

Report to the Swedish Government

Report
Comparison with international
accounting standards etc.



EKONOMISTYRNINGSVERKET

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Preface

As instructed by the Swedish Government the Swedish Financial Management Authority (ESV) gives an account of the result of the work on comparing the accounting rules and regulations applied in the Swedish Central Government Annual Report and Consolidated Financial Statements (henceforth called Central Government Annual Report) to the ones of the International Accounting Standards. Also, according to this Government instruction, the report contains a comparison with other countries, and also a consideration of an adjustment of measurement and recognition of assets in the Central Government Annual Report to the principles of accounting applied in the National Accounts. Mats Wikström, Director General of ESV, has decided on the report. Anne-Marie Ögren has presented it.

The work has been accomplished by a working group composed of the Senior Advisors Anne-Marie Ögren (project leader), Claes-Göran Gustavsson, Ingemar Härneskog, Curt Johansson, Maria Olsson and Margareta Söderhult, and the Advisors Svante Andersson, Elin Bergman, Eva Engdahl Gäfvert, Carina Franzén, Lars Nordkvist and Ellen Rova. Views have also been acquired from the Swedish Financial Accounting Standards Board of ESV.

Table of contents

Preface	3
1 Summary	7
1.1 Background.....	7
1.2 Conclusions of ESV	7
1.3 Comparison with international standards	8
1.4 ESV's proposals for amendment of rules	9
1.5 Comparison with other OECD member states	11
1.6 Account of Assets according to the principles of National Accounts	12
2 Introduction	16
2.1 The Assignment to The Swedish National Financial Management Authority (ESV)	16
2.2 The preparation of the report.....	16
2.3 Scope and emphasis.....	17
2.4 The outline of the report	18
3 Comparison between the Central Government accounting rules and international standards	20
3.1 General remarks	20
3.2 Difference in the structure of the sets of rules and regulations	22
3.3 Observations related to various standards	23
3.4 Review of the standards, IPSAS	26
4 Concluding remarks on the review of IPSAS	48
4.1 Proposal on amendments and further development.....	49
4.2 Notes and supplementary disclosures in the Central Government Annual Report	52
5 Comparison with other OECD member states	54
5.1 Purpose and selection.....	54
5.2 Review of the countries	54
5.3 Conclusions.....	66
6 Asset Accounts according to the principles of National Accounts	67
6.1 Structure.....	67
6.2 What to recognize, how to measure and value	71
6.3 Differences in definitions	81
6.4 Perspectives of management and macro considerations	82
6.5 ESV's assignment on financial accounting.....	82
7 Specific consequences of the proposals or a far-reaching adaptation	85
References	87
Documents.....	87
Persons met.....	89
Annex No. 1 Standards published by IPSAS Board in September 2011	90

1 Summary

1.1 Background

The Government of Sweden commissioned on 29 September 2011 the Swedish National Financial Authority (ESV) to compare the accounting rules and regulations applied in the Swedish Central Government Annual Report and Consolidated Financial Statement (henceforth called the Central Government Annual Report) with international accounting standards, and where deemed appropriate, propose complementary adjustments of the Central Government accounting rules. ESV should furthermore illustrate the basic design of the accounting system and how pertaining information is presented in the Central Government Annual Report or similar documents in some of OECD member states of relevance to Sweden. Finally, the ESV should analyse the requirements and the suitability of an adjustment of the measurement and recognition of assets in the Central Government Annual Report to the principles of accounting applied in the National Accounts, and to assess the consequences of such an adjustment.

This report contains a final account of the accomplished work. A progress report was presented to the Government on 15 February 2012.

1.2 Conclusions of ESV

The ESV proposes that the Central Government should not adopt the IPSAS rules and regulations in its entirety, but that adaptations be made more frequently, except if inappropriate or impossible. The opinion of ESV is that the Central Government accounting rules are well in front in an international context, and the development of the rules should continue on the course entered on, implying gradual adaptation to IPSAS.

Should the Government for any reason still decide to adopt the IPSAS in its entirety, this should be limited to the consolidated level of the Central Government Annual Report.

In the overall review of ESV of other OECD member states it may be noted that none of the states under review has implemented the IPSAS set of rules in its entirety. The ESV has furthermore noted that there is no normative international set of accounting rules dealing with parts of the Central Government Annual Report or accounting requirements in addition to the financial documents specific in relation to the Swedish Budget Act.

The ESV is of the opinion that it is not suitable to value the assets in the Central Government Annual Report at the same principles as applied in the National

Accounts. The methods of accounting of assets in the Central Government Annual Report and in the National Accounts serve different purposes and are based on different perspectives of management and macro-economic considerations. Both accounting methods are of essential value, but they are completing rather than replacing each other, and both methods should therefore exist in parallel. The ESV proposals for amendment of rules do not affect the presentation of the Central Government Budget or the calculation of the Central government budget balance. Generally, the IPSAS or other possible sets of rules do not contain any rules for the presentation of the Central Government Budget, and the budget may be cash based, or more or less adapted to accrual accounting and organised in different manners. There are no standards how to present the fulfilment of financial policy objectives and ESV does not propose any amendments of current methods of monitoring. Nor do the proposals have any other consequences for the financial policy objectives.

1.3 Comparison with international standards

The standard most suitable as basis for comparison is IPSAS – International Public Sector Accounting Standards. ESV notes that the Government set of rules and the application in the Central Government Annual Report largely corresponds with IPSAS when it comes to basic principles and definitions. The Government Accounting rules are based on the principles of the private sector, which in turn are based on international accounting policies and international trends. ESV has noted both general and specific differences between the set of rules.

Important general differences between the Central Government Accounting Rules and IPSAS:

- IPSAS makes considerably greater demands on supplementary disclosures than the Government set of rules.
- The Government set of rules is of a different structure: it is a coherent set of rules, while IPSAS regulates separate issues of the accounting by specific standards, and therefore similar principles are often repeated in different passages.

Important specific differences between the Central Government accounting rules and IPSAS:

- The Government set of rules does not differ between long-term and short-term liabilities, and only partly so regarding long-term and short-term receivables.
- In the consolidation of Government owned companies the equity method is being applied by the Central Government, resulting in a summary consolidation. IPSAS requires a complete consolidation according to the acquisition method, which implies more detailed reporting from all accounting units. The Central

Government application also differs from the IPSAS standard in the sense that all units controlled should be consolidated. The most important exception to this is that the General Pension Funds (AP-funds) are not included in the Central Government Annual Report

- The Central Government does not apply segment reporting, which is required by IPSAS
- A full introduction of IPSAS would require changes of the insurance model for the Central Government occupational pensions.
- The Central Government applies the Cost Value Model for fixed assets while IPSAS allows the application of the Fair Value Model with deduction for depreciation.
- An issue of principal importance is the one that Sweden has opted for a more long-range view on long-term commitments such as occupational pension commitments or long-term receivables, such as receivables of Student Loans, than is accepted by IPSAS.

There are also standards of such a complexity, that ESV is presently unable to assess the consequence of a full introduction without entering deeply into the matter. Primarily this applies to the standards covering financial instruments.

The conclusion of ESV is that a full implementation of IPSAS would probably be costly and time-consuming, and also in several aspects differing from the degree of management and control that is presently applied by the Government and the Parliament. Notwithstanding that some of the differences may be justified, the opinion of ESV is that the supplementary disclosures are too heavy. This is not in conflict with the need to continue the development of several principles and applications in the direction already applied by IPSAS. ESV therefore proposes several amendments of rules, and presents areas where continued development efforts and analyses could be expected to lead towards further adjustments to the rules of IPSAS.

1.4 ESV's proposals for amendment of rules

ESV proposes the following amendments of the Central Government set of accounting rules and the applications in the Central Government Annual Report:

- The rules describing the principles of accounting and of supplementary disclosures should be developed towards the IPSAS standards.
- The definitions of certain concepts should be developed.
- A complete separation between long-term and current receivables and liabilities should be accomplished at agency level as well as in the Central Government Annual Report.

- A regulation should be introduced to account receivables and liabilities falling due later than one year at its present value in the cases where the present value method results in a material difference as compared with not to apply the present value method.
- A general rule is to be introduced that if financial assets are acquired for the purpose of generating yield or increase in value, they should be valued at fair value.
- A more detailed reporting by the agencies on tangible fixed assets will be introduced to enable the drawing up of more informative supplementary disclosures in the Central Government Annual Report primarily regarding tangible fixed assets.
- The method of component depreciation for tangible assets should be introduced in the Government Accounting Rules.
- The rules on the capitalization of certain borrowing costs in the acquisition value for fixed assets should be removed.
- A rule providing a statement on the change in the agency equity should be introduced for agencies. For the Central Government Annual Report the corresponding information should be included into the Report as supporting disclosures to the balance sheet.
- A rule should be introduced on accounting for transactions in foreign currency and there might also be a need for clarification of the concept of the rate of exchange at balance day.
- A rule should be introduced to clarify that accrued acquisition value and the method of effective rate should be applied when valuing financial instruments until due date.
- The supplementary disclosures and the description of applied principles in the Central Government Annual Report should be developed further. It should be indicated in the Report that the principles of accounting are essentially equal to IPSAS, and the principal exceptions from IPSAS should be specified. In addition to this the description of practical examples, conceivable to the understanding of the information on accounting, should continue to be developed.
- The disclosure on Expenses for personnel in the Central Government Annual Report should be completed by information on the cost for change of the occupational pension commitment.
- The supplementary disclosures for primarily tangible fixed assets should be restructured in the Central Government Annual Report, enabling the indication for each type of asset acquisition value, acquisition value of the year, depreciation of the year, accumulated depreciation and charging off.

ESV proposes that the following issues be subject to further analysis:

- Capitalization to a greater extent of assets having a shorter working life than three years.
- The need of rules or amended rules on the accounting of contingent assets, leasing and joint ventures.
- How to clarify the definition of the concept revenue and when to recognise the revenue. Also clarification on classification, recognition and measurement of construction contracts should be analysed.
- Development of the rules on managing unused and repaid contributions and subsidies.
- Development of the process to identify events after the reporting date.
- A possible introduction of rules for depreciation of cash generating assets.
- Possible proposal for valuing financial instruments at fair value in certain cases.

1.5 Comparison with other OECD member states

ESV has made an overall study of the Central Government Annual Report and similar documents of seven various OECD member states: United Kingdom, Canada, New Zealand, Finland, Germany, Spain and France. This gives an adequate review of reasonable coverage, on the one hand of Anglo-Saxon states which are often well advanced in developing accrual accounting and on the other hand a Nordic state having a structure of the public administration similar to the one of Sweden, as well as of some of the major EU member states.

All states do have some kind of Central Government Annual Report, or an annual report covering the public sector. The definition of the consolidated unit however differs between the states. E.g. United Kingdom produces consolidated financial reports, statements of financial positions and statements of financial performance, for the whole of the public sector, but budget outcome is reported only by ministry. In Germany, on the other hand, the reporting on federal level is focusing on the cash based budget. The statement of financial position is not complete and there is no statement of financial performance at that level.

The accounting principles are differing. Most states apply accrual based accounting, which e.g. implies accrued revenues as well as cost. ESV has not observed any state in the review applying IPSAS or any other international set of rules entirely. Most states apply, in a similar way as Sweden, an own set of rules having much in common with IPSAS and IFRS (International Financial Reporting Standards) but which has been adjusted to or is based on principles developed nationally. It should be noted that Germany applies cash based accounting and thus does not apply IPSAS or IFRS at all, that United Kingdom has approved IFRS, but without yet having

made all amendments from the view of content that might be required. Further it should be noted that New Zealand applies adjusted IFRS, that Finland applies its own principles that are partly similar to the ones of IPSAS, that Canada applies principles decided on by an independent body at the same time as work is going on to introduce IPSAS, that France applies its own principles having great similarities with IPSAS and that Spain applies substantial parts of IPSAS.

During 2012 the ESV has participated in working groups and seminars of Eurostat, the statistical office of the European Union, and has responded to several questionnaires from Eurostat and various auditing consultants with the purpose of mapping the development efforts of the member states, primarily focusing on the application of IPSAS. It is evident that many member states are intent on approaching IPSAS, but that there is also hesitation on several various aspects.

The conclusion of ESV is that it is not possible at present to determine whether IPSAS is to be regarded as generally accepted accounting standard, but an international development process is going on in that direction. This does not mean, however, that the terminal point of that process would be the complete introduction of IPSAS. There is no other broadly applied set of rules. The IFRS is being used, but not generally.

Furthermore, the ESV review does not give any foundation for stating that any other supplementary information in the Central Government Annual Report would be provided in any way uniformly in such documents in the different countries. This could concern e.g. information on commitments beside the balance sheet, description of risks concerning guarantees and credits or other public financial risks or indicators of fulfilment of financial policy objectives.

1.6 Account of Assets according to the principles of National Accounts

Account of Government Assets in the Central Government Annual Report according to the principles of National Accounts would primarily aim at removing the differences between the Annual Report and the balance sheet information, particularly information on the Government net assets that are published in other contexts according to the principles of National Accounts. However, ESV envisages several great disadvantages with such a change-over.

The basic definitions of assets are on the whole similar in the National Accounts (NA) and in the Central Government Annual Report. However, the principles of recognition and measurement of assets differ relatively greatly.

Tangible assets are valued at replacement cost in National Accounts, while they are valued at acquisition value at the agencies and in the Central Government Annual Report. An application of the principles of National Accounts would require increased supply of funds (primarily appropriations) for the financing of the increased depreciations of the agencies. Were the amendment effected at consolidated level of Central Government Annual Report only, the balance of the statement of the financial performance would not correspond to the sum of the balances of the agencies or that an alternative balance would have to be recorded alongside the proper statement of financial performance.

The valuation of loan receivables and other receivables is higher in the National Accounts, as no depreciation is made there regarding expected losses. The assessment of ESV is that it would not be in line with the principles of effective management to apply such a valuation at the level of agencies. It would also be in conflict with the requirement of the Budget Act to set aside means for expected losses. Also in the Central Government Annual Report it would be particularly inappropriate to account the Student Loan receivables at a considerably higher amount than would be expected to be paid in if the statement of financial position were presented in business terms.

The principles of recognition and measurement of items and parts of items of the statement of financial position differ. The Government is of course free to opt for presenting a statement of financial position with quite a new structure, but then the advantage of financial reporting in business terms is lost.

It is unsuitable to account assets and liabilities from different bases – the principles of National Accounts for assets and business methods for liabilities – as assets and liabilities are connected and only the net amount between the two indicates the equity. No important advantages with the change-over would then be attained. It is also unsuitable to present the statement of financial position in National Accounts terms and the statement of financial performance in business terms (e.g. according to IPSAS) as the total of the statement of financial performance would then differ considerably from the total of the statement of financial position in terms of the National Accounts, presented in the statement of financial positions.

In the National Accounts there are no detailed principles or rules for the account of financial transactions in an individual body. The financial staff of the agencies must be trained in the methods of business accounting and it would therefore be practically impossible to establish understanding for detailed principles of National Accounts with the staff of the agencies. Therefore ESV considers it unreasonable in practice to

introduce principles of National Accounts in the accounting system of the agency level.

The statement of financial position and statement of financial performance were introduced after the current Government accounting model was introduced generally in the Central Government in the 1990-ies. The new model enabled the presentation of the statements constituting the sum of the accounting information of the agencies according to accepted principles for consolidated group accounting. The purpose of the consolidated documents may precisely be to provide a consolidation of the agencies. A general introduction of the principles of National Accounts for the assets on the consolidated level only would essentially imply the mere abandoning of this approach. ESV would then question if the statement of financial position would at all maintain the value with which it was originally vested.

If the Asset Account according to terms of National Accounts were introduced in the Central Government Annual Report, the value of the assets in National Accounts and Central Government Annual Report, would still differ from each other, as the definition of the Government sphere according to National Accounts does not correspond to the one of Central Government Annual Report.

ESV has been instructed to present from 2013 a complete statement of financial position in terms of the National Accounts. Already earlier a comparison between the net equity in Central Government Annual Report and in terms of National Accounts has been presented as supplementary information in the Central Government Annual Report, though with one year of lagging behind. The new task of ESV is expected to enable this information to be presented quicker, for the current year and with a higher quality. In the analysis of the difference in capital and the reconciliation between the calculation in terms of National Accounts and the statement of financial position in Central Government Annual Report, the basis should from now on be based on the calculation that ESV will do of the statement of financial position total according to terms of National Accounts. A clear table of reconciliation for the current year should then be presented and be included in the Central Government Annual Report, which will reduce the problem with different information on capital.

The National Accounts is a system for macro-economic analysis, while the statements of financial positions and financial performance according to IPSAS or similar principles of accrual accounting aim at facilitating management and control, and to evaluate and exacting accountability in results based management. This leads to different conclusions in many cases. The two systems do not replace each other, but complement each other.

Referring to the above, ESV does not consider it suitable to introduce asset accounting according to the terms of National Accounts into the Central Government Annual Report.

2 Introduction

2.1 The Assignment to The Swedish National Financial Management Authority (ESV)

The Swedish Government decided on 29 September, 2011 (by an amendment in its Annual Directives and Appropriation for the financial year of 2011) to instruct the Swedish Financial Management Authority (ESV) to compare the accounting rules and regulations applied in the Swedish Central Government Annual Report and Consolidated Financial Statements (henceforth called Central Government Annual Report) to the ones of the International Accounting Standards (IPSAS and IFRS). The ESV should report on any substantial discrepancy between these two sets of rules and regulations and, when deemed appropriate, propose complementary adjustments of the Central Government accounting rules. ESV should also make a general assessment of the budget consequences of such an adjustment, and also assess the consequences of the adjustments as concerns the budget balance and the national financial policy objectives, and to what extent such an adjustment diverges from the principles applied in the National Accounts.

ESV should furthermore illustrate the basic design of the public accounting system, and how pertaining information is presented in Central Government Annual Reports or similar documents in some OECD-countries of relevance to Sweden, and finally analyse the requirements and the suitability of an adjustment of the measurement and recognition of assets in the Central Government Annual Report to the principles of accounting applied in the National Accounts, and to assess the consequences of such an adjustment.

A progress report was presented to the Government (Ministry of Finance) on 15 February 2012. This is ESV's final report of the results of the assignment.

2.2 The preparation of the report

ESV has surveyed all 31 accounting standards published by International Public Sector Accounting Standards Board (IPSASB), called IPSAS (reference to annex 1), and compared them with the Central Government accounting rules. The IPSASB decides on those standards that are proposed to be applied in the public sector. These standards are largely based on the international accounting standards published for the private sector by the International Accounting Standards Board (IASB), called International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS).

The basis for the comparison is in the first place the public sector accounting principles that apply to the agencies under the Government. The Central Government Annual Report is based on the Annual Reports of the Agencies, and therefore the accounting rules, that form the basis for the accounting of the agencies, are also valid for the Central Government Annual Report. Cases, where accounting principles or application to the Central Government Annual Report diverge from what applies to agencies, will be noted. The accounting rules that apply to Government Agencies are primarily coded in the Ordinance (2000:605) on Annual Report and Budget Documentation (FÅB) and the Ordinance (2000:606) on Book-keeping of Agencies (FBF) with ESV regulations and general directions. To support the construing of these rules ESV has issued manuals and answers to frequently asked questions of the agencies on accounting principles. Accounting principles for the Central Government Annual Report are coded in the Budget Act (2011:203) and in the Ordinance (2011:231) on Supporting Documentation for Central Government Annual Report.

In the comparison with other OECD countries information has for the most part been obtained from web sites. Furthermore, during 2012 ESV has also taken part in a number of international conferences and contributed to a working group of the statistical office of the European Union (EU), Eurostat, which has been commissioned by the EU to assess the suitability of introducing accounting requirements according to the IPSAS set of rules in all EU member states. In these international contexts ESV has got into contacts with representatives of various countries, who have generously assisted in the collection of information.

In the third part of the assignment, to analyse the requirements and the suitability of an adjustment of the account of assets in the Central Government Annual Report to the standards applied in the National Accounts, ESV has studied the set of rules that apply to the National Accounts, and has also discussed the matter with the Statistics Sweden to acquire a deeper knowledge on what rules are applied concerning Accounts of Assets in the National Accounts. ESV has then compared the set of rules according to the National Accounts with the rules and principles that are currently applied in the Central Government Annual Report, in certain cases also with the accounting rules according to IPSAS, and assessed the advisability of replacing the current rules of accounts of assets with accounting rules of national accounts in the Central Government Annual Report.

2.3 Scope and emphasis

It is impossible to make a clear-cut comparison with the international norms of accounting, as there is a constant development in the area. Both IASB and IPSASB are developing new areas and are updating the current standards at regular intervals. As an example, the IASB proposed in March 2012 the updating of several accounting

standards and proposals on new standards on e.g. leasing and revenues were brought in. Here it may be interjected that certain accounting practice is now proposed to affect a company's report on the so called comprehensive income only, and not the annual statement of financial performance. The IPSASB is currently involved in developing a conceptual framework. IPSASB has also during 2012 proposed a plan for the work during 2013 and 2014, primarily concerning hitherto undeveloped areas particularly relevant to the public sector. The plan includes e.g. the development of recommendations for long term sustainability of public finances, a further development of IPSAS 1, Presentation of financial statements, a standard for performance accounting, and a standard for accounting in connection with mergers of public activities.

To limit the assignment ESV primarily compares the Central Government accounting rules with the international accounting standards approved by IPSASB published by the beginning of the year 2011. The IPSAS-standards have been drawn up directly for the public sector, and therefore they are the ones that should be used in the first place for a comparison with the Central Government rules. ESV has not considered any later amendments by IPSASB (e.g. IPSAS no 32 has been added to the IPSAS set of rules and regulations). Certain accounting practices are however hitherto codified in IASB only, i.e. they are not yet included in the IPSASB set of rules. For those accounting practices that are not coded in any IPSAS, the comparison has been complemented by relevant directions or by further guidance derived from the recommendations of IASB.

The Government assignment to ESV includes a request to report on any *substantial discrepancies* between the Central Government accounting rules and the international accounting standards. ESV therefore focuses the comparison in this report primarily on differences in definitions and principles of recognition and measurement, while differences in disclosure requirements will be compared in less detail. This limitation has also been necessary due to the fact that the time available to ESV for completion of the assignment does not allow any complete and detailed survey and analysis of the discrepancies between the international accounting standards and the Central Government accounting standards. Instead, in this final report ESV indicates areas and facts, where deeper analysis would be desirable.

ESV has focused the comparison with other countries on an overall survey of the design of the Central Government Annual Report and its guiding principles.

2.4 The outline of the report

The report is organized along the three main parts of the assignment. The first part is a comparison between Central Government rules applied and international standards.

Proposals of adjustments of rules and applications are given in connection with this in a separate sub-paragraph. The second part is a comparison with a number of other OECD member states. The third part is a description of the difference between the Central Government Annual Report and the National Accounts concerning the Accounts of Assets, and the consequences of a possible change. Finally, in a separate paragraph ESV assesses to what extent the proposals affect the budget balance and the objectives for the financial policy.

3 Comparison between the Central Government accounting rules and international standards

3.1 General remarks

As was stated in the introduction the standards of the International Public Sector Standards, IPSAS, are adapted to the public sector. However, IPSAS do not have recommendations or guidance in several areas of critical importance to the public sector, e.g. what is to be recognised as obligations and what is a significant event in the accounting of transfers and provisions.

The IPSAS is based on International Financing Standards, IFRS, for large company groups, using international stock exchanges for their raising of capital. Therefore, IPSAS are in many respects very similar to IFRS (which are published by IASB). Of course, IFRS are not adjusted to the public sector, but the assessment of ESV is that the approved IPSAS-standards do not pay due regard to the particular conditions in the public sector either.

IPSAS make very heavy demands on supplementary disclosures. ESV considers these demands in many cases being too far-reaching than would be interesting for the Government and the Parliament as users of financial information and as basis for performance management. The limited time available for the assignment has not made it practicable to scrutinize the requirements on supplementary disclosures in detail. Therefore the comparison is mainly limited to differences in definitions and principles of recognition and measurement. Issues on supplementary disclosures are only dealt with when they are particularly relevant to a certain standard, or when there are evident prospects of adjustment to the standard. In this context a discussion in the world of IFRS might be mentioned in relation to the private sector, where the far-reaching demands for supplementary disclosures are sometimes questioned. Where this discussion will lead in a couple of years' time is however not possible to envisage for the moment.

An important issue which would have to be settled if IPSAS would possibly be introduced is to which extent the standards should be applied in the agencies or if they should be applied on the consolidated level only, the Central Government in its entirety, in the Central Government Annual Report. The standards indicate that they should be applied in all entities, but there is no definition of entities, which makes it necessary in the Swedish case to define if the standards should be applied in the agencies or only in the Central Government as a whole. The Central Government is a

judicial unity. The Government governs the agencies and even if the independence is wider than in many other countries, and wider than what is applied for ministries and similar in other countries, it has its limits. The Annual Reports of the agencies are addressed to the Government. Even if they are public and in that sense might have a purpose to fulfil by facilitating the exacting of accountability through media, or for members of Parliament to acquaint themselves at their own initiative with the contents of the reports, they are not directed towards the Parliament, the Public or any other “owner” or a hypothetical owner. There are also items in the accounting that are dealt with differently on the agency and consolidated levels respectively.

Such items to be mentioned are e.g. tax revenues accounted for on cash basis or according to modified accrual based accounting principles at the Swedish Tax Agency but on an accrual basis in the Central Government Annual Report, that the equity method is applied by the Swedish Legal, Financial and Administrative Agency (Kammarkollegiet) in such a way that government owned companies are accounted for with equity after three quarters of the year while conversion to the fourth quarter is made in the Central Government Annual Report. It has also occurred that transfers are being accrued in the Central Government Annual Report, while they are accounted on a cash basis at agency level primarily for the sake of simplification. This adds to the view that there are dimensions of the consolidated perspective already at the agency level and that the application of standards often should be seen in the light of the requirements at the consolidated level. This particularly applies to transactions and events accounted for by agencies on behalf of the Government, on behalf of an imaginary parent agency.

Therefore the assessment in the following is based primarily on the assumption that IPSAS, if they were introduced, would be fully applied on the consolidated level only. This would also affect the agency level, but primarily only whenever necessary for the fulfilment of the standards on the consolidated level. At the same time it is important to note the rules, with which IPSAS are possible to compare, primarily are represented by rules concerning the accounting of the agencies, but which are also applied in the Central Government Annual Report. In such a case it is a matter of the Ordinance (2000:605) on Annual Report and Budget Documentation (FÅB) and the Ordinance (2000:206) on Book –Keeping of Agencies (FBF).

Should the IPSAS be introduced on the consolidated level only, several profit/loss items would be accounted for in the Central Government Annual Report only. E.g. it could concern the revaluation to fair value and transactions concerning the employment pension system. This type of events would justify an introduction of the statement of comprehensive income, similar to the one of private limited companies. No statement of comprehensive income is however provided in IPSAS. The

information could therefore, alternatively, also be supplied in a statement of the change in the equity or in supplementary disclosures.

3.2 Difference in the structure of the sets of rules and regulations

The Swedish Central Government set of accounting rules is structured differently from the international set of rules, but the rules are largely based on international accounting principles.

IPSAS deals with a variety of separate issues, repeating in each case general guidelines and definitions. This makes the standards very comprehensive, regulating many separate aspects. The Swedish Central Government regulations are much more concise and drawn up as a coherent whole. This is partly due to the fact that the Swedish Government Ordinance on the Statute Book restricts the Central Government rules to contain descriptive parts and examples. The greater part of the Central Government rules are based on general principles and rules which are kept concise instead of regulating in detail each individual area. The review has shown that in some cases the Central Government rules are too summary.

The Central Government rules also point out that in certain cases the accounting rules are expressed in general terms, and if there are no rules or construing interpretations in Government documents, guidance may be sought from relevant recommendations of national and international normative bodies in the field of accounting. Furthermore, there are accounting issues that occur at only one or a few agencies. Rules for such cases have not been drafted, as they concern only a few agencies.

The Central Government accounting rules found in the Ordinance on Annual Report and Budget Documentation (FÅB) and the Book-keeping Ordinance (FBF) are for the most part based on the accounting rules for the private sector in Sweden. The structure as well as the content of the Book-keeping Ordinance was for the most part brought from the Accounts Act and the parts on accounting in the Ordinance on Annual Report and Budget Document are for the greater part based on the Act on Annual Accounts. The bodies of the private sector, which are construing and normative for accounting standards, are the Swedish Accounting Standards Board (Bokföringsnämnden, BFN), the Swedish Financial Supervisory Authority (Finansinspektionen), the Swedish Financial Reporting Board (Rådet för finansiell rapportering) and previously also the Accounting Council (Redovisningsrådet). The instructions and general directions contained in the FBF and FÅB are to a large extent based on the recommendations of the BFN and the Redovisningsrådet, the recommendations of which in turn were and are based on the international

accounting standards for private companies, the International Accounting Standards (IAS) and the International Financial Reporting Standards (IFRS). This implies that the Central Government accounting rules to a large extent are already based on international accounting standards.

The international accounting standards for the public sector, Public Sector Accounting Standards (IPSAS), are strongly influenced by the accounting norms of IAS/IFRS and the development of the set of the accounting rules of the Central Government has during the last decade been strongly influenced by IPSAS, e.g. regarding development of principles for the accounts of assets and tax revenue.

As has been pointed out previously, the most substantial difference between the Central Government accounting rules and the international sets of rules is what supplementary disclosures are required. The requirements of supplementary disclosures in IPSAS are very far-reaching and comprehensive, while the requirements of the Central Government on supplementary disclosures are based on the needs of information of the user and are focused on what is considered being essential information in the Swedish context. The requirements of supplementary disclosures in IPSAS are essentially aiming at meeting the need of information to companies. The Central Government emphasis in reforming the accounting rules has been not to include into the Central Government accounting rules all detailed requirements on supplementary disclosures found in the IPSAS standards, as it hitherto has been feared that the presentation would then lose in clarity and well-arranged structure, and that there is a little demand for excess information. This does not prevent, however, that there is information that might be interesting if presented. The development must therefore continue and ESV presents several proposals in this report on the introduction of extended supplementary disclosures in line with IPSAS.

When discussing the extent of supplementary disclosures in the Central Government Annual Report and for the agencies, it should be remembered that the Government Budget is the most central accounting document for the management, control and follow-up of the Central Government. The Statement of financial performance and the Statement of financial position constitute important complementary documents, but are not to be regarded as the core ones.

3.3 Observations related to various standards

Short and long term receivables and liabilities

In general, the Central Government accounting rules do not separate current liabilities and receivables from long-term liabilities and receivables. In respect of receivables certain long term receivables are separately accounted for as fixed assets, but the item loans includes long term as well as short term loans. As no separation is

made between short term and long term receivables, the item long term receivables also include certain receivables that fall due within one year, and therefore should be classified as short term. Also, no separation is made between short term and long term liabilities. The reason is an ambition for simplification, and that a separation has not been considered necessary on agency level, primarily due to the fact that the long term liabilities of the agencies for the most part consist of borrowing in the Swedish National Debt Office (Riksgäldskontoret) only. An adjustment to IPSAS would supply additional information, and above all facilitate for the ones accustomed to corporate accounting to construe and draw up the Statement of financial position.

Long term perspective

IPSAS is based, as IFRS, on a perspective of the Statement of financial position. This implies that most definitions and descriptions are connected to balance sheet items. This is particularly remarkable when it comes to the definition of the principal accounting components, such as assets, liabilities, expenses and revenues.

IPSAS 1, Presentation of financial statements, defines these concepts, as does the ESV in the conceptual framework for the design of Central Government financial reports, prepared in 2002. The definitions are as follows:

Assets: An asset is a resource controlled by an economic unit as a result of past events and from which future economic benefits or service potential is expected to flow to the entity.

Liabilities: A liability is a present obligation of an 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.

Expense: An expense is a decrease in economic benefits or service potential during the reporting period in the form of payments or outflows or consumption of assets or incurrences of liabilities that result in decreases in net assets/equity. Decreases of net assets due to reversal of capital infusion do not however constitute an expense.

Revenue: A revenue is the gross inflow of economic benefits, or service potential during the reporting period of inflows in the form of deposits, increase in the value of assets or decrease in the value of liabilities, resulting in an increase in net assets/equity. Increases of net assets due to reversal of capital infusion do not however constitute a revenue.

The substance of the definitions correspond to the ones of the conceptual framework elaborated by the International Accounting Standards Board (IASB) for Presentation of Financial Statements (concerning companies), IPSAS-1. Consequently, the definitions for expenses and revenues are based on changes in assets and liabilities.

Currently, there is no conceptual framework of IPSAS. In the framework forming the basis for the normative development of ESV, expenses and revenues are defined in the same manner as in the conceptual framework of IASB, i.e. on the basis on the change in the value of assets and liabilities. The ESV has however pointed out that the valuation does not primarily aim at valuing the balance items according to conditions assumed to be valid on the balance sheet day, which would cause expenses and revenues to be subordinated to that valuation. That standpoint would have influenced the valuation of long term liabilities and receivables of the Central Government, primarily regarding Student Loans, but also for Pension Liabilities. On those issues the ESV has argued along the line that the valuation of long term liabilities and receivables in annual accounts should not be guided by the momentary rate of return, as this could lead to heavy fluctuations in the recorded expenses over the years. This type of long term items will remain for several years, largely for more than 30 years, and they are not to be transferred as might be the case in the corporate sphere. There is therefore no need to account for short term changes in value in the case they are not to be regarded as permanent. Such a practice would if anything result in inferior information to the decision makers.

In the light of the considerations above, the ESV is of the opinion that it would not be advisable to introduce the short term perspective that a full application of IPSAS would imply for this type of items having a particularly long permanence.

Definitions of all concepts

In an overall perspective the ESV has noted that the definitions of the IPSAS standards do not exist in the framework of the Central Government Annual Report. This is largely due to the fact that many of the concepts of the Central Government Rules are regarded as self-explanatory. In IPSAS there are e.g. definitions of concepts as foreign currency rate difference, exchange transactions, indemnities on notice to quit, etc. But there is still need to develop certain definitions in the Central Government set of rules.

Standards are still missing for parts of the Central Government Annual Report

There are no international standards dealing with specific paragraphs in the Central Government Annual Report according to the Budget Act or accounting requirements specific to the Swedish Budget Act. This applies e.g. to disclosures related to the policy of the Budget Surplus, how risks are accounted for more in detail in the special passage on guarantees and credits, how to present information on the development of the National Debt and how to account for EU-funds including the

National Certification. It is quite natural that international standards are missing as the financial policy is differing between member states and the national certification of the accounting of EU-funds has been developed in Sweden. The model of guarantees and credit regulated in the Budget Act is furthermore partly outside of the area directly regulated by the standards.

3.4 Review of the standards, IPSAS

This section contains a brief presentation of the principal observations and comments on those standards published by IPSAS that are compared within the scope of the assignment.

IPSAS 1 Presentation of financial statements

This standard is with few exceptions in compliance with the Central Government Annual Report and largely also with the agency level. On the consolidated level there are no detailed rules over and above the ones on the presentation requirements provided by the Budget Act and the pertaining Ordinance. The differences in the practice of application between IPSAS and the Central Government Annual Report concern the fact that there is no complete separation of assets and no separation whatsoever of on the one hand liabilities that are falling due later than twelve months and on the other hand those ones that are falling due within that period. Nor is there any separate report on change in net assets/equity, but instead corresponding information is given in a disclosure.

For the agency level, the Central Government set of rules does not contain any requirement for cash flow statement for several agencies. Furthermore, the requirements on disclosures are considerably less explicit than in the standard. Instead, it is often being implicitly understood or developed in practice to provide information in connection with the accounting principles in other supplementary disclosures, notes to specific items or directly in the financial documents. E.g. there are no explicit rules on that date of reporting or reporting period should be indicated on the financial reports, that it should be clearly stated that the amounts are expressed in thousands of SEK, that there should be separate disclosures on material items of revenues and expenses, that there are no requirements on recalculation of comparative figures when not practicable, to “publish relevant supplementary disclosures”, to explicitly indicate considerations in connection with the application of principles, and to provide information on major sources of information on assessment of risks on the balance day.

Nor on agency level there is a separation of assets and liabilities with respect to their having a maturity longer or shorter than twelve months, as appeared from section 3.3 above.

The definition of concept of expense and revenue is not done in the Central Government set of rules, but is done in the conceptual framework for the design of Central Government financial reports prepared by ESV.

Proposals on the amendment of rules regarding report on change in net assets/equity, separation of short- and long term receivables and liabilities, as on improved supplementary disclosures are to be found in section 4. This needs partly to be subject to further analysis.

IPSAS 2 Cash flow statements

This standard is essentially in compliance with the Central Government Annual Report. The definitions of the different sections of the cash flow statements for operating activities, financing activities and investing activities are however different from the standard and the final line in the cash flow statement is the Central Government net borrowing instead of the change in net asset/equity indicated by the standard. Also, there is no information on the composition of liquid funds or their reconciliation to the statement of financial position. Regarding the definitions of the sections there is probably room for certain adjustments within the standard, but some amendments would probably have to be done in the case of an IPSAS-adjustment. When it concerns the final line in the cash flow statement the ESV makes the assessment that the connection to the need of net borrowing in the Central Government Annual Report is more relevant for the control of the Government than is the change of liquid funds that is required by IPSAS. In the case of a general implementation of IPSAS, it should be possible to make the presentation according to IPSAS. The Budget Act would probably have to be amended, as the sections, including the Government net borrowing in the final line, is provided by law.

There are no cash flow statements at several agencies, and the standard is therefore not complied with at agency level. The ESV maintains its previous assessment that there is no need for such statements at most agencies.

The ESV does not propose any amendments concerning this standard as the ESV looks upon the final line indicated by the Budget Act as more relevant for the assessment of the financial policy.

IPSAS 3 Accounting policies, Changes in Accounting Estimates and Errors

In the Central Government there is no definition of the concept accounting policies. On the other hand the Budget Act provides, and so in greater detail for the agencies, in the Ordinance on Annual Report and Budget Documentation, chapter 2, the basic accounting policies to be applied.

The Central Government accounting rules give expression to the same idea as the standard when it comes to change of accounting policy. The same applies regarding changes in accounting estimates and presentation of errors. There are additional adopted descriptions in guidelines published by ESV. To sum up the ESV assesses that this standard is complied with in the Central Government Annual Report but that there might be need for supplementary regulation in the Ordinance on Annual Report and Budget Documentation. This will be further dealt with in section 4.

For the Central Government Annual Report there is a need to develop the description of applied principles. Such a development work primarily concerns the continuous elaboration of the description of existing accounting principles. It is difficult to draw up rules in a sensible way, as that type of details hardly admit to be described in the wording of an Act. The design of the ordinance regulating the documentation of the ESV and the National Debt Office would primarily have to be focused on the scope and direction of principles. Also this will be dealt with in section 4 under the heading notes and supplementary disclosures in the Central Government Annual Report.

IPSAS 4 The Effects of Changes in Foreign Exchange Rates

In this standard is prescribed how to include foreign currency transactions and foreign operations in the financial statements of an entity and how to translate financial statements into a presentation currency.

The Central Government accounting rules only briefly cover the accounting of foreign operations and transactions in foreign currency. An improvement (if not the whole of IPSAS 4 were to be introduced) would be to introduce directions on the current accounting of transactions in foreign currency. The IPSAS prescribes that a foreign currency transaction shall be recorded, on initial recognition in the functional currency, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of transaction. For practical reasons the IPSAS allows e.g. the application of an average exchange rate of one week or one month for all transactions of each foreign currency during the period. If the exchange rate fluctuates considerably the application of the average exchange rate is however not suitable.

Some agencies run operations abroad, and few more carry out operations that embody transactions in foreign currency on a current basis.

A regulation should be introduced how the agencies should account for transactions in foreign currency in routine operations and there might be a need for clarifying

what transaction day exchange rate should be applied. Proposals about this are given in section 4.

IPSAS 5 Borrowing cost

The Central Government accounting rules do not include any definition of borrowing cost. The concept Qualifying Assets is not being used either. The Central Government accounting rules diverge from the alternative treatment of the standard by allowing the capitalization of interest rates that are not attributable to loans specific for an asset, but are calculated on the basis of loans and credits in the National Debt Office. This applies to the agency level, but if the standard were to be applied in the Central Government set of rules on this point, loans for individual assets would have to be borrowed at agency level.

The assessment of ESV is that it would be advisable to remove the possibility of capitalising the acquisition value of fixed assets. Proposals on amendment of rules are given in section 4.

IPSAS 6 Consolidated and Separate Financial Statements

In the Central Government Annual Report Government revenues, expenses, assets and liabilities and payments, affecting the Government net borrowing are consolidated. The Government may decide on exemption for certain operations, certain assets etc.

According to the Budget Act and its supporting documents the Government is defined judicially, and not according to the range of its entities under control. The Funds of the Swedish national income pension system (AP-fonderna) – henceforth called The Pension Funds - and the Swedish National Bank (Riksbanken) are not included in the consolidation, according to regulation in the Ordinance for supporting documentation for the Central Government Annual Report connected to the supporting documents of the Budget Act.

All *controlled entities* should be consolidated according to the line by line method according to IPSAS. In the Central Government Annual Report and at agency level wholly and partly owned companies are consolidated according to the equity method, which is a summary method of consolidation. This implies a substantial difference compared to the standards both regarding what entities should be included in the consolidation and regarding what method should be applied.

Should the standard be applied in full also the funds of the national pension funds should be included in the consolidation of the Central Government Annual Report. All companies with an equity share exceeding 50% and the Pension Funds would need to be consolidated to the full if the standard were applied. This implies that the equity method cannot be used.

Furthermore it may be noted that the Central Government Accounting Rules do not define unambiguously the concept of controlled entity. This will have significance in the less evident cases – examples to mention might be The National Bank, companies with an equity share below 50% but subject to substantial influence, certain foundations and other organizations under Government influence. Influence may be exerted in other ways than by ownership in the cases of which full consolidation should be made as well. In the application of IPSAS in full a deeper analysis would need to be done on this. In both IPSAS and the Central Government Accounting Rules significant influence is a criterion, but in IPSAS benefit conditions should be taken into consideration when analyzing the significance of influence.

There are a number of practical circumstances regarding reporting dates and adjustment of the Central Government Accounting Rules that would make the application of this standard more difficult even in the case of a more narrow interpretation of the concept controlled entity. There are also principal arguments for exempting the Pension Funds. With a broader interpretation, including foundations, the National Bank, the practical difficulties will get even more pronounced. Already in the case of inclusion of the Pension Funds and the companies into the Central Government Annual Report the Budget Act ought to be amended. The Budget Act provides the equity method to be used for the companies (the item of the statement of financial position covering wholly and partly owned companies). The assessment of ESV is furthermore that there is not enough demand for the information of a full consolidation that would give a value-added corresponding to the costs of accomplishing these amendments. Therefore, the ESV does not have any proposals on amendments of rules for this standard.

There are however practical reasons in favour of a changing of the definition and to consolidate the companies and the Pension Funds into the Central Government Annual Report. In addition to the fact that the adjustment to the standards is of principal value, there might be of interest to see over what assets and liabilities the Government may influence and what gross revenues and expenses the Government may control. If IPSAS would be introduced generally, or if the Government apart from that would consider it suitable, such an amendment would require a long time for preparation with amendments in the legal system, large-scale analyses and increased costs for reporting and data collection.

In the case of a transition to full consolidation by the line by line method, the reporting dates of the Government companies would have to be brought forward, making all essential information of the closing balance available in the beginning of February for the process of consolidation. The same would apply for the Pension

Funds. Counterpart reconciliation would need to be introduced to eliminate transactions, receivables and liabilities between Government companies, agencies and Pension Funds in the consolidated financial statements. This would in practice require the companies and the Pension Funds to report to Hermes in one form or another, even if it probably could be done less frequently and possibly also less detailed than for the agencies. All this demonstrates that an amendment would require a more detailed control by the Government of the reporting of the companies and the Pension Funds than what is applied today.

The amended reporting procedures would in turn require a comprehensive review of denomination applied by the entities concerned, in order to attribute the information to the right lines (S-codes) in the Government system of reporting. Recalculation of certain items may be expected to be necessary when different principles are applied, and the need for this must be surveyed. In this context it should be noted that the ESV presently does not have any closer knowledge of the operations of the Government companies, and does not have any contacts with the companies, which necessitates the organization of new competence and a completely new line of operation. An analysis would also have to be made if the information in one way or another would have to be processed through the Swedish Legal, Financial and Administrative Agency (Kammarkollegiet) which at present is responsible for the accounting of the holdings of the companies.

IPSAS 7 Investments in Associates

The basic principle that the equity method should be applied as method of consolidation for companies partly owned but not controlled is the same for IPSAS and for the Central Government accounting rules

If different accounting principles are applied in the controlling entity and in the associate, adjustments should be done in order to make the accounting uniform, which however is not applied in the Central Government Annual Report or by the agencies. For certain partly owned Government companies (associates) this would e.g. require the companies to adjust the asset values to acquisitions values when the companies according to IFRS account certain assets at current prices (fair value). Items for which the accounted values to a considerable extent differ from the Government principles are primarily Financial Instruments: Presentation, Recognition and Measurement, Disclosures (IPSAS 28-30), Investment Property (IPSAS 16) and Agriculture (IPSAS 27). Companies are usually valuing these assets at fair value. Within Government operations the purpose of holding the possessions is however to be utilized in the operations. The fact that the accounting practices differ between the Government and the companies are in this case thus not due to

different rules, but that the Government is not involved in similar operations, please refer to respective IPSAS below.

As the requirements on amendments in IPSAS 6 on the consolidation of companies presently is of much greater significance, the ESV does not have any proposal for amendment of this standard (IPSAS 7).

IPSAS 8 Interests in Joint Ventures

In the Central Government Accounting Rules joint ventures are regulated for the public enterprises only. This type of co-operation is found also in other types of agencies, e.g. in universities and university colleges. It is probable that co-operations between different parties will be more frequent as the Government according to the Budget Proposal intends to go in for more infra-structure. Then the so called PPP strategies (Public-Private Partnership) may be an alternative way of financing. Another area where the recommendation will be applicable is co-financed defense material within the EU. A practice has developed to value certain consortia within the Government according to the rules on joint ventures. At present there are however no rules in the Central Government set of accounting rules, and therefore guidance has been brought from international accounting rules. The ESV assesses that the area however requires analysis before new rules may possibly be introduced.

IPSAS 9 Revenue from Exchange Transactions

According to the standard, revenue, associated with transactions in connection with rendering of service, should be recognized by reference to the stage of completion of the transaction at the reporting date. In other words, revenues and expenses in connection with rendering of service should be recognized as revenues or expenses during the reporting period in which the service is rendered. This main principle implies that the cost during the reporting period for service contracts extending over several years may not be balanced to the balance item of work-in-progress. The valuation principles in Chapter 5 §9 Ordinance on Annual Report and Budget Documentation admit, contrary to IPSAS 9 and 11, expenses regarding construction contracts rendering of service to be accrued in the statement of financial position.

According to the standard, the present value method is applied for agreements where interest free credit is provided to the purchaser to establish the difference between the fair value and the nominal amount. The fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest. The difference is recognised as interest revenue.

The Central Government Accounting Rules do not deal with barter transactions, which are however dealt with by IPSAS 9.

The ESV considers that the Central Government Accounting Rules should be more specific by defining the concept revenue and when and how it should be recognized.

IPSAS 11 Construction Contracts

There is no definition in the Central Government Accounting Rules of the properties of a construction contract. There are no specific criteria and methods for when and how revenues regarding construction contracts should be recognized in the statement of financial performance.

The Central Government Rules for the valuation of work-in-progress for the account of someone else, including agreements of rendering of service, 5 chapter 9 § Ordinance on Annual Report and Budget Documentation, admit successive revenue recognition according to the balance method. This involves the capitalization as a current asset of accrued expenses inclusive of accrued profits related to uncompleted contracts until the final account. Received part payments are recognized as liabilities. Only on the completion of rendered service or construction contracts, the contracts are recognized in the statement of financial performance.

The approach in IPSAS 11 is the application of successive revenue recognition by using the performance method, implying that when the outcome of a construction contract can be estimated reliably, contract revenue and contract costs associated with the construction contract should be recognized as revenue and expenses respectively by reference to the stage of completion of the contract activity at the reporting date. Contract costs that relate to future activity on the contract are recognized as a receivable related to the purchaser and are classified as work-in-progress.

At present there are only some rules on construction contracts in the Central Government Accounting rules. The ESV is of the opinion that the rules of recognition, classification and measurement would need clarification.

IPSAS 12 Inventories

This standard contains definitions of inventories, which are not to be found in the Central Government Accounting Rules.

Emergency assets are according to this standard often a type of inventory, but examples are given for assets that are not intended for permanent use. In the Central Government set of accounting rules the emergency assets are normally regarded as fixed assets as they are intended for permanent use or holding. If assets are no longer kept in stock for the purpose of emergency, they should be reclassified as inventory

according to the Central Government set of accounting rules. The ESV is of the opinion that the Government application does not contradict the standard.

According to the standard expenses and revenues should correspond to each other in the inventory records. There is no such specific rule in the Central Government Accounting Rules. However, 2 chapter 7 § Ordinance on Annual Report and Budget Documentation provides the basic accounting principle that revenues and expenses of the reporting period should be included regardless of the time of settlement.

ESV is of the opinion that the rules on Government inventories do not need to be amended.

IPSAS 13 Leases

In the Central Government Accounting Rules there are no rules on sale and lease back. With new arrangements for the financing of infra-structure this method of financing might come into more frequent use.

Within the Central Government sector, financial leasing agreements with the Government as lessor should be recognized as loans, a concept which does not exist in IPSAS. Another difference is that there is no requirement on disclosure for operational leasing agreements (indicating how much is bound in future fees of leasing).

The ESV is of the opinion that rules on sale and lease back and rules for Government lessors would need to be developed.

IPSAS 14 Events After the Reporting Date

The ESV does not note any important differences between the set of rules. The principal basis of the application is probably no problem either. However, there might be a practical difficulty to identify possible material events occurring any time during the time elapsing after the preparation of the Annual Reports of the agencies until the presentation of the Central Government Annual Report to the Parliament.

In this point there might be a need to develop the process. This needs to be analysed further.

IPSAS 16 Investment Property

The ESV takes note of the fact that there is in principle no property held by the Government for the mere purpose of generating profits and increase in value.

Therefore there are no rules on such property either. In exceptional cases individual property may partly or for a short time have the purpose of generating profit or increase in value, but they should not be regarded as investment property.

Therefore the ESV does not propose any amendments in relation to this standard.

IPSAS 17 Property, Plant and Equipment

A difference between this standard and the Central Government Accounting Rules is that according to the IPSAS standard a fixed asset should be recognized if the economic life exceeds one year. In the Government Accounting Rules there is for certain types of assets an explicit limit of three years and in other cases this limit is applied in practice in most cases (capitalization of assets with shorter life time is indicated in an accounting handbook as reason for exception). In the standard there is nothing indicated on lowest value to recognize an asset, while the agencies according to the Government Accounting Rules may accrue costs related to fixed assets of smaller value. Probably, a general criterion on materiality might however result in a monetary limit being applied also in IPSAS.

Thus, a three year limit is applied in practice in the Government. It would lead to a relatively far-reaching amendment in practice for the Government agencies if a general one-year life time for capitalization would be introduced, probably involving increased administrative costs. In such a case it would be reasonable to introduce some kind of monetary limit related to a criterion on materiality in order to alleviate the practical significance.

If the Government introduced a one-year life-time, it would result in higher value of the accounted assets and in certain cases to an increased need of borrowing in the National Debt Office. It cannot be accurately estimated how big amounts are involved. In an attempt to estimate the magnitude the ESV has used the reporting codes for short term investments, which is a code used for the reporting to the National Accounts where the one-year life time is being applied. The outcome for this code during 2011 was barely SEK 1.4 billion. Assuming that this includes assets with a period of usage of between one and three years, the increase of the stock of assets would probably amount to between SEK 2.5 and 3 billion. It would however be reasonable to apply a monetary limit for assets of smaller value on the basis of the criterion of materiality. If the applied limit were set at half a price base amount, as is customary currently, a relatively substantial part of the assets would refer to assets of smaller value and the amount of increased accounted assets would be assumed to amount to SEK 1 billion.

To this may be added special investments at primarily the Defence Sector (emergency assets) and possibly The Swedish Traffic Administration (Trafikverket) (in connection with the infra-structure). Without deeper analysis, the ESV is unable to estimate the magnitude of these additional special assets.

The IPSAS allow two methods of measurement at year-end. At the moment of acquisition the fixed asset is measured at acquisition value (which is always presumed to correspond to the fair value at the moment of acquisition) but at year-ends either the acquisition value minus accumulated depreciations and write-offs or the so called revaluation method. According to the revaluation method a fixed asset, the fair value of which can be measured reliably, and that has been recognized as asset, should be recognized at revalued amount. That amount is made up by the fair value of the asset at the moment of revaluation after deduction of subsequent depreciations and write-offs. The Central Government Accounting Rules prescribe the acquisition value method, which is a method permitted by IPSAS.

The depreciation should according to IPSAS be done during the period of usage, while the Central Government Accounting Rules refer to the period of depreciation as the economic life-time. On this point there is however a wording in an ESV handbook on tangible fixed assets that should be applied if the period of usage is shorter than the economic life-time.

The method of component depreciation is not dealt with in the Central Government Accounting Rules but has been described in a handbook and is applied to a limited extent.

In section 4 several proposals are to be found of adjustments of this standard and of improvements connected to the standard. Furthermore there is reason to analyze if and when capitalisation of assets having a shorter life-time than three years would be applied more frequently than at present.

IPSAS 18 Segment Reporting

There is no segment reporting in the Central Government Annual Report nor in the annual reports of the agencies. Segment reporting means separate reporting in distinguishable branches of business or for the Government perhaps rather lines of operations. The IPSAS-standard is not clear on how to envisage the concept of separating the operations, but referring to IFRS 8 the impression is that some ten would constitute an optimal number. For each segment expenditures, revenues, assets and liabilities and transactions between the segments should be disclosed. A segmenting according to the grouping of ministries would be quite adequate in the Government sector. Segmenting according to expenditure areas would in principle be

suitable as alternative, but 27 segments would be too numerous. At present there are no estimates of expenses, revenues or balance items for any of these groupings. Technically the application of a third grouping would probably be the easiest way, namely the international statistical grouping Cofog, however without required reconciliations and without recording of assets and liabilities. This would however be less appropriate, as the Cofog is not used for management and decision-making, which is the purpose of this standard.

In the standard there are some detailed rules on recognition, measurement and disclosures, but as the principal requirements are anyhow far from complied with they have not been analysed further.

At agency level there is a segmenting in lines of operations, primarily in the statements of financial performance of the agencies. Expenditures and revenues are normally recorded there, but the account is not complete. Probably there are no statements of financial position segmented in lines of operation.

The ESV is of the opinion that there at present is no demand for this information and that it would involve a costly change to introduce this standard. The standard should also be seen in relation to the fact the IPSASB has not yet introduced rules on the presentation of statements of result of operations at agency level, which would be a more important step to take. Therefore no proposal for amendment of rules is made.

Should a complete adjustment to IPSAS arise or if the Government would still find the segment reporting important, it is a matter of finding a grouping that is conducive to management and decision-making purposes on Government level. The ESV makes the assessment that this would come into question primarily if IPSAS 6 would be introduced fully, i.e. all Government companies would be included in full consolidation. In that case the group Government companies as such constitutes a segment, which would be of interest to disclose. All agencies would then form the second segment. An example of such a simplified segment reporting is to be found in New Zealand, where there is however a third segment for certain entities that are not included in the proper Government sector. For a further grouping than just to separate the companies and the agencies into two segments, the sector of universities and university colleges constitutes one of few sectors with many agencies of which it would probably be interesting to acquire an overall picture. That need would perhaps be even greater if more universities would be made foundations and still be included in the Central Government Annual Report, which is recommended by ESV according to the criterion of control (ref IPSAS 6). A further development in the same direction would be to choose such segments as the Social Insurance, the Defence, the Judicial System, Infra-Structure etc., but these segments are tightly connected to one or a

small number of agencies, which usually are managed by one ministry, and it is doubtful if that type of information would add anything essential over and above what may be found in the Annual Reports of the agencies concerned. In practice it is also difficult to imagine a grouping that implies the extraction of a part of an agency to a separate segment. Instead everything that cannot be included in one of the defined segments could be included in a segment for "others".

IPSAS 19 Provisions, Contingent Liabilities and Contingent Assets

In the Central Government Accounting Rules there are no definitions of contingent assets, onerous contract, legal obligation, constructive obligation, obligating events, and there are no rules at all on contingent assets. Also, there are no rules on how to calculate a provision. The IPSAS standard indicates: "The amount recognized as a provision should be the best estimate of the expenditure required to settle the present obligation at the reporting date". A more explanatory text declares that the best estimate includes any additional evidence provided by events after the reporting date. And by possible future events that may be important for the estimate of the provision. The standard does not however deal with how to handle provisions in the public sector where the Government may assume the role both as legislator and as manager of the operations that are governed by the Government. This leads to uncertainty on the emergence of obligations and the obligating event.

The standard furthermore regulates that if the effect of when a payment is made is material the provision should be calculated at the present value of the payments that are expected to be required to settle the obligation. There is no general requirement in the Central Government Accounting Rules to apply present value. Present value calculation is applied for pension obligations as it is applied in the insurance technical calculations applied by the National Government Employee Pensions Board (SPV) and for financial agreements. Certain instructions recommend that present value calculations should be applied regarding losses.

The ESV is of the opinion that the Central Government Accounting Rules should include a description on how a provision should be estimated and that a general rule on present value calculation according to the same principle as IPSAS should be introduced.

The Central Government Accounting Rules do not have any rules on contingent assets. The ESV is of the opinion that a possible introduction of rules in this area should be analysed.

IPSAS 20 Related Party Disclosures

Neither in Central Government Annual Report nor in the annual reports of the agencies there are any disclosures on related parties.

The rules on agency level however require disclosure in the Annual Report on taxable remuneration and other benefits paid during the reporting period to members of the board and of councils and to executive staff appointed by the Government. The agency should also report future obligations agreed for this category of staff and state the assignments held by these executives as members of the board or councils in other Government agencies and limited companies. At present there are no similar rules regarding the Central Government Annual Report.

The requirements of disclosures are much more far-reaching in the IPSAS standard and information should include a considerably wider circle, e.g. for whole groups of executive staff including their family members and for other personnel of the agency having a controlling influence.

For the Central Government Annual Report the ESV is of the opinion that the whole Government should be included in the circle concerned. In addition to the Government also under-secretaries of state and certain other senior officials having substantial decision making influence need to be considered for inclusion. On this point the definition of the circle should however need to be subject to further analysis if this standard should be applied. The standard then requires related party disclosure on the whole circle concerned, i.e. husband/spouse/partner/cohabitee, siblings, parents, grandparents, children and parents-in-law and husbands etc. for all the latter categories.

The disclosure on persons concerned should include paid salaries, remunerations and other benefits during the year. Information might also need to be given on possible loans, guarantees and securities and certain purchases from and sales to these persons.

ESV is of the opinion that an adjustment to this standard primarily should be a matter for the Government to consider. It may however be noted that information would need to be brought from numerous sources regarding a wide circle of persons and there is presently no systematic way of collecting this information. The ESV does not propose any amendment of rules connected to this standard.

IPSAS 21 Impairment of Non-Cash-Generating Assets

There are not many express rules on the impairment of non-cash-generating assets in the Government Accounting Rules, in spite of the fact that most of the Government assets belong to this category. In 5 chapter 5§ Ordinance on Annual Report and Budget Documentation there are general rules when to depreciate fixed assets. There are also descriptions in the handbooks of ESV on tangible and intangible assets.. As the rules are mostly described in handbooks only, the ESV is of the opinion that clarification should be considered in the Government Accounting Rules and there is similar need of amendment of rules connected to IPSAS 26 Impairment of Cash-Generating Assets. The ESV has however not prepared any proposal on this point at present.

IPSAS 22 Disclosure of Information About the General Government Sector

This standard applies if the Government makes their financial statements on the general government sector publicly available. It is important to note that the standard does not require such information to be prepared. Sweden does not present financial information for the whole public sector anywhere else than in the National Accounts, and the standard does not refer to them. But the definition of the sectors should correspond to the National Accounts while the reports should be presented according to the IPSAS standards. As e.g. the municipalities are not controlled by the Government, financial information for the whole public sector cannot be presented according to the standard. Not for the Central Government either financial information is presented according to the definitions of the National Accounts, which otherwise would probably be a possible application of the standard. The ESV is therefore of the opinion that this standard is not applicable for Sweden.

IPSAS 23 Revenue from Non-Exchange Transactions (Taxes and Transfers)

According to this standard revenues should be recognised when the accounting entity accounts for an increase in the net assets/equity other than increases relating to contributions from owners, i.e. the standard is based on the assessment of assets and liabilities to determine recognition and measurement of revenues. To establish whether a contribution should be recognised as an asset or not the accounting entity should determine whether there are obligations to the donor that fulfil the definitions of a liability. Two criteria are the basis for determining whether there is a liability or not, namely restrictions and conditions respectively. A restriction limits the use of the asset but does not require its return in case of infringement. A condition limits the use of the asset and requires its return in case of infringement.

There are rules on contributions and transfers in the Ordinance on Annual Report and Budget Documentation Chapter 4 §§1 and 2. For the accounting of received contributions in the government the so called aggregate accrual model is applied,

implying that any unused contributions in the end of the period is accounted as closing provision on the passive side of the statement of financial position (Unused contributions).

It could be appropriate for the Government set of accounting rules to be clarified on the basis of this standard, particularly regarding the criteria on when to recognise a contribution as a liability, or affect the change of net capital during the year, respectively. The Central Government set of accounting rules should also be completed, in terms of the level of direction, how repaid contributions should be accounted for (as decreased revenues or as an expense).

The accounting of taxes in the Central Government Annual Report essentially complies with the standard, but there are no definition or other specific regulations in the Central Government set of accounting rules on taxes. In the Central Government Annual Report there is a description of the principles for the accounting of taxes and their application. It has been developed and elaborated recently and at present the ESV does not see any essential need of development on this area.

IPSAS 24 Presentation of Budget Information in Financial Statements

According to the standard a government that prepares and presents consolidated financial statements under the accrual basis of accounting and elects to disclose financial information about the general government sector should disclose information on budget and actual outcome in its financial statements. ESV is of the opinion that on the consolidated level, the Central Government Annual Report, the requirements in this standard are complied with in all essentials.

The rules on comments in a note on deviation from budget, recently introduced by the Government for the agencies, are in line with this standard. At agency level, however, it is doubtful whether the allocated appropriations are to be regarded as the kind of budget that this standard is referring to, even if the agencies in other respects would be regarded as entities that would comply with this standard.

The ESV does not propose any further amendments of rules connected to this standard.

IPSAS 25 Employee Benefits

The major difference between the Central Government Accounting Rules and this IPSAS is how to value the Government occupational pension commitment. The Government agreement PA-03 is for the major part an agreement based on defined benefit pension commitment, applying a different calculation method than IPSAS.

According to IPSAS the provisions for defined benefit pension should be calculated according to the so called Project Unit Credit Method (the PUCM method) which i.a. implies that the provision should be based on the expected final salary and expected future employee turnover should be taken into consideration. In the insurance calculation model applied by the National Government Employee Board (SPV) for the calculation of the provision for the Government occupational pension commitment is based on the current salary. The value of the commitment is computed according to the present value method applying the real interest rate for the inflation linked bond of longest term and no consideration is taken to future employee turnover.

Another major difference is that the Central Government Accounting Rules do not separate long-term and short term liabilities, which this standard requires. In this respect the ESV proposes an amendment of rules, please refer to section 4. The accounting practices listed by the standard as short- and long-term liabilities to employees exist also in the Government and are accounted for according to the standard. Furthermore the Government Accounting rules do not have quite a number of definitions that exist in this standard. This concerns e.g. plans based on fees and on benefits, the present value of a benefit-based obligation, actuary profits and losses and expenses attributable to previous service.

The concept investment property does not exist in the context of the Government employment pension system.

In relation to the rules on defined benefit pensions there is already now in the annual report of the Swedish National Government Employee Board (SPV) an analysis of the insurance based provision for Government occupational pensions and the information presented corresponds in essence with the disclosure required by the standard. The difference is that the Swedish National Government Employee Board does not present any estimate on future salary development or employee turnover, as the method of computation is not the same one.

The computation method determined by IPSAS (PUCM-method) does not correspond with the model of acquisition of pension agreed in collective agreement and applied in Government by the National Government Employee Board. This model of acquisition of pension is also applied by private companies as the private sector supplementary scheme ITP in Sweden, the ITP-plan, is based on it. The difference is probably that outside of Sweden the agreement only provides a pension benefit, i.e. the employee is promised x% of the final salary as pension. In Sweden the agreements also imply successive acquisition of pension, which means that the provision for pension on each end of accounting period will be computed on what has hitherto been earned and is based on current salary. No regard is therefore paid

to employee turnover by the calculation of the employment pension liability of the National Government Employee Board. The Government insurance model is determined in relation to this model of acquisition of pension and the system for determination of pension premium would have to be reviewed if the Government would introduce in full the IPSAS and the PUCM model.

In the light of the fact that the PUCM method also implies that each country/agency/company have to make numerous assumptions by themselves for e.g. rates of interest and length of life the ESV doubts whether a transition to the computation method of the standard would give a more transparent and comparable account of defined benefit pension commitments. No adjustment to this computation method should therefore be done. However, the ESV is of the opinion that the Government should consider to include more disclosures on the employment pension commitment from the annual report of the Swedish National Government Employee Board and in the Central Government Annual Report.

IPSAS 26 Impairment of Cash-Generating Assets

The major part of the agency assets are not held to generate future cash flows, but to render service to the citizens. The Government Accounting Rules do therefore not have rules how cash-generating assets should be depreciated. There are however some important categories of assets that are held primarily to generate cash-flows. The first category concerns financial assets in government funds, primarily The Nuclear Waste Fund, the Bank Account Deposits Guarantee Fund and the Stability Fund. The resources of the funds are primarily invested in public securities or are deposited in the National Debt Office and are eliminated in the Government Annual Report. In other cases they are invested in housing bonds and shares. As these instruments are valued according to the valuation rules for financial instruments the valuation of them is still not affected by this standard.

The other category concern assets that are invariably used in operations that are totally financed by direct charges. It is e.g. about IT-systems producing statistics or other information intended for selling in commercial operations only, and in principle with the present definition of the Government also e.g. the public pension system that is financed by fees from the Government pension funds. On this point it might therefore be a need to complement the Government Accounting Rules for this category of assets to make it clear that the valuation is dependent on the future expected cash-flows.

A part of the content may however be covered by general rules on depreciation and there is a reference in the handbook on tangible assets to IAS 36, which mainly corresponds with this IPSAS.

Possible amendment of Central Government Accounting Rules would need to be analysed further in connection with this standard.

IPSAS 27 Agriculture

This standard should be applied on biological assets and agricultural produce at the point of harvest. The ESV assesses that there is no operation primarily aiming at holding agricultural assets for sale by the Government. To a certain extent the Swedish University of Agricultural Science, the Swedish Environment Protection Agency and County Administrative Boards may sell biological assets but it cannot be considered being their principal line of operation and would therefore not be recognised as assets that should be measured according to this recommendation. The primary purpose of acquisition and holding the assets is in principle always to manage them or in certain cases use them for research and university education. This may in certain cases lead to biological assets being disposed of, but this should not be a determining factor for recognition of assets.

There are no specific Government Accounting Rules in this area. Assets cannot generally be measured at fair value according to the Ordinance on Annual Report and Budget Documentation which in this case is due to the fact that it has been considered that the Government does not have any operations primarily aiming at holding biological assets for sale. Government companies may hold this type of assets for sale or for generating yield, but companies are not covered by the specific Government Accounting Rules.

As this standard is hardly applicable to agencies or in the Central Government Annual Report the ESV does not see any need for amendment of rules.

IPSAS 28-30 Financial instruments

These accounting standards should be applied for all financial instruments, i.e. contractual arrangements that result in a financial asset for one entity and a financial liability or equity instrument in another. There are however exceptions for transactions that are accounted for according to regulation in other standards, e.g. for Investments in Associates and Leases. The standards regulate how financial instruments should be presented, recognised and measured. In addition there are comprehensive requirements on disclosures in IPSAS 30.

IPSAS indicates that certain financial assets should be valued at fair value, while others should be valued at accrued acquisition value. Derivatives¹ should however always be valued at fair value. Lending should according to IPSAS initially be

¹ A derivative is a brief financial instrument the value of which is adjusted as a consequence of changed rates of returns, commodity prices and exchange rates and which is settled at a future point of time.

valued at fair value but currently according to the so called incurred loss model which implies that credit losses must not be depreciated owing to expected future events, e.g. death. There is however no guidance on how lending on non-commercial terms should be valued initially.

The Annual Accounts Act (1995:1556) was amended in 2003 to allow for the financial instruments to be valued at fair value in companies. This does not however apply for financial instrument held until due date, claim under a loan and shares as well as shares in subsidiaries and associates.

The Government Accounting rules have few specific rules on financial instruments, apart from the rule that financial fixed assets should be valued at acquisition value and rules for depreciation. In addition there is a rule that loans should be accounted for as a separate item in the statement of financial position and rules on rate-fixing of foreign receivables and liabilities. But as has been indicated in connection with other standards there is no possibility according to the Ordinance on Annual Report and Budget Documentation to value assets at fair value. The reason for this is that the Government unusually holds financial instruments. Agencies that are using various forms of derivatives are above all the National Debt Office and certain public enterprises.

Sometimes it occurs that the Government is holding financial assets, the only purpose of which is to generate yield or increase in value, e.g. that agencies have been authorized by the Government to invest revenues in shares or bonds until they will be used in the operations. It may e.g. concern donations or investments of the Nuclear Waste Fund of fees etc. in bonds or other securities. In addition there might be derivatives that have been acquired in excess of the ones that are directly needed in the operations, i.e. they have been acquired with the purpose of rendering yield and increase in value. As the purpose of the possession in these cases is the same for the Government as for a company, it may be appropriate to value the assets in the same way.

The National Debt Office accounts for treasury bills and bonds at accrued acquisition value, which is also the method indicated by IPSAS. The accounting of the National Debt Office and the Central Government Annual Report is however done in a somewhat different way in relation to the standard. The accounting is made in gross terms by accounting for treasury bills at nominal value and the difference between the nominal value and the accrued acquisition value is reported as a balance item.

Accounting of lending differs considerably from the IPSAS as the Government accounts also expected loss of a non-occurred event as a loss. The most important

expected losses are attributable to the social security system and deaths in the Student Loan system. The ESV does not consider this method compatible with the IPSAS. To apply a *so called incurred loss model* according to IPSAS would probably lead to the accounting of the Government lending at too low a value. The IASB has also expressed the intention to apply the *so called expected loss model*. It is closer to the application of the student loan receivables, which emphasises the unsuitability of applying the model that currently exists in the IPSAS.

The standards on financial instruments are very complicated and all consequences of a full introduction cannot be envisaged. It is however worth noticing that some of the described instruments that are complicated do hardly exist in the Government, e.g. certain equity instruments.

The ESV proposes that the Ordinance on Annual Report and Budget Documentation be amended to allow for the valuation of financial instruments in the Government at fair value. This applies to financial instruments held for the purpose similar to the one of a company, for generating yield and increase in value.

Furthermore the ESV is of the opinion that it would be advisable to make clear that accrued acquisition value and the method of effective rate of return should be applied at valuing financial instruments held until due date. It is also advisable to make clear that primarily lending and guarantees should be subject to calculation according to the present value method corresponding to other long term receivables and liabilities.

IPSAS 31 Intangible assets

The regulation in this standard applies to all types of intangible assets, i.e. in this case also for intangible *current assets*. The Government Accounting Rules deals with intangible *fixed assets* only, which is due to the fact that there are no intangible current assets held by the Government.

The Government Accounting Rules do not mention it, but the ESV handbook on intangible fixed assets indicate that "the three year rule as well as a limit for a small amount might be the basis for acquired intangible fixed assets. For internally built up intangible fixed asset the limit for capitalisation may be higher". The three year rule refers to the regulation of the Ordinance on Annual Report and Budget Documentation that Plant and equipment should be regarded as fixed assets if the economic life time is longer than at least three years. The IPSAS standards have a one year rule only and no rule at all on small value. The Government Accounting Rules indicate furthermore that only expenses for development being of *considerable value* for the operations of the agency should be accounted for as intangible fixed asset. There is no explicit criterion on materiality in this standard.

The depreciation period should correspond to the economic life time according to the Government Accounting Rules, but to the duration of use according to IPSAS. The Government Accounting Rules also prescribe that *depreciation* should be made *at least one fifth annually* if not longer depreciation time is justified due to circumstances or generally accepted accounting standards.

Also on this point there are two possible methods of valuation according to IPSAS, the cost value method and the revaluation method (refer to Tangible assets).

The ESV is of the opinion that the Government Accounting Rules on intangible assets should not be amended. The Government rules are worded in a conservative approach, and the ESV is of the opinion that these conservative rules are effective.

4 Concluding remarks on the review of IPSAS

The ESV envisages great difficulties and obvious drawbacks connected with a complete implementation of IPSAS and there is no other suitable standard. The mere comprehensiveness poses a problem, as according to IPSAS the standards should be applied completely and in its entirety. Otherwise they would not have been introduced.

From the review presented in section 3 it appears that the Government Accounting Rules to quite a substantial extent correspond to the IPSAS regarding principles and definitions. The review also demonstrates that there is in certain areas reason for further adjustment and completion of the Government Accounting Rules. The work on the review has resulted in specific proposals of amendments as well as in proposals on areas requiring further analysis.

The major difficulties or arguments against a complete adjustment are, to sum up:

- The comprehensive requirements on supplementary disclosures that, at the same time as they are costly to apply, sometimes would require what the ESV would regard as excess information, of which there is no demand and which hide essentials.
- The large scale change of the Government management and control to which segment reporting would lead.
- A complete implementation of IPSAS 6 would give rise to costs and increase the requirement of control of the reporting of the Government companies and the General Pension Funds.
- The inexpedient – according to the opinion of ESV – focus on short term change of value that would affect the Student Loan receivables and the Employment Pension liabilities in an unfortunate way from the point of view of control and information.
- That the insurance model in the insurance scheme of the National Government Employee Board would need to be changed with consequences for the management of the Budget.
- A possible future requirement of a changeover to valuation at fair value (replacement value) of tangible fixed assets which would affect the control of investments and the budget in an undesirable way.
- The structures of the sets of rules are quite different. The detailed regulation of IPSAS instead of the more concise regulation of the Government Accounting Rules makes a complete adjustment technically complicated and time

consuming and would also be experienced as alien by the Government administration.

- Difficulties would arise if the possibility of bringing guidance also from other normative institutions than IPSASB would disappear. That possibility must remain also in the future. It takes e.g. often a long time from when the accounting rules are introduced in the industry until they exist as IPSAS standard.

It should also be pointed out that a complete introduction would require the Government Accounting Rules to be redrafted totally.

On the other hand there is a value of its own to adjust the Government Accounting Rules to IPSAS in cases where there are no counter-arguments. The understanding of the reports by users of financial reports from other organisations is facilitated, and the providing of competence in the Government and the work of the financial professional staff is facilitated as the ones recruited from the industry or from university know the rules.

In the light of the above the ESV is of the opinion that a limited adjustment of the rules and specific applications is the right method and that the rules should be adjusted step by step in specific cases, and primarily be justified by the need of the Government for purposes of control.

4.1 Proposal on amendments and further development

The presentation of receivables and liabilities should be amended in conformity with IPSAS to allow for the separation of long term and short term receivables and liabilities at agency level as well as in the Central Government Annual Report. This is also the rule having been applied in the industry for many years. The change should be effected by changing the format of the statement of financial position in the regulation of the Ordinance on Annual Report and Budget Documentation and by developing the statement of financial position to allow for descriptions of definitions and of how to present separately the short term portion of the long term receivable and liability respectively. By that the same principles will be applied in the Central Government Annual Report as in the consolidation of the information of the agencies.

A rule should be introduced on present value calculation of receivables and liabilities having a longer lifetime than one year. This should however only apply to cases where the present value calculation gives a significant difference compared to no such calculation. The rule should probably be included as regulation in the Ordinance

on Annual Report and Budget Documentation, and would by this affect the Central Government Annual Report accordingly.

A general rule should be introduced involving the measurement at fair value of financial assets acquired to generate yield or increase in value. This means that the rule should not be applied to assets acquired for the purpose of operations, in order for the agency to be able to run the activities laid on it by the Government.

A rule on more detailed reporting by the agencies on tangible assets should be introduced. The agencies should specify how the closing value of an asset has been built up, e.g by indicating the acquisition of the year, the depreciations of the year, accrued depreciations and disposals/write-offs. A subdivision of the item Plant and equipment should be considered in this context to allow for better information. The amendment should be made primarily in the ESV directions on reporting of financial information to the central government accounting system (the S-codes) but could also need to be updated in the directions and general guidance to the Ordinance on Book-keeping of Agencies. By this it will be possible to publish disclosures of higher information value in the Central Government Annual Report on primarily tangible assets, which would be in greater conformity with the standards and with what is customary in the industry.

Component depreciation of tangible assets is adequate in certain cases and occurs already to a limited extent in the Government. A rule on this should be emphasized in the general guidance and possibly in the directions of the Ordinance on Annual Report and Budget Documentation.

The matter of a more frequent capitalization of assets with an estimated period of usage between one and three years should be considered

The rules that the capitalization of certain borrowing costs should be capitalized as acquisition value are inconsistent by being applied differently for assets financed by appropriations (primarily infrastructure and emergency assets) and other tangible assets. When interest rates are capitalized as other tangible assets it is not based on borrowing costs arisen from a specific borrowing for the build-up of these assets, which is a condition for capitalization according to IPSAS. All in all, these circumstances lead to the conclusion that a consistent application should be introduced. The ESV is of the opinion that it is appropriate to remove the capitalization in the acquisition value of tangible assets. The ESV therefore proposes the removal of the rule on this in the directions to 1st paragraph 5th chapter 3§ of the Ordinance on Annual Report and Budget Documentation.

A regulation in the Ordinance on Annual Report and Budget Documentation should be introduced, requiring agencies to prepare a separate statement on the change in net assets of agencies. Such a report would facilitate the understanding of the concept of net assets in the annual reports of the agencies and also function as a type of reconciliation. The amendment should preferably be made on the level of ordinance. A requirement of a statement on the change of net assets should be introduced also in the Central Government Annual Report. Such a new statement might require an amendment of the Budget Act. It should however be possible to deal with the matter in correspondence with how the connection between the budget balance and the balance of the statement of financial performance is dealt with. That information is provided separately in connection with the cash flow statement in the Ordinance on Documentation for the Central Government Annual Report. This would imply that this ordinance stipulates that the change in net assets be specified in connection with the statement of financial position. All essentials of this information are already to be found in the Central Government Annual Report, but published in a note and more detailed than is justified in this type of specification or statement.

A rule should be introduced to specify how the agencies should account for current transactions in foreign exchange and there might also be need of clarifying what balance day rate of exchange should be applied.

The need of introducing rules on the accounting of contingent assets should be considered.

The need of new rules for Joint Ventures should be considered.

The rules for accounting of leasing should be investigated.

Development of the rules for accounting of liabilities and the effect on the net assets as a result of unused grants should be analysed and the rules on accounting of refunded grants should be complemented.

The Central Government Accounting Rules should be clarified regarding revenues by an analysis of how to define a revenue and when and how it should be recognized. Also clarification on accounting, classification and measurement of construction contracts should be investigated.

There is also need of analysis regarding depreciation of cash generating assets.

Also for financial instruments there is further need of analysis as basis for possible proposals over and above what has already been noted on valuation at fair value in

certain cases. E.g. it would be desirable to clarify that accrued acquisition value and the method of effective rate interest should be applied on financial instruments held until due date.

4.2 Notes and supplementary disclosures in the Central Government Annual Report

Accounting principles and supplementary disclosures

Supplementary disclosures and the description of applied principles in the Central Government Annual Report should be further developed. In this effort of development, the ESV has not identified any specific proposals on how this effort should be managed, but a need exists of further development and considerations between e.g. the ESV, the Ministry of Finance and the Swedish National Audit Office. The design and development of the Central Government Annual Report since the turn of the century regarding the detailed level, bears the stamp of an interplay between organizations that has come to be established as normative praxis. In certain cases the Parliamentary Committee on Finance or the Swedish National Audit Office observe need of development and in such a case the accounting principles on that point will be developed. This interplay and these current improvements must remain to complement specific amendments in the Budget Act and in the Ordinance on Annual Report and Budget Documentation. The ESV would however already at this point propose two major directions of change.

The first proposal is to indicate in the Central Government Annual Report that the accounting principles that are to a great extent similar to IPSAS (or its earlier versions) form the basis for the design of the Central Government Accounting Rules. In this way it is being clarified that in areas where there are no government rules to be applied, the IPSAS principles are used as supporting documentation and principal source for supplement. Important deviations and exceptions from IPSAS should then be specified in the disclosures of the Central Government Annual Report.

The second proposal for improvement of the disclosures involves specific applications that are essential for the understanding of the accounting information be improved and described more frequently than earlier. Some improvements were effected in 2011, but improvement work must be continuing. E.g. new activities are added to government operations and so do individual events that need to be described.

There is also need for further development of the process to reflect important events after year end. On this point the ESV has no specific proposal at present.

Notes

The note on Cost for Employees should be extended with more information on the cost for change of the Occupational Pension Liability. The most important individual items are indicated already at present and are brought from the annual report of the National Government Employee Pensions Board. In the light of the IPSAS standard the opinion of ESV is however that the specification could be made more complete. In reviewing this information the note on the item Provision for pensions and similar obligations could also be dealt with.

The notes on primarily tangible assets should be restructured in the Central Government Annual Report to give a separate account for each type of asset of acquisition value, depreciations of the year, accrued depreciation and write offs. From the point of information this might be particularly important for the big balance sheet items Roads and Railways, Emergency Assets and Constructions in Progress, but it would probably also be done for Plant and equipment, Properties and Intangible assets of the agencies. This would raise the requirements on the agencies' reporting as described above.

It should be noted that the proposed restructuring of the notes on fixed assets does not replace the account on the balance value for each agency that is hitherto presented in the Central Government Annual Report. This information would also be interesting, particularly regarding items of many reporting agencies as e.g. Plant and equipment.

5 Comparison with other OECD member states

5.1 Purpose and selection

The ESV has broadly studied the Central Government Annual Report and similar documents of seven countries: United Kingdom, Canada, New Zealand, Finland, Germany, Spain and France. United Kingdom, Canada and New Zealand have been selected as Anglo-Saxon countries with which the ESV has had a certain exchange for many years, and are known to ESV for being countries well in advance of the development of accrual accounting for Government finances.

Apart from these countries the ESV has found it sensible to make a comparison with some EU member states in addition to United Kingdom as the discussion of most immediate interest of introducing IPSAS is connected to the European Union. To select a Nordic country might be of particular interest as those countries are similar to Sweden in many ways. Finland has been selected due to its administrative structure being of great resemblance to the one of Sweden. Germany, Spain and France are leading member states of EU having a decisive influence on the EU economy, and they were therefore selected by ESV.

Apart from discussions in connection with international working groups, the study has been limited to information available on web sites of the various countries.

The ambition has been to establish whether there is some kind of Central Government Annual Report similar to the Swedish one, to note what accounting principles are applied and particularly if IPSAS or another type of set of rules is applied. The ambition has also been to establish if there is any common trend for accounting of risks and commitments in Government or Public affairs and other particular information corresponding to the one of the Budget Act for the Swedish Central Government Annual Report.

5.2 Review of the countries

United Kingdom

United Kingdom has introduced a consolidated account for the whole of the public sector called Whole of Government Accounts (WGA), i.e. including the local administration and also publicly owned companies. WGA includes the financial reports statement of financial position, statement of financial performance and cash-flow analysis. WGA has been published only once, for the financial year 2009/2010 and the preparation of the second one is in progress.

The purpose of the WGA is to facilitate for the parliament and the general public to understand and get information on the usage of tax payers' money. The information is based on the IFRS for listed private companies.

The consolidated financial reports are based on IFRS recommendations for the private sector, i.e. not on IPSAS. On local level the IFRS has however commenced application only from the financial year beginning 1 April 2010. It is therefore evident that at least the first volume of this report contains many points of incomplete adjustment or exemptions. This means that there is much development work to accomplish. WGA does not contain any budget information, but the presentation of the government budget outcome is made in the annual reports of the various ministries.

In the WGA the description of the operation is structured into three segments:

- The central government,
- The local administration
- Public companies.

The Annual Report stresses that the consolidated Annual Report does not replace the national accounts, but complements it. The WGA also summarizes the differences between the national accounts and the WGA.

The Auditor General of United Kingdom has passed strictures on the WGA, e.g. concerning principles for their definition of the accounting unit and for having applied different financial years for different units. It is therefore to be assumed that the document will be redrafted and developed on various points during the coming years.

United Kingdom does not prepare any annual report for the part of the public sector that is constituted by the Central Government. Annual reports for the ministries are however presented to the Parliament. These reports include financial documents and estimates of outcome. In disclosures to its annual report the Treasury Department presents a risk analysis regarding financial documents and information on guarantees.

The ESV has not found any document published by the Government on the outcome concerning fulfilment of financial policy objectives. There is however annual reports from the Office for National Statistics supplying some information of that kind.

Canada

The Annual Report of Canada is comprehensive and is prepared according to the Financial Administration Act.

The Annual report starts by a short introduction and four all-embracing points on 1) comparison of the budget balance of the year with the one of the previous year , 2) comparison of the budget balance with the forecast, 3) development of the accrued budget deficit as percentage of the GDP and 4) Canada's need of total borrowing in relation to GDP and the G7 countries is presented.

The Annual Report includes all Government organizations, inclusive of the specific Government companies (Crown corporations), being separate legal units but controlled by the Government. All organizations defined in the Financial Administration Act as departments, and as specific Government companies, are included in the reported unit.

The financial operation at all these units, except at the companies and other public utilities, are consolidated in the annual report according to a uniform format and uniform principles of accounting after elimination of significant intra governmental transactions. The specific Government companies (Crown corporations) and other Government public utilities are accounted for according to the equity method. The Canadian "Pension Plan" is not included as the provinces exert a significant influence and that it is therefore not considered to be under control of the Government.

The financial documents are prepared according to the accounting principles of the Government, which are based on accounting standards that are applied in the Canadian public sector. In the Audit Opinion for the previous year The Auditor General attracted the attention of the Parliament to the fact that many units under the Government were converted to either the International Reporting Standard or the Public Sector Accounting Standards for financial years starting on or after 1 January 2011. All these units continue the conversion to the new standards and corresponding adjustments must be reflected in the Annual Report of Canada per 31 March 2012. The principles applied imply that both expenditures and revenues are accounted for according to accrual based accounting. For the transfers there are rules that, broadly judged, seem to be well developed and also the tax revenues are accounted for on accrual basis, which appears to be close to the basic ideas of the Swedish way of thinking.

Independent standard setters assume the role of developing and issuing accounting standards. They observe and adhere to an established and transparent process with

talks and paying due regard to the views of a broad spectrum of trusted persons. In Canada this function is assumed by The Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants. The PSAB has established complete accounting rules for the public sector. These accounting principles are applied at a general level for the financial documents for the Government as a whole, including all levels under the Government and Government organizations.

The Government of Canada had a plan to introduce accrual base budgeting step by step and to evaluate the costs and advantages with accrual appropriations during 2012-2013. This plan is not yet accomplished.

New Zealand

New Zealand has in several aspects a correspondence to the Swedish Budget Act in The Public Finance Act 1989. The Act requires the Treasury to prepare a document on the long term financial situation of the Government at least every fourth year. There are also requirements on the preparation and submission of annual reports and according to what principles this should be done. The Treasury publishes monthly and annual (year-end) financial documents for the government reporting entity. The documents provide information on the assets and liabilities of the Government, revenues and expenses and cash-flows.

The annual report begins with the Chief Executive's Introduction followed by the Statement of Responsibility of the Secretary of the Treasury, followed by Comments, Independent Auditor's Report, Audited Financial Statements, Supplementary Financial Statements, Other Financial Disclosures, List of Acronyms. The financial documents consist of Statement of Financial Performance, Analysis of Cost by Function, Statement of Comprehensive Income, Cash Flow Statement, Statement of Change in Net Assets/Equity, Statement of Financial Position, Segment Reporting and Disclosures.

Each ministry should prepare a report on its operations in the end of each year of operation. It consists of general information on the operations including a comparison with established mandatory objectives, key figures and standards, a statement of performance report, financial documents, a statement of responsibility and an audit report.

The Financial statements of the Government of New Zealand for 2011 contain a summary of the principles of accounting. It is stated that the financial documents have been prepared according to the Act of 1989 on Public Finance and according to generally accepted accounting standards of New Zealand. The Government has been treated as a public benefit entity, PBE. The financial documents observe the New

Zealand equivalence of the International Financial Reporting Standards (NZ IFRS) in a way that is suitable for public benefits units.

NZ IFRS is in great correspondence with the international standards for private enterprises (IFRS and IAS). They have been established by the Accounting Standards Review Board (ASRB) which published standards to be applied in public as well as in private sector. On 1 July 2011 the responsibility for publishing accounting standards in New Zealand was changed by a reorganization of ASRB, which changed name to External Reporting Board (XRB). In the new set-up standards will be published separately for private and public sector.

Other information than statement of financial performance and statement of financial position

In the Financial Statements of the Government of New Zealand for 2011 there is an opening passage with commenting and summarizing a lot of information from various accounting documents. E.g. information is compiled under the heading of Fiscal Strategy, broken down in key figures, allowing for the indication of results achieved in the financial year concerned and the previous year. All figures are based on items of financial position and performance in the Annual Report. This means that financial objectives for the government only are dealt with, sometimes including government managed companies. Some of the objectives are expressed as percentage of GDP. There are no overall objectives of financial policy in the presentation, but the objectives are connected to the government accounting entity. This presentation has been altered in respect of 2012, which thus means that the structure is subject to development. From the Statement of the Auditor General it is understood that other information than the one in the named Financial Documents has not been audited.

The International Public Sector Accounting Standards Board (IPSASB) has published a draft of a standard predominantly treating the correspondence of the above passages of the New Zealand Government Annual Financial Statements for 2011 and 2012. IPSASB calls that draft document Financial Statement Discussion and Analysis. Analyses of financial policy objectives beyond the objectives that can be derived from the Financial Documents of the accounting unit concerned are not treated in this draft either.

In the New Zealand Government Financial Statement for 2012 contingent liabilities and contingency assets are accounted for. Contingent liabilities are separated in quantifiable and in non-quantifiable ones. Among quantifiable contingent liabilities, guarantees are separated from damage liabilities. There is no evidence that the country applies any guarantee system liable to charges of the Swedish type.

An analytical comment treats financial instruments. The comment contains an analysis and an account of risk management. It deals with principles of risk management for the various organizations that are consolidated in the Financial Statements including the peer organization of the Swedish National Debt Office. Furthermore the different risks facing the financial instruments are dealt with, divided on market risks (interest rates and currencies), credit risk and liquidity risk.

Both these notes are standing by themselves in the sense that they are not related to items in the financial statements.

The outcome related to appropriations is presented ministry-wise to the Parliament, and are thus not included in the consolidated Financial Statements for the government.

Finland

Finland has a Central Government Annual Report that contains information corresponding to the most important parts of the Swedish report. It includes a statement of the outcome of the budget, a statement of financial performance, a statement of financial position and a cash-flow analysis. The Annual Report also contains passages of texts and comments following up the financial policy and with descriptions of guarantees, lending and risks. The format of presentation of the financial statements is more elaborate than the Swedish one and there are also certain specifications of items in appendices. There are however not any notes on each item as in the Swedish Annual Report. There is also a type of statement of performance report for each ministry accounting for different areas of performance within the field of responsibility of the ministry, the development and special projects.

At subordinate level there are agencies etc. preparing their own annual accounts. The set of rules is constituted by a Budget Act and an ordinance on the Government Budget. In addition there are directives from the Ministry of Finance and the Finnish Agency for Public Management

The principles for the budget are partly accrual based, but partly cash based or in between. The principles for the accounting in general – the business accounting – are mostly accrual based, but seem to be cash-based to a higher degree than in Sweden, “as applies for the budget”. The principles of measurement and the principles of recognition seem to be similar to the Swedish ones, but the definitions are mostly of specific domestic character.

Finland does not apply the IPSAS or any other similar set of rules. In an enquiry made recently by Eurostat Finland has indicated eight-ten of the 32 IPSAAS standard as being too complicated to apply. This should be compared to Sweden, having indicated two. One option for replying was “application with certain adjustment” which suggests that the differences compared to IPSAS are regarded as relatively substantial.

Compared with Sweden it should be mentioned that Finland makes a more clear separation of short-term and long-term liabilities in the statement of financial position, but that elimination of internal transactions are made only to a limited extent. Also the definition of the government seems to be less complete as items outside of the budget, as certain funds and the public utilities are not included in the consolidated financial reports.

The ESV has not observed any specific principles describing how to present follow-up of the objectives of the financial policy in the presentations, or how risks in guarantee and lending operations should be estimated, which means that the regulation is quite scanty.

Germany

The greatest difference between the Swedish and German government accounting is that Germany has opted to retain cash-based accounting with extensive focus on the outcome of the government budget.

The basic concept for the federal government accounting is regulated in the Constitution. More detailed instructions are coded in the Act on Budget Principles which together with the Budget Ordinance may be compared with the Swedish Budget Act. The Budget Ordinances are approved by each state on the federal state level and one separately on central republic level but all of them are based on the Act on Budget principles that together with the Constitution regulates the accounting on the level of federal republic as well as the level of the federal states. Accounting principles are also regulated in *the draft of Standards of Accounting for assets in the Federal Republic of 1953*.

In Germany there are two documents corresponding the Swedish Central Government Annual Report. One is the Outcome of the Budget, the Revenue and Expenditure Account (Haushaltsrechnung), and the other is a compilation of certain of the government assets and liabilities, i.e. a kind of statement of financial position (Vermögensrechnung). The account of the outcome of the Budget also includes information that corresponds to the cash-flow analysis of the Central Government Annual Report and in the statement of financial position guarantees and lending are

described, even if to a limited extent. As a consequence of Germany applying cash-based accounting there is no statement of financial performance, as in Sweden.

The content of the Outcome of the Budget is very exhaustively described with notes as well as various forms of compilations. The statement of financial position is however limited to merely indicating the total and does not contain e.g. the value of tangible and non-tangible assets. The items included are however relatively well described.

The supplementary information included in the account of the Budget include basically a short macro-economic review, information on deviations to the Budget, revenues other than taxes and information on federal funds. A great part of this information is presented in tables specified per level of operations regarding deviations or in describing texts on e.g. funds.

A major project to evaluate various possibilities of modernizing the government accounting started in 2006 which has resulted in a work to develop the accounting of assets and liabilities. The project has not however led to Germany using international accounting standards as IPSAS on the federal level and the interest in IPSAS is not great. During 2010 some law amendments opened for alternative principles on state level. In some of the federal states accrual based accounting is applied since then, but primarily on the basis of the accounting principles of the German private sector, not IPSAS.

Spain

Spain is a decentralized country with three levels: central, regional and local. In the financial area the administrative decentralization is based on the principles of financial autonomy, coordination and solidarity which are coded in the Spanish Constitution from 1978.

The Government Budget is regulated in the Constitution and in the Act on the Government Budget. Supplementary regulation regarding the Act on the Government Budget is issued by the Ministry of Finance and in addition there is an Act on Budget stability. The Ministry of Finance presents, after having received supporting documentation from the agencies, a Budget proposal to the Congress, which approves the annual Budget. After the approval of the Budget, it takes form of an Act. Cash-based accounting is applied in the accounting towards the budget.

In the Ministry of Finance the responsibility for the public accounting is on the control body of the Government, la Intervención General de la Administración del Estado (IGAE). IGAE is executing body for the public accounting and supplies e.g.

financial information on the public administration and issues the regulations required for the accomplishment of this duty. This includes according to the Budget Act e.g. the development of the accounting, the design of the chart of accounts, the issuing of circulars and instructions on accounting and financial documents. Another duty of the IGAE is to prepare the consolidated Government annual account and to submit reports to the National Accounts according to ESA95.

There is also an Accounting Committee (Comision de Contabilidad publica).

The accounting in the public sector should according to the Budget Act give a true and fair view of net assets, financial position, financial performance and budget execution. The Act also provides regulation on basic accounting principles and on the obligation of accounting entities in the public sector to prepare and submit annual accounts on accrual basis to the Court of Audit (Tribunal de cuentas).

What accounting set of rules to apply is indicated in the same section of the Budget Act. Accounting entities in the government sector should apply the new general chart of accounts - PGCP. The concept chart of accounts is much wider than the word literally indicates as the chart of accounts contains so much more than just classes of account and accounts. Public companies apply regulations for business accounting since 2008 (based on IAS-IFRS). The new PGCP from 2010 is a comprehensive set of rules that complies with IPSAS but not having adopted its structure or all disclosures either. Exactly as in IPSAS tangible assets having an economic life time longer than one year are capitalized. Short term and long term assets and liabilities respectively are separately recognized in the statement of financial position. The new accounting principles should be applied for the first time in the Annual Accounts for 2011. The previous corresponding chart of account was more based on the accounting of private companies. In addition to accounting rules the PGCP contains also a conceptual framework for public accounting.

The annual account for agencies and other bodies is composed of statement of financial position, statement of financial performance, statement of change in net assets, cash flow analysis, appropriation accounting (expenses/revenues) and disclosures.

Government Annual Account (el cuenta general del estado)

According to the Budget Act the IGAE should prepare the Government Annual Account. There is additional regulation in an Ordinance. The Annual Account consists of 3 financial documents:

- Annual Account for the public sector (Cuenta General del sector público administrativo).
- Annual account for the Government companies (limited companies).
- Annual account for the Government funds.

The general public administration includes, in addition to the proper Government administration, also the social security insurance system, certain autonomous bodies, public utilities and public organizations and certain consortia and funds.

The consolidated financial documents are statement of financial position, statement of financial performance, statement of change in net assets, cash flow analysis, appropriation accounting (expenses/revenues). In addition there are disclosures.

The annual account for the government companies comply with the accounting principles and the chart of account for the private sector. The consolidated financial documents that are prepared for them are statement of financial position, statement of profit and loss, revenues and expenses, statement of change in net assets and a cash flow analysis. The statement of financial position and statement of financial performance of the government owned funds are consolidated with disclosures.

On the web-site of the Ministry of Finance and in a separate publication a summary of the consolidated Government Annual Account is published. However, the disclosures are not included in the summary.

The Government Annual Report is audited by the Court of Audit which issues an Auditor's Statement.

France

The French equivalence to the Swedish Budget Act, La Loi organique relative aux lois de finances, indicates that the financial documents should be prepared according to the principles of accrual accounting and be based on the accounting standards of private companies whenever possible. The revenues and expenses of the Government Budget should however be accounted for according to the principles of cash-based accounting.

The coherent Government set of accounting rules is a publication beginning by a conceptual framework. The conceptual framework, which is a guiding document, is framed on rules developed for the private sector in France (Plan Comptable General), international standards for the private sector (IFRS) and the public sector (IPSAS). The publication contains 16 published standards. These standards are elaborated by The Council for Public Accounting (Conseil de normalisation des

Comptes publics). The Government set of rules is essentially compatible with IPSAS, but the very standards have not been introduced.

The Government annual account contains a statement of financial position, a statement of financial performance, a cash-flow analysis and comprehensive notes and supplementary disclosures illustrating various financial events during the past financial year.

The annual accounts are audited by The Court of Audit (Cour de Comptes). The document equivalent to the Swedish statement of outcome of the Government Budget is not included in the annual report, but is prepared and presented to the Parliament at separate occasion. The Audit Opinion contains a statement that the accounts are legal, reliable and true.

Other EU member states

Within the EU a development work is going on concerning the National Accounts as well as Financial Accounting. In this connection it is sometimes maintained that the new EU member states above all in Eastern Europe have fully introduced current principles for National Accounts and international accounting standards, primarily IPSAS. International comparisons by enquiries do however reveal that the adjustment has not gone quite that far.

Many of the countries concerned do however seem to have advanced quite far in the adjusting to these principles. The ESV has not had the opportunity to study in closer detail how these countries have solved various problems, but still observes a certain tendency for countries, having had previously a less developed system for public accounting and statistics or radically reformed their public administration after 1989, seem to have adjusted more easily. The reason for this might be that the new principles and standards have been built on the basis on a “ready-made” complex of rules, instead of having to change in many details an established structure leading to amendments creating new problems requiring to be solved. The latter problem applies to Sweden, but also gets evident when studying the case of Germany, that has not introduced the principles of accrual accounting.

The participation of ESV in international work during the year

Beside the work with this review the ESV has participated during 2012 in the international co-operation on accounting and similar issues. Some of it has a direct connection to the complex of National Accounts and the proceeding at huge deficits, in which case the ESV together with Statistics Sweden and to a certain extent with the Ministry of Finance has had contacts with and taken part in working groups at the European Union Statistical Office Eurostat.

During the year the Eurostat has also been commissioned by the EU Commission to assess the suitability of introduction of IPSAS in respect of the EU member states. The fact that a statistical office has been entrusted with such a task would reflect the view that a common basis for the accounting would facilitate the preparation of National Accounts and associated information in a uniform way and on similar basis.

The international work has been of great value and formed knowledge useful for the review. An enquiry accomplished by Eurostat during the summer indicates the views of various EU member states on the possible introduction of IPSAS, and what major difficulties are envisaged in this connection. It should be noted that the standards that are perceived by other countries as problematic in many cases are the same as in the view of ESV. Several countries, including Sweden, have expressed their view that an introduction of IPSAS would require a certain adjustment and prudence.

5.3 Conclusions

All the studied countries have some kind of central government or public sector annual report. As the administrative structure differs considerably, at the same time as the countries have made different options for the ambition of the accounting, the definition of the consolidated entity varies.

The principles of accounting vary. Most countries apply accrual base accounting. The ESV has not observed any country in the review applying IPSAS or any other international set of rules in full. Most countries have, like Sweden, an own set of rules having much in common with IPSAS and IFRS, but which have been adjusted or based on own principles having been developed domestically.

During 2012 the ESV has taken part in working groups and seminars of Eurostat and responded to several enquiries from Eurostat and various chartered accountants aiming at mapping the current state of the development work, primarily on the application of IPSAS. The impression is that there is an ambition by many EU member states to come nearer, but that there is some hesitation on many individual points. In this connection it should be mentioned that discussions are on-going within the working group of Eurostat that an IPSAS adjusted to EU, a so called EPSAS, would be an alternative for the member states.

The ESV concludes that nothing can be said at present indicating that IPSAS would be an accepted norm, but an international development work is going on in that direction. At present it is not possible to assess whether this will led to the full application of IPSAS or if it would rather develop as in Sweden at present, namely with principles and definition essentially in harmony with IPSAS, but also with simplifications and exceptions in details. There is no other broadly applied set of rules. IFRS is being used, but not in general.

The review of ESV does not provide any basis for stating that there would prevail any uniform accounting between countries in documents like government annual reports regarding commitments besides the statement of financial position, risks in connections with guarantees and credits or other risk of Government finances or disclosures on the fulfilment of the objectives of the financial policy.

6 Asset Accounts according to the principles of National Accounts

A part of the assignment to ESV involves the analysis of the requirements and the suitability of an adjustment of the assets account in the Central Government Annual Report to the standards applied in the National Accounts (in conformity with the European System of Accounts, ESA) and to assess the consequences of such an adjustment.

The basic advantage of such an adjustment would be an increased coherence between different ways to account for Government assets and equity. It may lessen the need of explaining differences and lessen the risk for questioning the statement of financial position as well as other statements expressed in terms of national accounts. The weaknesses with such an adjustment could be that the many changes that are required would be difficult to accomplish or are associated with various not desirable side effects, or that differences might still remain. In this section the ESV describes and assesses the various relevant elements.

The review is based on interviews with specialists of the Statistics Sweden and study of the set of rules and regulations for National Accounts published in the European System of Accounts ESA 1995, supported by the experience of ESV in preparing the basic data for the National Accounts. This has been compared with the Government Accounting Rules and the application by the agencies and the Central Government Annual Report, areas of which the ESV has a profound knowledge.

6.1 Structure

When comparing the statements of financial position it should be noted that Sweden, through the Statistics Sweden, has not prepared full statements of financial position or full computations of assets during the last 15 years. Instead, the Ministry of Finance has compiled calculations of all assets and of the net equity according to the rules of National Accounts. At present Statistics Sweden is however of the opinion that the ESA set of rules makes greater demands to prepare full statements of financial position, but that it will take quite a long time to complete such a work. Calculations of financial assets and liabilities have been published by Statistics Sweden on a current basis during the period. As no complete statements of financial position have been published, the comparison is based on the structure of classification of the publication ESA 1995.

There are close points of similarity between the ESA and Central Government Annual Report. They both have an asset side and a liability side. The difference

between the two sides is constituted by the net assets/net worth. This analysis focuses essentially on the asset side, but the liability side of the ESA merely mirrors the asset side as all financial asset is corresponded by a liability in another sector and vice versa.

At the first level of classification of assets the ESA separates between non-financial and financial assets.

Non-financial assets are separated in produced assets and non-produced assets. The produced assets primarily consist of so called fixed assets as buildings, structures and machinery and equipment, but also intangible fixed assets, i.e. a classification of many similarities to the one of Central Government Annual Report of tangible and non-tangible fixed assets. The non-produced assets of the government primarily consist of land, but there are also other natural resources and also certain intangible non-produced assets. Inventories are classified by ESA as produced assets, but are not fixed assets.

The financial assets according to ESA are primarily securities, including shares, loans and credits and advances, all of which are corresponded by items in the statement of financial position of the Central Government Annual Report, but in another order and partly termed differently.

The table below contains an overall comparison between the structure of assets according to National Accounts and to the one of Central Government Annual Report. This will be described in further detail in the following account of the different types of assets. The information is based on the primary classification. Exceptions are linked to the more detailed National Accounts set of rules.

Term in the CENTRAL GOVERNMENT ANNUAL REPORT	Term in the National Accounts	Comment
Intangible fixed assets	Non-financial/Produced/ Fixed/ Intangible and Non-produced respectively/ Intangible assets	Different principles for data collection, valuation and depreciations
Tangible fixed assets	Non-financial	Different principles for valuation and depreciations
Government Roads and Railways	Produced/Fixed/Tangible/ Buildings and structures	

Buildings, land and other real estate.	Produced/Fixed/Tangible/Other buildings and structures respectively. Non-produced/Tangible/ Land	Land is classified separately as non-produced assets in National Accounts
Expenses for improvement on other people's property	Part of Produced/Tangible	
Plant and equipment.	Mainly produced...structures	
Constructions in progress	Mainly produced...structures	
Emergency assets, Military equipment	(Not included in the National Accounts at present)	Will be introduced in National Accounts according to ESA 2010
Advances concerning tangible fixed assets	Financial/Other accounts receivable and payable/Trade credits and advances	
Financial fixed assets	Financial assets	
Shares in wholly and partly owned companies	Shares and other securities/Quoted and non-quoted shares respectively	Different principles of valuation and large difference in value of listed shares
Holding of other long term securities	Several separate items (primarily loans and securities other than shares and shares of funds).	Different valuation principles
Long term receivables	Primarily loans	
Loans	Financial/Loans/Long term loans	Different valuation principles
Inventories etc.	Inventories/Materials and supplies, work in progress and goods for resale respectively.	
Receivables	Financial assets	Different valuation principles
Accounts receivable	Other accounts receivable and payable/Trade credits and advances	For the most part not included in the NA at present for practical reasons, but will probably be introduced during 2013

Other receivables	Other accounts receivable and payable/Other accounts receivable and payable	For the most part not included in the NA at present for practical reasons, but will probably be introduced during 2013.
Cut-off items	Financial assets	
Prepaid expenses	Other accounts receivable and payable/Other accounts receivable and payable (Only partly included in NA)	Items linked to primarily transfers and salaries are not included in NA
Accrued revenues of contributions	(Not included in the NA)	
Other accrued revenues	Other accounts receivable and payable/Other accounts receivable and payable (Only partly included in NA)	Items linked to primarily transfers and salaries are not included in NA
Short term investments	Financial assets/Securities other than shares/Short term securities and Financial derivatives respectively, Short term loans respectively, Shares and other securities respectively/Quoted and Non-quoted shares respectively and Shares of funds respectively	Different valuation principles
Cash and bank	Financial assets/Currency and deposits/Transferable deposits	

Assessment

The structure as such is no obstacle for the adjustment to the National Accounts of the principles of the account of assets. It is hardly advisable to present a statement of financial position in the same format as the National Accounts structure in the Central Government Annual Report, as this would be perceived as alien by almost all users, accustomed to a corporate balance sheet, but the principles of recognition and measurement of items could be adjusted regardless of this. The order and the terms only would then differ.

There is however a general drawback to account assets but not liabilities in National Accounts terms. The net assets constitute the difference between assets and liabilities, which would not then be measured in a uniform way. To measure the assets or the whole statement of financial position in National Accounts terms, but not the statement of financial performance, would lead to the balance of the

statement of financial performance not to correspond with the changes of net assets of the year, the most important indicative item. The overall assessment is that it would be inexpedient to account only parts of or the whole of the statement of financial position in National Accounts terms.

6.2 What to recognize, how to measure and value

The ESV has not found any important differences on what to recognize. An overall assessment leads to the conclusion that the principles are similar. In some areas in the process of development there might still be certain unclear points, as regarding emission permits or allocation of radio frequencies, and there might also be need for clarification also on a more detailed level regarding traditional items. So even if there might be certain differences regarding what assets to recognize, the ESV has not analysed this matter further, but focused the review on differences and similarities regarding measurement, valuation and data capture. The following comparison is made in conformity with the present structure of the statement of financial position of Central Government Annual Report according to the Budget Act.

In general the market prices or the replacement cost is applied in the National Accounts, but this is described in further detail in the description to follow. In the Central Government Annual Report acquisition values or in certain cases fair value is applied.

Intangible and tangible fixed assets

Intangible fixed assets in Central Government Annual Report are primarily produced and acquired computer software. In monetary terms the principal tangible assets are Roads and railroads and Military equipment assets in the defence sector. In terms of number of agencies concerned the most frequent types of assets are structures, land, machinery and equipment and work in progress

These different types of assets correspond in the National Accounts mainly to so called fixed assets, which belong to produced assets. Land, certain natural resources and certain intangible non-produced assets are however not included in this category.

The fixed tangible assets in the National Accounts are investments used for productive purposes and from which economic benefits may be derived. There are no relatively substantial amounts established, as in the accounts of the agencies or in the Central Government Annual Report, serving as limit for the recognition, but according to applied practice any assets having a life time of over one year and having a value exceeding €500 in 1995 money value are recognized as fixed assets. To identify such equipment a separate reporting code has been introduced in the

central government for operating equipment, including smaller office equipment and computers and most furniture.

For all these assets the practice applies that the replacement cost with deduction for depreciation should be accounted for in the National Accounts. The principles for what should be included in the replacement cost of the investment seem to resemble what applies in the Central Government Annual Report, as costs for transport and installation etc. should be included in the investment value while maintenance is not included. If a measure does not change the life time of the asset it should in principle be seen as maintenance. The cost of settlement should be included in certain cases.

The replacement cost is in practice calculated by using different indices with regard to what line of business is concerned. Also in the government sector different price indices are being applied, avoiding the same factor for indexation being used for buildings and structures, machinery in industrial operations or in road investments. The depreciation is established according to assumed mean life time for assets of a certain type or of a certain industry. This means that the time of depreciation varies also in the government sector with regard to type of asset and field of application.

It should thus be noted that the calculated replacement costs as well as the depreciation are based on indices, assumptions and simplified methods.

Military weapons of destruction, being a large item in the Central Government Annual Report, are not recognized as assets in the National Accounts. According to the new set of rules to be applied latest during 2014, they will however be included in the assets. With that the difference on this point will diminish. The change will be made retroactively and will possibly be made somewhat earlier than required. A preliminary assessment is that it will be relatively easy to establish the value to be used, as the amount of investment is separately accounted for already presently as expense for “durable goods of the defence sector” in the ESV basis for the National Accounts. Subsequently the indices and other templates, used for recalculation of replacement value and depreciation, may be used at the discretion of Statistics Sweden.

For non-tangible assets a problem arises due to the approach of Statistics Sweden to recognize computer soft-ware as non-tangible assets, which is not always done by the agencies. Therefore Statistics Sweden applies special models treating a part of the agency operating costs as development of software, which is recognized as investment which is then recalculated to replacement cost with an index mainly based on payroll expenses. The method leads to the assets of National Accounts on this point losing the direct link with the agency reporting.

Doubtful to introduce National Accounts accounting on agency level

It is difficult to imagine that the agencies would be able to introduce National Accounts principles for tangible and non-tangible fixed assets during the foreseeable future. Perhaps it would be theoretically thinkable, but it would require extensive analytical and change-over work and would risk having detrimental effects.

The matter should be separated, firstly into how to identify the assets for recognition in the statement of financial position, and secondly how to treat the depreciations and what effects this would have.

For the agencies to be able to recognize the assets in the statement of financial position according to the principles of National Accounts the first requirement is that Statistics Sweden compiles clear criteria, indices and depreciation times for different types of assets and various agencies. This must then be redrafted as accounting standards and rules of reporting, all of which should then be conveyed to the agencies. It should be observed that the rules for the agencies in such a case would deviate considerably from what is taught in business schools of accounting and from what is applied in companies and other organizations. This applies e.g. limits of amount for asset accounting, depreciation times and standard transfers between cost items. It would therefore be difficult to communicate with the financial staff of the agencies. An introduction of National Accounts based accounting would not either support the internal management and control of the agencies or their performance reporting to the Government of the result of their operations. For such purposes it is not reasonable to apply other criteria for assets than the ones normally applied in investment calculations and other methods in business administration. The opinion of the ESV is therefore that such an adaptation is not appropriate.

Thereafter the matter of how the depreciations should be treated comes. If the tangible assets are measured at replacement cost, the depreciations must be made on the basis of the replacement cost, so that the value of the asset diminishes with the depreciation. In the National Accounts the depreciations are re-entered in the calculation of the net lending/borrowing, resulting in the balance of the period not being affected. The statement of financial performance cannot be treated in such a way without it getting quite another signification than normally is attributed to the concept of statement of financial performance. Instead the depreciations based on replacement cost constitute costs of the agency, that would increase over time and the appropriation would need to be increased for depreciations of old investments, regardless if any new ones are made. The alternative would be some kind of two dimensional method of depreciation, separating depreciations based on acquisition

value from the ones based on revaluation, and only the one based on acquisition value would be financed by appropriations. The method described above cannot however be regarded as anything else than excessively circumstantial, and therefore highly inadequate. Differences in depreciation periods would constitute a further complicating factor.

National Accounts accounting in Central Government Annual Report only would also involve problems

If, as a consequence of the above, the idea is excluded of having the agencies report the fixed assets in National Accounts structure, the question should be asked whether it would be suitable to apply other values than the ones of the agencies in the Central Government Annual Report. That is possible in theory. The investments are at present reported on a current basis by all agencies and are entered into the system of Statistics Sweden, after which they are recalculated to replacement value after some kind of grouping.

It would be conceivable to simply transfer the assets recorded in the capital stocks of the statement of financial position of Central Government Annual Report. Probably this is what the ESV intends to do on short or medium term in order to comply with the government assignment on Government Financial Accounts, in which it is also stated that the ESV should prepare “a complete statement of financial position for the Government” (in National Accounts terms), which should imply a statement of financial position also including non -financial assets. After having transferred the estimated assets of National Accounts, accordingly recalculated to replacement value, depreciations could be calculated on the basis of these values. The costs would then be higher than today and the net worth/net assets lower as it would not be reasonable to re-enter the depreciations into the statement of financial performance of the Central Government Annual Report either, as this would give the concept of statement of financial performance another signification than in common parlance.

This would however result in the negative consequence that the asset values as well as certain costs in the statement of financial performance would lack close linkage to the agency accounts.

The statements of the financial performance and position are based on the principle that the statements of financial performance and position of the agencies are the ones that are being consolidated. Notes and specifications, the whole underlying process of quality assurance, are based on the assumption that reconciliation can be made of the financial reports established by the agencies and the actual adjustments that have been made in relation to the final documents. There are indeed exceptions, and

therefore alternatives for individual items are not principally inconceivable. The major exception concerns the accounting of taxes, where the accounted revenue is estimated on the basis of both actual outcome and forecasts of assessed and paid amounts. This is a very complex routine, having the advantage of giving a more correct accrued estimated revenue, but which at the same time leads to a number of reconciliation problems and pedagogical challenges when it comes to method and control. It is still a matter of one item of revenue only, with one corresponding item in the statement of financial position.

If the assets would be accounted according to the principles of National Accounts the major part of the asset side of the statement of financial position would be based on other underlying information than the accounts of the agencies. The statement of financial performance would also be hugely affected, as depreciations would be calculated differently, and certain costs would be extracted to be transferred to investments in primarily computer software. The degree of complexity makes nothing to talk in favour of this alternative. It would also produce such a substantial difference to a proper consolidation of the established statements of financial position of the agencies, that there would no longer be a consolidated statement of financial position. It would rather be a Central Government Annual Report based on the National Accounts, with a pure macro perspective, which would be something quite different from consolidated statements of financial performance and position, having today primarily business and control perspectives. For these reasons this alternative should be rejected.

A possible way of overcoming parts of the problems would be to account for the difference in depreciations in the statement of financial position only or as some kind of comprehensive income being a form of supplement to the net income of the statement of financial performance. The comprehensive income is used for certain revaluations according to the IFRS standards but is not described in the IPSAS being the international accounting standard for the public sector. This would however not solve any of the two imminent problems; number one that the statement of financial position is not the total of the accounts of the agencies, or number two that some computer costs are transferred to investment in computer software on the basis of models in the National Accounts which would cause the same kind of difference also for the statement of financial performance. The method of comprehensive income is furthermore not adequate at present, as it is not described in the IPSAS and furthermore does not seem to be needed in the government sector.

Other non-financial assets

In addition to the fixed assets in the National Accounts also inventories and valuables are recognized. Furthermore there are non-produced assets.

Inventories appear to have the same meaning as inventories in the Central Government Annual Report. It is a small item in the Central Government Annual Report, when disregarding the stock-pile of the defence sector, which are accounted for separately. The basic definitions are apparently similar. The assets should be re-valued to replacement value, which represents a difference, but probably negligibly. In the long run it would be possible to consider the application of replacement cost for inventories in the regular accounting of the agencies, as a number of various methods of inventory valuation are referred to in the textbooks of business administration. The ESV has not however analysed this matter in closer detail, as it is not deemed being particularly significant.

Valuables are items like gold, antiques and art objects. It is a very small item of the government in the National Accounts and it is to be assumed that for several reasons there are differences in relation to the accounting of the agencies, to the extent that it has been estimated there at all. It should be re-valued to market value (replacement value), while the assets in the agency accounting are recognized at acquisition value or probably not at all in many cases. With regard to the limited significance of the item, the ESV has not analysed it in closer detail.

Non-produced assets are primarily land, which is also recognized in the Central Government Annual Report provided that it has a booked value. In addition there are also some other natural resources and certain intangible assets not constituted by computer soft-ware, as i.a. patented entities. These items are of negligible proportions in the government.

Financial assets

The financial assets of the National Accounts – with the definition of what is included in the financial accounts – correspond in the Central Government Annual Report partly to financial fixed assets and lending, partly to receivables (originally having a lifetime shorter than one year) and cut-off items, partly by short-term investments and liquid assets.

Bonds, shares and other securities

Current prices are applied for financial fixed assets in the National Accounts. This differs from Central Government Annual Report, where the acquisition value is applied for several items and where the share of the holding of equity is applied for the main part of the government shares (shares in wholly and partly owned companies, previously called subsidiaries and associates). It would in principle be possible to apply current prices for such assets like bonds and various other

securities. This possibility is offered by IPSAS; it is applied by many companies and it is being used by the Swedish Pensions Agency in accounting bonds. A deeper analysis would however be required on the relevance of a general application of current prices in the valuation of financial instruments (the proposals in section 4 concern such financial instruments only that are held for the purpose of generating yield or increase in value). For short term investments in bonds or shares, the agencies apply the lowest of acquisition and fair value, which in most cases is equivalent to acquisition value. With that the complex of problems remains, but the item is usually small in Central Government Annual Report.

The difference is not as significant as could at first be assumed, as the major part of the government shares are shares in non-quoted companies. In such cases the National Accounts applies the same method as in the government accounting as there is no known current value. This implies the recognition of the government's share of equity according to the equity method, one of several generally accepted methods for the consolidation of companies. In principle the current value is however applied if known. The method of National Accounts will probably be changed as the Eurostat recommends unquoted shares to be valued in the same relation to equity as quoted shares. The ESV has not yet been able to assess how this would change the value. Quoted shares should be valued at current value in the National Accounts, which differs from the share of equity valuation applied in the Central Government Annual Report.

As long as current value has not been introduced in the accounting of the agencies, the problem remains with inaccurate correspondence between the consolidation of the agencies and the statement of financial position of Central Government Annual Report, as is the case for tangible and non-tangible fixed assets.

Loans

Government loans (broadly corresponding to Loans in the National Accounts) consists primarily of Student Loans etc. of the Swedish National Board of Student Aid and to a lesser extent (about 10%) of loans by the Swedish National Debt Office to government companies and similar operations. The loans to government agencies are large, but are eliminated in Central Government Annual Report as well as in National Accounts. In addition to this, the Swedish National Debt Office has engaged in re-lending during the last two years to the Central Bank of Sweden and to Iceland with close to further SEK 100 billion, implying that the loans of the Swedish National Board of Student Aid at present corresponds to a little less than 60% of the total loans to other than government agencies.

There is no current value valuation of the National Accounts loans, and in practice the nominal value is applied, leading to substantial deviations from the valuations in the accounting of the agencies. The loans of the Swedish National Board of Student Aid amounting to SEK 191 billion is depreciated by SEK 28 billion due to estimated losses on the account of inability to pay and similar reasons. Also the loans of the Swedish National Debt Office to companies are affected by depreciations of loans outstanding due to bad debts. In the National Accounts the full nominal value is however recognized, implying that loans outstanding are not valued at current value due to the assumption that the receivables and debts of the different sectors by definition should equal each other. This means that if a receivable is depreciated, a corresponding debt, in this case of the households and the companies, must be depreciated by the same amount. In such a case the National Accounts applies the debtor's principle, which means that the receivable and corresponding debt should be valued to the amount declared by the debtor. This implies that the receivables are about SEK 28 billion higher in the NA than in the Central Government Annual Report, as the ones liable to repay are legally in arrears for the higher amount. The same applies to depreciated receivables in the lending operations of the National Debt Office, due to bad debts on the account of the companies concerned.

It is of course possible to appreciate the receivables account in the Central Government Annual Report to make it equal to the National Accounts. This would however be in conflict with the quite basic accounting principle requiring receivables to be recognized to the amount expected to be paid in. It would also be contrary to the principle of valuation of receivables according to IPSAS as to other fundamental frame works of similar type. Seen in the light of basis for controlling the operations it must be considered inappropriate not to value receivables to facilitate for the lending entity to take measures to get the whole amount paid in or to lend money only to borrowers who are expected to be able to repay the loans. This would de facto be the consequence if losses would not affect the financial result until they are established. It is thus obvious that two different conclusions can be drawn from on the one hand the National Accounts perspective to describe the economy in macro-terms, and on the other hand the financial accounting perspective focusing on the control and management of the operations. In the case of student loans there is of course an important aspect of social support, which makes it reasonable to expect a loss, and public interests would also be relevant for lending to infra-structure. But still this cannot be enough to justify a general accounting principle that does not support the perspective of control and management in the way that is expected from the financial accounting. Not to consider possible losses would furthermore be contrary to requirement of the Budget Act for lending operations to provide means for bad debts. The concluding assessment is that it is not suitable to apply National Accounts principles for valuation of loans in the Central Government Annual Report.

Receivables and cut-off items

In the Central Government Annual Reports the receivables and cut-off items include Long term receivables, Advances for tangible and non-tangible fixed assets respectively, Accounts receivable, and Other receivables and under the headline Cut-off Items, Prepaid expenses, Accrued Contributions and Other Accrued Revenues. In National Accounts this corresponds to Other Accounts receivable and payable and thereunder Trade credits and advances and Other Accounts receivable and payable (excluding trade credits and advances). The item Long term receivables may be of the kind that it should not be recognized at all in the National Accounts, or be classified among Loans. The amounts of that item are however not very large and have not been analysed further in this context.

For practical reasons the items of National Accounts indicated are not included in the statement of financial position of Central Government Annual Report. Accrued Allowances and parts of other receivables concerning tax collection and transfer payments (and possibly salary costs), are not recognized in the National Accounts as the revenues and in certain cases reclaimed payments related to the receivables are accounted for on a cash basis in the National Accounts. This is done due to practical reasons, as the application in the National Accounts is cash based in order to make possible reconciliations for the whole economy. In principle the National Accounts is based on accrual accounting principles. But still this would imply that certain receivables would not be recognised if the National Accounts principles were applied for assets in the Central Government Annual Report.

Receivables concerning taxes are based on National Accounts models, related to the model for estimating tax revenues, in a way that at least in principle and essentially is the same in the National Accounts, the statement of financial position in the Central Government Annual Report and in the Government budget. This means that the receivables of the accounting of the agencies concerned differ from the general principle to account for the sum of the agency receivables in Central Government Annual Report, but this has already been applied for the last six years for this very item. In principle the same receivables would appear in Central Government Annual Report and National Accounts already today, but the application differs on some points and there are technical details that are not yet analysed. The intentional difference in the application is that the National Accounts recognizes receivables in the region of SEK 100 billion, corresponding to roughly one month of tax revenues. This effect is a result of the companies completing a tax return only one month after the period of accrual (in certain cases two or three months). This receivable has never been recognized in the Central Government Annual Report, but there is quite a sound

justification for classifying it as Accrued Revenue. In comparison with the "statement of financial position" published by the Government in the supplementary financial proposition during spring time, it should be observed that this tax receivable is not included there. In that document accrued and prepaid items have not been included as they are not regarded as important. However there are also other deviations in this document to the official financial accounts of the Central Government.

Practically these auxiliary items have not hitherto been complete in the financial accounts of Statistics Sweden. This applies generally and is not an inaccuracy but an active choice based on the assumption that it does not have any vital effect on the published net lending/borrowing, but would have required substantial resources to collect supporting information. Now when focus on international comparisons has increased in connection with the EU Excessive Deficit Procedures (EDP) a change is justified. The fact that the ESV has been commissioned to prepare supporting documentation for the financial accounts in the National Accounts in a similar way as for the non-financial accounts, is in line with this development. During 2012 the ESV prepares quarterly reviews on a trial basis in this area and from 2013 the ESV is responsible for preparing, for the government sector, a complete documentation also for the financial accounts. The principal overall responsibility for the National Accounts however remains with Statistics Sweden.

The work of ESV is expected to result in the items of Other accounts receivable and payable being developed into complete items in the financial accounts. In some years' time this would enable the Ministry of Finance to use them in its calculation of Government Equity in order to acquire consistency between different publications.

Differences will remain between these auxiliary items in the National Accounts and Central Government Annual Report. Firstly parts of the items are not recognized, as indicated above. Secondly there are in practice differences of valuation for receivables that are not classified as loans, but that are applied for loans. The items Accounts receivable and Other receivables are depreciated by the agencies if certain receivables are expected not to be paid in. The definition of credits and loans is not exactly identical in the National Accounts as in the accounting of agencies and in the Central Government Annual Report, but the differences have not been analysed in detail here.

As for loans, some trade credits and other credits are valued higher in the NA than in Central Government Annual Report. If the valuation of Central Government Annual Report would be adjusted to the one of National Accounts, an alternative would be for the agencies to recognise receivables that are not expected to be paid in into the

statement of financial position, which would be contrary to all accounting frameworks and to everything taught in schools of business administration. It would also give wrong indications to the operational management, as the revenues and assets would be valued at a value higher than actual, which would risk deceiving the management to apply a relaxed attitude and even diminish the incentive to demand the payment of the debts. It is therefore unsuitable.

Another possibility to adjust the valuation to the National Accounts, would be to separate the receivables actually recognized in the Central Government Annual Report from the consolidated values of the annual accounts of the agencies and use the values recognized in the National Accounts instead. This is unsuitable by the same reasons as indicated above.

The concluding assessment on receivables and cut-off items is thus that an adjustment of the accounting of Central Government Annual Report to National Accounts is definitely unsuitable. Certain receivables would be valued at a higher value than is expected to be paid in, certain receivables would be omitted due to the fact that they are not recognized in the National Accounts for reasons of simplification, and depending on the structure there would be a risk of losing the direct link to the consolidated annual accounts of the agencies.

6.3 Differences in definitions

Differences in the definition of the central government sector are a further factor explaining differences in the estimate of government equity. All agencies are included in the Central Government Annual Report, with exceptions that are established in or in connection with the Budget Act (The Central Bank of Sweden, The General Pension Funds, and the Premium Pension Funds). The National Accounts include the entities belonging to the government according to set of rules of National Accounts. The most important differences are that the public utilities are included in the corporate sector in the National Accounts and that the Swedish Pensions Agency is included in the social security sector, in spite of the fact that they in judicial terms are agencies under the Government. The ESV sees no possibility to change this without having the Budget Act changed, and has no proposal for change in this respect. It may however be observed that for this reason it is not possible to establish in the short run the same equity in the Government statement of financial position in National Accounts and in Central Government Annual Report. It is furthermore the opinion of ESV that it is not advisable to accomplish a change implying that the assets of certain agencies under the Government (public utilities and Swedish Pension Agency) would be omitted in the Central Government Annual Report.

6.4 Perspectives of management and macro considerations

The National Accounts is a method for describing the national economy as a whole for macro-economic analysis and for comparison between countries. The financial accounting in the statements of financial performance and position of agencies and in Central Government Annual Report is a way of describing the Government finances in business terms, from a perspective of controlling the operations and exacting accountability of the management of the operations. The two perspectives are similar on several points, as e.g. the main rule that expenses and revenues are recognized in the period of consumption or earning, which is called *accrual principles*. On the other hand, some points are not similar, as e.g. the definition of the accounting entity, the valuation of several items and concerning revaluations of prior years. The opinion of the ESV is that both methods do have a substantial value that they are completing, rather than supplementing, each other and that both methods should exist beside each other. It is however important to demonstrate, explain and also specify the differences.

6.5 ESV's assignment on financial accounting

There is an interest that the different published calculations of the government equity are coherent. In the financial proposition the Government publishes annually in spring time a calculation of the Government equity in National Accounts terms. The proposition is based on information from the National Accounts, but also on other information and its own calculations as Statistics Sweden has not published any statement of Government equity since the first half of the 1990-ies. The one who wants to compare the information encounters many difficulties. The information of the proposition does not contain receivables and payables (accruals and deferrals), including i.a. tax receivables amounting to roughly SEK 100 billion. The pension liabilities to the government employees have been added in comparison with the National Accounts. The pension liabilities are not included in the National Accounts, but Statistics Sweden intends to include it in connection with revisions of the time series according to the new set of ESA rules 2014. Furthermore the amounts for the government and the municipalities are not indicated separately, but only the net equity is separated between the different parts of the public sector. Finally the amounts are indicated in percentages of the GDP and not in SEK (millions) as in the Central Government Annual Report. The one who wants to compare the different pieces of information therefore requires access to non-published supporting documentation from the Ministry of Finance.

Such documentation has been used to prepare a special table of comparison in the Central Government Annual Report during the last years. In that table differences in the equity allocated to specific items. It may be observed that of the difference (for

2010) totalling SEK 600 billion, the valuation of tangible and non-tangible fixed assets account for about half or slightly more than SEK 300 billion, the valuation of shares for nearly SEK 100 billion, differences in definitions of central government for about SEK 100 billion and incompleteness in the calculation according to National Accounts principles for a further SEK 200 billion. The item emergency assets works in the opposite direction with nearly SEK 100 billion being deducted from the equity according to the National Accounts principles. In this context should also be noted that the fact that tax receivables and pension liabilities deviate from actual National Accounts data affects the equity negatively by about SEK 250 billion. The comparisons are thus complex and there are also points in this summary that may give rise to ambiguity.

In connection with the end of 2012 the ESV will prepare a total complete statement of financial position for the Government. During 2012 the preparation on trial basis is performed for financial accounting of the Government and the financial accounts then need to be completed by so called capital stocks of Statistics Sweden and account of the employment pension liabilities which have hitherto not been included in the financial accounts for different reasons. This implies that after the end of 2012 a statement should be available, which furthermore does not suffer from an extensive lagging behind. During the first year an uncertainty to a not inconsiderable extent may be expected regarding the estimation.

In the priority between a reconciliation according to the National Accounts principles and the statement of financial position in the Central Government Annual Report, priority should henceforth be given to the estimate of ESV. It will at least after the end of 2013 be available in the beginning of the year (by the middle of March), reflecting the previous year, being possible to reconcile with the agencies documentation the agencies and from 2013 wholly or predominantly be in conformity with the published information of National Accounts. As differences in the definitions of the government is expected to result in a difference of the equity of SEK 100-200 billions, it is difficult to justify a change of the accounting rules of the central Government Accounting Report in the light of this reconciliation. An explanation must still be given of these differences. In view of the difficulties with a possible introduction of National Accounts principles in the accounting, discussed above, the opinion of ESV is that a reconciliation between the supporting documentation prepared by ESV and the asset accounting of Central Government Annual Report provides the best comparison.

7 Specific consequences of the proposals or a far-reaching adaptation

The assignment of ESV includes the overall assessment of the budgetary consequences of the proposals presented on complements of the Government set of rules and also to assess what consequences the proposed changes may have on the budget balance or the objectives of the financial policy and how such an adjustment deviate from the principles applied in the National Accounts.

The proposals of ESV do not affect the presentation of the Government budget or the calculation of the budget balance. In general the IPSAS or other possible frameworks do not contain any standards that affect the design of the Government budget, but the budget may be cash based or more or less adjusted to accrual accounting and presented in various ways.

The ESV does however observe that if a rule were introduced on valuation of tangible and non-tangible fixed assets at replacement cost, this could affect the budget. Such an application exists as an alternative in IPSAS and is discussed within EU and would be the consequence of an adjustment of the asset accounting to the National Accounts. As the depreciation would then need to be based on a higher value than the acquisition value, the requirement of appropriations, the expenditure ceiling and the cash correction item might be affected, while the budget balance is assumed to remain cash based also henceforth. What kind of effect would emerge would however depend on the structure of the application and it emerges primarily if the change will be made at agency level and not only in Central Government Annual Report. If the rules are changed making the agencies to classify assets of a usage period of between one and three years as fixed assets, it may affect the need of loans in the Swedish National Debt Office and also change the need of appropriations over time. The ESV envisages a relatively insignificant effect.

The proposals of ESV are not of such magnitude that the costs will be marked and the budget be affected in that sense. With a possible full introduction of IPSAS the assessment of ESV is however that the costs would be comparably extensive. Additional resources would be required both at ESV and the Ministry of Finance, and probably also at the agencies. It is however not possible to estimate the extent of these costs, as it depends on the time frames, if all rules should be applied in all details and on other circumstances.

There are no standards on how the fulfilment of objectives for the financial policy should be presented and ESV does not propose any changes of the methods of

monitoring that exist today. Also in other respects there are no consequences for the objectives of the financial policy.

ESV proposes a relatively limited adjustment to international standards. ESV does not propose the asset accounting to be adjusted to the applied principles of National Accounts. Therefore the proposals of ESV lead to the same deviation of the accounting from the National Accounts in all essentials in the same way as today. However the possibilities of reconciling and comparing the value of the assets and the net equity between the National Accounts and Central Government Annual Report should be improved with the introduction of financial accounts based on the current reporting of the government agencies. That does not however follow from changes proposed in this report.

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Persons met

Michael Wolf, Marcus Otterström och Mattias Björling, Statistics Sweden

Per-Ola Carlén, Chief Registrar, National Government Employee Pensions Board

Members of the ESV Accounting Council

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IPSAS 1	Presentation of Financial Statements
IPSAS 2	Cash Flow Statements
IPSAS 3	Accounting Policies, Changes in Accounting Estimates and Errors
IPSAS 4	The Effects of Changes in Foreign Exchange Rates
IPSAS 5	Borrowing Costs
IPSAS 6	Consolidated and Separate Financial Statements
IPSAS 7	Investments in Associates
IPSAS 8	Interests in Joint Ventures
IPSAS 9	Revenue from Exchange Transactions
IPSAS 10	Financial Reporting in Hyperinflationary Economies
IPSAS 11	Construction Contracts
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IPSAS 15	Replaced by IPSAS 28, 29, 30
IPSAS 16	Investment Property
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IPSAS 23	Revenue from Non-Exchange Transactions (Taxes and Transfers)
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IPSAS 30	Financial Instruments: Disclosures
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