

Adoption of Sri Lanka Public Sector Accounting Standards (SLPSAS)

Importance of Public Sector Accounting Standards

- Promotes high quality financial statements
- Facilitate sound financial management
- Reflects fair view of financial performance and positions
- Promote better decisions
- Provide information about the affairs of the government
- Financial reporting system to achieve uniformity and comparability
- Promote transparency, accountability and good governance
- Clear presentation of assets and liabilities
- Encourage International best practice
- Promote excellence in financial reporting

Public Sector Accounting Standards Committee of CA Sri Lanka has formulated and adopted the following 10 Sri Lanka Public Sector Accounting Standards based on the International Public Sector Accounting Standards(IPSAS).

- SLPSAS 1-Presentation of Financial Statements (IPSAS-1)
- SLPSAS 2-Cash Flow Statements (IPSAS-2)
- SLPSAS 3-Accounting Policies, Changes in Accounting Estimates & Errors (IPSAS-3)
- SLPSAS 4-Borrowing Costs (IPSAS-5)
- SLPSAS-5 The Effects of Changes in Foreign Exchange Rates (IPSAS-4)
- SLPSAS-6 Events After The Reporting Date (IPSAS-14)
- SLPSAS-7 Property, Plant & Equipment (IPSAS-17)
- SLPSAS-8 Provisions, Contingent Liabilities and Contingent Assets (IPSAS-19)
- SLPSAS-9 Inventories (IPSAS-12)
- SLPSAS-10 Revenue from Exchange Transactions (IPSAS-9)

Further 10 Standards Identified for Adoption

- SLPSAS 11 -Revenue from non-exchange Transactions (IPSAS-23)
- SLPSAS 12 -Leases (IPSAS 13)
- SLPSAS 13 - Investment Property (IPSAS 16)
- SLPSAS 14 - Related Party Disclosures (IPSAS 20)
- SLPSAS 15 - Presentation of Budget Information in Financial Statements (IPSAS 24)
- SLPSAS 16 - Construction Contracts (IPSAS 11)
- SLPSAS 17 - Segmental Reporting (IPSAS 18)
- SLPSAS 18 -Disclosure of Information about the General Government Sector(IPSAS 22)
- SLPSAS 19 - Employee Benefits (IPSAS 25)
- SLPSAS 20 - Intangible Assets (IPSAS 31)

Scope and Authority of Sri Lanka Public Sector Accounting Standards (SLPSAS)

- SLPSAS is applicable to accrual system of accounting
- It sets out recognition, measurement, presentation and disclosure requirements of transactions and events in general purpose financial statements
- General purpose financial statements are issued for users who are unable to demand financial information to meet their specific information needs
- The standards do not apply to government business entities
- SLPSAS not meant for immaterial items
- All paragraphs in SLPSAS have equal authority
- Standard should be read in the context of the objectives and basis of conclusion along with preface
- Use of SLPSAS in the preparation of Special Purpose Financial Statements where appropriate is encouraged

Applicability of SLPSAS

- Since the accounts of Central Government and Provincial Councils are on cash basis, SLPSAS cannot be made applicable immediately.
- Commercial public enterprises adopt SLASs in terms of the Accounting and Auditing Standard Act No. 15 of 1995.
- Provincial Councils also move in the same direction.
- These standards could initially be made applicable to non-commercial public enterprises and local authorities which are already on accrual basis.
- Central Government and Provincial Councils could apply them, once they migrate to accrual system.
- It was therefore decided to introduce these standards initially to the statutory boards and local authorities for implementation.

Presentation of Financial Statements - (SLPSAS 1)

Objective

Is to prescribe the manner, in which General Purpose Financial Statements (GPFS) should be presented to ensure comparability.

- Both with the entity's financial statements of previous periods and
- With the financial statements of other entities.

General Purpose Financial Statements (GPFS)

- GPFS prepared and presented under the accrual and in compliance with SLPSASs.(Para.02)
- GPFS are intended to meet the need of the users who are not having to demand particular information (e.g. tax payers and rate payers, members of the legislature, creditors, media and employees). (Para.03)
- Could be presented separately or within another public document (Annual Report). (Para.03)
- Does not apply to interim financial statements. (Para.03)

- Applicable for all public sector entities except Government Business Enterprises (GBEs). (Para.05)

Scope

- This standard shall be applied to all general purpose financial statements prepared and presented under the accrual basis of accounting in compliance with SLPSAS. (Para.02)
- This standard applies to all public sector entities other than GBEs. (Para.05)

Government Business Enterprises (GBEs) (Para.07)

- Is an entity which having power to contract in its own name ;
- Having the financial and operational authority to carry on a business;
- Sells goods and services, in the normal course of its business, to other entities at a profit or l cost.
- Having Is not reliant on continuing government funding to be a going concern (other than purchases of outputs at arm’s length); and
- Is controlled by a public sector entity.

Accrual

Accrual basis means a basis of accounting under which transactions and other events are recognized when they occur (and not only when cash or its equivalent is received or paid). (Para.07)

Elements recognized under Accrual Accounting

- Assets
- Liabilities
- Net Assets
- Revenue
- Expenses

Assets (Para.07)

- Are resources controlled by an entity as a result of past events
- Future economic benefits or service potential are expected to flow to the entity. Ex: Land, Roads, etc.

Liabilities (Para.07)

- Are present obligations of the entity
- Arising from past events,
- The settlement of which is expected to result in an outflow from the entity of resources embodying **economic benefits or service potential**.

Economic Benefits or Service Potential (Para.11)

Assets that are used to deliver goods and services in accordance with an entity's objectives but which do not directly generate net cash inflows, are often described as embodying service potential.

Expenses (Para.07)

Are decreases in economic benefits or service potential during the reporting period in the form of outflows or consumption of assets or incurrences of liabilities result in decreases in net assets/equity, other than those relating to distributions to owners.

Revenue (Para.07)

- Is the gross inflow of economic benefits or service potential during the reporting period
- When those inflows result in an increase in net assets/equity, other than increases relating to contributions from owners.

Purpose of Financial Statements (Para.15)

- Financial reporting in the public sector must provide information useful for decision making, demonstrate accountability, by
 - Providing information about the sources, allocation and uses of financial resources
 - Providing information about how the entity financed its activities and met its cash requirements
 - Providing information that is useful in evaluating the entity's ability to finance its activities and to meet its liabilities and commitments
 - Providing information about the financial condition of the entity and changes in it; and
 - Providing aggregate information useful in evaluating the entity's performance in terms of service costs, efficiency and accomplishments.

Components of FS (Para.21)

- Statement of Financial Position
- Statement of Financial Performance
- Statement of changes in net assets/equity
- Cash flow statement
- Budget comparison (When the entity makes available publicly its approved budget)
- Accounting policies and notes

Notes

Contain information in addition to that presented in the financial statements. Notes provide narrative descriptions or disaggregation of items disclosed in those statements and information about items that do not qualify for recognition in those statements.

Overall Consideration of Presentation of Financial Statements

- Fair presentation & compliance with SLPSAS
 - Annual financial statements should comply with all the standards of SLPSAS that are issued and effective* (Para.27)
 - Make an explicit and unreserved statement (Para.28)
- Fair presentation override unlikely
- Commercially sensitive information is politically not an excuse for non-disclosure
- Inappropriate accounting treatment is not rectified by disclosure (Para.30)

* *Impracticability*

Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so.

Statement of Compliance

The Financial Statements of the xxxxxx (Name of Entity) been prepared in accordance with the Sri Lanka Accounting Standards (LKAS and SLFRS) and Sri Lanka Public Sector Accounting Standards laid down by the Institute of Chartered Accountants of Sri Lanka and are in compliance with the said standards.

In the extremely rare circumstances in which management concludes that compliance with a requirement in a standard would be so misleading that it would conflict with the objective of financial statements set out in this SLPSAS the **entity shall depart from that requirement, provided that it disclose.**

- That management has concluded that the financial statements fairly present the entity's financial position, financial performance and cash flows;
- That it has complied with applicable SLPSASs, except that it has departed from a particular requirement to achieve a fair presentation;
- The Standard from which the entity has departed,
 - Its title
 - The nature of the departure,
 - The treatment required,
 - The reason why that treatment would be so misleading; and
 - The treatment adopted;
- Impact of the departure on surplus and deficit

Going concern (Para.38)

- When preparing financial statements, management shall make an assessment of an entity's ability to continue as a going concern.
- Significant doubt upon the entity's ability to continue as a going concern, shall be disclosed together with the basis on which the financial statements are prepared and the reason why the entity is not regarded as a going concern.

Going concern – Practical Considerations (Examples)

- If an entity has a poor balance sheet it is an indication of to assess going concern.
- If an entity has prolonged net losses it is an indication of to assess going concerns.
- It is difficult to have a customized list of factors to evaluate Going Concern.

Consistency (Para.42)

- The presentation and classification of items in the financial statements shall be retained from one period to the next.
- Departure possible only if,
 - It is more appropriate
 - SLPSAS requires a change in presentation.

Materiality and Aggregation (Para.45)

- Each material class of similar items shall be presented separately in the financial statements.
- Items of a dissimilar nature or function shall be presented separately unless they are immaterial.

Eg: PPE – How many categories of PPE do you disclose in your note?

Offsetting (Para.48)

Assets and liabilities, and revenue and expenses shall not be offset unless required by a SLPSAS.

Eg: If you have a receivable/payable to the same party it can't be offset and show net balance. It is mandatory to show the each balances separately in the financial position.

Comparative Information (Para.53)

Except when a SLPSAS permits or requires otherwise, comparative information shall be disclosed in respect of the previous period for all amounts reported in the financial statements.

Identification of Financial Statements

- Financial statements to be identified clearly and distinguished from other information (Para.61)
- Display the following information prominently: (Para.63)
 - The name of the reporting entity
 - Whether the f/s cover the individual or the economic entity
 - The reporting date or period covered
 - The presentation currency
 - The level of rounding

Reporting Period (Para.66)

- F/S to be presented per year (i.e. 12 months).
- If presented for shorter or longer period, disclose the following:
 - The reason for longer or shorter period

- The fact that comparative are not entirely comparable

Timeliness (Para.69)

The usefulness of FS is impaired if they are not made available to users within a reasonable period after the reporting date.

Statement of Financial Position (SOFP)

Current/Non-current Distinction (Para.70)

An entity shall present current and non-current assets, and current and non-current liabilities, as separate classifications on the face of its statement of financial position.

Exception

When presentation based on liquidity provides information that is reliable and more relevant.

Current Assets (Para.76)

An asset shall be classified as current when it satisfies any of the following criteria:

- It is expected to be realized in, or is intended for sale or consumption in, the entity's normal operating cycle.
- It is held primarily for the purpose of being traded.
- It is expected to be realized within twelve months after the reporting date'
- It is cash or a cash equivalent

Current Liabilities (Para.80)

A liability shall be classified as a current when it satisfies any of the following criteria:

- It is expected to be settled in the entity's normal operating cycle.
- It is held primarily for the purpose of being traded.
- It is due to be settled within twelve months after the reporting date.
- The entity does not have an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

Minimum Disclosure Requirement on the face of the SOFP (Examples) (Para.80)

- Property, plant and equipment
- Investment property
- Intangible assets
- Financial assets
- Investments accounted for using the equity method
- Inventories
- Recoverable from non-exchange transactions (Taxes)
- Receivables from exchange transactions;
- Cash and cash equivalents;
- Tax and transfers payables;
- Payables under exchange transactions;
- Provisions;
- Financial liabilities
- Minority interest, presented within net assets/equity; and
- Net assets/equity attributable to owners of the controlling entity.

Additional line items, headings and subtotals shall be presented on the face of the SOFP when such presentation is relevant to an understanding of the entity's financial position.
(Para.89)

Capital of a Public Sector Entity (Para.95)

- Contributed Capital
- Accumulated surplus/deficit
- Reserves
- Minority interest

Minimum Disclosure on the face of Statement of Financial Performance (SOFP)
(Para.102)

- Revenue
- Finance cost
- Share of net surpluses or deficit of associates and joint ventures accounted for using the equity method
- Pre tax gain or loss recognized on disposal of assets or settlement of liabilities attributable to discounting operations and
- Surplus or deficit

Disclosure on the face of SOFP or as notes (Para.106-107)

If revenue and expense are material, their nature and amount shall be disclosed, (eg.),

- Write-downs of inventories to net realizable value or of property, plant and equipment to recoverable amount, as well as reversals of such write-downs
- Restructurings of the activities of an entity and reversals of any provisions for the costs of restructuring
- Disposals of items of property, plant and equipment
- Disposals of investments
- Discontinuing operations
- Litigation settlements; and other reversals of provisions.

Statement of Changes in Net Assets/Equity

- Components to be presented on the face of the statement of net assets/equity:
(Para.118)
 - The surplus or deficit for period
 - Revenue and expenses for the period that is required by other standards
 - Revenue and expenses for the period which are attributable to the owners of controlling entity and to minority interest.
 - For each component, the cumulative effects of changes in accounting policy and correction of prior years' errors recognised in accordance with SLPSAS 03.

- Components to be presented either on face or in the notes: (Para.119)
 - The amounts of transactions with owners acting in their capacity
 - Reconciliation of accumulated surplus or deficit
 - Reconciliation of each component of net assets/equity.

Cash flow Statement

SLPSAS 2 sets out requirement for the presentation of the Cash flow statement and related disclosures. (Para 125)

Notes

- Basis of preparation (Para.127a.)
- Additional information relevant to understanding standard (Para.127c.)
- Significant accounting policies - Measurement basis for transactions, assets and liabilities (Para.132)
- The notes should be presented in a systematic manner - Thus note references on the face of the statements should follow sequentially (Para.128)

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Effective Date

Annual financial statements covering periods beginning on or after 01 January 2011.