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18 July 2014

Dear Ms Fox,

IPSASB Strategy Consultation and Consultation on the Work Programme 2015-2019

We are pleased to respond to the invitation from the International Public Sector Accounting Board (IPSASB) to comment on the Strategy Consultation and Consultation on the 2015-2019 Work Programme (the Consultation Paper) on behalf of PricewaterhouseCoopers. Following consultation with members of the PricewaterhouseCoopers network of firms, this response summarises the views of those firms that commented on the Consultation Paper. ‘PwC’ refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

We support the work the IPSASB undertakes to develop high-quality accounting standards for use by governments and other public sector entities around the world with the aim of enhancing the quality, consistency and transparency of public sector financial reporting worldwide.

We also support the IPSASB’s decision to seek the views of its stakeholders on its strategy and priorities for the work programme covering the period 2015-2019. We agree that this approach will help contribute to the IPSASB’s public accountability and legitimacy and therefore enhance the credibility of IPSASs.

We agree that the objectives and potential projects set out in the present consultation paper will be useful for constituents. However we believe the primary focus of the IPSASB should be on finalising the projects which are most critical to complete a high-quality framework that addresses the major accounting and financial reporting principles and topics that are relevant to public sector entities, and which is sufficiently tailored to address the specific characteristics of the public sector. We believe that this will greatly contribute to the credibility of the IPSAS framework and its recognition as a global and widely accepted framework.
If you would like to discuss any of these points in more detail, please contact Jan Sturesson (+46 10 212 99 39), Jean-Louis Rouvet (+33 1 56 57 85 78), Patrice Schumesch (+32 2 710 40 28), or Tony de Bell (+44 20 7213 5336).

Yours sincerely

PricewaterhouseCoopers

PricewaterhouseCoopers
Strategic objective

The IPSASB has put forward the following strategic objective for consideration as part of its strategy consultation:

"Strengthening public financial management and knowledge globally through increasing adoption of accrual-based IPSASs by:

   a) developing high-quality financial reporting standards;
   b) developing other publications for the public sector; and
   c) raising awareness of the IPSASs and the benefits of their adoption.

Question 1

Do you agree with the IPSASB's tentative view on its strategic objective for the period from 2015 forward? If not, how should it be revised?

We agree with the proposed strategic objective, which recognises the need for high-quality financial reporting standards and other publications for the public sector together with the increased acceptance and application of these standards as a means of strengthening public financial management.

However, we believe that the IPSASB's first priority within this overall objective should be the development of high-quality financial reporting standards.

Increasing awareness through public engagement and with production of promotional materials is desirable but the primary objective should be the development of a comprehensive set of standards that adequately address issues that are specific to the public sector. Developing standards that sufficiently address key public sector-specific financial reporting needs will contribute to the secondary objective of raising awareness of the IPSASs and the benefits of their adoption by adding further credibility to the standards among users and other stakeholder groups.
Outcomes

The IPSASB has identified two outcomes that it seeks to achieve in order to meet its strategic objective:

a) Improved ability of public sector entities to reflect the full economic reality of their finances as well as of stakeholders to understand; and
b) Increased awareness of IPSASs and their public finance management benefits in order to influence their adoption.

Question 2

Do you think that the two outcomes identified are appropriate for achieving the strategic objective? If not, what outcomes do you think are more appropriate?

We agree that these outcomes are appropriate, but we believe the primary focus should be on the first one. In order for the increased awareness of IPSASs to lead to adoption by governments, users must have confidence in the suitability of the standards in place and in their ability to appropriately reflect the economic reality of transactions and events. A sufficiently complete set of standards must be in place to capture routine and public sector-specific transactions that shape the economic reality of public sector finances.

The IPSASB could also consider aligning the wording in a) with the wording included in the IPSASB Terms of Reference posted on the IPSASB website: 'enhanced quality and transparency of public sector financial reporting to provide better information to stakeholders for public sector financial management and decision making'.
Outputs

The IPSASB proposes to focus on delivering the following outputs in order to achieve the intended outcomes:

(a) Developing high-quality financial reporting standards and other publications for the public sector; and
(b) Undertaking presentations, speeches and other outreach activities in order to engage with stakeholders.

Question 3

Do you think that the outputs identified will assist in achieving the outcomes? If not, what outputs do you think the IPSASB should focus on?

We believe that the IPSASB's primary focus should be on production of the standards themselves as the key output that enables public sector entities to reflect the economic reality of their finances and increase acceptance of the IPSASs.

Building public awareness and outreach activities are helpful but these promotional efforts will be more effective once a robust set of standards is in place. The standards must be acceptable to governments and other public sector entities and must be of sufficiently high quality to permit reflecting the underlying economic reality in their general purpose financial reports. We believe that it is important that the efforts relating to the promotion of standards focus on the front end of the standard setting process, at the discussion paper and exposure draft stages.
Feedback mechanisms

The IPSASB currently obtains feedback as part of its stands development process and through ongoing outreach activities. The IPSASB wants to consider whether feedback processes need to be enhanced.

Question 4
What changes to feedback mechanisms should the IPSASB make to ensure it is fully informed about the views of its stakeholders?

Engaging with stakeholders both in the standard setting process and through ongoing outreach activities is important. Connecting with other national or supranational standard setters that have developed or are developing high-quality accounting frameworks brings useful insight as to the views of a large number of stakeholders who can inform the standard-setting process.

In the long term, the IPSASB may wish to consider establishing post-implementation reviews to obtain feedback from adopters on the implementation process, challenges faced in applying the standards, inconsistencies identified with other standards, etc. Establishing an interpretation committee to provide complementary interpretive guidance to accompany the standards might be a longer-term initiative to be considered once the standards themselves are sufficiently developed and applied.
IPSASB's Consultation on Work Programme 2015-2019

Assessing Potential Projects

The IPSASB’s consultation proposes five key factors to be considered in deciding whether to initiate a project and assessing its relative priority, specifically:

1. **Significance for the public sector** - generally this would be a public sector specific project that has high relevance to the public sector, likely for which there is no equivalent private sector issue.

2. **Urgency of the issue** - developments globally may result in changes in the environment and therefore an issue becoming more important. For example, as a result of the global financial crisis in 2008 the IPSASB accelerated work on IPSASs 28-30 as it deemed it important to have standards on financial instruments.

3. **Gaps in standards** - the project addresses an issue that has not previously been addressed in IPSASs or Recommended Practice Guidelines (RPGs).

4. **IFRS convergence** - the project meets the goal of convergence with the IFRSs where deemed appropriate. This would allow leveraging resources in terms of possibly collaborating with the IASB.

5. **Alignment with the Government Financial Statistics (GFS)** - the project helps to reduce divergence between the IPSASs and GFS.

**Question 5**

Do you agree with the five key factors the IPSASB considers in deciding to initiate a project and assessing its priority? Are there other factors you think should be considered?

We recognise the importance of all of these factors in assessing projects for potential inclusion in the work programme. However, the first priority should be standards development and therefore the first three factors are especially important.

Gaps in the standards must be filled as early as possible to complete the standards and ensure that the IPSAS suite addresses the major accounting and financial reporting principles and topics that are relevant for public sector entities, and is sufficiently tailored to address the specific characteristics of the public sector.

Addressing issue significant for the public sector will help to further align the IPSASs with the sector-specific needs of its adopters. This could be achieved by issuing new standards for key topics where no other reference currently exists (i.e. under IFRS) or by providing implementation guidance and/or public sector-specific examples that can assist adopters to apply the existing standards (see also our response to question 8).

The urgency of an Issue should reflect the particular facts and circumstances. At present, we believe that it is urgent to finalise a comprehensive set of standards that address the most significant
accounting issues for public sector entities. Considering emerging issues as they arise will demonstrate the responsiveness of the IPSASB and ensure that its work remains relevant to the needs of adopters and other stakeholders.

IFRS convergence is a necessary consideration within the standards development process. We support the existing process for IFRS convergence and the objective of maintaining convergence between IPSAS and IFRS for similar transactions in similar circumstances. The limited resources available for this work and the standard-setting priorities mentioned above suggest that no IFRS convergence work should be undertaken in areas where the IFRSs are expected to change because it would lead to a duplication of effort. Instead, IFRS convergence activities should focus on those IFRS standards which are stable and for which no further amendments are expected in the medium-term. The objective of IFRS convergence, where relevant, should not override the requirement that transactions or circumstances that are unique or specific to the public sector should be accounted for by taking into account the specific characteristics of those transactions and public sector entities.

Aligning accounting standards with GFS is desirable to reduce unnecessary inconsistencies and avoid the burden of dual reporting by governments. It is particularly important in some jurisdictions, for example in Europe, given the use of GFS figures at the EU-level for fiscal surveillance and monitoring of the fiscal rules (i.e. Maastricht criteria on debt and deficits) included in the European Union’s Stability and Growth Pact. Certain differences may remain, however, as the two sets of reporting frameworks serve distinct purposes, with accounting standards focused on capturing individual transactions and events and reporting on financial position and performance at the micro entity-level while GFS provide macro-level aggregate figures for the purposes of economic and fiscal monitoring. Finally, alignment does not necessarily mean that IPSAS should always align to GFS; issuing high quality accounting standards should remain the overarching objective and, where relevant, GFS must also come closer to IPSAS.
Cash Basis IPSAS

The IPSASB is interested in knowing stakeholders' views as to the future of the Cash Basis IPSAS standard. It has identified the following three viable options for proceeding:

(a) Retain the Cash Basis IPSAS and complete the review project using existing IPSASB resources; this would mean issuing an ED that addresses the Task Force's recommendations, analysing responses and finalizing a revised Cash Basis IPSAS;
(b) Retain the Cash Basis IPSAS unchanged; this would mean suspending the review project and doing no further work on the IPSAS; or
(c) Withdraw the Cash Basis IPSAS from the IPSASB Handbook; this could be immediate or at some future date.

Question 6

Do you think the Cash Basis IPSAS is a valuable resource in strengthening public finance management and knowledge globally by increasing the adoption of accrual-based IPSASs?

Cash Basis IPSAS is a valuable resource in the IPSASB's effort to strengthen public financial management and knowledge as it provides a transitional framework to public sector entities in the early stages of their accounting modernisation programmes. We have observed a trend among governments, particularly in developing countries, to use Cash Basis IPSAS as the first step in a gradual transition to accrual accounting. Good cash management and reporting practices are a necessary starting point for accruals accounting and the Cash Basis IPSAS provides guidance to reporting entities to help them achieve this.

We understand the value of the cash-basis standard for transitional purposes but stress that it should be seen as a stepping stone towards implementation of full accruals-based accounting practices.
Question 7

Of the three options identified in relation to the Cash Basis IPSAS, which would you recommend the IPSASB select? Please provide the rationale for your recommendation.

The priority activity of the IPSASB in the medium term should be on completing the suite of accrual-based standards, filling any gaps in the standards and ensuring their suitability for public sector reporting entities. We therefore believe that no further resources should be invested in the cash-based standard.

We thus agree with the second option listed above (b), that the Cash Basis IPSAS should be retained unchanged and all current and future work related to the standard should be suspended at this time.
### Potential New Projects

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The Appendix to the Consultation Paper addresses each of the potential projects above in more detail. Our views on these potential projects are presented below in response to Question 8.
Question 8

**Considering the various factors and constraints, which projects should the IPSASB prioritize and why? Where possible please explain your views on the description and scope of the project.**

We believe the IPSASB should complete by the end of 2014 four current projects, including those relating to the public sector conceptual framework and the review of the standards on consolidation and interests in other entities. The IPSASB should also finalise as soon as possible those current projects that are classified as existing commitments in the Consultation Paper, particularly social benefits, followed by the update of the standards on financial instruments and issuance of a new standard on public sector financial instruments.

We agree that all potential new projects listed above are relevant for future consideration in public sector financial reporting, but recognise that the limited resources available must be used to focus on the highest priority items over the next five years. We believe the IPSASB should focus on the projects listed in the category ‘Projects to address Public Sector Specific Issues’.

**Projects to address public sector specific issues**

The Board’s efforts should be concentrated on the major public sector specific items. A significant gap in the IPSASs currently exists in respect of the ‘Non-exchange expenses’ which is a very important item for governments and other public sector reporting entities. These types of expenses are a major source of expenditure for many public sector entities and the accounting should be addressed as matter of urgency in the 2015-2019 work programme.

Other priority topics include issues related to the ‘Role of government as owner rather than government’ and the ‘Sovereign powers and their impact on financial reporting’ which are two key conceptual issues that are unique to the public sector.

Infrastructure and military assets are a major source of government spending with high transaction frequency. Additional guidance is desirable, whether in specific standards or supplementary implementation guidance provided as part of the existing standard on property, plant and equipment (that latter option might be sufficient).

Heritage assets are a unique and valuable type of asset in the public sector context and additional guidance is also desirable, but we believe that the urgency of this item is lower. Pending specific guidance on this, pragmatic approaches to heritage asset valuation can be developed within the existing limited IPSAS guidance included in IPSAS 17 ‘Property, plant and equipment’.

Finally we identify ‘Measurement - public sector specific’ as an important project, which is integrally linked to the conceptual framework project, which should reach completion by the end of 2014. Any potential project on the issue of measurement should therefore be considered in light of the conceptual framework.
Projects to maintain existing IPSASs

We believe that the priority should be placed on the maintenance and improvement of the standards on revenue from non-exchange transactions and employee benefits because of their significance to the public sector.

Projects to converge with IFRS

We agree with the aim of convergence with IFRS where there is no rational basis to adopt a different accounting treatment in the public sector. However, we do not see the potential projects to converge with IFRS identified in this consultation paper as high priority at the current time.

Other projects

The project on differential reporting deserves also some attention when the comprehensive set of standards is finalised, because a pragmatic approach is needed for very small and less risky entities.

The 'other projects' listed above are interesting and of relevance for public sector reporting entities, however, we do not consider these to be major priorities for the 2015-2019 period given the more pressing public sector reporting issues outlined in our response to the present consultation.