreciation (IPSAS 16.65).
* Deduction of any impairment losses (IPSAS 16.65).

Table 49. Dimension 11.3 – Subsequent measurement: Cost model

Score		
Conceptual	Actual	Requirements
A	A	PPE and investment property are subsequently measured at cost less any accumulated depreciation and any impairment losses. The subsequent measurement method is consistently applied for an entire class of PPE or all investment property.
B	B	PPE and investment property are subsequently measured at cost less any accumulated depreciation and any impairment losses.
C	C	PPE and investment property is subsequently measured at cost less any accumulated depreciation.
D	D	Performance is less than required for a C score.

* Application of the same subsequent measurement method for all investment properties (IPSAS 16.39).

Dimension 11.4 – Subsequent measurement: Revaluation model

Dimension 11.4 assesses the extent to which a jurisdiction that opted for the revaluation model approach for subsequent measurement of PPE and investment property has specified / implemented the criteria in line with IPSAS 16 and 17.

MEASUREMENT GUIDANCE

If the revaluation model is not applied to any PPE or investment property and the cost model is applied instead, this score should be n/a.

Subsequent measurement of PPE following the revaluation model

1. Subsequent measurement of PPE at fair value at the date of the revaluation less any accumulated depreciation (IPSAS 17.42) (minimum requirement for a C score).
2. Deduction of any impairment losses (IPSAS 17.42) (required for an A and B score).
3. Application of the same subsequent measurement method for an entire class of PPE (IPSAS 17.42) and performance of revaluations of PPE for an entire class of assets (IPSAS 17.51) (required for an A score).
4. Sufficient regularity of revaluations of PPE (IPSAS 17.44). Some items of PPE might be subject to significant and volatile changes in fair value and should thus be revalued at least at each reporting date. Other items of PPE might experience only insignificant changes in fair value – for those it is sufficient to conduct a revaluation every three to five years (IPSAS 17.49). The frequency of revaluations should thus be rooted in occurrence and significance of changes in fair value. For an A and B score, revaluation of items considered involatile should be conducted at least every five years.
5. Measurement hierarchy: (required for an A and B score)
   - Determination of fair value based on market-based evidence (IPSAS 17.45).
   - In the absence of market-based evidence, alternative reliable estimates of fair value are encouraged / used. The alternative fair value estimation approaches for PPE include reference to other items with similar characteristics, reproduction costs, depreciated replacement costs, or service units approach (IPSAS 17.47-48).

Table 50. Dimension 11.4 – Subsequent measurement: Revaluation model

Score		
Conceptual	Actual	Requirements
A	A	PPE and investment property is subsequently measured at fair value, in sufficient frequency and respecting the measurement hierarchy, less any accumulated depreciation and any impairment losses. The subsequent measurement method is consistently applied for an entire class of PPE or all investment property.
B	B	PPE and investment property is subsequently measured at fair value, in sufficient frequency and respecting the measurement hierarchy, less any accumulated depreciation and any impairment losses.
C	C	PPE and investment property is subsequently measured at fair value less any accumulated depreciation.
D	D	Performance is less than required for a C score.

Subsequent measurement of investment property following the revaluation model

1. Subsequent measurement of investment property at fair value at the date of the revaluation less any accumulated depreciation (IPSAS 16.39) (minimum requirement for a C score).
2. Deduction of any impairment losses (IPSAS 16.39) (required for an A and B score).
3. Application of the same subsequent measurement method for all investment properties (IPSAS 16.39) (required for an A score).
4. Sufficient regularity of revaluations: For investment property (subsequently measured following the revaluation model), IPSAS 17's requirements should be followed (IPSAS 16.65) and accordingly the frequency of revaluations should be determined in consideration of expected occurrence and significance of changes in fair value. For an A and B score, revaluation of investment property, whose changes in fair value are expected to occur infrequently and deemed insignificant, should be conducted at least every five years (IPSAS 17.49).
5. Measurement hierarchy: (required for an A and B score)
   - Determination of fair value based on market-based evidence (IPSAS 16.47-54).
   - In the absence of market-based evidence, alternative reliable estimates of fair value are encouraged / used (IPSAS 16.55). The alternative fair value estimation approaches for investment property are current prices in active markets for different properties of different nature but adjusted to reflect those differences, recent prices in less active markets or discounted cash flow projections (IPSAS 16.55), and the fallback option cost model (IPSAS 16.62).

PI-12: Property, plant, and equipment – first time adoption and depreciation

This indicator assesses the extent to which a reporting entity depreciates PPE and provides relevant disclosures related to PPE and investment property following the stipulations of IPSAS 17. For reporting entities in the pursuit of first-time adoption of IPSAS, the indicator assesses whether first-time measurement of PPE considers the stipulations of IPSAS 33. This indicator has 3 dimensions.

If an entity / jurisdiction does not possess or is restricted in possessing investment property, the requirements should not be further considered in the assessment of actual practice. However, in the conceptual assessment, requirements for investment property should be considered regardless of whether these are currently relevant in practice, as non-consideration in a jurisdiction's accounting framework would mark a significant deviation.

Dimension 12.1 – Measurement at first time adoption

Dimension 12.1 assesses the extent to which the jurisdiction has specified / implements criteria for measurement at first time adoption in line to IPSAS 33.

MEASUREMENT GUIDANCE

Measurement requirements

1. Use of surrogate values / deemed cost for PPE as an alternative: If acquisition (historic) costs are not available, surrogate values are considered and deemed as cost (IPSAS 33.64 and 65). Deemed cost is defined as a surrogate value for acquisition or depreciated cost (IPSAS 39.9).
2. Determination of surrogate values / deemed cost of PPE through one of the following approaches:

Table 51. Dimension 12.1 – Measurement at first time adoption

Score		
Conceptual	Actual	Requirements
A	A	During first time adoption, **all** assets of PPE, for which no reliable cost information is available, are measured at fair value or a comparable previous value as a surrogate. Investment property, for which relevant information, as required under the elected approach, is not available, is alternatively measured using fair value or depreciated replacement cost.
B	B	During first time adoption, **most** assets of PPE are measured at fair value or a comparable previous value as a surrogate. Investment property, for which relevant information, as required under the elected approach, is not available, is alternatively measured using fair value or depreciated replacement cost.
C	C	During first time adoption, a **majority** of assets of PPE and investment property are measured at fair value or a comparable previous value as a surrogate.
D	D	Performance is less than required for a C score.

- Use of fair value as deemed cost (IPSAS 33.64). In determining fair value for PPE and investment property, market-based evidence should be considered. If such information is not available (e.g., in the absence of an active market) then replacement or reproduction cost or the service unit approach could be used following IPSAS 17 (Cf. IPSAS 33 BC93).
- Use of a comparable previous value. It is possible to use the revaluation amount of the previous basis of accounting as deemed cost if the revaluation is broadly comparable to fair value, cost, or depreciated cost (IPSAS 33.67).

3. Use of surrogate values / deemed cost for investment property as subordinate alternative:
   - If a first-time adopter elects to use the cost model of IPSAS for investment property and reliable cost information is not available, fair value could be used as deemed cost (IPSAS 33.64).
   - If a first-time adopter elects to use the revaluation amount for investment property of specialized nature and reliable market-based evidence is not available to determine fair value, deemed cost is depreciated replacement cost (IPSAS 33.70).

Asset types in the scope of first-time adoption measurement

* The following asset types should be measured following the aforementioned measurement approach in the course of first-time adoption (IPSAS 16, IPSAS 17.21, IPSAS 17.52):
  1. Investment property
  2. Land
  3. Operational buildings
  4. Roads
  5. Electricity transmission networks
  6. Oil rigs
  7. Other infrastructure
  8. Weapon systems
  9. Aircraft
  10. Ships
  11. Motor vehicles
  12. Machinery
  13. Furniture and fixtures
  14. Office equipment
  15. Bearer plants

Dimension 12.2 – Depreciation

Dimension 12.2 assesses the extent to which the jurisdiction depreciates PPE following IPSAS 17.

MEASUREMENT GUIDANCE

Definition

* Systematic allocation of the depreciable amount of an asset over the period an asset is expected to be available for use (i.e., useful life) (IPSAS 17.13; 17.66).

Recognition / systematic allocation of the depreciable amount

* Depreciation of an asset begins when it is available for use (IPSAS 17.71).
* Separate depreciation of each item (IPSAS 17.60).
* Separate depreciation of each part of an item of PPE with a cost that is significant in relation to the total cost of the item (e.g., components) (IPSAS 17.59).
* Recognition of depreciation charges in surplus or deficit (IPSAS 17.64).
* Depreciation is not charged to surplus or deficit when it is capitalized as part of another asset (e.g., production of inventories, own PPE, or intangibles) (IPSAS 17.64).

Determination of the depreciable amount:

* Review of the residual value and the useful life of an asset at least at each annual reporting date (IPSAS 17.67).
* Consideration of all the following economic factors in determining the useful life of an asset (IPSAS 17.72):
  a. Expected usage.
  b. Expected physical wear and tear.
  c. Technical or commercial obsolescence arising from changes or improvements in the production, or from a change in the market demand for the product or service output of an asset.
  d. Legal or similar limits on the use of the asset.

Table 52. Dimension 12.2 – Depreciation

Score		
Conceptual	Actual	Requirements
A	A	Depreciation is recognized as the systematic allocation of the depreciable amount of an asset or component of an asset over its useful life. Depreciation is recognized in surplus or deficit unless it is capitalized as part of another asset. The depreciable amount, the useful life and the depreciation pattern are determined considering economic factors and reviewed at least at each reporting date.
B	B	Depreciation is recognized as the systematic allocation of the depreciable amount of an asset over its useful life. Depreciation is recognized in surplus or deficit. The depreciable amount, the useful life, and the depreciation pattern are determined considering economic factors and reviewed periodically.
C	C	Depreciation is recognized as the systematic allocation of the depreciable amount of an asset over its useful life. Depreciation is recognized in surplus or deficit.
D	D	Performance is less than required for a C score.

Depreciation method

* The depreciation method shall reflect the pattern in which the assets' future economic benefit or service potential is expected to be consumed by the entity (IPSAS 17.76). Based on the expected pattern of the consumption of an asset, an entity selects the depreciation method (IPSAS 17.78), which corresponds to one of the following (IPSAS 17.78):
    e. Straight-line method: constant charge of depreciation over the asset's useful life.
    f. Diminishing balance method: The depreciation charge is allocated in a decreasing manner over the asset's useful life e.g., through depreciating a percentage of the carrying amount.
    g. Units of production method: Depreciation charge is based on the expected use of an asset and its output.
* The depreciation method should be applied consistently but reviewed at least at each annual reporting date to identify potential changes in the pattern of consumption of the future economic benefits or service potential embodied in an asset (IPSAS 17.77).

Dimension 12.3 – Disclosure

Dimension 12.3 assesses the extent to which all disclosures related to property plant and equipment and investment property are made following IPSAS 17 and 16, respectively.

MEASUREMENT GUIDANCE

Methodological disclosures (methods and significant assumptions)

1. The measurement bases used for determining the gross carrying amount (IPSAS 17.88; IPSAS 16.86).
2. The depreciation methods used (IPSAS 17.88; IPSAS 16.90).
3. The useful lives or the depreciation rates used (IPSAS 17.88; IPSAS 16.90).

In case PPE (or parts of it) or investment property is stated at revalued amounts (IPSAS 17.92)

1. The effective date of the revaluation.
2. If an independent valuer was involved.
3. The methods and significant assumptions applied in estimating the assets' fair values.

Table 53. Dimension 12.3 – Disclosure

Score		
Conceptual	Actual	Requirements
A	A	**All** of the applicable items of the methodological disclosures, **all** items of the table of changes and **all** other significant disclosures are provided in the notes.
B	B	**At least six** or, in case there are no revalued amounts, **two** of the items of the methodological disclosures, **all** items of the table of changes, and **at least six** or, in case there are no revalued amounts, **three** other significant disclosures are provided in the notes.
C	C	**At least five** or, in case there are no revalued amounts, **two** of the items of the methodological disclosures, **at least one** item of the table of changes and **at least four** or, in case there are no revalued amounts, **two** other significant disclosures are provided in the notes.
D	D	Performance is less than required for a C score.

4. The extent to which the assets' fair values were determined directly by reference to observable prices in an active market or recent market transactions or were estimated using other valuation techniques, or the extent to which the fair value of investment property is based on a valuation of an independent valuer (IPSAS 16.86).

Disclosure elements within the table of changes

Typically, IPSAS compliant financial statements include a table of changes in the notes that provides a reconciliation of the carrying amounts at the beginning and at the end of the reporting period and serves the purpose of disclosing and explaining any changes.

1. The gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period (IPSAS 17.88; IPSAS 16.90).
2. A reconciliation of the carrying amount at the beginning and end of the period showing additions, disposals, acquisitions through public sector combinations, increases or decreases resulting from revaluations and from impairment losses (if any), impairment losses recognized in surplus or deficit, impairment losses reversed in surplus or deficit, depreciation, the net exchange rate differences and other changes, for investment property transfers to and from inventories and owner occupied property (IPSAS 17.88; IPSAS 16.87; 16.90).

Other significant disclosures

1. The existence and amounts of restrictions on title, and PPE pledged as securities for liabilities (IPSAS 17.89) or the existence and amounts of restrictions on the realizability of investment property or the remittance of revenue and proceeds of disposal (IPSAS 16.86).
2. The amount of expenditures recognized in the carrying amount of an item of property, plant, and equipment during its construction (IPSAS 17.89).
3. The amount of contractual commitments for the acquisition of property, plant, and equipment (IPSAS 17.89) or the amount of contractual obligations to purchase, construct or develop investment property or for repairs, maintenance, and enhancements (IPSAS 16.86).
4. If it is not disclosed separately on the face of the statement of financial performance, the amount of compensation from third parties for items of property, plant, and equipment that were impaired, lost, or given up (IPSAS 17.89).
5. For investment property: the criteria used to distinguish owner-occupied / self-used property from property held for sale (IPSAS 16.86).
6. In case PPE (or parts of it) is stated at revalued amounts (IPSAS 17.92):
   - The revaluation surplus, indicating the change for the period and any restrictions on the distribution of the balance to shareholders or other equity holders.
   - The sum of all revaluation surpluses for individual items of PPE within that class.
   - The sum of all revaluation deficits for individual items of PPE within that class.

PI-13: Intangible assets

This indicator assesses the extent to which a reporting entity recognizes, measures, and discloses nonmonetary assets without physical substance as intangible assets following the stipulations of IPSAS 31. This indicator has 4 dimensions.

Dimension 13.1 – Definition and recognition

Dimension 13.1 assesses the extent to which the jurisdiction has specified / implements the recognition criteria for intangible assets in line with IPSAS 31.

Table 54. Dimension 13.1 – Definition and recognition

Score		
Conceptual	Actual	Requirements
A	A	Nonmonetary assets without physical substance are recognized as intangible assets based on identifiability, control, existence of future economic benefits or service potential, and the possibility of reliable measurement.
B	B	Nonmonetary assets without physical substance are recognized as intangible assets based on identifiability, control, existence of future economic benefits, and the possibility of reliable measurement.
C	C	Nonmonetary assets without physical substance are recognized as intangible assets based on identifiability, association with enforceable legal rights, existence of future economic benefits and the possibility of reliable measurement.
D	D	Performance is less than required for a C score.

MEASUREMENT GUIDANCE

Definition

1. Intangible assets are identifiable nonmonetary assets without physical substance (IPSAS 31.16).

Recognition requirements

1. **Identifiability:** An intangible asset is considered identifiable if it either is separable or arises from a binding arrangement (IPSAS 31.19).
2. **Control:** intangible assets must be within control of the entity (IPSAS 31.21).
   - The capacity to control future economic benefits or service potential normally stems from legal rights that are enforceable, such as for instance patents, copyrights, non-disclosure agreements with employees. However, legal enforceability might give rise to the power to obtain future economic benefits or service potential, but is not a necessary condition for control to be present (IPSAS 31.21 et seq.).
3. **Existence of future economic benefits and/or service potential:** Intangible assets typically bear an economic value and qualify as resources whose use (or grant of use) is either beneficial financially or facilitates provision of public services.

a. **Future economic benefits:** Future economic benefits relate to an intangible assets' potential to realize revenue. Mostly, intangible assets associated with future economic benefits include royalties as well as marketable rights and quotas to access limited resources (e.g., fishery) or use public infrastructure (e.g., airport runways, broadcasting, or railway network). Licenses purchased to use other parties' intellectual property (e.g., software and patents) or own marketable intellectual property (e.g., publishing rights, patents and copyrights or internally developed software) are deemed to bear economic benefits, if a respective market exists and can be sold.

b. **Service potential:** Service potential relates to the yield in improved capacities to provide public services through the deployment of an intangible asset and a reduction in service delivery costs, e.g., an online system that allows citizens to renew their driving licenses more quickly and reduces administration costs for issuing the licenses (IPSAS 31.25). Typically, among these immaterial assets are websites and software either externally acquired or internally developed. Regarding internally generated assets, their technical feasibility, usability, internal usefulness, and the availability of resources to use them

(or if in development phase, to complete them), must be demonstrated (IPSAS 31.55). Internally generated mastheads, publishing titles and data such as lists of users shall not be recognized (IPSAS 31.61).

In case only intangible assets associated with future economic benefits, but not those associated with service potential, are recognized, this would qualify at best as a B score.

4. Probability that the future economic benefits or service potential will flow to the entity (IPSAS 31.28 / IPSAS 31.29) is not considered as given in the following two cases:
   - Internally generated goodwill is not recognized as an intangible asset (IPSAS 31.46).
   - Research costs is not recognized as an intangible asset (IPSAS 31.53).
5. Possibility of reliable measurement (IPSAS 31.28).

Dimension 13.2 – Initial measurement

Dimension 13.2 assesses the extent to which the jurisdiction has specified / implements the criteria for initial measurement of intangible assets in line with IPSAS 31.

MEASUREMENT GUIDANCE

Intangible assets shall be measured initially at cost, in case of an exchange transaction (or fair value at acquisition date in case of a non-exchange transaction) (IPSAS 31.31).

Separately acquired intangible assets

Elements of cost of separately acquired intangible assets (IPSAS 31.34) are:

1. Purchase price.
2. Import duties and non-refundable purchase taxes.
3. Deduction of trade discounts and rebates.
4. Any directly attributable cost of preparing the asset for its intended use.

Internally generated intangible assets

Elements of cost of internally generated intangible assets (development) (IPSAS 31.64) are:

1. Cost of materials and services used or consumed in generating the intangible asset.
2. Costs of employee benefits arising from the generation of the intangible asset.
3. Fees to register a legal right.
4. Amortization of patents and licenses that are used to generate the intangible asset.

Table 55. Dimension 13.2 – Initial measurement

Score		
Conceptual	Actual	Requirements
A	A	Separately acquired and internally generated intangible assets are initially measured at cost including all their elements of cost.
B	B	Separately acquired and internally generated intangible assets are initially measured at cost including at least three of their elements of cost.
C	C	Separately acquired and internally generated intangible assets are initially measured at cost including a at least two of their elements of cost.
D	D	Performance is less than required for a C score.

Dimension 13.3 – Subsequent measurement

Dimension 13.3 assesses the extent to which the jurisdiction has specified / implements the criteria for subsequent measurement of intangible assets in line with IPSAS 31.

MEASUREMENT GUIDANCE

Cost Model

1. Subsequent measurement of intangible assets at cost less any accumulated amortization and any impairment losses (IPSAS 31.73)

Revaluation model

If an active market exists, an entity may elect to apply the revaluation model for subsequent measurement.

In such a case, all the following elements must be fulfilled for an A score:

1. Subsequent measurement of intangible assets at fair value less any subsequent accumulated amortization (IPSAS 31.74).
2. Fair value shall be determined with reference to an active market (IPSAS 31.74).
3. In case the revaluation model is chosen, it is applied to an entire class of intangible assets, except if there is no active market for the other assets within that class (IPSAS 31.71) in which case the asset is measured at cost less any accumulated amortization and any impairment losses (IPSAS 31.80).
4. The fair value of a revalued intangible asset that can no longer be measured with reference to an active market corresponds to the revalued amount at the date of the last revaluation less

Table 56. Dimension 13.3 – Subsequent measurement

Score		
Conceptual	Actual	Requirements
A	A	Intangible assets are subsequently measured at cost less any accumulated amortization and any impairment losses or, electively, at fair value less any accumulated amortization, if there is an active market. The subsequent measurement method is consistently applied for an entire class of intangible assets. The amount to be amortized, the useful life and the amortization pattern are determined considering economic factors and reviewed at least at each reporting date.
B	B	Intangible assets are subsequently measured at cost less any accumulated amortization or, electively, at fair value less any accumulated amortization, if there is an active market. The amount to be amortized, the useful life and the amortization pattern are determined considering economic factors and reviewed at least at each reporting date.
C	C	Intangible assets are subsequently measured at cost less any accumulated amortization. The amount to be amortized and the useful life are determined considering economic factors.
D	D	Performance is less than required for a C score.

any subsequently accumulated amortization and impairment losses (IPSAS 31.81).

5. Frequency of revaluations is oriented on the volatility of the fair values of intangible assets (IPSAS 31.78).

IPSAS 31 (paragraph 77) highlights that it is uncommon for an active market to exist for intangible assets because most types of intangible assets (e.g., brands, mastheads, music and film publishing rights, patents, or trademarks) are unique by nature. Thus, a large share of public sector entities' intangible assets will be accounted for by the cost model. Therefore, the focus of the scoring scheme in dimension 13.3 is predominantly on the correct application of the cost model.

Amortization

1. Conduct of an assessment of whether the useful life of an intangible asset is finite or indefinite (whereby an asset is considered indefinite if there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows) (IPSAS 31.87). (C score requirement)
2. For finite assets, the useful life shall be determined (IPSAS 31.87) with consideration of economic factors, such as the following (IPSAS 31.89): (C score requirement)
   - Expected usage of the asset by the entity.
   - Typical product life cycles for the asset and public information on estimates of useful lives of similar assets.
   - Technical, technological, commercial, or other types of obsolescence.
   - Stability of the industry in which the asset operates and changes in the market demand for the products or services output from the asset.
   - Expected actions by competitors or potential competitors.
   - Level of maintenance expenditure required.
   - The period of control over the asset and legal or similar limits on the use of the asset, such as the expiry dates of related leases.
   - Whether the useful life of the asset is dependent on the useful life of other assets of the entity.
3. Amortization method reflects the pattern in which the asset's future economic benefit or service potential is expected to be consumed by the entity. If it is not possible to reliably determine the pattern, the straight-line method is used (IPSAS 31.96). (A and B score requirement)
4. The residual value of intangible assets with a finite useful life is assumed to be zero unless there is an active market or a commitment by a third party to acquire the asset at the end of its useful life (IPSAS 31.99). (C score requirement)
5. Review of the amortization period and method for intangible assets with finite useful life at least at each reporting date (IPSAS 31.103). (A and B score requirement)

Dimension 13.4 – Disclosure

Dimension 13.4 assesses the extent to which all disclosures related to intangible assets are made.

MEASUREMENT GUIDANCE

An entity shall disclose the following types of disclosures for each class of intangible assets, distinguishing between internally generated intangible assets and other intangible assets:

Methodological disclosures (methods and significant assumptions)

1. Useful lives of the assets (finite or indefinite) (IPSAS 31.117).
2. Reasons and significant factors based on which an asset was determined to have an indefinite useful life (IPSAS 31.121).

Table 57. Dimension 13.4 – Disclosure

Score		
Conceptual	Actual	Requirements
A	A	**All** methodological disclosures, **all** the items of the table of changes, and **all** other significant disclosures are provided in the notes.
B	B	**At least four** methodological disclosures, **at least two** of the items of the table of changes, and **at least three** other significant disclosures are provided in the notes.
C	C	**At least three** methodological disclosures, **at least one** of the items of the table of changes, and **at least two** other significant disclosures are provided in the notes.
D	D	Performance is less than required for a C score.

3. The amortization rates used for finite intangible assets (IPSAS 31.117).
4. The amortization methods used for intangible assets with finite useful lives (IPSAS 31.117).
5. Intangible assets acquired through a non-exchange transaction and initially recognized at fair value, whether they are measured after recognition under the cost model or the revaluation model (IPSAS 31.121).

Disclosure elements within the table of changes

1. The gross carrying amount and any accumulated amortization (aggregated with accumulated impairment losses) at the beginning and end of the period (IPSAS 31.117).
2. The line item(s) of the statement of financial performance, in which any amortization of intangible assets is included (IPSAS 31.117).
3. A reconciliation of the carrying amount at the beginning and end of the period, including its changes (i.e., showing additions from internal development and those acquired separately or through acquisitions, disposals, revaluation increases or decreases, impairment losses (if any), recognized amortization, and net exchange rate differences) (IPSAS 31.117).

Other significant disclosures

1. Description of the carrying amount and remaining amortization period of any individual intangible asset that is material to the entity's financial statements (IPSAS 21.121).
2. The existence and carrying amounts of intangible assets whose title is restricted and the carrying amounts of intangible assets pledged as security for liabilities (IPSAS 31.121).
3. The amount of contractual commitments for the acquisition of intangible assets (IPSAS 31.121).
4. Aggregate amount of research and development expenditure recognized as expense during the period (IPSAS 31.125).

PI-14: Service concessions

Indicator 14 assesses the extent to which the jurisdiction recognizes assets and liabilities related to service concession arrangements, also known as Public Private Partnerships (PPP), following the stipulations of IPSAS 32. This indicator has 3 dimensions.

Dimension 14.1 – Definition and recognition: control of asset by grantor

Dimension 14.1 assesses the extent to which the jurisdiction recognizes assets subject to a service concession arrangement in line with the definition and principles of IPSAS 32.

MEASUREMENT GUIDANCE

Definition (IPSAS 32.5)

Service concession assets are defined as assets used for the provision of a public service within a service concession arrangement involving both of the following:

* Provision of public services for compensation: Existence of a binding arrangement on the provision of a public service through an operator on behalf of the grantor for a specific period of time for compensation.
* Use of one or more assets, either provided by the contracting entity or the operator: Provision of the public service involves the use of one or more assets. The assets are provided by the operator (through construction, development, or acquisition from a third party or is an existing asset of the operator) or the grantor (by transferring the rights to use) (IPSAS 32.8).

Recognition

A grantor of a service concession controls the asset involved in the service concession arrangement in the following two cases:

* Control of the services the operator must provide with the asset, to whom, and at what price (or power to regulate these aspects) (IPSAS 32.9a).
* Control of any significant residual interest in the asset at the end of the term of the arrangement (IPSAS 32.9b), if applicable (in case there is no residual value or other beneficial entitlement left at the end of the term of the arrangement, this condition is not applicable and only control of services must be given for the classification as a service concession asset (IPSAS 32.10)).

Table 58. Dimension 14.1 – Definition and recognition: control of asset by grantor

Score		
Conceptual	Actual	Requirements
A	A	An entity, which contracts and compensates an operator for the provision of a public service that involves the use of one or more assets, provided either by the contracting entity or the operator, recognizes these as service concession assets, if it controls the service and any significant residual interest in the asset at the end of the arrangement.
B	B	An entity, which contracts and compensates an operator for the provision of a public service that involves the use of one or more assets, provided either by the contracting entity or the operator, recognizes these as service concession assets if it controls the assets economically.
C	C	An entity granting the rights to use of an asset to another entity for the provision of a public service recognizes these as service concession assets if it has legal ownership of the assets.
D	D	Performance is less than required for a C score.

Dimension 14.2 – Recognition of liability

Dimension 14.2 assesses the extent to which the jurisdiction recognizes and measures liabilities related to service concession arrangements in line with the principles of IPSAS 32.

MEASUREMENT GUIDANCE

Initial recognition and measurement

* The grantor shall recognize a corresponding liability to the recognized service concession asset (IPSAS 32.14). The nature of the liability is determined based on the binding arrangement (IPSAS 32.16) and either reflects the payments due to the operator (for the development, construction, acquisition or upgrade of the asset), i.e., the financial liability, or the unearned revenues as a consequence of granting the right to earn revenue from third-party users to the operator as mode of compensation, i.e., grant of a right to the operator model, such as the right to earn revenue from third-party users (IPSAS 32.17).
* Initial measurement of the liability at same amount as the asset adjusted by the amount of any other consideration to the operator (IPSAS 32.15) (Necessary condition for an A score. If the liability is initially measured based on the economic substance or the nature of the arrangement, it qualifies at best for a B score).

Subsequent measurement

Depending on the binding arrangement, the liability is subsequently measured following:

* **The financial liability model** as the unconditional obligation to pay cash or another financial asset to the operator; in exchange for the service concession asset the operator is compensated with payments (IPSAS 31.18).
* **The grant of a right to operator model** as the unearned portion of the revenue arising from the exchange of assets; the operator is compensated with the right to earn revenue from third-party users. The liability is amortized as revenue earned by the operator (IPSAS 31.24).
* Both approaches for the respective part of the arrangement, where the operator is compensated with payments and with the grant of a right (IPSAS 31.27).

Table 59. Dimension 14.2 – Recognition of liability

Score		
Conceptual	Actual	Requirements
A	A	A grantor, recognizing a service concession asset, reflects a corresponding liability initially measured at the same amount as the asset and considering any other compensation. Depending on the arrangement, the liability is subsequently measured as a financial liability or based on the rights granted to the operator.
B	B	A grantor, recognizing a service concession asset, reflects a corresponding liability initially measured following the economic substance of the arrangement. Depending on the arrangement, the liability is subsequently measured as a financial liability or based on the rights granted to the operator.
C	C	A grantor, recognizing a service concession asset that is provided by the operator, reflects a financial liability based on the agreed payments to the operator.
D	D	Performance is less than required for a C score.

Dimension 14.3 – Recognition of guarantees made by a grantor

Dimension 14.3 assesses the extent to which the jurisdiction acting as a grantor recognizes guarantees related to service concession arrangements in line with the principles of IPSAS 32.

MEASUREMENT GUIDANCE

Accounting for other liabilities, commitments and contingent liabilities arising from a service concession asset (IPSAS 32.29), including financial and performance guarantees (IPSAS 32 AG51):

* **Financial guarantees:** e.g., securities or indemnity related to debt incurred by the operator to finance construction, development, acquisition, or upgrade of a service concession asset.
* **Performance guarantees:** e.g., guarantee of minimum revenues and compensation for potential shortfalls.

PI-15: Impairment

This indicator assesses the recognition, measurement, and reversal of impairment on non-cash and cash-generating assets according to IPSAS 21 and IPSAS 26. This indicator has 4 dimensions.

Dimension 15.1 –Identification and recognition

Dimension 15.1 assesses the extent to which a cash or non-cash generating asset is identified as an asset that may be impaired and the extent to which impairment is recognized, in accordance with IPSAS 21 and IPSAS 26.

MEASUREMENT GUIDANCE

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset´s future economic benefits or service potential through depreciation.

Cash-generating assets are assets held with the primary objective of generating a commercial return to generate positive cash inflows from the asset and earn a commercial return that reflects the risk involved in holding the asset. In contrast, non-cash-generating assets are assets other than cash-generating assets.

Cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Table 60. Dimension 14.3 – Recognition of guarantees made by a grantor

Score		
Conceptual	Actual	Requirements
A	A	A grantor recognizes both financial guarantees and performance guarantees contained in a service concession arrangement as a liability.
B	B	A grantor recognizes either financial guarantees or performance guarantees contained in a service concession arrangement as a liability.
C	C	A grantor discloses financial guarantees and performance guarantees contained in a service concession arrangement in the notes of the financial statements.
D	D	Performance is less than required for a C score.

Table 61. Dimension 15.1 –Identification and recognition

Score		
Conceptual	Actual	Requirements
A	A	Impairment of cash and non-cash generating assets is assessed when the basic and **all** additional criteria of identification are met. It is recognized as a reduction of the carrying amount and an expense, when the basic and **all** additional recognition requirements are met.
B	B	Impairment of cash and non-cash generating assets is assessed when the basic and **at least one** additional criterion of identification are met. It is recognized as a reduction of the carrying amount and an expense, when the basic and **at least one** additional recognition requirement are met.
C	C	Impairment of cash and non-cash generating assets is assessed when the basic criterion of identification is met. It is recognized as a reduction of the carrying amount and an expense, when the basic recognition requirement is met.
D	D	Performance is less than required for a C score.

Basic criteria of identification

1. An entity shall assess whether there is any indication that a cash or non-cash generating asset may be impaired. If any such indication exists, the entity shall estimate the recoverable amount of the cash-generating asset or the recoverable service amount of the non-cash generating asset.

Additional criteria of identification

1. During assessment an entity shall consider indications based on external and internal sources of information.
2. An entity shall also test for impairment annually in: (i) an intangible asset with an indefinite useful life or an intangible asset not yet available for use for impairment annually; and (ii) the goodwill acquired in an acquisition.

Basic requirement of recognition

1. An impairment loss is recognized:
   - When the recoverable amount of a cash-generating asset or the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset shall be reduced to its recoverable amount or its recoverable service amount.
   - In surplus or deficit unless the asset is carried at revalued amount in accordance with another standard. Any impairment loss of a revalued asset shall be treated as a revaluation decrease in accordance with that other standard.

Additional requirements of recognition

1. If it is not possible to estimate the recoverable amount of the individual cash-generating asset, an entity shall determine the recoverable amount of the cash-generating unit to which the asset belongs.
2. The impairment loss shall be allocated to reduce the carrying amount of the cash-generating assets of the unit in the following order: (i) the carrying amount of any goodwill allocated to the cash-generating unit; and (ii) the other assets of the unit.

Dimension 15.2 – Measurement

Dimension 15.2 assesses the extent to which impairment is measured on cash and non-cash generating assets, in accordance with IPSAS 21 and IPSAS 26.

MEASUREMENT GUIDANCE

Basic requirement of measurement

1. Recoverable amount or recoverable service amount is the higher of an asset´s fair value less costs to sell and its value in use.

Additional requirements of measurement

1. Fair value less costs to sell is the price in a binding sale agreement in an arm´s length transaction, adjusted for incremental costs that would be directly attributable to the disposal of the asset.
2. Value in use of a non-cash-generating asset is the present value of the asset´s remaining service potential.
3. The present value of the remaining service potential of the asset is determined using the depreciated replacement cost approach, the restoration cost approach, or the service unit approach.
4. Value in use of a cash-generating asset (or unit) is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset (or unit) and from its disposal at the end of its useful life.
5. The calculation of a cash-generating asset's (or unit's) value in use should reflect the following elements:
   - An estimate of the future cash flows the entity expects to derive from the asset (or unit).
   - Expectations about possible variations in the amount or timing of those future cash flows.
   - The time value of money, represented by the current market risk-free rate of interest.
   - The price for bearing the uncertainty inherent in the asset (or unit).
   - Other factors, such as illiquidity, that market participants would reflect in pricing the future cash flows the entity expects to derive from the asset (or unit).

Table 62. Dimension 15.2 – Measurement

Score		
Conceptual	Actual	Requirements
A	A	Impairment is measured according to the basic and **all** the additional requirements.
B	B	Impairment is measured according to the basic and **at least four** of the additional requirements.
C	C	Impairment is measured according with the basic and **at least three** of the additional requirements.
D	D	Performance is less than required for a C score.

Dimension 15.3 – Loss reversal

Dimension 15.3 assesses the extent to which the impairment loss is reversed on cash and non-cash generating assets, in accordance with IPSAS 21 and IPSAS 26.

MEASUREMENT GUIDANCE

Basic criteria of identification

1. An entity shall assess whether there is any indication that an impairment loss recognized in prior periods for a cash or non-cash generating asset may no longer exist or may have decreased. If any such indications exist, the entity shall estimate the recoverable amount of the cash-generating asset or the recoverable service amount of the non-cash generating asset.

Additional criteria of identification

1. During assessment an entity shall consider indications based on external and internal sources of information.
2. An impairment loss recognized for goodwill shall not be reversed in a subsequent period.

Basic requirement of recognition

1. A reversal of an impairment loss is recognized:
   - If there has been change in the estimates used to determine the recoverable amount of the cash-generating asset and the recoverable service amount of the non-cash generating asset since the last impairment loss was recognized. In this case, the carrying amount of the asset shall be increased to its recoverable amount or its recoverable service amount.
   - In surplus or deficit unless the asset is carried at revalued amount in accordance with another standard. Any reversal of an impairment loss of a revalued asset shall be treated as a revaluation increase in accordance with the other standard.

Additional requirements of recognition

1. A reversal of an impairment loss for a cash-generating unit shall be allocated to the cash-generating assets of the unit except for goodwill, pro rata with the carrying amounts of those assets.
2. In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of

Table 63. Dimension 15.3 – Loss reversal

Score		
Conceptual	Actual	Requirements
A	A	Impairment loss reversal of a cash or non-cash generating asset is assessed when the basic and **all** additional criteria of identification are met. It is recognized as an increase of the carrying amount and as an expense reduction or a revenue, when the basic and **all** additional recognition requirements are met.
B	B	Impairment loss reversal of a cash or non-cash generating asset is assessed when the basic and **at least one** additional criterion of identification are met. It is recognized as an increase of the carrying amount and as an expense reduction or a revenue when the basic and **at least one** additional recognition requirement are met.
C	C	Impairment loss reversal of a cash or non-cash generating asset is assessed when the basic criterion of identification is met. It is recognized as an increase of the carrying amount and as an expense reduction or a revenue when the basic recognition requirement is met.
D	D	Performance is less than required for a C score.

an asset shall not be increased above the lower of: (i) its recoverable amount; and (ii) the carrying amount that would have been determined (net of amortization or depreciation) if no impairment loss had been recognized for the asset in prior periods.

Dimension 15.4 – Disclosure

Dimension 15.4 assesses the extent to which the impairment loss and their reversals are disclosed for non-cash and cash-generating assets, in accordance with IPSAS 21 and IPSAS 26.

MEASUREMENT GUIDANCE

Basic requirement of disclosure (for cash and non-cash generating assets)

1. The criteria developed to distinguish non-cash from cash-generating assets.
2. For each class of assets:
   - The amount of impairment losses and their reversals recognized in surplus or deficit during the period, and the line item(s) of the statement of financial performance in which those impairment losses and reversals are included.
   - The amount of impairment losses and their reversals on revalued assets recognized directly in revaluation surplus during the period.
3. If the entity reports segment information, the amount of impairment losses and their reversals recognized in surplus or deficit during the period for each segment reported.
4. For each material impairment loss recognized or reversed during the period for an asset:
   - The events and circumstances that led to the recognition or reversal of the impairment loss.
   - The amount of the impairment loss recognized or reversed.
   - The nature of the asset and if the entity reports segment information, the segment to which the asset belongs.
   - Whether the recoverable service amount or the recoverable amount of the asset is its fair value less costs to sell or its value in use.
   - If the recoverable service amount or the recoverable amount is fair value less costs to sell, the basis used to determine fair value less costs to sell.
   - If the recoverable service amount is value in use, the approach used to determine it.
   - If the recoverable amount is value in use, the discount rate(s) used in the current estimate and previous estimate (if any) of value in use.

Table 64. Dimension 15.4 – Disclosure

Score		
Conceptual	Actual	Requirements
A	A	**All** basic requirements of disclosure for cash and non-cash generating assets and **all** additional requirements of disclosure for cash generating assets are met.
B	B	**All** basic requirements of disclosure for cash and non-cash generating assets are met.
C	C	**At least three** basic requirements of disclosure for cash and non-cash generating assets are met.
D	D	Performance is less than required for a C score.

5. For the aggregate of impairment losses and the aggregate of reversals recognized during the period:
   - The main classes of assets affected by impairment losses (and the main classes of assets affected by reversals of impairment losses).
   - The main event and circumstances that led the recognition of these impairment losses and their reversals.

Additional requirements of disclosure for cash generating assets

1. For each material impairment loss recognized or reversed during the period for a cash generating unit:
   - A description of the cash-generating unit.
   - The amount of the impairment loss recognized or reversed by class of assets, and, if the entity reports segment information, by reported segment.
   - If the aggregation of assets for identifying the cash-generating unit has changed since the previous estimate of the cash-generating unit´s recoverable amount (if any), a description of the current and former way of aggregating assets and the reasons for changing the way the cash-generating unit is identified.
   - Whether the recoverable service amount of the cash-generating unit is its fair value less costs to sell or its value in use.
2. If any portion of the goodwill acquired in an acquisition during the period has not been allocated to a cash-generating unit (group of units) at the end of the reporting period, the amount of the unallocated goodwill shall be disclosed together with the reasons why that amount remains unallocated.

PI-16: Provisions, contingent liabilities, and contingent assets

This indicator assesses the extent to which a reporting entity accounts for liabilities of uncertain timing and amount and discloses information related to provisions, contingent liabilities, and contingent assets in its financial statements following the stipulations of IPSAS 19. This indicator has 4 dimensions.

Dimension 16.1 – Definition and recognition of provisions and contingent liabilities

Dimension 16.1 assesses the extent to which the jurisdiction recognizes provisions in line with IPSAS 19 and differentiates these from contingent liabilities.

MEASUREMENT GUIDANCE

A reporting entity differentiates between provisions and contingent liabilities following the definitions below and only recognizes provisions:

Provisions

* **Definition:** Provisions are liabilities of uncertain timing and amount (IPSAS 19.18).
* **Recognition:** For an A score, an entity should recognize provisions only if all of the following are met:
  1. Presence of a present obligation (legal and constructive) (IPSAS 19.22). In case of a legal obligation the settlement is enforceable by law. Constructive obligations relate to commitments made to third parties which create valid expectations in other parties (IPSAS 19.25) or the public at large (IPSAS 19.28). For instance, restructuring plans could give rise to a constructive obligation (under certain conditions – see IPSAS 19.83 et seq.) to compensate employees for termination of their services. The employees would have a valid expectation if such a restructuring and compensation scheme had been communicated to them (IPSAS 19.86).

Table 65. Dimension 16.1 – Definition and recognition of provisions and contingent liabilities

Score		
Conceptual	Actual	Requirements
A	A	Liabilities of uncertain timing and amount are recognized as provisions based on the presence of a legal or constructive obligation, that is the result of a past event, the probability of settlement, and the possibility to reliably estimate the amount. If obligations cannot be reliably measured or the outflow of resources is not probable, they are not recognized but disclosed in the notes to financial statements as contingent liabilities.
B	B	Liabilities of uncertain timing and amount are recognized as provisions based on the presence of a legal obligation, that is the result of a past event, the probability of settlement, and the possibility to reliably estimate the amount. If obligations cannot be reliably measured or the outflow of resources is not probable, they are not recognized but disclosed in the notes to financial statements as contingent liabilities.
C	C	Liabilities of uncertain timing and amount are recognized as provisions based on the presence of a legal obligation. If obligations cannot be reliably measured or the outflow of resources is not probable, they are not recognized or disclosed in the notes to financial statements as contingent liabilities.
D	D	Performance is less than required for a C score.

2. Result of a past event (IPSAS 19.22).
3. Probability of settlement of the obligation, which might require an outflow of resources (embodying economic benefits or service potential) (IPSAS 19.22).
4. A reliable estimate of the amount of the obligation can be made (IPSAS 19.22).

Contingent liabilities

* **Definition:** Contingent liabilities are possible obligations that arise from past event, and whose existence will be confirmed only by the occurrence (or non-occurrence) of uncertain events not wholly with the control of the entity (IPSAS 19.18).

* Disclosure as contingent liability if one of the following applies:
    1. Uncertainty of the requirement to settle the obligation (IPSAS 19.18) (given that existence will be confirmed by an uncertain future event not wholly within the control of the entity (IPSAS 19.18)).
    2. Amount cannot be measured reliably.

Dimension 16.2 – Definition and disclosure of contingent assets

Dimension 16.2 assesses the extent to which the jurisdiction discloses contingent assets in line with IPSAS 19.

MEASUREMENT GUIDANCE

Definition

Contingent assets are those that arise from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

* Result of a past event (IPSAS 19.18) that is unplanned or unexpected (IPSAS 19.40).
* Existence is to be confirmed by an uncertain future event (IPSAS 19.18 / IPSAS 19.40).
* Future event is not wholly within the control of the entity (IPSAS 19.18 / IPSAS 19.40).

Disclosure requirements

Contingent assets should be disclosed (IPSAS 19.42) (including a description of the nature of it and, where practicable, an estimate of its financial effect (IPSAS 19.105)), but not recognized (IPSAS 19.39) if the following is true:

* An inflow of economic benefits or service potential is **probable** (IPSAS 19.18, IPSAS 19.43). Probable means the likelihood that the event confirming existence of the asset occurs is 50 percent or higher. For example, if a government allows a third-party to extract natural resources in exchange for a commission contingent on the quantity extracted (e.g., fishery or mining), then the government should disclose the assets stemming from the commissions due only if the likelihood that the third-party will be successful in extraction is 50 percent or higher (see further IPSAS 19.106).
* If the likelihood that the event confirming existence of the asset occurs is less than 50 percent, the event is considered possible, and the entity does not need to disclose the respective asset.

Table 66. Dimension 16.2 – Definition and disclosure of contingent assets

Score		
Conceptual	Actual	Requirements
A	A	Assets, arising from a past event and whose existence requires confirmation from a future event, that is not wholly within the control of the entity, are disclosed in the notes of the financial statements as contingent assets, if it is probable that economic benefits or service potential will flow to the entity.
B	B	Assets, arising from a past event and whose existence requires confirmation from a future event, that is not wholly within the control of the entity, are disclosed in the notes of the financial statements as contingent assets, if it is possible that economic benefits or service potential will flow to the entity.
C	C	Assets, whose existence requires confirmation from a future event, that is not wholly within the control of the entity, are disclosed in the notes of the financial statements as contingent assets, if it is possible that economic benefits or service potential will flow to the entity.
D	D	Performance is less than required for a C score.

Dimension 16.3 – Estimation of provisions

Dimension 16.3 assesses the extent to which estimate of the amount of provisions considers the requirements of IPSAS 19.

MEASUREMENT GUIDANCE

Basic requirements for the estimate of provisions

1. The estimate reflects the (statistical) expected value of the expenditure.
   - Estimation is based on the expected value method in case of a large population of items (IPSAS 19.47).
   - Estimation is based on the most likely outcome in case of a single obligation (IPSAS 19.48).
2. The estimate shall be reviewed at each reporting date.
   - A review and, if necessary, an adjustment or reversal must be carried out at each reporting date (IPSAS 19.69).
3. The estimate considers possible information sources (IPSAS 19.46).
   - IPSAS requires the entity to recognize provisions at the best estimate of the expenditure required to settle the present obligation at the reporting date (IPSAS 19.44), whereby a best estimate is achieved considering all possible information sources (i.e., judgement of the management, experience of similar transactions, independent expert opinions, events after reporting date) (IPSAS 19.46).

Additional requirements for the estimate of provisions

1. The estimate does not consider any tax consequences.
   - Estimation/measurement occurs before tax or tax equivalents (non-consideration of tax consequences of provisions) (IPSAS 19.49).
2. The estimate considers risks and uncertainties.
   - Cautious consideration of risks and uncertainties (however, IPSAS states that "uncertainty does not justify the creation of excessive provisions") (IPSAS 19.51).
3. The estimate considers any material effects of the time value of money through a discount rate.

* If the effect of the time value of money is material, the amount must be the present value of the expenditures expected to be required to settle the obligation (IPSAS 19.53).
* If this effect is material, provisions are discounted (IPSAS 19.54), whereby the discount rate must be pre-tax and shall reflect current market assessments of the time value of money and the risks specific to the liability. The discount rate(s) shall not reflect risks for which future cash flow estimates have been adjusted (IPSAS 19.56).

Table 67. Dimension 16.3 – Estimation of provisions

Score		
Conceptual	Actual	Requirements
A	A	**All** basic requirements and **all** additional requirements for the estimate of provisions are considered.
B	B	**All** basic requirements and **at least two** of the additional requirements for the estimate of provisions are considered.
C	C	**All** basic requirements for the estimate of provisions are considered.
D	D	Performance is less than required for a C score.

4. The estimate does not consider potential gains from the expected disposal of assets.
    - Gains from the expected disposal of assets shall not be considered in measuring (IPSAS 19.61).

Dimension 16.4 – Disclosures in respect of provisions and contingent liabilities

Dimension 16.4 assesses the extent to which the jurisdiction discloses all additional information required by IPSAS 19.

MEASUREMENT GUIDANCE

Table of changes (for provisions)

1. The carrying amount at the beginning and end of the period.
2. Additional provisions made in the period, including increases to existing provisions.
3. Amounts used (incurred and charged against the provision) during the period.
4. Unused amounts reversed during the period.
5. The increase during the period in the discounted amount arising from the passage of time and the effect of any change in the discount rate (IPSAS 19.97).

Descriptive disclosures (for provisions and contingent liabilities)

1. A brief description of the nature of the obligation and the expected timing of any resulting outflows of economic benefits or service potential.
2. An indication of the uncertainties about the amount or timing of those outflows.
3. The major assumptions made concerning future events.
4. The amount of any expected reimbursement, stating the amount of any asset that has been recognized for that expected reimbursement (IPSAS 19.98).

PI-17: Employee benefits

This indicator assesses the way short-term, post-employment, other long-term, and termination benefits are accounted for, as indicated in IPSAS 39. This indicator has 4 dimensions.

Table 68. Dimension 16.4– Disclosures in respect of provisions and contingent liabilities

Score		
Conceptual	Actual	Requirements
A	A	**All** items of the table of changes and **all** items of the descriptive disclosures are provided in the notes.
B	B	**At least four** of the items of the table of changes and **at least three** items of the descriptive disclosures are provided in the notes.
C	C	**At least three** of the items of the table of changes and **at least two** of items of the descriptive disclosures are provided in the notes.
D	D	Performance is less than required for a C score.

Dimension 17.1 – Short-term benefits

Dimension 17.1 assesses the extent to which the short-term employee benefits are recognized and measured in accordance with IPSAS 39. This dimension also covers post-employment benefits plans classified as defined contribution plans.

MEASUREMENT GUIDANCE

Short-term employee benefits are recognized as an expense and a liability.

Requirements

1. If an employee has rendered service during an accounting period in exchange for all forms of consideration (except termination benefits).
2. Benefits are due to be settled completely before twelve months after the end of the reporting period in which the employees render the service.
3. Benefits are measured by the undiscounted amount of short-term benefits expected to be paid in exchange for the service.

Examples:

- Salaries.
- Overtime.
- Accumulating paid absences -- employees render services that increases their entitlement to future paid absences, e.g., vacations.
- Non-accumulating paid absences -- absences that do not increase future entitlement, e.g., sick leave.
- The expected cost of profit-sharing and bonus payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made.
- Defined contribution plans.

Table 69. Dimension 17.1 – Short-term benefits

Score		
Conceptual	Actual	Requirements
A	A	Short-term employee benefits are recognized as an expense and a liability in accordance with **all** requirements.
B	B	Short-term employee benefits are recognized as an expense and a liability in accordance with **at least two** requirements.
C	C	Short-term employee benefits are recognized as an expense and a liability in accordance with **at least one** requirement.
D	D	Performance is less than required for a C score.

Dimension 17.2 – Defined benefit plans

Dimension 17.2 assesses the extent to which the post-employment benefits are recognized and measured in accordance with IPSAS 39.

MEASUREMENT GUIDANCE

Post-employment benefits are employee benefits (other than termination benefits and short-term employee benefits) that are payable after the completion of employment, including benefits (e.g., pensions and lump sum payments on retirement) and other post-employment benefits, such as post-employment life insurance and post-employment medical care.

Post-employment benefit plans are the arrangements whereby an entity provides these kinds of benefits and they are classified as either defined contribution plans or defined benefit plans. Defined contribution plans are out of the scope of this dimension; they are covered in dimension 17.1.

Defined benefit plans are the plans under which the entity bears:

* The obligation to provide the agreed benefits to current and former employees.
* The actuarial risk (e.g., that benefits will cost more than expected) and the investment risk. For this reason, if the actuarial and/or investment results are worse than expected the obligation may be increased.

Defined benefit plans are recognized as a liability.

Definition of service cost

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting from:

* A plan amendment (the introduction or withdrawal of, or changes to, a defined benefit plan), or
* A curtailment (a significant reduction by the entity in the number of employees covered by a plan).

Requirements of recognition

1. Post-employment benefit plans classified as defined benefit plans are recognized when an employee has rendered service during an accounting period.
2. The change in the liability is recognized in surplus or deficit, except for actuarial gains and losses that are recognized in net assets/equity.

Table 70. Dimension 17.2 – Defined benefit plans

Score		
Conceptual	Actual	Requirements
A	A	Post-employment benefit plans classified as defined benefit plans are recognized as a liability in accordance with **all** requirements of recognition and **all** requirements of measurement.
B	B	Post-employment benefit plans classified as defined benefit plans are recognized as a liability in accordance with **at least one** requirement of recognition and **at least three** requirements of measurement.
C	C	Post-employment benefit plans classified as defined benefit plans are recognized as a liability in accordance with **at least one** requirement of recognition and **at least two** requirements of measurement.
D	D	Performance is less than required for a C score.

Requirements of measurement

Defined benefits plans involve:

1. Discounting the benefit in order to determine the present value of the defined benefit obligation and the current service cost. The change during the period in the obligation that arises from the passage of time is recognized as an expense.
2. Using the projected unit credit method to make a reliable estimate of the ultimate cost to the entity of the benefit that employees have earned in return for their service. The projected unit credit method (sometimes known as the accrued benefit method prorated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.
3. Determining how much benefit is attributable to the current and prior periods.
4. Actuarial gains and losses result from increases or decreases in the present value of the defined obligation because of changes in actuarial assumptions and experience adjustments. Actuarial assumptions about demographic variables and financial variables affect the cost of the benefit.

Dimension 17.3 – Other long-term employee benefits

Dimension 17.3 assesses the extent to which the long-term employee benefits are recognized and measured in accordance with IPSAS 39.

MEASUREMENT GUIDANCE

Long-term employee benefits are:

* Not expected to be settled wholly before twelve months after the end of the reporting period in which the employees render the related service.
* All employee benefits other than short-term employee benefits, post-employment benefits and termination benefits.

Long-term employee benefits are recognized as a liability.

Definition of service cost

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting from:

Table 71. Dimension 17.3 – Other long-term employee benefits

Score		
Conceptual	Actual	Requirements
A	A	Long-term employee benefits are recognized as a liability in accordance with **all** requirements of recognition and **all** requirements of measurement.
B	B	Long-term employee benefits are recognized as a liability in accordance with **at least one** requirement of recognition and **at least three** requirements of measurement.
C	C	Long-term employee benefits are recognized as a liability in accordance with **at least one** requirement of recognition and **at least two** requirements of measurement.
D	D	Performance is less than required for a C score.

* A plan amendment (the introduction or withdrawal of, or changes to, a defined benefit plan), or
* A curtailment (a significant reduction by the entity in the number of employees covered by a plan).

Requirements of recognition

1. Long-term employee benefits are recognized when an employee has rendered service during an accounting period.
2. The change in the liability is recognized in surplus or deficit, including the actuarial gains and losses.

Requirements of measurement

Long-term employee benefits are measured applying the criteria of defined benefits plans:

1. Discounting the benefit in order to determine the present value of the defined benefit obligation and the current service cost. The change during the period in the obligation that arises from the passage of time is recognized as an expense.
2. Using the projected unit credit method to make a reliable estimate of the ultimate cost to the entity of the benefit that employees have earned in return for their service. The projected unit credit method (sometimes known as the accrued benefit method prorated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.
3. Determining how much benefit is attributable to the current and prior periods.
4. Actuarial gains and losses result from increases or decreases in the present value of the defined obligation because of changes in actuarial assumptions and experience adjustments. Actuarial assumptions about demographic variables and financial variables affect the cost of the benefit.

Dimension 17.4 – Termination benefits

Dimension 17.4 assesses the extent to which the termination benefits are recognized and measured in accordance with IPSAS 39.

MEASUREMENT GUIDANCE

Termination benefits are employee benefits provided in exchange for the termination of an employee´s employment. The event that gives rise to an obligation is the termination of employment rather than employee service. These benefits result from either an entity´s decision to terminate the employment or an employee´s decision to accept an entity´s offer of benefits in exchange for termination of employment. Termination benefits are recognized as an expense and a liability.

Table 72. Dimension 17.4 – Termination benefits

Score		
Conceptual	Actual	Requirements
A	A	Termination benefits are recognized as an expense and a liability in accordance with the requirement of recognition and **all** requirements of measurement.
B	B	Termination benefits are recognized as an expense and a liability in accordance with the requirement of recognition and **at least one** requirement of measurement.
C	C	Termination benefits are recognized as an expense and a liability in accordance with the requirement of recognition.
D	D	Performance is less than required for a C score.

Requirement of recognition

1. Termination benefits are recognized at the earlier of when the entity can no longer withdraw the offer of those benefits or when the entity recognizes costs for a restructuring and involves the payment of termination benefits.

Requirements of measurement

1. If the termination benefits are expected to be settled wholly before twelve months after the end of the reporting period in which the termination benefit is recognized, they will be recognized by the undiscounted amount of short-term benefits expected to be paid in exchange for the service.
2. If the termination benefits are not expected to be settled wholly before twelve months after the end of the reporting period, they will be recognized by applying the requirements for long-term employee benefits, as follows:
   - Discounting the benefit in order to determine the present value of the defined benefit obligation and the current service cost.
   - Using the projected unit credit method to make a reliable estimate of the ultimate cost to the entity of the benefit that employees have earned in return for their service.
   - Determining how much benefit is attributable to the current and prior periods.
   - Actuarial assumptions about demographic variables and financial variables affect the cost of the benefit.

Pillar IV. Expenses and revenue recognition

Pillar IV assesses whether a public sector reporting entity recognizes, measures, presents, and discloses its expenses and revenues in accordance with IPSAS 9 "Revenues from Exchange Transactions", IPSAS 23 "Revenues from Non-Exchange Transactions" (Taxes and Transfers), and IPSAS 42 "Social Benefits".

The IPSAS Conceptual Framework defines expenses and revenues respectively as decreases and increases to the net financial position, i.e., in relation to changes in the statement in financial position (e.g., balance sheet). IPSAS 9 "Revenues from Exchange Transactions" covers those revenues, which are based on an exchange of goods or services against cash or other assets of approximately the same value. In contrast, IPSAS 23 "Revenues from Non-Exchange Transactions" covers those revenues which are not based on an exchange of approximately the same value, such as taxes and transfers. IPSAS 42 "Social Benefits" addresses expenses which are cash transfers to individuals or households to mitigate social risk.[29]

The balance sheet-oriented approach of IPSAS in respect of expenses and revenues bears the consequence that an expense is recognized when assets have decreased or liabilities have increased. In turn, a revenue is recognized when assets have increased or liabilities have decreased. Therefore, all indicators included in this pillar analyze whether expense and revenue are recognized and measured based on changes to assets or liabilities.

To determine whether assets or liabilities have changed, it is usually necessary to analyze whether the reporting entity has received any additional rights or incurred any additional obligations. This approach is systematically different from a flow approach, which historically has been used to determine expenses and revenues. Therefore, invoice issuance and cash payment are normally not the determinant of the recognition point, nor the measurement basis, for expenses and revenues in the accrual accounting.

In the case of exchange transactions, the recognition and measurement are usually related to the provision of goods or rendering of services. It also includes interest, royalties, dividends, and similar distributions, which are related to use of assets.

An important part of non-exchange transactions are tax revenues, which are recognized at their taxable event, which is the event that is subject to taxation, e.g., the generation of taxable income or the occurrence of a taxable transaction. The taxable event is usually different from the process of tax declaration and collection.

[29] Other types of expenses are often covered by standards primarily addressing balance sheet items and therefore are part of other pillars, in particular Pillar II "Financial Assets and Liabilities" and Pillar III "Non-financial assets and liabilities".

Transfers include any non-exchange transaction other than taxes, i.e., not only subsidies, but also fines, donations, bequests, and many other different types, depending on the local context. The related increase in assets is not necessarily in the form of cash, but often as a receivable. In case the transfer is conditional, i.e., the assets need to be used for the specified purpose or returned, the condition additionally creates a liability, and the revenue is only recognized to the degree the condition is fulfilled.

Social benefits are recognized as an expense when the entity has a present obligation based on a past event, which can be reliably measured. This is generally only the case when all eligibility criteria for the next payment are met.

Pillar IV includes the following three indicators:

* PI-18: Revenue from exchange transactions
* PI-19: Revenue from non-exchange transactions
* PI-20: Social benefits

PI-18: Exchange transactions

This indicator assesses the way revenue from exchange transactions is accounted for, by referring to IPSAS 9. This indicator has 3 dimensions.

Dimension 18.1 – Rendering of services

Dimension 18.1 assesses the extent to which revenue associated with rendering of services is recognized and measured, in accordance with IPSAS 9.

MEASUREMENT GUIDANCE

The rendering of services typically involves the performance by the entity of an agreed task over an agreed period of time.

Requirements of recognition

1. Revenue associated with rendering services shall be recognized based on the substance of the transaction.
2. Revenue shall be recognized when the outcome of a transaction can be estimated reliably by referring to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:
   - The amount of revenue can be measured reliably.
   - It is probable that the economic benefits or service potential associated with the transaction will flow to the entity.

Table 73. Dimension 18.1 – Rendering of services

Score		
Conceptual	Actual	Requirements
A	A	**All** requirements of recognition and measurement are met.
B	B	**At least two** requirements of recognition and **at least two** requirements of measurement are met.
C	C	Revenue is recognized based on the legal form of the transaction by referring to the progress in the execution of the contract and measured in accordance with the contract.
D	D	Performance is less than required for a C score.

- The stage of completion of the transaction at the reporting date can be measured reliably.
- The costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

3. When the outcome of the transaction involving the rendering of services cannot be estimated reliably, and it may be probable that the entity will recover the transaction costs incurred, revenue shall be recognized only to the extent of the expenses recognized that are recoverable.
4. When the outcome of a transaction cannot be estimated reliably, and it is not probable that the costs incurred will be recovered, revenue is not recognized, and the costs incurred are recognized as an expense.

Requirements of measurement

1. Revenue associated with rendering services shall be measured at the fair value of the consideration received or receivable, according to the stage of completion of the transaction.
2. The entity also shall consider the amount of any trade discount and rebates allowed.
3. When the arrangement constitutes a financing transaction, the fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest.
4. The imputed rate of interest is the more clearly determinable of either:
   - The prevailing rate for similar instrument of an issuer with a similar credit rating; or
   - A rate of interest that discounts the nominal amount of the instrument to the current cash sales price of the goods or services.

Dimension 18.2 – Sale of goods

Dimension 18.2 assesses the extent to which revenue associated with sales of goods is recognized and measured, in accordance with IPSAS 9.

MEASUREMENT GUIDANCE

Requirements of recognition

1. Revenue associated with sale of goods shall be recognized based on the substance of the transaction.
2. Revenue shall be recognized in compliance with the following criteria:
   - The entity has transferred to the purchaser the significant risks and rewards of ownership of the goods.

Table 74. Dimension 18.2 – Sale of goods

Score		
Conceptual	Actual	Requirements
A	A	**All** requirements of recognition and measurement are met.
B	B	**All** requirements of recognition and **at least two** requirements of measurement are met.
C	C	Revenue is recognized based on the legal form of the transaction, when the entity transfers the legal title or passes the possession to the purchaser and measured in accordance with the contract.
D	D	Performance is less than required for a C score.

- The entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.
- The amount of revenue can be measured reliably.
- It is probable that the economic benefits or service potential associated with the transaction will flow to the entity.
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

Requirements of measurement

1. Revenue associated with sale of goods shall be measured at the fair value of the consideration received or receivable.
2. The entity also shall consider the amount of any trade discount and rebates allowed.
3. When the arrangement constitutes a financing transaction, the fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest.
4. The imputed rate of interest is the more clearly determinable of either:
   - The prevailing rate for similar instrument of an issuer with a similar credit rating, or
   - A rate of interest that discounts the nominal amount of the instrument to the current cash sales price of the goods or services.

Dimension 18.3 – Interest, royalties, and dividends or similar distributions

Dimension 18.3 assesses the extent to which revenue associated with the use by others of entity assets is recognized and measured, in accordance with IPSAS 9.

MEASUREMENT GUIDANCE

The use by others of entity assets gives rise to revenue in the form of interest, royalties, dividends, or similar distributions.

Revenue in the form of interest is:

1. A charge for the use of cash or cash equivalents or amount due to the entity.
2. Recognized when it is probable that the economic benefit or service potential associated with the transaction will flow to the entity and the amount of the revenue can be measured reliably.
3. Recognized on time proportion basis that considers the effective yield of the asset.

Table 75. Dimension 18.3 – Interest, royalties, and dividends or similar distributions

Score		
Conceptual	Actual	Requirements
A	A	Revenue associated with interests fulfill **all** requirements, revenue associated with royalties is based on **all** requirements and revenue associated with dividends or similar distributions meet **all** requirements.
B	B	Revenue associated with interests fulfill **at least four** requirements, revenue associated with royalties and revenue associated with dividends or similar distributions meet **at least three** requirements.
C	C	Revenue associated with interests fulfill **at least three** requirements, revenue associated with royalties and revenue associated with dividends or similar distributions meet **at least two** requirements.
D	D	Performance is less than required for a C score.

4. Effective yield on an asset is the rate of interest required to discount the stream of future cash receipts expected over the life of the asset to equate to the initial carrying amount of the asset.
5. Measured at the fair value of the consideration received or receivable, considering the amount of any trade discount and rebates allowed.

Revenue in the form of royalties is:

1. A charge for the use of long-term assets of the entity, for example, patents, trademarks, copyrights, and computer software.
2. Recognized when it is probable that the economic benefit or service potential associated with the transaction will flow to the entity, and the amount of the revenue can be measured reliably.
3. Recognized as they are earned in accordance with the substance of the relevant agreement.
4. Measured at the fair value of the consideration received or receivable, considering the amount of any trade discount and rebates allowed.

Revenue in the form of dividends or similar distributions is:

1. A distribution of surpluses to holders of equity investments in proportion to their holding of a particular class of capital.
2. Recognized when it is probable that the economic benefit or service potential associated with the transaction will flow to the entity and the amount of the revenue can be measured reliably.
3. Recognized when the shareholder´s or the entity´s right to receive payment is established.
4. Measured at the fair value of the consideration received or receivable, considering the amount of any trade discount and rebates allowed.

PI-19: Revenue from non-exchange transactions

This indicator assesses the way revenue from non-exchange transactions is accounted for, by referring to IPSAS 23. This indicator has 4 dimensions.

Dimension 19.1 – Tax revenues

Dimension 19.1 assesses the extent to which an asset in respect to taxes is recognized as revenue, in accordance with IPSAS 23.

MEASUREMENT GUIDANCE

Taxes are economic benefits or service potential compulsory paid or payable to public sector entities, in accordance with laws and/or regulations, established to provide revenue to the government. Taxes do not include fines or other penalties imposed for breaches of the law.

Table 76. Dimension 19.1 – Tax revenues

Score		
Conceptual	Actual	Requirements
A	A	**All** basic and additional requirements of recognition are met.
B	B	An asset in respect of taxes is recognized based on the legal form of the transaction when the taxpayer files the tax declaration. Moreover, **at least two** additional requirements of recognition are met.
C	C	An asset in respect of taxes is recognized as revenue based on the legal form of the transaction, when the taxpayer files the tax declaration.
D	D	Performance is less than required for a C score.

Basic requirements of recognition

1. Revenue associated with taxes shall be recognized based on the substance (when the taxable event occurs) rather than the legal form of the transaction (e.g., when the taxpayer files the tax declaration or when the tax administration issues an invoice).
2. An asset in respect of taxes shall be recognized as revenue when the taxable event occurs (i.e., based on the substance of the transaction), and the asset recognition criteria are met.
3. The taxable event is the event that the government, legislature, or other authority has determined will be subject to taxation. For example, it is likely that the taxable event for: (i) income tax is the earning of assessable income, (ii) value-added tax is the undertaking of taxable activity, (iii) good and services tax is the purchase or sale of taxable goods and services, etc.
4. The asset recognition criteria are met when it is probable that the inflow of resources will occur, and the fair value can be reliably measured.

Additional requirements of recognition

1. If the government is required to recognize a liability in respect of any conditions relating to assets recognized as a consequence of specific purpose tax levies, it does not recognize revenue until the condition is satisficed and the liability is reduced.
2. Taxation revenue shall be determined at a gross amount. It shall not be reduced for expenses paid through the tax system. Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.
3. Taxation revenue shall not be grossed up for the amount of tax expenditures. Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

Dimension 19.2 – Transfer revenues

Dimension 19.2 assesses the extent to which an asset in respect to transfers is recognized as revenue, in accordance with IPSAS 23.

MEASUREMENT GUIDANCE

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes. Transfers include grants, debt forgiveness, assumptions of liabilities, fines, bequests, gifts, donations and goods and services in-kind. All these items have the common attribute that they transfer resources from one entity to another without providing approximately equal value in exchange and are not taxes.

Table 77. Dimension 19.2 – Transfer revenues

Score		
Conceptual	Actual	Requirements
A	A	The entity considers all types of transfers and an asset in respect of transfers is recognized as revenue, when the basic and **all four** additional requirements of recognition are met.
B	B	The entity considers all types of transfers and an asset in respect of transfers is recognized as revenue, when the basic and **at least three** additional requirements of recognition are met.
C	C	The entity considers all types of transfers and an asset in respect of transfers is recognized as revenue, when the basic and **at least one** additional requirement of recognition are met.
D	D	Performance is less than required for a C score.

Examples:

* Fines are economic benefits or service potential received or receivable by public sector entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.
* A bequest is a transfer made according to the provisions of a deceased person´s will.
* Gifts and donations are voluntary transfers of assets, including cash or other monetary assets, goods in-kind and services in-kind that one entity makes to another, normally free from stipulations.
* Goods in-kind are tangible assets transferred to an entity in a non-exchange transaction, without charge, but may be subject to stipulations.
* Services in-kind are services provided by individuals to public sector entities in a non-exchange transaction.
* Concessionary loans are loans received by an entity at below market terms.

Basic requirements of recognition

An entity shall recognize an asset in respect of transfers as revenue when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

1. Transfers satisfy the definition of an asset when the entity controls the resources as a result of a past event (the transfer) and expects to receive future economic benefits or service potential from those resources.
2. Transfers satisfy the criteria for recognition as an asset, when it is probable that the inflow of resources will occur, and their fair value can be reliably measured.

Additional requirements of recognition

1. An entity analyzes all stipulations contained in transfer agreements to determine if it incurs a liability when it accepts transferred resources.
2. Goods in-kind are recognized as assets when the goods are received, or there is a binding arrangement to receive the goods.
3. Entities recognize revenue in respect of debt forgiveness when the former debt no longer meets the definition of a liability or satisfies the criteria for recognition as a liability. In this case, instead of recognizing an asset as a result of the transfer, the entity decreases the carrying amount of the liability.
4. An entity considers whether any difference between the transaction price (loan proceeds) and the fair value of the loan on initial recognition is non-exchange revenue. If this is the case, an entity shall recognize the difference as revenue, except if a present obligation exists.

Dimension 19.3 – Revenue or liability recognition

Dimension 19.3 assesses the extent to which an inflow of resources from a non-exchange transaction is recognized as revenue or as a liability, in accordance with IPSAS 23.

Table 78. Dimension 19.3 – Revenue or liability recognition

Score		
Conceptual	Actual	Requirements
A	A	**All** requirements for the recognition of a liability instead of a revenue are met.
B	B	**At least four** requirements for the recognition of a liability instead of a revenue are met.
C	C	**At least two** requirements for the recognition of a liability instead of a revenue are met.
D	D	Performance is less than required for a C score.

MEASUREMENT GUIDANCE

In a non-exchange transaction, an entity either receives value from another entity without directly giving approximately equal value in exchange or gives value to another entity without directly receiving approximately equal value in exchange.

An inflow of resources from a non-exchange transaction that meets the definition of an asset shall be recognized as an asset when:

* It is probable that the future economic benefits or service potential associated with the asset will flow to the entity.
* The fair value of the asset can be measured reliably.

An inflow of resources from a non-exchange transaction recognized as an asset shall be recognized as revenue, except to the extent that a liability is also recognized in respect of the same inflow.

As an entity satisfies a present obligation recognized as a liability in respect of an inflow of resources from a non-exchange transaction recognized as an asset, it shall reduce the carrying amount of the liability recognized and recognize an amount of revenue equal to that reduction.

Requirements for the recognition of a liability instead of a revenue

1. When a recipient initially recognized an asset that is subject to a condition, the recipient also incurs a liability.
2. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.
3. It is necessary to consider the substance of the terms of the stipulation and not merely its form.
4. The amount recognized as a liability shall be the best estimate of the amount required to settle the present obligation at the reporting date.
5. Where the time value of money is material, the liability will be measured at the present value of the amount expected to be required to settle the obligation.

Dimension 19.4 – Measurement of non-exchange revenue

Dimension 19.4 assesses the extent to which an inflow of resources from a non-exchange transaction is measured, in accordance with IPSAS 23.

Table 79. Dimension 19.4 – Measurement of non-exchange revenue

Score		
Conceptual	Actual	Requirements
A	A	Assets and revenue associated with a non-exchange transaction are measured in accordance with **all** basic and **all** additional requirements of measurement.
B	B	Assets and revenue associated with a non-exchange transaction are measured in accordance with **all** basic and **at least one** additional requirement of measurement.
C	C	Assets and revenue associated with a non-exchange transaction are measured in accordance with **all** basic requirements of measurement.
D	D	Performance is less than required for a C score.

MEASUREMENT GUIDANCE

Basic requirements of measurement

1. An asset acquired through a non-exchange transaction shall initially be measured at its fair value as at the date of acquisition.
2. Revenue from non-exchange transactions shall be measured at the amount of the increase in net assets recognized by the entity.
3. When a liability is subsequently reduced, because the taxable event occurs, or a condition is satisfied, the amount of the reduction in the liability will be recognized as revenue.

Additional requirements of measurement

1. Assets arising from taxation transactions are measured at the best estimate of the inflow of resources to the entity. The accounting policies for estimating these assets will take account of both the probability that the resources arising from taxation transaction will flow to the government, and the fair value of the resultant assets.
2. Assets arising from fines are measured at the best estimate of the inflow of resources to the entity.
3. Assets arising from bequests, gifts, donations, and goods in-kind are measured at their fair value as at the date of acquisition, which may be ascertained by reference to an active market, or by appraisal. An appraisal of the value if an asset is normally undertaken by a member of the valuation profession who holds a recognized and relevant professional qualification.

PI-20: Social benefits

This indicator assesses the way social benefits are accounted for, as indicated in IPSAS 42. This indicator has 3 dimensions.

Dimension 20.1 – Scope

Dimension 20.1 assesses the extent to which social benefits are defined in accordance with IPSAS 42.5 and AG4-8.

MEASUREMENT GUIDANCE

For score A, social benefits are defined as cash transfers to specific individuals or households to mitigate the effect of social risks and to address the needs of the society as a whole or a segment thereof. Social risks are events and circumstances that relate to individuals or households that may adversely affect their welfare.

For score B, social benefits are defined as cash transfers to specific individuals or households to mitigate the effect of social risks. In addition, the same definition for social risks as for score A applies. For score C, social benefits are defined as cash transfers to specific individuals or households.

Table 80. Dimension 20.1 – Scope

Score		
Conceptual	Actual	Requirements
A	A	Cash transfers to specific individuals or households, which mitigate social risks and address the needs of the society, are presented as social benefits.
B	B	Cash transfers to specific individuals or households, which mitigate social risks, are presented as social benefits.
C	C	Cash transfers to specific individuals or households are presented as social benefits.
D	D	Performance is less than required for a C score.

Examples for social benefits include pensions to the general population based on age, marital status, health, poverty, birth of a child or unemployment. Not included in the definition of social benefits are types of benefits related to previous or ongoing employment by the government or emergency relief after natural disasters (because natural disasters are not social risks).

Dimension 20.2 – Recognition and measurement

Dimension 20.2 assesses the extent to which liabilities and expenses for social benefits are recognized and measured in accordance with IPSAS 42 unless they are accounted for using the insurance approach.

MEASUREMENT GUIDANCE

To account for social benefits, IPSAS requires the following:

Requirements of recognition (IPSAS 42.6, 42.9)

* An entity recognizes an expense and a liability for a social benefit when the obligation: Is a present obligation for an outflow of cash or cash equivalent.
* Results from a past event, which is the satisfaction of all eligibility criteria by the beneficiary.
* Can be measured reliably.

Requirement of initial measurement (IPSAS 42.12)

* Best estimate of the payment the entity has to make to fulfill the obligation, discounted using the discount rate reflecting the time value of money, if the payment cannot be made within 12 months.

Requirement of subsequent measurement (IPSAS 42.16)

* The liability is reduced as payments are made. Any gain or loss is recognized in surplus or deficit in the period the liability is settled.

Table 81. Dimension 20.2 – Recognition and measurement

Score		
Conceptual	Actual	Requirements
A	A	A liability and an expense for social benefits are recognized when there is a present obligation based on the satisfaction of all eligibility criteria by the beneficiary, which can be measured reliably. Initial measurement is at the best estimate of the payment to be made, discounted if it cannot be made within 12 months. Subsequently the liability is reduced when the payments are made, and any gain or loss is recognized as a surplus or deficit when the liability is settled.
B	B	A liability and an expense for social benefits is recognized when there is a present obligation based on the satisfaction of all eligibility criteria by the beneficiary, which can be measured reliably. Initial measurement is at the best estimate of the payment to be made. Subsequently the liability is reduced when the payments are made.
C	C	A liability and an expense for social benefits is recognized when there is a present obligation, which can be measured reliably. Initial measurement is at the best estimate of the payment to be made. Subsequently the liability is reduced when the payments are made.
D	D	Performance is less than required for a C score.

For score B and C, initial measurement does not consider present value and subsequent gains/losses are recognized in any period. Additionally, for score C, the recognition is not based on the satisfaction of all recognition criteria by the beneficiary.

Dimension 20.3 – Disclosures

Dimension 20.3 assesses the extent to which the disclosures about social benefits are in accordance with IPSAS 42 unless they are accounted for using the insurance approach.

MEASUREMENT GUIDANCE

Requirements of disclosure

1. The nature of the schemes (e.g., age, unemployment, child benefits).
2. Key features such as the legislative framework and the eligibility criteria.
3. A description of the funding of the schemes.
4. A description of the key demographic, economic, or other external factors with an impact on the scheme.
5. Total expenditures by social benefit scheme.
6. Significant amendments to the schemes.

Pillar V. Financial Reporting and Consolidation

Pillar V assesses whether public sector reporting presents financial reports in accordance with IPSAS 1 "Presentation of Financial Statements", IPSAS 2 "Cash Flow Statements", IPSAS 18 "Segment Reporting", IPSAS 20 "Related Party Disclosures", IPSAS 24 "Presentation of Budget Information in Financial Statements", IPSAS 35 "Consolidated Financial Statements", IPSAS 36 "Investments in Associates and Joint-Ventures", IPSAS 37 "Joint Arrangements", IPSAS 38 "Disclosure of Interest in Other Entities", and IPSAS 40 "Public Sector Combinations."

IPSAS 22 "Disclosure of Information About the General Government Sector" and IPSAS 34 "Separate Financial Statements" also cover aspects of financial reporting, but unlike the previously mentioned standards, are not included in this pillar because they are not mandatory standards, i.e., the regulator or the entity may elect whether to present such information.

IPSAS 1 and IPSAS 2 jointly define the key financial statements an entity reporting on the accrual basis of accounting should present, i.e., a statement of financial position, a statement of financial performance, a statement of changes in net-assets/equity, a cash flow statement, and notes, which are an integral part of the financial statements of the reporting entity. They also define the required structure and the minimum content of each of the financial statements.

Table 82. Dimension 20.3 – Disclosures

Score		
Conceptual	Actual	Requirements
A	A	Disclosures about social benefits include **all** items.
B	B	Disclosures about social benefits include **at least five** of the items.
C	C	Disclosures about social benefits include **at least three** of the items.
D	D	Performance is less than required for a C score.

IPSAS 24 requires reporting entities which present an approved budget to present a comparison between budgeted and actual amounts. This can be done in an additional column to the financial statements or in a separate statement as part of the notes. IPSAS 18 and IPSAS 20 require additional information on segments, key management personnel, and transactions with related parties. Related parties are, in particular, consolidated entities. Therefore, this issue is addressed in the indicator about consolidated financial statements.

The only kind of financial statements required by IPSAS 35 are consolidated financial statements. Reporting entities should consolidate all controlled entities and account for investments in non-controlled entities in accordance with IPSAS 36 and IPSAS 37. Obviously, in order to prepare consolidated financial statements, all consolidated and non-consolidated entities, which are included in the consolidation, need to prepare individual financial statements, which are required to follow homogenous accounting policies. However, there is no requirement in IPSAS to present such individual financial statements. IPSAS 38 defines the mandatory notes disclosures in respect of consolidation and non-consolidated entities.

Full consolidation requires a line-by-line consolidation of all controlled entities which form an economic entity, except for investment entities. In the process of the line-by-line consolidation, full elimination of the investment as well as any transactions (also known as inter-entity transactions) within the economic entity is required. In contrast, if an entity is controlled, but only under significant influence or part of a joint arrangement, different techniques (such as the equity method or proportional consolidation) might be used depending on the type of relationship.

IPSAS 40 covers the combination of entities, which subsequent to the combination, are consolidated in the financial statements. It distinguishes between acquisitions and amalgamations and specifies the required accounting treatment for each.

Pillar V includes the following four indicators:

* PI-21: Presentation of financial statements
* PI-22: Notes
* PI-23: Accounting for non-controlled entities and public sector combinations
* PI-24: Consolidated financial statements

PI-21: Presentation of financial statements

This indicator assesses whether the main financial statements, i.e., the statement of financial position (balance sheet), the statement of financial performance, the statement of changes in net assets/equity, and the cash flow statement are compliant with IPSAS 1 and 2. This indicator has 4 dimensions.

Dimension 21.1 – Degree of completeness: statement of financial position

Dimension 21.1 assesses the completeness of the balance sheet regarding the core structure and presentation of minimum line items as required by IPSAS 1.

MEASUREMENT GUIDANCE

IPSAS requires presentation of a statement of financial position, which includes the assets, liabilities, and net assets/equity.

Core structure

When presenting a statement of financial position (balance sheet) IPSAS 1.70-1.87 require a core structure distinguishing between current and non-current assets as well as liabilities, unless a presentation based on the liquidity is faithful and more relevant. Current positions are those which are realized within the entity's normal business cycle, i.e., usually one year. This core structure is required for scores A and B.

Table 83. Dimension 21.1 – Degree of completeness: statement of financial position

Score		
Conceptual	Actual	Requirements
A	A	The financial statements include a statement of financial position, which distinguishes between current and non-current positions both for assets as well as liabilities. It includes **all** minimum line items.
B	B	The financial statements include a statement of financial position, which distinguishes between current and non-current positions both for assets as well as liabilities. It includes **at least ten** of the minimum line items.
C	C	The financial statements include a statement of financial position. It includes **at least seven** of the minimum line items.
D	D	Performance is less than required for a C score.

Minimum line items

IPSAS 1.88 and 1.89 details which are the minimum of line items to be presented, plus additional ones if they are required for the understanding of the financial position:

1. Property, plant, and equipment.
2. Investment property.
3. Intangible assets.
4. Financial assets (excluding investments accounted for using the equity method, recoverables from non-exchange transactions, receivables from exchange transactions as well as cash and cash equivalents).
5. Investments accounted for using the equity method.
6. Inventories.
7. Receivables from non-exchange transactions.
8. Receivables from exchange transactions.
9. Cash and cash equivalents.
10. Taxes and transfers payable.
11. Payables under exchange transactions.
12. Provisions.
13. Financial liabilities (excluding taxes and transfers payable, payables under exchange transactions and provisions).
14. Net assets/equity attributable to owners of the controlling entity as well as non-controlling interest, presented within net assets/equity.

Dimension 21.2 – Degree of completeness: statement of financial performance

Dimension 21.2 assesses the completeness of the statement of financial performance regarding adherence to the structure and minimum line items as required by IPSAS 1.

MEASUREMENT GUIDANCE

IPSAS requires presentation of a statement of financial performance applying defined structure. The core structure for both scores A and B requires recognition of all revenues and expenses, and includes them in surplus and deficit of the period, unless an IPSAS requires otherwise. IPSAS 1 also requires a more detailed structure with a minimum of line items.

Table 84. Dimension 21.2 – Degree of completeness: statement of financial performance

Score		
Conceptual	Actual	Requirements
A	A	The financial statements include a statement of financial performance, which shows all revenues and expenses, includes them in the surplus or deficit of the period, and includes **all** minimum line items.
B	B	The financial statements include a statement of financial performance, which shows all revenues and expenses and includes them in the surplus or deficit of the period and includes **at least five** of the minimum line items.
C	C	The financial statements include a statement of financial performance, which includes **at least four** of the minimum line items.
D	D	Performance is less than required for a C score.

Minimum line items

IPSAS 1.102 and 1.103 detail the minimum line items to be presented, plus additional ones (IPSAS 1.104) if they are relevant for the understanding of financial performance:

1. Revenue.
2. Finance costs.
3. Share of the surplus and deficit of associates and joint ventures accounted for using the equity method.
4. Gain or loss on the disposal of assets or settlement of liabilities.
5. Surplus or deficit.
6. Surplus or deficit attributable to non-controlling interest.
7. Surplus or deficit attributable to owners of the controlling entity.

Dimension 21.3 – Degree of completeness: statement of changes in net assets/equity

Dimension 21.3 assesses the completeness of the statement of changes in net assets/equity regarding the presentation of all minimum line items as required by IPSAS 1.

Table 85. Dimension 21.3 – Degree of completeness: statement of changes in net assets/equity

Score		
Conceptual	Actual	Requirements
A	A	The financial statements include a statement of changes in net assets/equity which includes **all** minimum line items.
B	B	The financial statements include a statement of changes in net assets/ equity which includes **at least five** of the minimum line items.
C	C	The financial statements include a statement of changes in net assets/equity which includes **at least four** of the minimum line items.
D	D	Performance is less than required for a C score.

MEASUREMENT GUIDANCE

IPSAS requires presentation of a statement of changes in net assets/equity, which includes the changes directly made in net assets/equity. IPSAS 1.118 and 1.119 defines the minimum line items and details the changes of net assets/equity which must be presented on the face of the statement (items 1 - 4) or either on the face or in the notes (items 5 – 7):

Minimum line items

1. Surplus or deficit for the period.
2. Each item of revenue or expense which is, in accordance with other IPSAS, recognized directly in net assets/equity, and the total of these items.
3. The part of items 1 and 2 attributable to the owner of the controlling entity and to non-controlling interest.
4. The effects of changes in accounting policy and corrections of errors to each component of net assets/equity.
5. The amount of transactions with owners in their capacity as owners.
6. The opening and closing balance as well as changes of accumulated surpluses and deficits.
7. The opening and closing balance as well as changes of each component of net asset/equity which is disclosed separately.

Dimension 21.4 – Degree of completeness: cash flow statement

Dimension 21.4 assesses adherence to the stipulations of IPSAS 2 regarding the presentation of the cash flow statement.

MEASUREMENT GUIDANCE

IPSAS 2 requires presenting a statement of cash flows, considering only cash and cash equivalents, as defined in the standard and has a preference on how the cash flows should be calculated (direct calculation), which is the requirement for score A. Score B can also be achieved if the method of calculation is not defined or with a different preference. Score C may also consider line items other than cash or cash equivalent.

Table 86. Dimension 21.4 – Degree of completeness: cash flow statement

Score		
Conceptual	Actual	Requirements
A	A	The financial statements include a cash flow statement, which classifies the flows of cash or cash equivalent by operating, investing, and financing activities. Cash flows from operating activities are calculated directly (preferred option).
B	B	The financial statements include a cash flow statement, which classifies the flows of cash or cash equivalent by operating, investing, and financing activities.
C	C	The financial statements include a cash flow statement, which classifies the cash flows by operating, investing, and financing activities.
D	D	Performance is less than required for a C score.

PI-22: Notes to the financial statements

This indicator assesses different types of notes to the financial statements, which are required by IPSAS. The first dimension addresses overarching requirements for any type of notes to the financial statements (IPSAS 1). The second to fourth dimensions assess specific mandatory notes, in particular, the presentation of budget information (IPSAS 24), segment information (IPSAS 18), and information about key management personnel (IPSAS 20). This indicator has 4 dimensions.

Dimension 22.1 – Notes

Dimension 22.1 assesses the degree to which the reporting entity provides information about the accounting policies and the basis for preparation of its financial statements.

MEASUREMENT GUIDANCE

IPSAS 1 requires presenting structured notes as part of the financial statements, which inform about the basis of preparation of financial statements and the specific accounting policies, the information required by other IPSAS, and additional information that is relevant (score A). Score B can also be achieved if the notes only include information about the basis of preparation and the accounting policies. Score C requires the presentation of notes without any specific content.

IPSAS 1.28 requires a statement about compliance with IPSAS if, and only if, there is full compliance with all relevant and mandatory IPSAS. Moreover, PEFA Indicator 29.3 also requires the differences between national standards and IPSAS to be explained.

Table 87. Dimension 22.1– Notes

Score		
Conceptual	Actual	Requirements
A	A	The financial statements include systematic notes, which inform about the basis of preparation of financial statements, including compliance with IPSAS or the difference between national standards and IPSAS, and the specific accounting policies, the information required by other IPSAS, and additional information that is relevant to an understanding of the financial statements.
B	B	The financial statements include notes, which inform about the basis of preparation of financial statements and the specific accounting policies, as well as the information required by other IPSAS.
C	C	The financial statements include notes.
D	D	Performance is less than required for a C score.

Dimension 22.2 – Degree of completeness: budget information

Dimension 22.2 assesses the degree to which the reporting entity presents budget information within its financial statements as stipulated by IPSAS 24.

MEASUREMENT GUIDANCE

If an entity is presenting an approved budget, IPSAS 24 requires presenting a comparison between original and actual budgets, as well as specifies minimum items.

Minimum items

The comparison shall present the following minimum items (IPSAS 24.14, 24.29):

1. The original budget.
2. The final budget.
3. The actual amounts on a comparable basis (i.e., the same basis on which the budget is presented).
4. A reconciliation of (3) the actual amounts on a comparable basis and the actual amounts presented in the financial statements (if they differ).
5. A note disclosure explaining the material differences between (2) the final budget and (3) the actual amounts on a comparable basis.
6. A note disclosure or in a separate report explaining if the changes between (1) the original budget and (2) the final budget are a consequence of reallocations within the budget or other reasons.
7. Additional note disclosures about the basis of preparation of the budget, the period of the budget, and the entities included in the budget.

The comparison can only be made in an additional column to the financial statements if the budget and the financial statements are prepared on a comparable basis. Otherwise, the comparison must be presented in a separate statement. However, this option to use a separate statement is also available if they are prepared on a comparable basis (IPSAS 24.21-22). Aggregation of line items may be necessary and is permitted if it meets the QC and serves the user needs (IPSAS 24.25-28, PI-1.3 for QC).

Table 88. Dimension 22.2 – Degree of completeness: budget information

Score		
Conceptual	Actual	Requirements
A	A	The financial statements include a comparison between original and actual budgets. The comparison shall include **all** minimum items.
B	B	The financial statements include a comparison between original and actual budgets. The comparison shall include **at least five** of the minimum items.
C	C	The financial statements include a comparison between original and actual budgets. The comparison shall include **at least three** of the minimum items.
D	D	Performance is less than required for a C score.

Dimension 22.3 – Segment reporting

Dimension 22.3 assesses the degree to which the reporting entity includes segment information within its financial statements as stipulated by IPSAS 18.

MEASUREMENT GUIDANCE

IPSAS 18.6 requires the presentation of segment information only at the level of the consolidated financial statements if the financial statements are presented together with such consolidated financial statements. However, if no consolidated financial statements are presented, the standard will also apply to non-consolidated statements. Therefore, there may be entities which are not required to present segment information to comply with IPSAS.

A segment is a distinguishable activity or group of activities, for which it is appropriate to present financial information separately, for accountability or decision-making purposes (IPSAS 18.9). Therefore, segment reporting is also not required if there is only one activity. However, at consolidated level, major budget classification will generally also reflect the segments (IPSAS 18.14). Typical examples of segments are line ministries, if the budget and financial statements are presented by functions, or functions of government if the budget and financial statements are presented by line ministry. Less frequent but possible are geographical segments.

Minimum items

For each segment, the entity is required to disclose the following minimum information (IPSAS 18.51-73):

1. Segment revenue.
2. Segment expenses.
3. Carrying amount of segment assets.
4. Carrying amount of segment liabilities.
5. Cost incurred during the period to acquire segment assets.
6. The aggregate of the entity's share in surplus or deficit of entities accounted for using the equity method, as well as the aggregate investments in those entities.
7. A reconciliation of the segment information with the financial statements.
8. The basis of the pricing of inter-segment transactions.
9. Changes in accounting policies that have material effects on the segment information.
10. The segmentation criteria applied.

Table 89. Dimension 22.3 – Segment reporting

Score		
Conceptual	Actual	Requirements
A	A	The financial statements include segment information if there are distinguishable activities. The segment information includes **all** minimum items.
B	B	The financial statements include segment information if there are distinguishable activities. The segment information includes **at least eight** of the minimum items
C	C	The financial statements include segment information if there are distinguishable activities. The segment information includes a**t least five** of the minimum items.
D	D	Performance is less than required for a C score.

Dimension 22.4 – Key management personnel

Dimension 22.4 assesses the degree to which the reporting entity informs about key management personnel within its financial statements as stipulated in IPSAS 20.

MEASUREMENT GUIDANCE

IPSAS 20 requires the disclosure of information about key management personnel and their close family members. Score A requires all four minimum items to be presented, score B three out of four and score C two out of four.

Note that IPSAS 20 contains two main topics: transactions between related parties and key management personnel. The topic of transactions between related parties is addressed in PI 24 "Consolidated Financial Statements", as it mainly relates to controlled entities.

Key management personnel include all members of the governing body of the entity, which has the authority to plan, direct, and control the activities of the entity, as well as senior management personnel (IPSAS 20.6-9). The classification as key management personnel is independent of the legal form of election, appointment, or employment. The following disclosure requirements are extended to close family members of the key management personnel, such as relatives, spouses, and domestic partners (IPSAS 20.5).

Minimum items

The entity is required to disclose the following minimum information on key management personnel and their close family members (IPSAS 20.21):

1. Aggregate remuneration of key management personnel during the reporting period, determined on a full-time equivalent basis, showing separately major classes of key management personnel.
2. Total amount of other remuneration and compensation paid by the entity or group entities for services provided, showing separately key management personnel and their close family members.
3. Amount of loans made to key management personnel and their close family members, which are not widely known or available to the public, including the loans advanced to them, loans repaid, and the closing balance of the loans and receivables.
4. In case of close family members, the relationship (e.g., spouse, child, etc.) to key management personnel.

Table 90. Dimension 22.4 – Key management personnel

Score		
Conceptual	Actual	Requirements
A	A	The financial statements include a comparison between original and actual budgets. The comparison shall include **all** minimum items.
B	B	The financial statements include a comparison between original and actual budgets. The comparison shall include **at least five** of the minimum items.
C	C	The financial statements include a comparison between original and actual budgets. The comparison shall include **at least three** of the minimum items.
D	D	Performance is less than required for a C score.

PI-23: Accounting for non-controlled entities and public sector combinations

This indicator assesses the accounting for investment in non-controlled entities, in particular associates, joint ventures (IPSAS 36), and joint operations (IPSAS 37), as well as for public sector combination (IPSAS 40).

Dimension 23.1 – Associates and joint-ventures/Equity method

Dimension 23.1 assesses the extent to which a reporting entity accounts for investments into associates or joint ventures in line with IPSAS 36.

MEASUREMENT GUIDANCE

IPSAS 36 requires associates and joint ventures to be accounted for using the equity method when presenting consolidated financial statements. The standard also prescribes the procedures of the equity method in detail. For score A, the definition of associates and joint ventures and the application of the equity method must be in full compliance with the standard. Score B requires the correct definition of associates and joint ventures, but only the core procedure. Score C can be reached by using the core procedures of the equity method, but not specifically for associates or joint ventures.

Associates are entities over which the investor has significant influence. Significant influence is defined in IPSAS 36.8 as the power to participate in the financial and operating policy decisions of the entity, without having control or joint control. It is often evidenced by a quantifiable interest of between 20 and 50 percent of the voting power, but there might be other indicators in a public sector context.

Joint ventures are joint arrangements which require unanimous consent of the parties and give a right to the net asset/equity.

Required procedures of the equity method

* **Core procedure:**
  The equity method requires an investment in another entity to be recognized as a non-current asset (IPSAS 36.21) and measured initially at cost (IPSAS 36.16). Subsequently, the carrying amount is increased or decreased through surplus or deficit, by the investor's share in the financial result of the entity.

* **Additional procedures:**
  If there are other changes to the investee's equity, e.g., because of changes in the equity structure or the revaluation of assets, they also adjust the carrying amount, but through changes in net assets/equity of the investor (IPSAS 36.16-20). Gains and losses from transactions between the investor and the investee, which are not normal operations, are corrected for the investor's interest in the investee (IPSAS 36.31). In case of

Table 91. Dimension 23.1 – Associates and joint-ventures/Equity method

Score		
Conceptual	Actual	Requirements
A	A	The financial statements include a comparison between original and actual budgets. The comparison shall include **all** minimum items.
B	B	The financial statements include a comparison between original and actual budgets. The comparison shall include **at least five** of the minimum items.
C	C	The financial statements include a comparison between original and actual budgets. The comparison shall include **at least three** of the minimum items.
D	D	Performance is less than required for a C score.

differing reporting dates or accounting policies, adjustments shall be made (IPSAS 36.36-39). Further adjustments may be necessary because of impairment losses according to IPSAS 21, 26 or 41. If the carrying amount drops below zero, the investment must be derecognized (IPSAS 36.41).

Dimension 23.2 – Joint operations

Dimension 23.2 assesses the extent to which a reporting entity accounts for joint operations in line with IPSAS 37.

MEASUREMENT GUIDANCE

IPSAS 37 defines joint operations and requires the entity to account for them using proportional consolidation. For score A, adherence to both the (rather strict) definition of joint operations and the use of the proportional consolidation method is necessary. If the definition of joint operations is relaxed, which is the case in many jurisdictions, but the proportional consolidation method still applies, the score should be B. If proportional consolidation is applied to different types of joint arrangements, in particular joint ventures (as was permitted by the withdrawn IPSAS 8), the score is C.

IPSAS 37 defines joint operations as joint arrangements, which are governed by joint control, i.e., decisions are taken by unanimous consent, and give rights to assets and obligations to liabilities, but not to net assets/equity. If it gives rise to net assets/equity, it is a joint venture, which requires a different accounting treatment (equity method).

The unanimous consent is necessary for decisions about relevant activities, i.e., those that significantly affect the benefits from the joint operation. Examples are significant changes in the level of activities, in the access to the goods or services provided, the pricing of the goods or services, the technology used, etc.

The accounting for joint operations is proportional consolidation, recognizing and measuring the controlling entity's share of each asset, liability, revenue, and expense, according to its interest in the joint operation and applying the respective IPSASs (IPSAS 37.23-25). The same accounting procedures may still be applied, if the joint arrangement gives rights to assets and obligations to liabilities, even if it is not governed by joint control (IPSAS 37.26).

Table 92. Dimension 23.2 – Joint operations

Score		
Conceptual	Actual	Requirements
A	A	Joint arrangements, which require unanimous consent of the parties and give rights to assets and obligations to liabilities, are accounted for recognizing and measuring each asset, liability, revenue, and expense, according to its interest in the joint operation.
B	B	Joint arrangements, which give rights to assets and obligations to liabilities, are accounted for recognizing and measuring each asset, liability, revenue, and expense, according to its interest in the joint operation.
C	C	Any kind of joint arrangement is accounted for recognizing and measuring each asset, liability, revenue, and expense, according to its interest in the joint operation.
D	D	Performance is less than required for a C score.

Dimension 23.3 – Public sector combinations

Dimension 23.3 assesses the extent to which a reporting entity accounts for public sector combinations in line with IPSAS 40.

MEASUREMENT GUIDANCE

Score A calls for a clear distinction between amalgamations and acquisitions and to apply the appropriate accounting method according to IPSAS 40. Since most public sector combinations are, in fact, amalgamations, score B only requires applying the concept of amalgamation, including its specific accounting method. For score C, no adherence to the two types of public sector combination (i.e., amalgamation or acquisition) is necessary and the means of making this information transparent is not restricted. Thus, any information on combinations of public sector entities, being quantitative or qualitative in nature, presented as part of the annual financial statements would qualify for a score C.

Definition of public sector combinations

Public sector combinations are defined as the bringing together of separate operations into one public sector entity. For that matter, an operation is defined as an integrated set of activities and related assets and/or liabilities that is capable of being conducted and managed for the purpose of achieving an entity's objectives to provide goods and/or services. Examples of public sector combinations include, but are not limited to the following:

* Reorganization of local or regional governments, for example the combinations of two or more entities to form one single entity (i.e., the amalgamation of municipalities).
* Restructuring of (central) government ministries.
* The nationalization of private sector entities (e.g., through bail-out or legislation).
* Transfer of operations between different government units.

Public sector combinations are classified either as an amalgamation or as an acquisition, whereby the amalgamation is much more common. Evidence that a public sector combination qualifies as an amalgamation include, but are not limited to the following:

* The public sector combination is imposed by a third party without any party to the combination being involved in the decision-making process.
* A public sector combination is subject to approval by each party's citizens.
* No consideration is paid or only paid irrespective of any entitlement of net assets as part of the combination.

Table 93. Dimension 23.3– Public sector combinations

Score		
Conceptual	Actual	Requirements
A	A	Public sector combinations are recognized and accounted for, either as (i) amalgamations, using the modified pooling of interest method of accounting, or (ii) acquisitions, using the acquisition method of accounting.
B	B	Public sector combinations are recognized and accounted for as amalgamations, using the modified pooling of interest method of accounting.
C	C	Substantial changes in the structural or territorial integrity of entities are recognized and/or disclosed in the financial statements.
D	D	Performance is less than required for a C score.

Amalgamation

An amalgamation gives rise to a resulting entity and is either: (i) a public sector combination in which no party to the combination gains control of one or more operations; or (ii) a public sector combination in which one party to the combination gains control of one or more operations. Amalgamations are accounted for using the modified pooling of interest method of accounting, which entails a 4-step process:

1. Identifying the resulting entity.
2. Determining the amalgamation date.
3. Recognizing and measuring the identifiable assets received and liabilities assumed and any-non-controlling interests in the combining operations in consistency with other relevant IPSAS.
4. Recognizing and measuring the components of net asset/equity and other adjustments from an amalgamation.

Acquisition

An acquisition is a public sector combination in which one party to the combination (the acquirer) gains control of one or more operations, and there is evidence that the combination is not an amalgamation. Thus, any transaction or event which meets the definition of a public sector combination that does not meet the criteria of amalgamation is defined as an acquisition. Acquisitions are accounted for using the acquisition method of accounting, which entails a 4-step process:

1. Identifying the acquirer.
2. Determining the acquisition date.
3. Recognizing and measuring the identifiable assets acquired, the liabilities assumed and any-non-controlling interests in the acquired operation.
4. Recognizing and measuring goodwill, a gain or loss from an acquisition.

PI-24: Consolidated financial statements

This indicator assesses the accounting for controlled entities and the presentation of consolidated financial statements (IPSAS 35). This indicator has 4 dimensions.

Dimension 24.1 – Reporting scope and investment entities

Dimension 24.1 assesses the scope based on which the reporting entity prepares consolidated financial statements using the stipulations of IPSAS 35 as a baseline.

Table 94. Dimension 24.1 – Reporting scope and investment entities

Score		
Conceptual	Actual	Requirements
A	A	The financial statements consolidate the controlling entity with all controlled entities, except for investment entities. Control is determined based on the combination of both power and benefit.
B	B	The financial statements consolidate the controlling entity with all controlled entities. Control is determined based on the combination of both power and benefit.
C	C	The financial statements consolidate the controlling entity with selected controlled entities.
D	D	Performance is less than required for a C score.

MEASUREMENT GUIDANCE

The only financial statements that IPSAS requires are consolidated financial statements (IPSAS 35). Therefore, consolidated financial statements are the core financial statements under IPSAS. Separate financial statements, although addressed in IPSAS 34, are not mandatory. Individual financial statements prepared by (sub)entities, e.g., ministries, are not addressed in IPSAS and are not mandatory.

For score A, all controlled entities must be consolidated and consolidated financial statements must be presented, with the exception of when the controlled entity is an investment entity. For score B, all controlled entities must be consolidated and consolidated financial statements must be presented, but there is no special treatment for investment entities. For score C, only selected controlled entities are consolidated into consolidated financial statements. If no consolidated financial statements are presented, although there are controlled entities other than investment entities, the score is D. If there are no controlled entities, the score is n/a.

An investment entity is an entity which has the sole purpose of investing to generate financial returns. The investment may result in control of the entities, but it nevertheless accounts for them using fair value through surplus and deficit (IPSAS 35.7).

Control of an entity is defined (IPSAS 35.18ff.) as the combination of both power and benefits:

* Power is the current ability to rightfully direct the activities of the controlled entity.
* Benefits are the financial or non-financial advantages or disadvantages from the involvement in the controlled entity.

Dimension 24.2 – Consolidation procedures

Dimension 24.2 assesses the procedures based on which the reporting entity prepares consolidated financial statements using the stipulations of IPSAS 35 as the baseline.

MEASUREMENT GUIDANCE

IPSAS 35 requires: (i) uniform accounting policies of all controlled entities; and (ii) the elimination of all transactions between the entities, when (iii) consolidating them line-by-line. For score A, all three requirements must be fulfilled. For score B, only most transactions between the entities must be eliminated. For score C, similar accounting policies and the elimination of a majority of transactions between the entities suffices.

Table 95. Dimension 24.2 – Consolidation procedures

Score		
Conceptual	Actual	Requirements
A	A	Consolidated financial statements are prepared using uniform accounting policies, on a line-by-line basis, eliminating **all** transactions between the entities.
B	B	Consolidated financial statements are prepared using uniform accounting policies, on a line-by-line basis, eliminating **most** transactions between the entities.
C	C	Consolidated financial statements are prepared using similar accounting policies, on a line-by-line basis, eliminating a **majority** of the transactions between the entities.
D	D	Performance is less than required for a C score.

Transactions to be eliminated generally include transfers (e.g., grants, financial equalization between different government levels or parts of the country, the provision of operating capital, loans, the provision of property, plant and equipment (e.g., land, vehicles, medical equipment), intangibles (e.g., software, licenses), inventory (e.g., vaccines, schoolbooks), but also the provision of services (e.g., training, transport of passengers and cargo, data) between the consolidating and consolidated entries, as well as between consolidated entities.

Dimension 24.3 – Transactions between related parties

Dimension 24.3 assesses the extent to which transactions between related parties are disclosed as encouraged in IPSAS 20.

MEASUREMENT GUIDANCE

IPSAS 20 applies to both entities and persons, when it comes to related party transactions, which must be disclosed unless the transaction has terms and conditions that would have applied to non-related parties. For score A, all required transactions must be disclosed. For score B, the disclosure is limited to entities, but not persons. For score C, there are only some transactions disclosed, based on different criteria.

Note that IPSAS 20 contains two main topics: transactions between related parties and key management personnel. The topic of key management personnel is addressed in PI-22.3, because it is never related to the consolidation of entities. In contrast, the topic of transactions between "related parties", which is addressed in this dimension, is always related to consolidation of entities, and occasionally also to persons.

Table 96. Dimension 24.3 – Transactions between related parties

Score		
Conceptual	Actual	Requirements
A	A	Transactions between related parties, such as controlled or significantly influenced entities or persons (e.g., key management personnel), or entities under common control, are disclosed, unless the terms and conditions of the transaction are the same that would have applied to non-related parties.
B	B	Transactions between related parties, such as controlled or significantly influenced entities, or entities under common control, are disclosed, unless the terms and conditions of the transaction are the same that would have applied to non-related parties.
C	C	There is limited disclosure of transactions between related parties.
D	D	Performance is less than required for a C score.

Dimension 24.4 – Disclosures of interests in other entities

Dimension 24.4 assesses the extent to which interests in other entities are disclosed as encouraged by IPSAS 38.

MEASUREMENT GUIDANCE

IPSAS 38 requires disclosing the following minimum items about interests in other entities:

1. The names of such entities.
2. Any judgments or changes made in this respect.
3. Any restrictions of the interest.
4. Any risk associated.
5. Any controlling interest acquired with the intention of disposal.

Pillar VI. Reform prerequisites and capacities

This pillar assesses fundamental prerequisites and capacities to be addressed to operate PSA systems efficiently and effectively and to successfully undertake PSA reforms, including the following:

* Integration with other PFM systems as the basis to capture, exchange, process, and report financial information among different PFM systems.
* IFMIS, as the basis to automatically capture, exchange, process, and report financial information.
* Human capacity, as the basis to train and sustain finance professionals and decision-makers.
* Accounting function and how to allocate accounting and reporting tasks, processes, and responsibilities within a jurisdiction.
* Reform ownership, as the basis to ensure success of PSA reforms by top-level commitment from politicians and senior government officials and the support of all key stakeholders in government.

Pillar VI has the following five indicators:

* PI-25: Integration with PFM
* PI-26: IFMIS
* PI-27: Human capacity
* PI-28: Accounting function
* PI-29: Reform ownership

PI-25: Integration with other PFM systems

This indicator measures the degree to which PSA feeds into other PFM systems and is integrated with them. The indicator gauges whether the aspects of integration are characterized by streamlined sets of laws, rules, and processes. This indicator has 2 dimensions.

Table 97. Dimension 24.4 – Disclosures of interests in other entities

Score		
Conceptual	Actual	Requirements
A	A	The disclosure on interest in other entities includes all minimum items.
B	B	The disclosure on interest in other entities includes at least four of the minimum items.
C	C	The disclosure on interest in other entities includes at least three of the minimum items.
D	D	Performance is less than required for a C score.

Dimension 25.1 – Multipurpose Chart of Accounts

Dimension 25.1 assesses the degree to which the CoA serves multiple reporting purposes and provides comprehensive information required for the preparation financial statements on accrual-basis IPSAS, while concurrently providing information for other reporting purposes, such as budget execution and fiscal reporting under GFS. Dimension 25.1 gives an indication on the extent to which the CoA need to be updated to fulfill the requirements under accrual-basis IPSAS and whether it is uniformly applied by all budget entities.

Table 98. Dimension 25.1 – Multipurpose Chart of Accounts

Score	Requirements
A	The CoA provides information required for the preparation of financial statements on accrual-basis IPSAS, Government Finance Statistics (GFS) based core financial statements, budget presentation, and is harmonized for all budget entities.
B	The CoA provides information required for the preparation of financial statements on accrual-basis IPSAS and budget presentation and is harmonized for all budget entities.
C	The CoA is harmonized for all budget entities.
D	Performance is less than required for a C score.

Dimension 25.2 – Treasury Single Account (TSA)

Dimension 25.2 assesses the effectiveness and comprehensiveness of the government's treasury and cash management function which is best managed and operated through a TSA that consolidates all government cash resources. The primary objective of a TSA is to ensure effective aggregate control over government cash balances which facilitates monitoring as well as fiscal and financial planning.

Table 99. Dimension 25.2 – Treasury Single Account (TSA)

Score	Requirements
A	A TSA is held at the central bank or a publicly owned commercial bank and includes all government cash resources, both budgetary and extrabudgetary.
B	A TSA is held and includes all government budgetary cash resources directly controlled by the government, excluding extrabudgetary funds.
C	In the absence of a TSA, the governmental treasury function is organized in such way that it provides a coordination mechanism needed to ensure effective aggregate control over government cash balances.
D	Performance is less than required for a C score.

PI 26: Integrated financial management information systems

This indicator assesses the supportiveness of the current IT systems to capture, record, and process accrual information and to exchange information with auxiliary PFM systems. Furthermore, the indicator assesses whether current IT systems facilitate an automated consolidation of financial statements of controlled entities. This indicator has 4 dimensions.

Dimension 26.1 – Accrual information

Dimension 26.1 assesses whether the IT systems (e.g., IFMIS or entity specific IT systems / accounting and financial reporting modules) support the recording of accrual information in all budget entities. Accrual elements can be stocks (e.g., receivables, non-financial liabilities, etc.) and/or flows (e.g., depreciation, impairment, etc.). Certain jurisdictions may not have an IFMIS, therefore allowing entities to use individual IT / accounting systems. In such circumstances, system performance shall be tested against accrual accounting requirements.

Dimension 26.2 – Capturing of transactional information

Dimension 26.2 assesses whether transactional information (e.g., arising from expenditures, revenues, borrowings, loans, grants, and other financial transactions) of budget entities are captured and recorded in the general ledger. A general ledger is a central account or record to sort, store, and summarize transactional information of an entity's transactions. Within different jurisdictions, different entities or units might be responsible to maintain the general ledger, such as the treasury or accounting units. In an integrated system, budget entities transactions are directly captured and recorded in the general ledger. Where budget entities operate on individual systems, data processing interfaces should be established to enable an automated exchange of information. Automated capturing of transactional information reduces manual data processing, thereby increasing the reliability of financial information.

Table 100. Dimension 26.1 – Accrual information

Score	Requirements
A	The IT systems are configured in a way to implement the recording of accrual information in **all** budget entities.
B	The IT systems are configured in a way to implement the recording of accrual information in **most** budget entities.
C	The IT systems are configured in a way to implement the recording of accrual information in a **majority** of budget entities.
D	Performance is less than required for a C score.

Table 101. Dimension 26.2 – Capturing of transactional information

Score	Requirements
A	Transactional information of **all** budget entities is captured, recorded, and processed in the general ledger.
B	Transactional information of **most** budget entities is captured, recorded, and processed in the general ledger.
C	Transactional information of the **majority** of budget entities is captured, recorded, and processed in the general ledger.
D	Performance is less than required for a C score.

Dimension 26.3 – Integration of accounting and PFM systems

Dimension 26.3 assesses the extent to which relevant accounting information of PFM systems can be automatically and electronically processed by the general ledger. This may include information of debt management systems, budget execution, tax and revenue collection systems, asset management, public investment or payroll management systems which may be under the responsibility of separate government agencies, and different IT platforms.

Table 102. Dimension 26.3 – Integration of accounting and PFM systems

Score	Requirements
A	**All** major PFM systems processing relevant accounting information are configured in a way to exchange information with the general ledger.
B	**Most** major PFM systems processing relevant accounting information are configured in a way to exchange information with the general ledger.
C	**A majority** of PFM systems processing relevant accounting information are configured in a way to exchange information with the general ledger.
D	Performance is less than required for a C score.

MEASUREMENT GUIDANCE

Score A requires that all major PFM systems, including budget execution, treasury and cash management, debt management, asset management, payroll, public procurement, public investment, treasury single account and the accounting module, are configured in a way that allows for an automatic exchange of information with the general ledger.

Score B requires that most major PFM systems, including budget execution, treasury and cash management, debt management, asset management, payroll, and the accounting module, are configured in a way to automatically exchange information with the general ledger.

Score C requires that core PFM systems, such as budget execution, treasury and cash management and the accounting module, are configured in way to automatically exchange information with the general ledger.

Dimension 26.4 – Automated consolidation process

Dimension 26.4 assesses the extent by which the current IT system can facilitate an automated consolidation process of the reporting entity, considering IPSAS requirements, such as the capability to eliminate intra-entity transactions. Scope and principles of consolidation are assessed separately in PI-24 consolidated financial statements. The concept of the reporting entity is assessed in PI-1.

Table 103. Dimension 26.4 – Automated consolidation process

Score	Requirements
A	The IT system is configured in a way to implement an automated consolidation process of **all** controlled entities, including elimination of intra-entity transactions.
B	The IT system facilitates an automated consolidation process of **most** controlled entities, including elimination of intra-entity transactions.
C	The IT system facilitates an automated aggregation process of **most** controlled entities, however, does not support the elimination of intra-entity transactions.
D	Performance is less than required for a C score.

MEASUREMENT GUIDANCE

Certain jurisdictions may not have a fully integrated financial management system that enables an automated consolidation process. However, they may opt to choose specific consolidation modules, allowing to capture summary data information of other sources for consolidation purposes. An automated consolidation process reduces manual data processing, thereby increasing the reliability of financial information. Manual data processing (e.g., with the support of spreadsheets) is slow, costly, and prone to errors.

PI-27: Human resources and capacity

This indicator assesses the extent to which a reporting entity can rely on relevant skills and knowledge in strengthening PSA and preparing standard-based financial statements. This indicator has 3 dimensions.

Dimension 27.1 – Accrual accounting competencies

Table 104. Dimension 27.1 – Accrual accounting competencies

Score	Requirements
A	Proficiency in the applicable accounting framework and a formal accounting qualification adequate to perform the respective role in an accrual-based system are an entry requirement for public sector accountants.
B	Proficiency in the applicable accounting framework and a formal accounting qualification adequate to perform the respective role are an entry requirement for public sector accountants.
C	A solid financial management background, including experience with accrual accounting and familiarity with the applicable accounting framework, is an entry requirement for public sector accountants.
D	Performance is less than required for a C score.

MEASUREMENT GUIDANCE

Dimension 27.1 assesses entry requirements for public sector accountants as an indicator for existing accrual accounting capacity and intensity of training required in the reform implementation phase. A non-competency-based, discretionary recruitment practice because of a non-standardized recruitment process will most likely result in insufficient accrual accounting skills, which is captured by score D.

Dimension 27.2 – Professionalization of the PSA function

Dimension 27.2 assesses to what degree the maintenance and building of capacity in the PSA function is a strategy driven and competency-based process.

Table 105. Dimension 27.2 – Professionalization of the PSA function

Score	Requirements
A	A competency framework and capacity building strategy for public sector accountants, including: (i) comprehensive and clear set of PSA core competencies; (ii) required proficiency levels for specific roles, including accrual accounting; and (iii) mandatory training and education curricula, have been established and are updated at least every 3 years.

Score	Requirements
B	A competency framework and capacity building strategy for public sector accountants, including: (i) comprehensive and clear set of PSA core competencies; (ii) required proficiency levels for specific roles, and (iii) mandatory training and education curricula, have been established.
C	Existence of defined mandatory training and education curricula for public sector accountants to be completed in a given period after recruitment.
D	Performance is less than required for a C score.

MEASUREMENT GUIDANCE

A competency framework serves as the basis for designing training program elements to ensure the full range of professional competencies and knowledge needed, helps evaluate staff performance and guides recruitment. As a state-of the-art tool in line with international standards it either needs to be adapted to incorporate accrual accounting competencies (difference in score A to B) or has yet to be established.

Dimension 27.3 – Appropriate staffing level

Dimension 27.3 assesses the perception of adequacy with respect to human resources dedicated to carry out a PSA reform.

Table 106. Dimension 27.3 – Appropriate staffing level

Score	Requirements
A	The responsible authority perceives the staffing level of those units directly involved in the reform as appropriate to carry out activities in relation to the preparation and implementation phase of a PSA reform
B	The responsible authority perceives the staffing level of those units directly involved in the reform as barely appropriate to carry out activities in relation to the preparation and implementation phase of a PSA reform
C	The responsible authority perceives the staffing level of those units directly involved in the reform as not appropriate but plans to hire additional personnel to carry out activities in relation to the preparation and implementation phase of a PSA reform.
D	Performance is less than required for a C score.

MEASUREMENT GUIDANCE

An optimal staffing level allows for a smooth conduct of activities associated with the preparation and implementation phase, such as drafting of legal documents, handbooks, training activities, IT adaption, project management and coordination. The dimension, however, does not assess whether the accounting function of a specific level of government is adequately staffed per se, but focusses on the reform capacity of the responsible authority.

PI-28: Accounting function and standard-setting environment

This indicator assesses the organization of government accounting as well as the independence of the standard-setting environment in a given jurisdiction. Both accounting and standard setting might be organized differently in jurisdictions and might have been affected by historical and cultural factors. However, despite different approaches and models, there are a few overarching principles which need to be in place to ensure systematic and reliable data flows and to achieve credible, high quality financial statements relevant for users. This indicator has 3 dimensions.

Dimension 28.1 – Accounting function

Dimension 28.1 assesses whether government accounting is organized in a way to achieve reliable and high-quality financial statements which meet user needs.

Table 107. Dimension 28.1 – Accounting function

Score	Requirements
A	Government accounting is organized in way that it fulfills **all** criteria of an efficient and effective operation of the key accounting function and tasks.
B	Government accounting is organized in way that it fulfills at least **three** criteria of an efficient and effective operation of the key accounting function and tasks.
C	Government accounting is organized in way that it fulfills at least **two** criteria of an efficient and effective operation of the key accounting function and tasks.
D	Performance is less than required for a C score.

MEASUREMENT GUIDANCE

Governments use different approaches to organize their accounting systems, all with strengths and weaknesses. Government accounting may be centralized, decentralized or a combination of both:

* Centralized accounting function: Main accounting functions such as day-to-day accounting and financial reporting operations are performed through central bodies such as the MoF, state property agencies, and/or shared service centers.
* Decentralized accounting function: Day-to-day accounting and financial reporting operations are maintained within line ministries and agencies through auxiliary ledgers. Consolidation activities are performed by central authority.
* Hybrid arrangements as a combination of the systems above.

In all cases, the organization of government accounting is strongly linked to the underlying IT-systems and processes (see Indicator 26: IFMIS) and has implications on training, development, and human resources (see Indicator 27: Human resources and capacity).

In a centralized system, the accounting function might be performed by the Treasury, or another accounting department within the MoF. Key responsibilities may include the maintenance of the general ledger, year-end financial reporting, and consolidation tasks. Other (national or subnational) governmental entities entrusted with budget execution, such as line ministries, directly process their accounting information to the MoF or a designated service center (usually using client/cloud IT access and services). Consequently, a centralized model requires less staff to be trained and fewer processes to be coordinated with other entities.

In a decentralized system, accounting tasks and responsibilities are divided between different entities and information providers (e.g., budget entities may be required to individually account for their financial transactions, including asset accounting and reporting). In such systems it is important that tasks, responsibilities, and processes are properly defined, documented, and coordinated to ensure reliable data flows and to avoid inefficiencies or redundancies.

Also in hybrid arrangements, where accounting tasks and responsibilities may be shared between central entities (e.g., between treasury, state asset register, tax and customs office) and decentralized entities (e.g., budget entities and agencies which are required to maintain individual ledgers and to account for entity-specific asset types), it is important to properly define, document and coordinate distinct responsibilities and data flows (which are, again, affected by underlying IT-systems and processes).

Different approaches towards organizing PSA make it difficult to measure performance, because individual approaches have different strengths and weaknesses. However, there exist a few overarching principles which form the criteria for scoring this dimension.

Criteria of an efficient and effective operation of the key accounting function and tasks

1. There exist well-defined responsibilities for key accounting tasks, including daily accounting operations, recognition and measurement of assets and liabilities, and financial reporting.
2. There is a clear and systematic process for preparing consolidated financial statements.
3. Accounting entities have easy access to their distinct set of accounting instructions and guidelines, which are available in a user-friendly manner (e.g., in the form of accounting handbooks or manuals).
4. The accounting function has clearly established links to upstream activities, such as financial planning and budgeting, treasury, revenue and customs management or debt management.
5. The accounting function has clearly established links to downstream activities, such as government financial statistics.

Dimension 28.2 – Independence of standard-setter

Dimension 28.2 assesses the independence of the standard-setting body which ensures that accounting standards may not be arbitrarily changed to suit the preferences of the current government or management. This is particularly important, where jurisdictions establish individual standard-setting bodies with the task to develop, adjust, revise, and pronounce accounting standards, adapted to the local context and environment and, therefore, do not choose to directly adopt IPSAS.

Table 108. Dimension 28.2 –Independence of standard-setter

Score	Requirements
A	The standard-setting body meets **at least four** key principles of an independent standard-setting authority.
B	The standard-setting body meets **at least three** key principles of an independent standard-setting authority.
C	The standard-setting body meets **at least two** key principles of an independent standard-setting authority.
D	Performance is less than required for a C score.

MEASUREMENT GUIDANCE

Independence of a standard-setter is achieved if standard setters are free from undue funding pressures, if they can act independently of political or corporate largesse, and if they are not unduly influenced by special interest groups or significant economic players that want to paint a particular financial picture. However, independence does not

mean the absence of accountability. A standard setter must be accountable for the timely maintenance of standards, for transparency in standard setting, and for meeting the public's needs. Some key principles of an independent standard-setting body have been provided by INTOSAI GUID 9010[30] and form the basis of scoring for this dimension.

Key principles of an independent standard-setting authority

1. A process for the selection of independent members of the standard-setting body and for monitoring their performance and a conflict-of-interest policy.
2. Regular conduct of public meetings.
3. An oversight process for the standard-setter in support of the public interest.
4. Adequate resources and sufficient technical expertise, skills, and experience.
5. A transparent process to identify and prioritize changes to the standards.

Dimension 28.3 – Independence of standard-setting process

Dimension 28.3 assesses the level of independence of the standard-setting process of a given jurisdiction. A rigorous, systematic, and independent standard-setting process is essential. For financial statements to be credible they must be prepared following a set of understandable, enforceable, and objective principles that are not subject to the individual preference of the individual who is preparing them. While governments may adopt various mechanisms to ensure the development of such standards, such as advisory panels, the reference to standards established by an independent standard-setting process is preferable.

Table 109. Dimension 28.3 – Independence of standard-setting process

Score	Requirements
A	The standard-setting process fulfills **at least four** principles of an independent standard-setting due process.
B	The standard-setting process fulfills **at least three** principles of an independent standard-setting due process.
C	The standard-setting process fulfills **at least two** principles of an independent standard-setting due process.
D	Performance is less than required for a C score.

MEASUREMENT GUIDANCE

A successful standard-setting due process produces high-quality standards that yield relevant, reliable, neutral, consistent, and comparable financial statements that meet the needs of users. To achieve this goal, the standard-setting process must be rigorous, transparent, objective, and participatory. According to INTOSAI GUID 9010, a generally recognized process for independent standard-setting includes the following five key principles:

Principles of an independent standard-setting due process

1. Exposure drafts of new or revised standards are usually developed with input from a task force and from subject-matter experts.
2. All interested stakeholders are encouraged to comment on the draft standards, which are widely distributed and publicly available.

[30] The International Organization of Supreme Audit Institutions (INTOSAI) operates as an umbrella organization for the external government audit community. It is a non-governmental organization with special consultative status with the Economic and Social Council (ECOSOC) of the United Nations. INTOSAI pronounces the International Standards of Supreme Audit Institutions (ISSAI) which are relevant, professional and clear standards that add credibility to the work of the individual auditor and the resulting audit reports. Furthermore, INTOSAI Guidance (GUID) is developed by INTOSAI to support the SAI and individual auditors in applying ISSAIs in practice. Standards, guidance's and further documents can be found under: www.issai.org

3. Comments are reviewed and the exposure draft is revised, as appropriate.
4. If the revisions are substantive, a re-exposure draft may be issued.
5. Once approved, the new or revised standards are officially issued.

PI-29: Reform ownership

This indicator provides information on the prevalence of a government's ownership to carry out a PSA reform. This indicator has 3 dimensions.

Dimension 29.1 – Mandate for reform

Dimension 29.1 assesses the extent to which the government has formalized its reform intention and analyzes the nature and strength of the government's mandate to reform.

Table 110. Dimension 29.1 – Mandate for reform

Score	Requirements
A	The government's proclamation and intent to reform are embedded in the jurisdiction's act of parliament, including qualitative objectives and a rough timeline of the reform.
B	The government's proclamation and intent to reform are embedded in a decree/bylaw, including qualitative objectives and a rough timeline of the reform.
C	The government's proclamation and intent to reform are embedded in a circular, including qualitative objectives and a rough timeline of the reform.
D	Performance is less than required for a C score.

MEASUREMENT GUIDANCE

A solid legal foundation promotes a sustainable reform momentum between legislative periods and the degree to which the government can be held accountable for its proclamations.

Dimension 29.2 – Political commitment

Dimension 29.2 assesses the provision of adequate financial resources to plan and implement a reform as a manifestation of political willingness.

Table 111. Dimension 29.2 – Political commitment

Score	Requirements
A	The reform strategy outlines a detailed reform budget, including all costs and sources of funding and the respective expenditure is included in the current budget and/or in the Medium Term Expenditure Framework (MTEF).
B	The reform strategy outlines a detailed reform budget, including all costs and sources of funding.
C	An overall cost estimate is included in the reform strategy.
D	Performance is less than required for a C score.

MEASUREMENT GUIDANCE

The costs and sources of funding (government, bilateral donors, and/or international agencies) should be identified, agreed, and planned.

Dimension 29.3 – Stakeholder involvement

Dimension 29.3 assesses the comprehensiveness of present institutional arrangements regarding the implementation of reform and the degree of involvement of key stakeholders.

MEASUREMENT GUIDANCE

The dimension analyzes the quality of reform governance structure to ensure the effectiveness of decisions made and consistency in implementation after the reform is "formally delivered". "Relevant political decision-makers" include representatives at ministerial level, such as minister of finance or similar, and "senior government officials at the administrative level" refers to the deputy minister, director general, or similar.

Table 112. Dimension 29.3 – Stakeholder involvement

Score	Requirements
A	The reform strategy outlines a clear project governance structure, comprising a high-level steering committee with ensured political participation and a technical task force(s), including all relevant stakeholders and defined reporting lines to the relevant political decision-makers.
B	The reform strategy outlines a clear project governance structure, comprising a high-level steering-steering committee and a technical task force(s) and defined reporting lines to senior government officials at the administrative level.
C	A technical task force is established as responsible authority with defined reporting lines to senior government officials at the administrative level.
D	Performance is less than required for a C score.

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