

ACCOUNTING POLICIES FOR PUBLIC SECTOR CONSOLIDATION

TREASURY
THE REPUBLIC OF MAURITIUS
Version 6- September 2023

Contents

International Public Sector Accounting Standards	1
1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.....	3
1.1. Basis of Reporting	3
(i) Reporting Entity	3
(ii) Reporting Period.....	3
(iii) Authorization Date.....	3
(iv) Basis of Preparation	3
(v) Statement of Compliance	4
1.2. Basis of Consolidation	4
(i) Controlled Entities	4
(ii) Associates	5
(iii) Joint Arrangements.....	5
(iv) Changes in Ownership Interests.....	6
1.3. Public Sector Combination.....	7
(i) Amalgamation	7
(ii) Acquisition	7
1.4. Foreign Currencies	8
1.5. Cash and Cash Equivalents	8
1.6. Financial Assets (Excluding Derivatives)	8
(i) Initial Recognition and Measurement.....	8
(ii) Subsequent Measurement.....	9
(iii) Impairment of Financial Assets	11
(iv) De-recognition.....	12
1.7. Prepayments.....	12
1.8. Inventories.....	12
1.9. Investment Property.....	13
1.10. Property, Plant and Equipment.....	13
(i) Measurement on Initial Recognition	13
(ii) Subsequent Measurement.....	15
(iii) De-Recognition.....	16
1.11. Impairment of Non-Financial Assets	16
(i) Impairment of Cash Generating Assets	16
(ii) Impairment of Non-Cash Generating Assets	17
1.12. Intangible Assets.....	18
1.13. Biological Assets	19
1.14. Non-Current Assets Held for Sale or Discontinued Operations.....	19
1.15. Service Concession Asset.....	19
(i) Financial Liability Model.....	20
(ii) Grant of a Right to the Operator Model.....	20
1.16. Financial Liabilities (Excluding Derivatives)	20
(i) Initial Recognition and Measurement.....	20
(ii) Subsequent Measurement.....	20
(iii) De-recognition.....	22

1.17.	Derivative Financial Instruments.....	22
1.18.	Provisions	22
1.19.	Employee Benefits	22
	(i) Short Term Employee Benefits	22
	(ii) Short Term Paid leaves	22
	(iii) Post- Employment Benefits:	22
	(iv) Termination Benefits	23
1.20.	Social benefits	23
	(i) Initial Measurement	24
	(ii) Subsequent Measurement	24
1.21.	Leases.....	24
	(i) Public Sector as Lessee: Finance lease	24
	(i) Public Sector as Lessee: Operating lease.....	25
	(ii) Public Sector as Lessor: Finance Lease	25
	(iii) Public Sector as Lessor: Operating Lease.....	25
1.22.	Offsetting of Financial Instruments.....	25
1.23.	Contingent Assets and Liabilities.....	25
1.24.	Nature and Purpose of Reserves.....	26
	(i) Consolidated Fund (CF)	26
	(ii) Special Fund	26
	(iii) General Fund.....	26
	(iv) Revaluation Reserve.....	26
	(v) Other Reserves.....	26
	(vi) Accumulated Surplus/(Deficits).....	26
1.25.	Revenue from Exchange Transactions.....	26
	(i) Rendering of Services	26
	(ii) Sale of Goods	27
	(iii) Royalties.....	27
	(iv) Dividends and Withdrawal of Income from Statutory Bodies and Similar Distributions .	27
	(v) Rental Income.....	27
	(vi) Interest Income.....	27
	(vii) Revenue from Construction Contract	27
1.26.	Revenue from Non-Exchange Transactions	28
	(i) Taxes	28
	(ii) Grant with Conditions	29
	(iii) Grant/ Goods In-Kind /Gifts and Donation with No Conditions	29
	(iv) Debt Forgiveness.....	30
	(v) Fines, Fees, and Social Contributions.....	30
	(vi) Service In-kind	30
	(vii) Concessionary Loan.....	30
1.27.	Expenses	30
	(i) Grant and Subsidies	30
	(ii) Contributions and Social Benefits.....	30
	(iii) Operating Expenses	30

(iv)	Transfer Payments.....	30
(v)	Finance Costs	30
(vi)	Other Expenses	31
1.28.	Related Parties.....	31
1.29.	Segment Reporting.....	31
1.30.	Commitments	31
1.31.	Key Assumptions and Judgements.....	32
(i)	Judgements	32
(ii)	Estimates and Assumptions.....	32
1.32.	Financial Risk Management	34
(i)	Interest Rate Risk	34
(ii)	Foreign Exchange Risk	34
(iii)	Equity Price Risk	34
(iv)	Credit Risk.....	35
(v)	Liquidity Risk.....	35
1.33.	Fair Value Measurement.....	35
1.34.	Events After Reporting Date	36
1.35.	Standards Issued but Not Yet Effective.....	36

International Public Sector Accounting Standards

International Public Sector Accounting Standards		Included
IPSAS 1	<i>Presentation of Financial Statements</i>	√
IPSAS 2	<i>Cash Flow Statements</i>	√
IPSAS 3	<i>Accounting Policies, Changes in Accounting Estimates</i>	√
IPSAS 4	<i>The Effects of Changes in Foreign Exchange Rates</i>	√
IPSAS 5	<i>Borrowing Costs</i>	√
IPSAS 9	<i>Revenue from Exchange Transactions</i>	√
IPSAS 10	<i>Financial Reporting in Hyperinflationary Economies</i>	1
IPSAS 11	<i>Construction Contracts</i>	√
IPSAS 12	<i>Inventories</i>	√
IPSAS 13	<i>Leases</i>	√
IPSAS 14	<i>Events After the Reporting Date</i>	√
IPSAS 16	<i>Investment Property</i>	√
IPSAS 17	<i>Property, Plant and Equipment</i>	√
IPSAS 18	<i>Segment Reporting</i>	√
IPSAS 19	<i>Provisions, Contingent Liabilities and Contingent Assets</i>	√
IPSAS 20	<i>Related Party Disclosures</i>	√
IPSAS 21	<i>Impairment of Non-Cash-Generating Assets</i>	√
IPSAS 22	<i>Disclosure of Financial Information about the General Government Sector</i>	√
IPSAS 23	<i>Revenue from Non-Exchange Transactions (Taxes and Transfers)</i>	√
IPSAS 24	<i>Presentation of Budget Information in Financial Statements</i>	√
IPSAS 26	<i>Impairment of Cash-Generating Assets</i>	√
IPSAS 27	<i>Agriculture</i>	√
IPSAS 28	<i>Financial Instruments: Presentation</i>	√
IPSAS 29	<i>Financial Instruments: Recognition and Measurement</i>	√
IPSAS 30	<i>Financial Instruments: Disclosures</i>	√
IPSAS 31	<i>Intangible Assets</i>	√
IPSAS 32	<i>Service Concession Arrangements: Grantor</i>	√
IPSAS 34	<i>Separate Financial Statements</i>	√

International Public Sector Accounting Standards		Included
IPSAS 35	<i>Consolidated Financial Statements</i>	√
IPSAS 36	<i>Investments in Associates and Joint Ventures</i>	√
IPSAS 37	<i>Joint Arrangements</i>	√
IPSAS 38	<i>Disclosures of Interests in Other Entities</i>	√
IPSAS 39	<i>Employee Benefits</i>	√
IPSAS 40	<i>Public Sector Combinations</i>	√
IPSAS 41	<i>Financial Instruments</i>	√2
IPSAS 42	<i>Social Benefits</i>	√2
IPSAS 43	<i>Leases</i>	√3
IPSAS 44	<i>Non-Current Assets Held for Sale and Discontinued Operations</i>	√3
IPSAS 45	<i>Property, Plant and Equipment</i>	χ4
IPSAS 46	<i>Measurement</i>	χ5
IPSAS 47	<i>Revenue</i>	χ6
IPSAS 48	<i>Transfer Expenses</i>	χ7

- √ This standard is incorporated into accounting policies.
- χ This standard is currently not incorporated into accounting policies as it is not yet effective.
- 1 This is not applicable in the context of Government of Mauritius.
- 2 *IPSAS 41 - Financial Instruments* and *IPSAS 42- Social Benefits* are effective as from January 1, 2023. The Government has decided to make early adoption of these standards as from financial year 2020/2021 and 2021/2022 respectively.
- 3 *IPSAS - 43 Leases* and *IPSAS 44 - Non-Current Assets Held for Sale and Discontinued Operation* are new standards with effective date as from January 1, 2025 (earlier application is encouraged. The BCG has early adopted these standards as from the financial year 2022/2023).
- 4 *IPSAS 45 - Property, Plant and Equipment* is a new standard and is effective as from January 1, 2025 (earlier application is encouraged). However, entities should adopt *IPSAS 43 – Leases*, *IPSAS 44 - Non-Current Assets Held for Sale and Discontinued Operations* and *IPSAS 46 - Measurement* if they decide to adopt *IPSAS 45* earlier.
- 5 *IPSAS 46 - Measurement* is a new standard and is effective as from January 1, 2025 (earlier application is encouraged).
- 6 *IPSAS 47 – Revenue* is a new standard and is effective as from January 1, 2026 (earlier application is encouraged).
- 7 *IPSAS 48 – Transfer Expenses* is a new standard and is effective as from January 1, 2026 (earlier application is encouraged).

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1.1. Basis of Reporting

(i) Reporting Entity

IPSAS 1.63b

For the purposes of these financial statements, the consolidated financial statements of the Government of the Republic of Mauritius mean:

- (a) The Budgetary Central Government of the Republic of Mauritius, which comprises Ministries, Government Departments as listed in the schedule to the Appropriation (2022 -2023) Act of 20X0;
- (b) Statutory Bodies as per the Statutory Bodies (Accounts and Audit) Act and Special Funds as per the Finance and Audit Act;
- (c) Local Government as per the Local Government Act;
- (d) Regional Government as per the Rodrigues Regional Assembly Act;
- (e) Other Extra Budgetary Units and Public Sector controlled entities as per the list of Public Institutions included in the Digest of Public Finance published by Statistics Mauritius; and
- (f) Associates where the Government has significant influence (but not control) in other entities.

The 'consolidated financial statements of the Public Sector and is referred to as 'Public Sector' financial statements.

(ii) Reporting Period

The consolidated financial statements covers the financial year from 01 July 20X0 to 30 June 20X1.

IPSAS 1.63c

(iii) Authorization Date

These consolidated financial statements were authorized for issue on (date) by the Accountant-General.

IPSAS 14.26

(iv) Basis of Preparation

A Estimates

The Estimates (Budget) figures included in these consolidated financial statements are for the Budgetary Central Government. The budget for Statutory Bodies, Special Funds, Local Government, Regional Government, Other Extra Budgetary Units and Public Sector controlled entities (where applicable) have been excluded as these are not made publicly available.

IPSAS 24.45

The budget and the accounting bases differ. The budget of the Government is appropriated by votes of expenditure on a cash basis except for 'cost of borrowings' which is appropriated on an accrual basis and 'carry-over of capital expenditure' where amount earmarked in a fiscal year is carried over to a period not exceeding 3 months in the following fiscal year. The Estimates is classified by both economic and functional classifications based, as far as possible, on the Government Finance Statistics Manual.

IPSAS 24.39

The statement of comparison of budget and actual amounts are prepared on the same basis as the budget.

The approved budget covers the fiscal year from 1 July 2022 to 30 June 2023.

IPSAS 24.43

The original budget was approved by the National Assembly on (date), [and a supplementary appropriation for (amount) was approved on (date)].

B Financial Statements

These consolidated financial statements have been prepared on a historical cost basis, except for certain assets and liabilities which have been revalued as set out in these accounting policies.

IPSAS 1.127a

The accounting policies have been applied consistently throughout the year. Where necessary and where it is practicable, comparative figures have been restated to conform to changes in presentation, or in accounting policies in the current year.

IPSAS 1. 132a

The statement of financial position and statement of financial performance are prepared on an accrual basis.

The cash flow statement has been prepared using the direct method.

(v) **Statement of Compliance**

These consolidated financial statements have been prepared in accordance with accrual basis International Public Sector Accounting Standards (IPSAS) and are in accordance with Section 19 (3A) (b) the Finance & Audit Act 1973 as subsequently amended, i.e in compliance with IPSAS. These consolidated financial statements present fairly the financial transactions and financial position of the Government as required by Section 19 (1) of the Finance & Audit Act 1973.

IPSAS 1.28

Where an IPSAS does not address a particular issue, the appropriate International Financial Reporting Standards (IFRSs) and International Accounting Standards (IASs) of the International Accounting Standards Board (IASB) have been applied.

1.2. Basis of Consolidation

The list of entities consolidated is detailed in note ___ of these consolidated financial statements.

(i) **Controlled Entities**

These are entities over which the Government has control. The Government controls an entity, if and only if, it has power over the entity, is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity.

IPSAS 35.18-20

The Government reassesses whether or not it controls an entity if facts and circumstances indicate that there are changes to one or more of the three elements of controls listed above.

IPSAS 35.21

The Government's right to direct the financial and operating policies of another entity is often used as an indication to assess power. The Government considers only substantive rights in assessing power.

IPSAS 35.23

Controlled entities are consolidated from the date the Government obtains control of an entity and ceases when the Government loses control. Like items of assets, liabilities, net assets/equity, revenue, expenses and cash flows of the Public Sector entity is consolidated, intra-economic entity transactions and balances are eliminated in full and carrying amount of the Government's investment in each controlled entity and the Government's portion of net assets/equity of each controlled entity is eliminated. When necessary, adjustments are made to the financial statements of controlled entities to bring their accounting policies in line with the accounting policies of the Government.

IPSAS 35.39

IPSAS 35.40

IPSAS 35.41

The Government attributes the surplus or deficit and each gain or loss recognized directly in net assets/equity to the non-controlling interests and to the owners of the controlling entity.

IPSAS 35.49

(ii) Associates

Where the Government has significant influence (but not control) in other entities are classified as associates.

IPSAS 36.8

Associates are initially recognized in the consolidated statement of financial position at cost.

IPSAS 36.16

Subsequently, associates are accounted for using the equity method, where the Government's share of surplus or deficit of the investee after the date of acquisition is recognized in the consolidated statement of financial performance. The Government also recognizes in its net assets/equity, the share of changes in the investee's equity that have not been recognized in the investee's surplus or deficit.

IPSAS 36.16

Gains and losses arising on transactions between the Government and its associates are recognized only to the extent of unrelated investors' interests in the associate. The Government's share in the associate's gains and losses resulting from these transactions is eliminated against the carrying value of the associate.

IPSAS 36.31

Any premium paid for an associate above the fair value of the Government's share of the identifiable assets, liabilities and contingent liabilities acquired is capitalized and included in the carrying amount of the associate. Where there is objective evidence that the investment in an associate has been impaired, the carrying amount of the investment is tested for impairment in the same way as other non-financial assets.

IPSAS 36.35(a)

IPSAS 36.43

Any excess of the share of the Government of the net fair value of the investee's identifiable assets over the cost of the investment is included as revenue in the determination of the Government's share of the associate's surplus or deficit in the period in which the investment is acquired.

IPSAS 36.35(b)

Judgement

Where the Government holds less than 20% of voting rights in an investment but the Government has the power to exercise significant influence, such an investment is treated as an associate.

IPSAS 36.11

More information is disclosed in note ____ of these consolidated financial statements. In the opposite situation, where the Government holds over 20% of voting rights (but not over 50%) and the Government does not exercise significant influence, the investment is treated as an available-for-sale investment. Details are given in note ____ of these consolidated financial statements.

(iii) Joint Arrangements

The Government is party to a joint arrangement when there is a binding arrangement that confers joint control over the relevant activities of the arrangement to the Government. Joint control is the agreed sharing of control of an arrangement by way of a binding arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

IPSAS 37.9, 37.10

IPSAS 37.12

The Government classifies its interests in joint arrangements as either:

IPSAS 37.19

- Joint operations: where the Government has both the rights to assets and obligations for the liabilities of the joint arrangement; or

IPSAS 37.7

- Joint ventures: where the Government has rights to only the net assets of the joint arrangement.

IPSAS 37.7

In assessing the classification of interests in joint arrangements, the Government considers:

IPSAS 37.20

- The structure of the joint arrangement;

- The legal form of joint arrangements structured through a separate vehicle;

- The terms of the binding arrangement; and

- Any other facts and circumstances.

The Government accounts for its interests in joint operations by recognizing its share of assets, liabilities, revenues and expenses in accordance with its conferred enforceable rights and obligations. In compliance with IPSAS 37 Joint Arrangements, the Government applies all the principles on acquisition accounting of IPSAS 40 Public Sector Combinations when it acquires an interest in a joint operation that constitutes an operation.

IPSAS 37.23

IPSAS 37.24A

The Government accounts for its interests in joint ventures in the same manner as investments in associates (i.e. using the equity method – refer to Associates).

IPSAS 37.27

Any premium paid for an investment in a joint venture above the fair value of the Government's share of the identifiable assets, liabilities and contingent liabilities acquired is capitalized and included in the carrying amount of the investment in joint venture. Where there is objective evidence that the investment in a joint venture has been impaired, the carrying amount of the investment is tested for impairment in the same way as other non-financial assets.

Judgement

For all joint arrangements structured in separate vehicles, the Government must assess the substance of the joint arrangement in determining whether it is classified as a joint venture or joint operation. This assessment requires the Government to consider whether it has rights to the joint arrangement's net assets (in which case it is classified as a joint venture) or rights to and obligations for specific assets, liabilities, expenses, and revenues (in which case it is classified as a joint operation). Factors the Government must consider include:

IPSAS 37.20

- Legal form
- Binding arrangement
- Other facts and circumstances.

Upon consideration of these factors, the Government has determined that all of its joint arrangements structured through separate vehicles give it rights to the net assets and are therefore classified as joint ventures.

(iv) Changes in Ownership Interests

The Government treats transactions with non-controlling interests that do not result in a loss of control as transactions with owners in their capacity as owners. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the controlled entity. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognized in net assets/equity attributable to owners of the controlling entity.

IPSAS 35.51

When the Government ceases to consolidate or equity account for an investment because of a loss of control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognized in the surplus or deficit. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in net assets/equity in respect of that entity are accounted for as if the Government had directly disposed of the related assets or liabilities.

IPSAS 35.54(b)(iii)

IPSAS 35.52(b)

IPSAS 35.55

If the ownership interest in a joint venture or an associate is reduced but joint control or significant influence is retained, the proportionate share of the amounts previously recognized in net assets/equity are transferred directly to accumulated surpluses or deficits.

IPSAS 36.28

1.3. Public Sector Combination

Public sector combination can either be an amalgamation or an acquisition.

(i) Amalgamation

The Government accounts for public sector combinations using the modified pooling of interest method of accounting if the public sector combination gives rise to a resulting entity and is either:

IPSAS 40.15, 40.17

(a) a public sector combination in which no party to the combination gains control of one or more operations; or

IPSAS 40.7

(b) a public sector combination in which one party to the combination gains control of one or more operations, and there is evidence that the combination has the economic substance of an amalgamation.

IPSAS 40.8

The resulting entity recognizes the assets, liabilities and any non-controlling interest that are recognized in the financial statements of the combining operations as at the amalgamation date and measures them at their carrying amounts in the financial statements of the combining operations. The resulting entity recognizes the difference between the assets and liabilities assumed in an amalgamation as one or more components of net assets/equity.

IPSAS 40.21, 40.26

IPSAS 40.37, 40.38

(ii) Acquisition

The Government accounts for public sector combinations using the acquisition method when control is transferred to the Government and the economic substance of the public sector combination is not that of an amalgamation.

IPSAS 40.8

The consideration transferred in the acquisition is measured at fair value and comprises only of consideration transferred for the acquired operation and the assets acquired and liabilities assumed in the exchange for the acquired operation.

IPSAS 40.95

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as a component of net assets/equity, then it is not remeasured and settlement is accounted for within net assets/equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognized in surplus or deficit.

IPSAS 40.97, 40.117 (a)

IPSAS 40.117(b)

The Government also measures the identifiable net assets acquired.

IPSAS 40.72

Acquisition related costs are expensed as incurred and services received, except if related to the issue of debt or securities.

IPSAS 40.111

Goodwill

Goodwill arising from acquisition is initially measured at cost (being the excess of the aggregate of the consideration transferred, the amount of any non-controlling interest in the acquired operation and the fair value of the Government's previously held equity interest over the net of the amounts of the identifiable assets acquired and liabilities assumed).

IPSAS 40.85(a)

The Government recognizes goodwill to the extent that an acquisition will result in the generation of cash flows or a reduction in the net cash outflows of the Government. Any additional excess is recognized as loss in the statement of financial performance.

IPSAS 40.86

After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

IPSAS 40.AG107

Impairment of Goodwill

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Government's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Where goodwill is acquired in an acquisition of a non-cash generating operation that results in a reduction in the net cash outflows of the Government, the Government is considered as a cash-generating unit.

IPSAS 26.90A

A cash-generating unit to which goodwill has been allocated is tested for impairment annually and whenever there is an indication that the unit may be impaired, by comparing the carrying amount of the unit, including the goodwill, with the recoverable amount of the unit. If the recoverable amount of the unit exceeds the carrying amount of the unit, the unit and the goodwill allocated to that unit shall be regarded as not impaired. If the carrying amount of the unit exceeds the recoverable amount of the unit, the Government recognizes an impairment loss.

IPSAS 26.90K

Goodwill is not amortized.

Bargain Purchase

The Government recognizes a gain in the statement of financial performance if the net of the amounts of the identifiable assets acquired and the liabilities assumed exceed the aggregate of any consideration transferred, the amount of any non-controlling interest in the acquired operation and the fair value of the acquirer's previously held equity interest.

IPSAS 40.88

Non-Controlling Interest

The Government recognizes any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

IPSAS 40.73

1.4. Foreign Currencies

These consolidated financial statements are presented in Mauritian Rupees (Rs), which is the functional currency of the Public Sector. All amounts have been rounded to the nearest million rupees.

Transactions in foreign currencies are initially translated at the foreign exchange rates at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of financial performance. Non-monetary assets and liabilities measured at historical cost in foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

IPSAS 4.24, 4.27

1.5. Cash and Cash Equivalents

Cash and cash equivalents comprise of cash in hand, cash remitted to Ministries/Departments, cash balances with banks, both local and overseas, deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value.

IPSAS 2.8, 2.9, 2.56

1.6. Financial Assets (Excluding Derivatives)**(i) Initial Recognition and Measurement**

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through net assets/equity, and fair value through surplus or deficit (FVTSD).

IPSAS 41.39

Short-term receivables, at initial recognition, are measured at the original invoice amount as the effect of discounting is immaterial. All other financial assets are measured at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset except for financial assets not at fair value through surplus or deficit.

IPSAS 41.60

IPSAS 41.57

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's management model for financial assets.

Financial assets that meet the following conditions are measured subsequently at amortised cost:

IPSAS 41.40

- the financial asset is held within a management model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are measured subsequently at fair value through net assets/equity:

IPSAS 41.41

- the financial asset is held within a management model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

By default, all other financial assets are measured subsequently at FVTSD. The management may make the following irrevocable election at initial recognition for particular investments in equity instruments that would otherwise be measured at FVTSD to present subsequent changes in fair value in net assets/equity.

IPSAS 41.43

Despite the foregoing, at initial recognition, the management can irrevocably designate a financial asset as measured at FVTSD if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases.

IPSAS 41.44

(ii) Subsequent Measurement

(a) Financial Assets measured at Amortised Cost

Financial assets measured at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. The losses arising from impairment are recognized in surplus or deficit.

IPSAS 41.69

For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortised cost of the debt instrument on initial recognition.

Financial assets measured at amortised cost includes the following:

- Receivables from exchange transactions (including current portion of long-term receivables, loans and placements);
- Receivables from non-exchange transactions (e.g. transfers and taxes);
- Loans;
- Advances;
- Debt instruments at amortised cost; and
- Investments such as deposits with financial institutions.

(b) Financial Assets measured at Fair Value Through Net Assets/Equity

Financial assets measured through net assets/equity consist of:

- Equity instruments (including instruments where an irrevocable election is made at initial recognition to recognize subsequent changes in fair value through net assets/equity)
- Debt instruments

A Financial asset designated at fair value through net assets/equity (Equity Instruments)

Upon initial recognition, election can be made to classify irrevocably equity investments that would otherwise be measured at fair value through surplus or deficit, to present subsequent changes in fair value in net assets/equity provided the equity instrument is not held for trading. This election is made on an instrument-by-instrument basis. Such investment is not a monetary item. Accordingly, the gain or loss that is presented in net assets/equity includes any related foreign exchange component.

IPSAS 41.AG226

IPSAS 41.106

Gains and losses on these financial assets are not subsequently transferred to surplus or deficit. Dividends or similar distributions on such investments are recognised in surplus or deficit unless the dividend clearly represents a recovery of part of the cost of the investment.

IPSAS 41.AG222

B Financial assets at fair value through net assets/equity (Debt Instruments)

For debt instruments at fair value through Net Assets/Equity, interest income, foreign exchange gains or losses and impairment losses are recognised in the statement of surplus or deficit and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in Net Assets/Equity. Upon derecognition, the cumulative fair value change recognised in Net Assets/Equity is recycled to surplus or deficit.

IPSAS 41.111

IPSAS 41.112

(c) Financial assets designated at fair value through surplus or deficit

Financial assets at FVTSD are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of financial performance.

This category includes derivative instruments and equity investments which the Public Sector had not irrevocably elected to classify at fair value through Net Assets/Equity. Dividends on equity investments are recognised as other income in the statement of financial performance when the right of payment has been established.

IPSAS 41.102

The Government financial assets measured at FVTSD (including financial assets irrevocably designated at FVTSD at initial recognition) are as follows:

- Equity instruments
- Debt instruments
- IMF –SDR Deposit
- IMF-Reserve Tranche (quota subscription)

IMF SDR Deposits are translated at year-end exchange rates with any gains/loss arising on re-measurement recognised in the Statement of Financial Performance in the period in which they arise.

Reserve Tranche transactions, i.e., subscriptions, purchases and sales, are initially translated at the exchange rate at the date of the transaction. At year-end, the SDR Reserve Tranche Position is translated using year-end exchange rates and any gains/loss recognised in the Statement of Performance as foreign exchange gains or losses.

Commentary

The Government measures equity instruments at FVTSD and has not made an irrevocable election, at initial recognition, to recognize subsequent changes in fair value through net assets/equity (IPSAS 41.43).

(iii) Impairment of Financial Assets

The Public Sector recognises a loss allowance for expected credit losses (ECL) on financial assets that are measured at amortised cost or at fair value through net assets/equity, lease receivables, a loan commitment, as well as on financial guarantee contracts.

IPSAS 41.73

However, the loss allowance for financial assets measured at fair value through net assets/equity shall be recognized in net assets/equity and shall not reduce the carrying amount of the financial asset in the statement of financial position.

IPSAS 41.74

The Public Sector recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Public Sector measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

IPSAS 41.75 & 77

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

For loan commitments and financial guarantee contracts, the date that the Public Sector becomes a party to the irrevocable commitment is considered to be the date of initial recognition for the purposes of assessing the financial instrument for impairment. In assessing whether there has been a significant increase in the credit risk since initial recognition of a financial guarantee contract, the Public Sector considers the changes in the risk that the specified debtor will default on the contract.

IPSAS 41.78

When measuring ECL, the Public Sector considers the risk or probability that a credit loss occurs by reflecting the possibility that a credit loss occurs and the possibility that no credit loss occurs, even if the possibility of a credit loss occurring is very low.

The Public Sector recognises in surplus or deficit, as an impairment gain or loss, the amount of ECL (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognised except for the loss allowance for financial assets measured at fair value through net assets/equity for which the loss allowance is recognised in net assets/equity and shall not reduce the carrying amount of the financial asset in the statement of financial position.

IPSAS 41.74

The Public Sector measures the loss allowance at an amount equal to lifetime expected credit losses for:

IPSAS 41.87

- Receivables that result from exchange transactions that are within the scope of IPSAS 9 and non-exchange transactions within the scope of IPSAS 23.
- Lease receivables that result from transactions that are within the scope of IPSAS 43, if the entity chooses as its accounting policy to measure the loss allowance at an amount equal to lifetime expected credit losses.

Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Public Sector compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Public Sector considers reasonable and supportable information, that is available without undue cost or effort, that is indicative of significant increases in credit risk since initial recognition

IPSAS 41.81

Purchased or Originated Credit-impaired financial assets

The Public Sector, at the reporting date, recognises the cumulative changes in lifetime expected credit losses since initial recognition as a loss allowance for purchased or originated credit-impaired financial assets.

*IPSAS 41.85***(iv) De-recognition**

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

IPSAS 41.14

- The rights to receive cash flows from the asset have expired or are waived; or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either
 - the Group has transferred substantially all the risks and rewards of the asset, or
 - the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

*IPSAS 41.16**IPSAS 41.17***1.7. Prepayments**

Prepayments are recognized as assets when payment for goods or services has been made in advance of obtaining a right to access those goods or services.

1.8. Inventories

Inventories are measured at the lower of cost and net realizable value. To the extent that inventory was received through non-exchange transactions (for no cost or for a nominal cost), the cost of the inventory is its fair value at the date of acquisition. Inventories comprising agricultural produce that has been harvested from biological assets are measured on initial recognition at fair value less costs to sell at the point of harvest.

*IPSAS 12.15, 12.16**IPSAS 12.29*

Inventories held for distribution at no charge or for a nominal charge or consumption in the production process of goods to be distributed at no charge or for a nominal charge are however measured at the lower of cost and current replacement cost.

IPSAS 12.17

Donated inventories from non-exchange transactions for nil or nominal consideration are initially measured at its fair value at the date of receipt.

IPSAS 12.31

Cost includes all costs of purchases, cost of conversion and other costs incurred in bringing the inventories to their present location and condition. Current replacement cost represents the cost the Public Sector would incur to acquire the asset on the reporting date.

IPSAS 12.18

The cost of inventories is stated using the First in First Out method.

IPSAS 12.35

When inventories are sold or consumed, the carrying amount of those inventories is recognized as an expense in the period in which the related revenue is recognized/ the expense relates. If there is no related revenue, the expense is recognised when the goods are distributed or the related service is rendered.

IPSAS 12.44

The amount of any write-down of inventories to current replacement cost (due to obsolescence, damage, or other reasons) and all losses of inventories are recognized as an expense in the period the write-down or loss occurs.

*IPSAS 12.44***Commentary**

**According to IPSAS 12.35, cost of inventories shall be assigned by using:
-first- in first- out or
- weighted average cost formulas.**

The Government has opted for the First in First Out Method.

1.9. Investment Property

Investment property is property (land or a building – or part of a building – or both) held to earn rentals or for capital appreciation, or both, rather than for:

IPSAS 16.7

- (a) Use in the production or supply of goods or services, or for administrative purposes; or
- (b) Sale in the ordinary course of operations.

Investment properties are measured initially at cost, including transaction costs. Investment properties acquired through a non-exchange transaction is measured at fair value at date of acquisition.

IPSAS 16.26, 16.27

Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date.

IPSAS 16.39

Fair values are determined based on an annual valuation performed by an accredited valuer applying a valuation model recommended by the International Valuation Standards Committee.

IPSAS 16.86d

Gains or losses arising from changes in the fair values of investment properties are included in surplus or deficit in the period in which they arise.

IPSAS 16.44

Investment properties are derecognized either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit or service potential is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in the surplus or deficit in the period of derecognition.

IPSAS 16.77, 16.80

Transfers are made to (or from) investment property only when there is a change in use.

IPSAS 16.66

Commentary

Under IPSAS 16.39, an entity has a policy choice for the measurement of investment property after initial recognition. An entity may choose either the cost model or the fair value model for all its investment properties.

The Government has elected to use the fair value model as even if the cost model is selected, the fair value of the investment property still needs to be disclosed unless it is unable to determine fair value reliably (IPSAS 16.90(e))

1.10. Property, Plant and Equipment

(i) Measurement on Initial Recognition

On initial recognition, property, plant and equipment are stated at cost or deemed cost. Cost includes expenditure that is directly attributable to the acquisition of the items. When significant parts of property, plant and equipment are required to be replaced at intervals, the Public Sector recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in surplus or deficit as incurred.

*IPSAS 17.23, 17.24
17.26, 17.30*

Where an asset is acquired in a non-exchange transaction for nil or nominal consideration the asset is initially measured at its fair value.

IPSAS 17.27

State Lands are recognized at the value estimated by the Government valuer. Land, other than State Lands, are recognized at a value estimated by the external valuer.

IPSAS 33.25, 33.64

Commentary

Under IPSAS 17.42 an entity has a policy choice for the measurement of property, plant and equipment after initial recognition. An entity may choose either the cost model or the revaluation model for entire classes of property, plant and equipment.

The Government has elected on the following:

Land- Revaluation model (for fairer presentation)

Other Assets (comprising Trained Sniffer Dogs, Bearer Plants and Plants to maintain the ecosystem) – Revaluation model

All other property, plant and equipment- cost model

(a) Vested Asset

The Public Sector recognizes assets vested to it through a non-exchange transaction when it gains control of the asset, it is probable that the future economic benefits or service potential associated with the asset will flow to the Public Sector and the fair value can be reliably measured. These assets are measured at their fair value at the date of acquisition.

IPSAS 17.14, 17.27

(b) Classes of Assets

IPSAS 17.52

A Infrastructure, plant and equipment consist of the following:

- ❖ Infrastructure assets comprise:
 - Roads (including motorways) and Bridges;
 - Dams and Feeder Canals;
 - Rail Network;
 - Water Infrastructure including Water Supply Facilities and Irrigation Facilities and Waste Water Infrastructure;
 - Stadiums & Gymnasiums; and
 - Other structures;
- ❖ Transport Equipment comprise:
 - Ships/Vessels;
 - Aircrafts/Helicopters;
 - Overhaul Aircrafts/Helicopters; and
 - Other vehicles.
- ❖ Plant, Machinery and Equipment;
 - Plant including Transmission and Distribution Assets;
 - Medical Equipment;
 - Office Equipment; and
 - Other Machinery and Equipment.
- ❖ Furniture, Fixtures and Fittings.

B Land and buildings comprises of:

- ❖ Land; and
- ❖ Buildings

C Other Assets

- ❖ Bearer Plants;
- ❖ Trained Sniffer Dogs used to detect illicit substances; and
- ❖ Plants to maintain the ecosystem.

D Assets Under Construction.

(c) Borrowing Costs

Borrowing costs are recognized as an expense in the period in which they are incurred.

IPSAS 5.14

Commentary

As per IPSAS 5.17 and 5.18, borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset can be recognized as expense in the period in which they are incurred or capitalized as part of the cost of the asset under the allowed alternative treatment.

The government has elected to expense borrowing cost in the period they are incurred since it is the benchmark treatment.

(d) Depreciation

Depreciation is charged so as to write off the cost of assets over their estimated useful lives, using the straight-line method as follows:

IPSAS 17.78

Classes of Assets	Useful Life	Depreciation Rate
Infrastructure Assets		
Roads and Bridges	50	2%
Dams and Feeder Canals	50	2%
Rail Network	100	1%
Water Infrastructure	10 - 60	1.67% - 10%
Stadiums, Gymnasiums	25	4%
Other Structures	10 - 50	2% - 10%
Transport Equipment		
Ships/Vessels	25	4%
Aircrafts/Helicopters	20	5%
Overhaul Aircrafts/Helicopters	10	10%
Other Vehicles	5 - 15	6.67% - 20%
Plant, Machinery & Equipment		
Plant	20 - 50	2% - 5%
Medical Equipment	10	10%
Office Equipment	3 - 10	10% - 33.33%
Other Machinery and Equipment	3 - 20	5% - 33.33%
Furniture, Fixtures & Fittings	3 - 10	10% - 33.33%
Buildings	12.5 - 62.5	1.6% - 8%
Service Concession Assets	As per the class defined above	

Land is not depreciated. Depreciation is calculated from the month the asset is capitalized and ceases at the earlier of the date that the asset is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with IPSAS 44 and the date when the asset is derecognized/disposed.

IPSAS 17.71

Depreciation methods, useful lives and residual values if not insignificant, are reviewed at each reporting date and adjusted as appropriate.

Each component of an infrastructure asset with a materially different useful life from other components is accounted for as a separate asset and depreciated over its useful life.

IPSAS 17.59

(e) Donated Assets

When an asset is acquired in a non-exchange transaction for nil or nominal consideration, the asset is initially measured at its fair value at the date of acquisition and subsequently depreciated over its remaining useful life.

IPSAS 17.27

(ii) Subsequent Measurement**(a) Land**

After recognition, land is stated in the statement of financial position at its revalued amounts, being the fair value at the date of revaluation. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the end of the reporting period.

IPSAS 17.44

Any revaluation increase arising on the revaluation of land is recognised directly to revaluation surplus, except to the extent that it reverses a revaluation decrease for the same class of asset previously recognized in surplus or deficit, in which case the increase is credited to surplus or deficit to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of land is recognized in surplus or deficit to the extent that it exceeds the balance, if any, held in the property revaluation reserve relating to a previous revaluation of that class of asset.

*IPSAS 17.54,
17.55*

(b) Other Assets

After initial recognition, these are measured at fair value at each reporting date.

(c) All other property, plant and equipment

After initial recognition, assets are carried at cost less accumulated depreciation and any accumulated impairment losses. Some entities value their buildings using fair value model less accumulated depreciation and any impairment loss.

IPSAS 17.43

Commentary

BCG is currently using the cost model for the valuation of buildings which will be aligned to revaluation model in the future. Entities using the cost model are required to change their policy to revaluation model.

(d) Assets under construction

Assets in the course of construction are carried out at cost, less any recognized impairment loss. Cost includes professional fees and excludes borrowing costs, for qualifying assets.

Depreciation of these assets commences when the assets are ready for their intended use and is on the same basis as other property assets.

IPSAS 17.71

(e) Impairment of asset

When the carrying amount of an asset is greater than its estimated recoverable service amount or recoverable amount, it is written down to its recoverable service amount or recoverable amount and an impairment loss is recognized in surplus or deficit.

*IPSAS 26.72 , 26.73
21.52, 21.54*

(iii) De-Recognition

Property, plant and equipment and/or any significant part of an asset are derecognized upon disposal or when no future economic benefits or service potential is expected from its continuing use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the surplus or deficit when the asset is derecognised.

IPSAS 17.82, 17.83

1.11. Impairment of Non-Financial Assets

(i) Impairment of Cash Generating Assets

The Public Sector assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Public Sector makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets.

*IPSAS 26.22, 26.77, 26.78,
26.13*

(a) Value in Use

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

IPSAS 26.43, 26.68

(b) Fair Value Less Cost to Sell

In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used.

IPSAS 26.39

(c) Recognizing and Measuring Impairment Loss

Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

IPSAS 26.72

Impairment losses are recognized in the surplus or deficit except for impairment losses on a revalued asset which is treated as a revaluation decrease.

IPSAS 26.73

(d) Reversal of Impairment Losses

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated.

IPSAS 26.99

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in surplus or deficit except for asset carried at revalued amount.

IPSAS 26.103, 26.106, 26.108

After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

IPSAS 26.109

(ii) Impairment of Non-Cash Generating Assets

The Public Sector assesses at each reporting date whether there is an indication that a non-cash-generating asset may be impaired. If any indication exists, the Public Sector estimates the asset's recoverable service amount.

IPSAS 21.26

An asset's recoverable service amount is the higher of the non-cash generating asset's fair value less costs to sell and its value in use.

IPSAS 21.14

(a) Fair Value Less Costs to Sell

In determining fair value less costs to sell, the price of the assets in a binding agreement in an arm's length transaction, adjusted for incremental costs that would be directly attributed to the disposal of the asset is used. If there is no binding agreement, but the asset is traded on an active market, fair value less cost to sell is the asset's market price less cost of disposal. If there is no binding sale agreement or active market for an asset, the Public Sector determines fair value less cost to sell based on the best available information.

IPSAS 21.40, 21.41, 21.42

(b) Value in Use

In assessing value in use, the Public Sector has adopted the depreciation replacement cost approach. Under this approach, the present value of the remaining service potential of an asset is determined as the depreciated replacement cost of the asset. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset,

IPSAS 21.45

whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

Where the carrying amount of an asset exceeds its recoverable service amount, the asset is considered impaired and is written down to its recoverable service amount. The impairment loss is recognized in surplus or deficit except for revalued asset where the impairment loss is treated as a revaluation decrease.

IPSAS 21.52, 21.54

(c) Reversal of Impairment

For each asset, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Public Sector estimates the asset's recoverable service amount.

IPSAS 21.59

A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable service amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable service amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in surplus or deficit.

IPSAS 21.65, 21.68, 21.69

1.12. Intangible Assets

Intangible assets are initially recorded at cost except for intangible assets acquired through a non-exchange transaction which are measured at the fair value at the date of acquisition.

IPSAS 31.31

Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses.

IPSAS 31.73

Expenditure incurred on the research phase of an internally generated intangible asset is expensed when it is incurred. Intangible asset arising from the development phase of an intangible asset are capitalized if the following criteria are met: technical feasibility; ability to complete the asset; intention and ability to sell or use; ability of asset to generate probable future economic benefits or service potential, availability of resources to complete development and development expenditure can be reliably measured.

IPSAS 31.52, 31.55

The useful life of the intangible assets is assessed as either finite or indefinite.

The intangible assets of the Public Sector comprise of licenses, computer software and IT projects acquired, developed or under development. These intangible assets have a finite useful life and are amortized using the straight-line method over their useful lives. Typically, the estimated useful life of these intangible assets ranges from 2 to 8 years. The amortization charge for each period is recognized in surplus or deficit. Intangible assets which are still under development phase are recognised at cost and no amortisation is charged until the asset is available for use.

IPSAS 31.96

IPSAS 31.103

The amortization period and the amortization method, for an intangible asset with a finite useful life, are reviewed at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates.

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the surplus or deficit when the asset is derecognized.

IPSAS 31.112

Commentary

Under IPSAS 31.71 an entity has a policy choice for the measurement of intangible asset after initial recognition. An entity may choose either the cost model or the revaluation model for entire classes of intangible assets unless there is no active market for those assets.

The Government has elected to use the cost model for all classes of intangible assets as it is the easier and cheaper option.

1.13. Biological Assets

Biological assets are split into the following categories:

- (a) Bearer Biological Assets (other than bearer plants);
- (b) Consumable Biological Assets; and
- (c) Agricultural Produce.

Bearer biological assets (other than bearer plants) are those biological assets that are used repeatedly or continuously for more than one year in an agricultural activity.

IPSAS 27.40

Consumable biological assets are those that are held for harvest as agricultural produce or for sale or distribution at no charge or for a nominal charge as biological assets such as animals and plants for one-time use.

Agricultural produce is the harvested produce of the entity's biological assets such as produce growing on bearer plants biological assets.

The Government recognizes biological assets or agricultural produce when, and only when, the Government controls the assets as a result of past events, it is probable that future economic benefits associated with such assets will flow to the Government and the fair value or cost of the assets can be measured reliably.

IPSAS 27.13

Bearer biological assets (other than bearer plants) and consumable biological assets are measured at fair value less costs to sell, with any change therein recognized in surplus or deficit. Where fair value cannot be reliably determined, the asset is recorded at cost less accumulated depreciation and accumulated impairment losses.

IPSAS 27.16, 27.30, 27.34

Agricultural produce harvested from the Government's biological assets are measured at fair value less cost to sell at the point of harvest. A gain or loss arising on initial recognition of agricultural produce at fair value less costs to sell are included in surplus or deficit.

IPSAS 27.18, 27.32

1.14. Non-Current Assets Held for Sale or Discontinued Operations

The Public Sector classifies a non-current asset (or disposal group) as held for sale if it carrying amount will be recovered principally through a sale transaction rather than through continuing use.

IPSAS 44.11

Assets held for sale are to be measured at the lower of carrying amount and fair value less costs to sell, and no depreciation is charged.

IPSAS 44.22

When the sale is expected to occur beyond one year, the entity shall measure the costs to sell at their present value. Any increase in the present value of the costs to sell that arises from the passage of time shall be presented in surplus or deficit as a financing cost.

IPSAS 44.25

1.15. Service Concession Asset

The Public Sector as the grantor recognizes a service concession asset if:

IPSAS 32.9

- a) it controls or regulates what services the operator must provide with the asset, to whom it must provide them, and at what price; and
- b) it controls—through ownership, beneficial entitlement or otherwise—any significant residual interest in the asset at the end of the term of the arrangement.

The service concession asset is initially measured at fair value unless it relates to an existing asset which the Public Sector is reclassifying as a service concession asset.

IPSAS 32.11,32,12

After initial recognition, the service concession asset is accounted for as a separate class of assets in accordance with IPSAS 17 or IPSAS 31, as appropriate i.e. using the historical cost method or revaluation method.

IPSAS 32.13

The Public Sector also recognizes a liability as described below depending on the nature of the consideration exchanged between the Public Sector and the operator. *IPSAS 32.16*

(i) Financial Liability Model

If the Public Sector has an unconditional obligation to pay cash or another financial asset to the operator for the construction, development, acquisition or upgrade of the service concession asset, a financial liability is recognized. *IPSAS 32.18*

The Public Sector allocates payments to the operator according to their substance as a reduction in the liability, a finance charge, and charges for services provided by the operator. *IPSAS 32.21*

(ii) Grant of a Right to the Operator Model

If the Public Sector compensates the operator for construction by granting the operator the right to earn revenues from third party users or access to another revenue-generating asset for the operator's use, a deferred revenue is recognized for any portion of the revenue not yet earned. *IPSAS 32.24*

The revenue is recognized according to the economic substance of the service concession arrangement and the liability is reduced as revenue is recognized. *IPSAS 32.25*

The liability recognized is initially measured at the same amount as the service concession asset. *IPSAS 32.15*

1.16. Financial Liabilities (Excluding Derivatives)

(i) Initial Recognition and Measurement

A financial liability is recognized when the Public Sector becomes a party to the contractual provisions of the instrument. *IPSAS 41.10*

Upon initial recognition, short term payables are recognized at the original invoice amount if the effect of discounting is immaterial. All other financial liabilities are measured at their fair value plus the transaction costs that are directly attributable to the acquisition or the issue of the financial liabilities, except when the financial liabilities are measured at fair value through surplus or deficit. *IPSAS 41.60, 41.57*

(ii) Subsequent Measurement

All financial liabilities are subsequently measured at amortized cost using cost effective interest method except for financial liabilities at fair value through surplus or deficit, financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies, financial guarantee contracts and commitments to provide a loan at a below-market interest rate. *IPSAS 41.45*

The Public Sector's financial liabilities include the following:

(a) Bank of Mauritius Bills/Government of Mauritius Treasury Bills and Certificates

Bank of Mauritius/ Treasury Bills and Certificates are measured at amortized cost, which due to the short-term nature of these liabilities is equivalent to the amount payable at maturity to the holders of these instruments. *IPSAS 41.60*

(b) Interest Bearing Borrowings (Including Bank of Mauritius Notes, Bank of Mauritius Bonds, Government of Mauritius Treasury Notes, Government of Mauritius Bonds) and IMF Special Drawings Rights (SDR) Allocations

After initial recognition, interest-bearing borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in surplus/deficit when the liabilities are derecognized as well as through the amortization process. *IPSAS 41.45, 41.103*

IPSAS 41.9

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate.

Interest-bearing borrowings that are expected to be settled within 12 months after the reporting are classified as current liabilities.

IPSAS 1.80

(c) Concessionary Loans

For concessionary loans received by the Public Sector, the difference between the loan proceeds and the fair value on initial recognition, is accounted as revenue from non-exchange transactions. However, if a present obligation exists, a liability is recognized and as the present obligation is satisfied, the liability is reduced and an equal amount of revenue recognized.

IPSAS 23.105A, 23.105B

(d) Commitment to Provide Loan at Below Market Interest Rate

The commitment to provide loan at below market interest rate are recognized initially as a liability at fair value. Subsequently, unless the liability has been designated at fair value through surplus or deficit, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount initially recognized less cumulative amortization.

IPSAS 41.57, 41.45(d)

(e) Financial Guarantee Contracts

Financial guarantee contracts issued by the Public Sector are those contracts that require specified payments to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

IPSAS 41.9

Financial guarantee contracts are recognized initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee.

IPSAS 41.57

Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount initially recognized less cumulative amortization.

IPSAS 41.45 (c)

Commentary

IPSAS 41.2(e) states that an entity applies IPSAS 41- Financial Instruments to financial guarantee contracts but it shall apply the relevant international/national accounting standing dealing with insurance contracts if the issuer elects to apply that standard in recognizing and measuring these contracts.

The Government has applied IPSAS 41 to financial guarantee contracts since applying Insurance Contracts is an election which can made under certain circumstances such as if the issuer has previously adopted an accounting policy that treated financial guarantee contracts as insurance contracts and has used accounting applicable to insurance contracts (IPSAS 41. AG4, IPSAS 41. AG5). The Government has not previously treated financial guarantee contracts as insurance contracts.

(f) Trade and Other Payables

Short term payables and deposits are initially recognized at their carrying amount, except in cases where the impact of discount is material.

IPSAS 41.60

Long term payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

IPSAS 41.57, 41.45

Commentary

The Government has designated the above financial liabilities at FVTSD as this would result in more relevant information because it eliminates or significantly reduces a

measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases.

(iii) De-recognition

A financial liability (or a part of a financial liability) is removed from the statement of financial position when, the financial liability is extinguished – i.e., when the obligation specified in the contract is discharged, waived, cancelled or expires.

IPSAS 41.35

1.17. Derivative Financial Instruments

The Public Sector may enter in a variety of derivative instruments. Some of the instruments may be held for trading while others are held to manage its exposure to interest rate risk, credit risk and foreign exchange rate risk. Derivative instruments include forward contracts, spot position, swaps and options. These instruments are initially recognized at fair value at the date of the derivative contract is entered and subsequently measured at their fair value at the reporting date. The gain or loss is recognised in surplus or deficit. They are reported as either assets or liabilities depending on whether the derivative is in a net gain or loss position respectively.

1.18. Provisions

Provisions are recognized when the Public Sector has a present obligation as a result of a past event and it is probable that the Public Sector will be required to settle that obligation. Provisions are measured at the best estimate of the expenditure required to settle the present obligation at the reporting date.

IPSAS 19.22

The expense relating to any provision is presented in the statement of financial performance net of any reimbursement.

IPSAS 19.64

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

IPSAS 19.69

1.19. Employee Benefits

(i) Short Term Employee Benefits

Short term employee benefits are benefits which are expected to be settled wholly before twelve months after the reporting period in which the employee renders the related service.

IPSAS 39.9

The short-term employee benefits of the Public Sector consist of salaries, wages, salary compensation, overtime, travelling and transport, allowances, end of year bonus, social security contributions, passage benefits, and allowance in lieu of passage benefits.

Passage benefits represents the estimated liability of Public Officers as per the Pay Research Bureau.

Short term employee benefits are expensed in the period the employee renders the service and a liability is recognized in respect of amount not paid at the end of the financial year.

IPSAS 39.11

(ii) Short Term Paid leaves

Non-accumulating paid leave (casual, portion of sick leave, maternity, and study leaves) are expensed in the period the leave is taken and are measured at the rates paid or payable.

IPSAS 39.13(b)

Accumulated paid leave (bank of sick leave and vacation leave) are accrued in the period the employee renders the service and a liability is recognized in respect of amount not paid at the end of the financial year.

IPSAS 39.13(a), 39.16

(iii) Post- Employment Benefits:

(a) Defined Contribution Plan

Defined contribution plans are post-employment benefit plans under which the Public Sector pays fixed contributions into another entity, the State Insurance Company of Mauritius Limited (SICOM Ltd), for full time employees. The Public Sector has no further payment obligations once the contributions have been paid.

These contributions are expensed in the period the employee renders the service and a liability is recognized in respect of amount not paid at the end of the financial year.

IPSAS 39.53

(b) Defined Benefit Plan

The Public Sector operates Defined Benefit Plans for employees.

The plans may be both funded/unfunded. The calculation of defined benefit obligations is performed on a yearly basis by a qualified actuary.

The cost of providing benefits is calculated by independent actuaries using the projected unit method. The benefits are then discounted in order to determine the present value of the defined benefit obligation and the current service cost. The fair value of any plan assets is deducted from the present value of the defined benefit obligation. This value is then adjusted for any effect of limiting a net defined benefit asset to the asset ceiling to obtain the net defined benefit liability (asset).

IPSAS 39.59a b

Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the net assets/equity.

IPSAS 39.59d

Remeasurement recognized in net assets/ equity is not reclassified to surplus or deficit in subsequent period.

IPSAS 39.124

Current service cost, past service cost and gain or loss on settlement, net interest on the net defined benefit liability (asset) is recognized in surplus or deficit.

IPSAS 39.59c

(iv) Termination Benefits

Termination benefits result from either the Public Sector's decision to terminate the employment or an employee's decision to accept an entity's offer of benefits in exchange for termination of employment.

IPSAS 39.162

The difference between the benefit provided for termination of employment at the request of the employee and a higher benefit provided at the request of the entity is a termination benefit.

IPSAS 39.163

A liability and expense in relation to termination benefits are recognized at the earlier of:

IPSAS 39.168

- When the entity can no longer withdraw the offer of those benefits and
- When the entity recognizes costs for a restructuring that is within the scope of IPSAS 19 and involves the payment of termination benefits.

Termination benefits are measured on initial recognition and subsequent changes are recognized in accordance with the nature of employee benefit, provided that in cases where the termination benefits are an enhancement to post-employee benefits, the requirements for post-employment benefits are applied.

IPSAS 39.172

Termination benefits settled within 12 months are reported at the amount expected to be paid, otherwise they are reported as the present value of the estimated future cash outflows.

IPSAS 39.172

1.20. Social benefits

Social benefits are cash transfers provided to specific individuals and/or households who meet eligibility criteria, mitigate the effect of social risks and address the needs of society as a whole.

IPSAS 42.5

(i) Initial Measurement

The Public Sector recognises a liability for a social benefit scheme when it:

IPSAS 42.6

- (a) has a present obligation for an outflow of resources that results from a past event; and
- (b) the present obligation can be measured in a way that achieves the qualitative characteristics and takes account of constraints on information in general purpose financial reports.

The initial measurement of the liability for a social benefit scheme at the best estimate of the costs, that is the social benefit payments, that the Public Sector will incur in fulfilling the present obligations represented by the liability. The Public Sector also recognises an expense for the social benefit scheme at an amount equivalent to the amount of the liability.

IPSAS 42.12

IPSAS 42.21

The recognition of a liability must involve an outflow of resources for it to be settled. An obligation that can be settled without an outflow of resources is not a liability.

IPSAS 42.7

When the liability is not expected to be settled before twelve months after the end of the reporting period in which the liability is recognized, the liability is discounted using the discount rate which reflects the time value of money.

IPSAS 42.14

An expense is not recognised in respect of a social benefit scheme where a social benefit payment is made prior to all eligibility criteria for the next payment being satisfied.

IPSAS 42.11

(ii) Subsequent Measurement

The liability is reduced as social benefit payments are made and any difference between the cost of making the social benefit payments and the carrying amount of the liability in respect of the social benefit scheme is recognised in surplus or deficit in the period in which the liability is settled.

IPSAS 42.16

Where a liability is discounted, the liability is increased and interest expense recognised in each reporting period until the liability is settled, to reflect the unwinding of the discount.

IPSAS 42.17

1.21. Leases**(i) Public Sector as Lessee: Finance lease**

(Early adoption of IPSAS 43 – Leases as from FY 2022/2023)

Right-of-Use assets

Rights-of-Use assets are initially measured at cost. The cost of Rights-of-Use assets includes the amount of initial measurement of the lease liabilities recognised, initial direct costs incurred by the lessee, and lease payments made at or before the commencement date less any lease incentives received.

IPSAS 43.24, 43.25

Subsequent to initial recognition, the recognised Rights-of-Use assets are measured at cost less any accumulated depreciation and accumulated impairment losses. Depreciated is charged on a straight-line basis over the shorter of its estimated useful life and the lease term.

IPSAS 43.31, 43.33

Commentary

Under IPSAS 43.30 an entity has a policy choice for the measurement of Right-of-Use assets after initial recognition. An entity may choose either the cost model or the revaluation model for Right-of-Use assets that relate to a class of Property, Plant and Equipment to which revaluation model applies.

For Right-of-Use assets that meet the definition of Investment Property, where an entity uses the fair value model in IPSAS 16 – Investment Property to its investment property, the entity shall also apply the fair value model to Right-of-Use assets that meet the definition of Investment Property.

The Government has elected to use the cost model.

Lease liabilities

At the commencement date of the lease, the Public Sector measures lease liabilities at the present value of lease payments that are not paid as that date. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid by the lessee under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Public Sector and payments of penalties for terminating a lease, if the lease term reflects the Public Sector exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs. In calculating the present value of lease payments, the Public Sector uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

IPSAS 43.27, 43.28

After the commencement date, the amount of lease liabilities is increased to reflect the interest on lease liabilities and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

IPSAS 43.37

(i) Public Sector as Lessee: Operating lease

(Early adoption of IPSAS 43 – Leases as from FY 2022/2023)

The Public Sector elects to treat a lease as operating lease which is short term and of low value in nature and is expensed in surplus or deficit on a straight-line basis over the lease term.

IPSAS 43.6

IPSAS 43.7

(ii) Public Sector as Lessor: Finance Lease

(Early adoption of IPSAS 43 – Leases as from FY 2022/2023)

At the commencement date, the Public Sector recognises the assets held under the finance lease in the statement of financial position and also recognizes a receivable at an amount equal to the net investment in the lease. The rate implicit in the lease is used to measure the net investment in the lease.

IPSAS 43.71, 72, 73

Subsequently, it is recognised as finance revenue over the lease term based on the constant periodic rate of return on the entity's net investment in the lease.

IPSAS 43.75

(iii) Public Sector as Lessor: Operating Lease

(Early adoption of IPSAS 43 – Leases as from FY 2022/2023)

The Public Sector recognises lease payments from operating leases as revenue on a straight-line basis.

IPSAS 43.81

1.22. Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

IPSAS 28.47

1.23. Contingent Assets and Liabilities

The Public Sector does not recognize a contingent asset, but discloses details of a possible asset whose existence is contingent on the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Public Sector in the notes to these

IPSAS 19.39,19.41,19.43

consolidated financial statements. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the consolidated financial statements. If it has become virtually certain that an inflow of economic benefits or service potential will arise and the asset's value can be measured reliably, the asset and the related revenue are recognized in the consolidated financial statements of the period in which the change occurs.

The Public Sector does not recognize a contingent liability, but discloses details of any contingencies in the notes to these consolidated financial statements, unless the possibility of an outflow of resources embodying economic benefits or service potential is remote.

IPSAS 19.35, 19.36

1.24. Nature and Purpose of Reserves

(i) Consolidated Fund (CF)

The Consolidated Fund (CF) is established by Section 102 of the Constitution of the Republic of Mauritius. The CF has during the year under review been:

- (a) credited with all the revenues of the Public Sector and all other money properly accruing to it;
- (b) charged with expenses on the authority of warrant issued by the Minister of Finance;

(ii) Special Fund

Special Funds are monies deposited with the Accountant-General by various funds which are set up under the schedule [section 2] to the Finance and Audit Act.

(iii) General Fund

The General Fund is the primary fund used by the public sector entities to record all inflows and outflows that are not associated with special- purpose funds.

(iv) Revaluation Reserve

The revaluation reserve arises on the revaluation of land or other classes of PPE which are revalued at regular interval. When a revalued PPE sold, the portion of the revaluation reserve that relates to that PPE is transferred directly to accumulated surplus.

(v) Other Reserves

Other reserves comprise of net unrealised investment fair value reserve, net translation reserve, general reserve, net other reserve, restructure reserve and other funds.

(vi) Accumulated Surplus/(Deficits)

This represents the accumulated surplus/(deficits) to date, of the Public Sector after making necessary adjustments for accrual accounting which is provided in the Consolidated Statement of Changes in Net Assets or Equity.

1.25. Revenue from Exchange Transactions

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

IPSAS 9.11

Revenue is measured at the fair value of the consideration received or receivable as follows:

(i) Rendering of Services

When the outcome of the transaction can be estimated reliably, revenue from rendering of services is recognized by reference to the stage of completion. The stage of completion is measured by reference to services performed to date as a percentage of total services to be performed.

IPSAS 9.19, 9.23c

Where the outcome of the transaction cannot be estimated reliably, revenue is recognized only to the extent that the expenses incurred are recoverable.

IPSAS 9.25

Commentary

According to IPSAS 9.23, the stage of completion may be determined by variety of methods. Depending on the nature of the transaction, the methods may include:

a. surveys of work performed

b. services performed to date as a percentage of total services to be performed

c. the proportion that costs incurred to date bear to the estimated total costs of the transaction. Only costs that reflect services performed to date are included in costs incurred to date. Only costs that reflect services performed or to be performed are included in the estimated total costs of the transaction.

According to IPSAS 9.24, for practical purposes, when services are performed by an indeterminate number of acts over a specified time frame, revenue is recognized on a straight-line basis over the specified time frame, unless there is evidence that some other method better represents the stage of completion.

(ii) Sale of Goods

Revenue from the sale of goods is recognized when:

IPSAS 9.28

- the significant risks and rewards of ownership has been transferred to the buyer, usually when goods are delivered,
- when the amount of revenue incurred can be measured reliably,
- when the entity retains neither managerial involvement nor effective control over the goods sold,
- when the costs incurred can be measured reliably, it is probable that the economic benefits or service potential associated with the transaction will flow to the Public Sector.

(iii) Royalties

Royalties are recognized as they are earned in accordance with the substance of the relevant agreement.

IPSAS 9.34b

(iv) Dividends and Withdrawal of Income from Statutory Bodies and Similar Distributions

Dividends and Withdrawal of Income from Statutory Bodies and Similar Distributions are recognized when the Public Sector's right to receive payment is established.

IPSAS 9.34c

(v) Rental Income

Rental income arising from operating leases on investment properties, lease of state land and lease for shooting and fishing are accounted for on a straight-line basis over the lease terms.

IPSAS 13.63

(vi) Interest Income

Interest income is accrued using the effective yield method. The effective yield discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. The method applies this yield to the principal outstanding to determine interest income each period.

IPSAS 9.34(a)

(vii) Revenue from Construction Contract

(a) Non-Commercial Contracts

IPSAS 11.30

Contract costs are recognized as an expense on the percentage of completion method, measured by reference to the percentage of labor hours incurred to date to estimated total labor hours for each contract. In some cases, certain construction activity and technical supervision have been subcontracted to private sector contractors for a fixed completion of contract fee. Where this has occurred, the subcontracted costs are recognized as an expense on the percentage of completion method for each subcontract.

Contract revenue from full cost recovery contracts and partial cost recovery contracts entered into by the Public Sector is recognized by reference to the recoverable costs incurred during the period, measured by the proportion that recoverable costs incurred to date bear to the estimated total recoverable costs of the contract.

IPSAS 11.40

(b) Commercial Contracts

Revenue from fixed price construction contracts is recognized on the percentage of completion method, measured by reference to the percentage of labor hours incurred to date to estimated total labor hours for each contract.

IPSAS 11.30

Revenue from cost plus or cost based contracts is recognized by reference to the recoverable costs incurred during the period plus the fee earned, measured by the proportion that costs incurred to date bear to the estimated total costs of the contract.

1.26. Revenue from Non-Exchange Transactions

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an entity either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.

IPSAS 9.11

Revenue is measured at the amount of the increase in net assets recognized by the entity.

IPSAS 23.48

(i) Taxes

Revenue from taxes is recognized when the taxable event occurs and the asset recognition criteria are met. Assets arising from taxation transactions are measured at their fair value at the date of acquisition.

IPSAS 23.59. 23.67

Revenue Type	Revenue Recognition Point
Taxes on Income and Profits	<p>1. <u>Income Tax- Individuals (self-assessment)</u></p> <p>Revenue is recognised when the taxable activity takes place based on income tax returns submitted by the taxpayer by 15 October of the following financial year.</p> <p>Any revenue for the current financial year declared after 15 October or relating to prior periods are recognised as revenue in the year that the returns are submitted.</p> <p>Revenue recognised represents the net amount payable by the tax payer after any refund and deduction of any Pay As You Earn (PAYE) or Tax Deduction at Source (TDS).</p>
	<p>2. <u>Income Tax- Companies & Bodies Corporate</u></p> <p>The tax is recognised on accrual basis.</p>
	<p>3. <u>Pay As You Earn (PAYE) and Tax Deduction at Source (TDS)</u></p> <p>Revenue is recognised in the financial year the taxable activity takes place based on returns submitted in the current financial year. PAYE /TDS for the month of June submitted up to the cut-off date of 31 July of the following</p>

	<p>financial year are recognised as revenue in the current financial year.</p> <p>PAYE /TDS relating to any month prior to June that are declared after the end of the current financial year and PAYE/TDS relating to any prior periods are recognised as revenue in the year in which the returns are submitted.</p>
Taxes on Property	Revenue is recognised on an accrual basis.
Taxes on Goods and Services and Taxes on International Trade and Transactions	<p>1. <u>Value Added Tax (VAT)</u></p> <p>Revenue is recognised in the year the taxable activity takes place based on returns relating to the current financial year submitted by the taxpayer during the financial year and returns pertaining to the month of June and Quarter April to June submitted by 31 July of the following financial year, net of any repayment.</p> <p>VAT returns for the month of July to May and Quarters July to March declared after financial year end and VAT relating to prior periods are recognised as revenue, net of any repayment in the year in which the returns are submitted.</p>
	<p>2. <u>Custom & Excise Duties and Other taxes collected at Customs</u></p> <p>Revenue is recognised in the financial year the taxable activity takes place based on the customs declarations submitted at customs.</p>
	<p>3. <u>Betting and Gaming Taxes</u></p> <p>Revenue is recognised when taxes are declared in the tax payers returns during the financial year.</p>
Other Taxes	<p>1. <u>Environment Protection Fee (EPF)</u></p> <p>Revenue is recognised when taxes are declared in the tax payers returns during the financial year.</p>
	<p>2. <u>Advertising Structure Fee, Shooting and Fishing Lease and Passenger Fee</u></p> <p>Revenue is recognised when taxes are declared in the tax payers returns during the financial year.</p>

Penalties, interests and surcharges arising in relation to taxation are recognised as revenue in the year when these charges are applied.

Revenue on assessments is recognised in the financial year in which the Assessment, Objection or Appeal is finalised i.e., after the resolution of the dispute.

(ii) Grant with Conditions

The Public Sector recognizes the grant money as an asset and also a liability in respect of the condition attached to the grant. As the Public Sector satisfies the condition, it reduces the liability and recognizes revenue in the period the liability is discharged.

IPSAS 23.44. 23.45

(iii) Grant/ Goods In-Kind /Gifts and Donation with No Conditions

Revenues are measured at fair value and recognized on obtaining control of the asset (cash, goods, and property) if the transfer is free from conditions and it is probable that

IPSAS 23.95. 23.96. 23.97

the economic benefits or service potential related to the asset will flow to the Public Sector and can be measured reliably.

(iv) Debt Forgiveness

Revenue is recognized in respect of debt forgiveness when the former debt no longer meets the definition of a liability or satisfies the criteria for recognition as a liability. Revenue arising from debt forgiveness is measured at the carrying amount of the debt forgiven.

IPSAS 23.85, 23.87

(v) Fines, Fees, and Social Contributions

Fines, fees and social contributions are recognized when it is probable that the future economic benefits or service potential associated with the asset will flow to the entity and the fair value of the asset can be measured reliably.

IPSAS 23.31

(vi) Service In-kind

The Public Sector does not recognize services in kind.

IPSAS 23.98

Commentary

According to IPSAS 23.98, an entity may but is not required to recognize services in-kind as revenue and as an asset.

The Government has opted not recognize services in kind.

(vii) Concessionary Loan

For concessionary loans, the difference between loan proceeds and the fair value of the loan on initial recognition is recognized as revenue. However, if a present obligation exists, a liability is recognized and as the present obligation is satisfied, the liability is reduced and an equal amount of revenue recognised.

IPSAS 23.105A, B

1.27. Expenses

Expenses are recognized in the period to which they relate.

(i) Grant and Subsidies

Where grants and subsidies are at the Public Sector's discretion until payment, the expense is recognised when the payment is made. Otherwise, the expense is recognized when the specified criteria for the grant or subsidy have been fulfilled and notice has been given to the Public Sector.

(ii) Contributions and Social Benefits

Contributions and social benefits are recognized in the period to which they relate to.

(iii) Operating Expenses

These are recognised in the period when goods are received or services are rendered.

(iv) Transfer Payments

Transfer payments comprise mainly of pension payments, social aid and grant to NGOs. These are recorded as an expense in the period the transfer is authorized and all eligibility criteria have been met by the recipient. All other transfer payments are recognised on a cash basis.

(v) Finance Costs

Finance costs on financial liabilities measured at amortised cost are recognised in surplus or deficit using the effective interest rate method.

(vi) Other Expenses

Other expenses, except for transfer payments, are recognised in the period when goods are received or services are rendered.

1.28. Related Parties

The Public Sector regards a related party as a person or an entity with the ability to exert control individually or jointly, or to exercise significant influence over the Public Sector, or vice versa.

IPSAS 20.4

This includes relationship with entities forming part of the public sector, key management personnel and their close family members. Members of key management are regarded as related parties and comprise The Prime Minister, Ministers, Permanent secretaries and other Accounting Officers, Senior Management Group, Councilors, Mayors and Advisors.

Transactions between these related parties and the Public Sector is disclosed in these consolidated financial statements except for transactions that would occur within a normal supplier of client/recipient relationship on terms and conditions no more or less favorable than those which it is reasonable to expect the Public Sector would have adopted when dealing with that individual or entity at arm's length in the same circumstances.

*IPSAS 20.27***1.29. Segment Reporting***IPSAS 18.12*

The Public Sector has three reportable segments:

- Budgetary Central Government

This comprises Ministries, Government Departments and Special Funds deposited with the Accountant-General.

- Extra Budgetary Units and Local and Regional Government

This comprises Statutory Bodies, Local Authorities, Special Funds and the Rodrigues Regional Assembly.

- Public Sector Corporations

These are entities controlled by the Government comprising Financial and Non- Financial Corporations.

The presentation of the segment information in note ____ is based on the same accounting information as that of the Public Sector.

1.30. Commitments

Commitments are future expenses and liabilities to be incurred on contracts entered into at the reporting date for which the Public Sector has minimal discretion, if any, to avoid in the ordinary course of operations. Commitments relating to employment contracts are excluded.

IPSAS 1.129, 14.31

Commitments include:

- Capital commitments: aggregate amount of capital expenses contracted for but not recognized as paid or provided for at year end.
- Contracts for the supply of goods or services which the Public Sector expects to be delivered in the ordinary course of operations.
- Other non-cancellable commitments.

IPSAS 2.61

1.31. Key Assumptions and Judgements

The preparation of the Public Sector's consolidated financial statements in conformity with IPSAS requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

IPSAS 1.137. 1.140

(i) Judgements

In the process of applying the Public Sector's accounting policies, management has made judgments, which have the most significant effect on the amounts recognized in these consolidated financial statements.

IPSAS 1.137

(a) Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions is included in Note ____.

(b) Assessment of significant influence

Where the Public Sector holds less than 20% of voting rights in an investment but the Public Sector has the power to exercise significant influence, such an investment is treated as an associate. In the opposite situation where the Public Sector holds over 20% of voting rights (but not over 50%) and the Public Sector does not exercise significant influence, the investment is treated as an available-for-sale investment.

(c) Assessment of De-Facto Control

De-facto control exists when the size of the Public Sector's own voting rights relative to the size and dispersion of other vote holders, give the Public Sector the practical ability unilaterally to direct the relevant activities of the company.

Although the Public Sector owns less than half of Entity X_ and has less than half of its voting power, management has determined that the Public Sector controls Entity X on a de-facto basis, because the remaining voting rights in the investees are widely dispersed and there is no indication that all shareholders exercise their votes collectively.

(d) Operating Lease Commitments – Public Sector as Lessor

The Public Sector has entered into property leases of certain of its properties. The Public Sector has determined, based on an evaluation of the terms and conditions of the arrangements, (such as the lease term not constituting a substantial portion of the economic life of the commercial property) that it retains all the significant risks and rewards of ownership of these properties and accounts for the contracts as operating leases.

(ii) Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Public Sector based its assumptions and estimates on parameters available when these consolidated financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Public Sector. Such changes are reflected in the assumptions when they occur.

IPSAS 1.140

(a) Useful Lives and Residual Values

The useful lives and residual values of assets are assessed using the following indicators to inform potential future use and value from disposal:

- The condition of the asset based on the assessment of experts employed by the Public Sector
- The nature of the asset, its susceptibility and adaptability to changes in technology and processes
- The nature of the processes in which the asset is deployed
- Availability of funding to replace the asset
- Changes in the market in relation to the asset

(b) Fair Value Estimation – Financial Instruments

Where the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques including the discounted cash flow model and adjusted net asset method. The inputs to these models are taken from observable markets where possible, but where this is not feasible, judgment is required in establishing fair values. Judgment includes the consideration of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

(c) Defined Benefit Obligations

The Public Sector's estimate of the DBO is based on a number of critical underlying assumptions such as standard rates of inflation, mortality, discount rate and anticipation of future salary increases.

Variation in these assumptions may significantly impact the DBO amount and the annual defined benefit expenses (as analyzed in Note _____).

(d) Changes in Accounting Policies

The Public Sector changes its accounting policies only if required by an IPSAS or if the change results into the financial statement providing faithfully representative, and more relevant information.

Changes in accounting policy resulting from the initial application of an IPSAS are accounted in accordance with the specific transitional provisions, if any, in that standard. In the absence of specific transitional provisions, the Public Sector makes retrospective application.

(e) Impairment of Non-Financial Assets – Cash-Generating Assets

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumptions may change, which may then impact management's estimations and require a material adjustment to the carrying value of non-financial assets.

The Public Sector reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Cash-generating assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates of expected future cash flows are prepared for each group of assets. Expected future cash flows used to determine the value in use of non-financial assets are inherently uncertain and could materially change over time.

The Public Sector reviews and tests the carrying value of non-cash-generating assets when events or changes in circumstances suggest that there may be a reduction in the future service potential that can reasonably be expected to be derived from the asset. Where indicators of possible impairment are present, the Public Sector undertakes impairment tests, which require the determination of the fair value of the asset and its recoverable service amount. The estimation of these inputs into the calculation relies on the use estimates and assumptions.

Any subsequent changes to the factors supporting these estimates and assumptions may have an impact on the reported carrying amount of the related asset.

(f) Impairment of Held-To-Maturity Investments and Loans And Receivables

The Public Sector assesses its loans and receivables (including trade receivables) and its held-to-maturity investments at the end of each reporting period. In determining whether an impairment loss should be recorded in the statement of financial performance, the Public Sector evaluates the indicators present in the market to determine if those indicators are indicative of impairment in its loans and receivables or held-to-maturity investments.

Where specific impairments have not been identified the impairment for trade receivables, held-to-maturity investments and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

(g) Inventories

The Public Sector estimates the net realizable values of inventories, taking into account the most reliable evidence available at each reporting date. The future realization of these inventories may be affected by future technology or other market-driven changes that may reduce future selling prices or future service potential.

(h) Taxation Revenues

Tax revenues, the related amounts receivable and payable and the allowance for doubtful accounts are subject to measurement uncertainty due to the use of estimates of amounts not yet assessed/reassessed and of objections filed by taxpayers.

1.32. Financial Risk Management

The Public Sector is exposed to interest rate risk, foreign exchange risk, equity price risk, credit risk and liquidity risk. These risks are managed by individual Public Sector and the Ministry of Finance and Economic Planning and Development.

IPSAS 30.38

(i) Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Public Sector's exposure to the risk of changes in market interest rates relates primarily to the Public Sector's long-term debt obligations with floating interest rates. In general, interest rate risk is managed strategically by issuing a mix of fixed and floating rate debt.

(ii) Foreign Exchange Risk

Foreign exchange risk refers to the risk of loss due to adverse movements in foreign exchange rates.

The Public Sector undertakes transactions denominated in foreign currencies, and is hence exposed to exchange rate fluctuations. In order to minimize its exposure to this risk, the Public Sector holds bank accounts in various currencies such as USD, GBP.

(iii) Equity Price Risk

The Public Sector's listed and unlisted equity securities are susceptible to market price risk arising from uncertainties about future values of the investment securities. The majority of these investment securities are held for strategic reasons and therefore the equity price risk associated with these securities is not managed.

However, the Public Sector manages some of the equity price risk through diversification and by placing limits on individual and total equity instruments.

(iv) Credit Risk

Credit risk is the risk of financial loss to the Public Sector if customers or counterparties to financial instruments fail to meet their contractual obligations, and it arises principally from the Public Sector's investments, loans and receivables.

The Public Sector manages their exposure to credit risk by:

- Maintaining credit exposure only with highly rated institutions, for which the probability of default is low. The credit worthiness of counterparties is continuously monitored.
- In some instances, requiring collateral from counterparties.

The risk management of the Public Sector is further detailed in note _____.

(v) Liquidity Risk

Liquidity risk is the risk of the Public Sector not being able to meet its obligations as they fall due. The Public Sector's approach to managing liquidity risk is to ensure that sufficient liquidity is available to meet its liabilities when due, without incurring unacceptable losses or risking damage to the Public Sector's reputation.

The Public Sector ensures that it has sufficient cash on demand to meet expected operating expenses through the use of cash flow forecasts. In addition, liquidity risk is managed on an individual entity basis, which generally requires entities to hold assets of appropriate quantity and quality to meet their obligations as they fall due.

1.33. Fair Value Measurement

The fair value of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation.

The following methods and assumptions were used to estimate the fair values:

IPSAS 30.31

- Cash and short-term deposits, trade receivables, trade payables and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.
- Long-term receivables are evaluated by the Public Sector based on parameters such as interest rates, specific country risk factors, individual creditworthiness of the customer and the risk characteristics of the financed project. Based on this evaluation, allowances are taken to account for the incurred losses of these receivables and market related interest rates. As at 30 June 20XX and 20X1, respectively, the carrying amounts of such receivables, net of allowances, are not materially different from their calculated fair values.
- The fair value of loans, borrowings and other financial liabilities are estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.
- Fair value of financial assets is derived from quoted market prices in active markets, if available.
- Fair value of unquoted financial assets is estimated using appropriate valuation techniques (net asset value based on latest audited financial statements).

Fair Value Hierarchy

The Public Sector uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

IPSAS 30.32

Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as price) or indirectly (i.e. derived from prices)

Level 3: Techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

1.34. Events After Reporting Date

The Public Sector makes adjustment for adjusting events after the reporting date and disclosures are made for significant non-adjusting events after the reporting date.

IPSAS 14.10, 14.30

1.35. Standards Issued but Not Yet Effective

IPSAS 3.35

At the date of authorization of these consolidated financial statements, several new, but not yet effective, Standards, amendments to existing Standards, and Interpretations have been published by the IPSASB.

With the exception of IPSAS XX (Note XX) these Standards, amendments or Interpretations have not been adopted early by the Public Sector.

Management anticipates that all relevant pronouncements will be adopted for the first period beginning on or after the effective date of the pronouncement.

The following standards are expected to have material impact on the Public Sector's financial statements in the period of initial application:

To insert:

- Title of Standard

- Nature of Expected change

- Impact

- Effective Date /Date of adoption by Public Sector

There are no other standards that are not yet effective and that would be expected to have a material impact on the Public Sector in the current or future reporting periods and on foreseeable future transactions.