Ms Stephenie Fox
The Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
529 Fifth Avenue, 6th Floor
New York, NY 10017 United States of America

Dear Ms Fox

IPSASB Strategy Consultation 2015-19

The Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC) welcomes the opportunity to provide comments to the International Public Sector Accounting Standards Board (IPSASB) on their consultation paper: IPSASB Strategy Consultation.

HoTARAC is an intergovernmental committee that advises Australian Heads of Treasuries on accounting and reporting issues. The Committee is comprised of the senior accounting policy representatives from all Australian States, Territories and the Australian Government.

Comments by HoTARAC on questions from the consultation paper are attached. HoTARAC is generally supportive of the tentative strategic objective of IPSASB as well as its proposed outputs and outcomes. HoTARAC also recommends that the IPSASB should include funding considerations and the development of an engagement strategy with the IASB in its strategies.

If you have any queries regarding HoTARAC’s comments, please contact Peter Gibson from the Australian Department of Finance on +61 2 6215 3551.

Yours sincerely

David Nicol
Chair
Heads of Treasuries Accounting and Reporting Advisory Committee
6 August 2014
Attachment 1: HoTARAC comments on IPSASB Strategy Consultation 2015-19

HoTARAC General Comments

Funding

HoTARAC recommends the strategy consultation paper give further consideration to funding, as adequate resources will be required to progress the strategies developed and work program proposed in the consultation paper.

HoTARAC notes that the paper has been written on the assumption of current funding being maintained (page 8). However, a number of issues addressed in the paper will require additional resourcing:

- Additional staff will be needed to implement oversight changes (page 16).
- The second outcome on page 11 seeks increased adoption of IPSASs from the current 80 jurisdictions. Increasing the rate of adoption potentially puts more strain on limited resources:
  - to address the increased number of financial reporting issues (page 8); and
  - for outreach activities and need for feedback from new adopters (page 13).
- Calls to establish a mechanism to deal with urgent issues/interpretations of IPSASs (page 8).

Engagement with the International Accounting Standards Board (IASB)

HoTARAC strongly recommends the IPSASB develop a strategy for its engagement with the International Accounting Standards Board (IASB). The consultation paper raises the possibility of collaborating with the IASB as one of the key factors in deciding whether to initiate a project (page 15). This could be better addressed as part of a broader strategy for engagement with the IASB. HoTARAC’s preference would be working toward the long-term goal of eventual integration of the two bodies.

HoTARAC notes that an initial step was taken in the signing of a Memorandum of Understanding (MoU) between the International Federation of Accountants (IFAC) and the IASB to enhance cooperation in developing private and public sector accounting standards in 2011. The MoU is scheduled for review in December 2014 and this will represent an opportunity to further enhance cooperation as part of an overall strategic goal.
Suggestion to adopt a strategy to address urgent issues

While acknowledging the IPSASB’s resource constraints, HoTARAC recommends that the IPSASB consider developing a strategy to address urgent issues that may, from time to time, emerge for public sector entities. Often such urgent issues (e.g. when narrow amendments or interpretations are required) need to be resolved in a timely manner but do not take a significant amount of staff and board members’ time and effort compared to other more complicated projects. A streamlined process (e.g. by establishing a separate Interpretations Committee as suggested below for Question 4, or adopting an out-of-session voting system on urgent and non-essential issues) may serve the purpose of enhancing the board’s efficiency in addressing these issues.

Questions for respondents

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?

HoTARAC agrees with IPSASB’s tentative view on its strategic objective. HoTARAC further suggests IPSASB include “globally accepted” in its objective as follows:

(a) Developing high-quality, globally accepted financial reporting standards

Globally accepted standards will help IPSASB achieve its strategic objective, in particular strengthening public financial management and knowledge globally and raising awareness of the IPSASs.

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?

HoTARAC agrees, subject to the remarks on funding in the general comments above.

HoTARAC further suggests IPSASB replaces “finances” with broader terminology that also encompasses service performance.

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?

HoTARAC agrees with the outputs identified.
4. What changes to feedback mechanisms should the IPSASB make to ensure it is fully informed about the views of its stakeholders?

HoTARAC suggests the IPSASB consider establishing a body similar to the IASB Interpretations Committee to address urgent accounting issues and some process for reviewing the implementation of new standards. HoTARAC notes this is subject to available resourcing.

HoTARAC welcomes the recent initiative taken by the IPSASB of publishing its work program on its website so information on upcoming issues is more accessible to users.

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?

HoTARAC generally agrees.

It is suggested that the Gaps in standards factor might be broadened to also include clarifications needed for standards and urgent issues as noted in the question above.

HoTARAC notes that the IPSASB considers both IFRS convergence and alignment with GFS are key factors to be considered in assessing priorities of potential projects. However, given IFRS convergence and alignment with GFS may have different objectives, the IPSASB may need to explain its logic in balancing between the two key factors when setting IPSASB’s future work program.

Additionally, HoTARAC recommends the IPSASB:
- Avoid numbering the key factors unless they are listed in order of significance or priority; and
- In key factor 1, consider whether the phrase “...likely for which there is no equivalent private sector issue” is necessary as we would expect IFRS to consider key accounting issues that affect the private sector.

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?

HoTARAC does not think that the Cash Basis IPSAS is a valuable resource in strengthening public finance management and knowledge globally. In fact, it may detract from the IPSASB achieving the strategic objective as proposed in the paper.
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.

HoTARAC would recommend IPSASB select option c - Withdraw the Cash Basis IPSAS from the IPSASB Handbook.

Given the current constraints on inputs identified in the Consultation paper, HoTARAC is of the view that IPSASB’s resources would be better used in progressing Accrual-Based IPSAS projects rather than on Cash-Basis IPSAS. This is because adoption of Cash-Basis IPSAS has been lower than anticipated and still requires rework. Additionally, as the IPSASB has an accrual-based focus, HoTARAC suggests that IPSASB direct their efforts on encouraging entities to transition from a cash basis to an accrual basis, rather than to follow/adopt an (intermediary) Cash-Basis IPSAS.

As an alternative, and if not administratively onerous, HoTARAC suggests that IPSASB produce a guidance document for jurisdictions which have not yet implemented accrual accounting and would like to utilise the principles in their reporting.

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

- **Measurement – public sector specific:** HoTARAC recommends that this project addresses measurement across different standards and that consideration be given to this being a convergence project with IFRS 13 Fair Value Measurement. It would be of benefit if specific public sector issues are addressed and clarifications on the application of fair value are made. HoTARAC does not believe that the focus of the project should include addressing “whether references to ‘fair value’ in existing IPSASs should be retained if it is defined as exit value as in IFRS 13, Fair Value Measurement”, but rather should consider the application of fair value to public sector assets which often lack active markets. HoTARAC jurisdictions currently apply the exit value principle under the Australian equivalent of IFRS 13. Our experience suggests that the use of exit values is not a significant issue. Progress on the measurement issue and the application of fair value would also be relevant to other projects listed in the consultation document such as infrastructure assets, heritage assets and military assets and the IPSASB may consider the extent to which these projects can be merged.

- **Military assets:** The valuation of military assets will be an important issue as adoption of accrual based IPSAS increases, particularly as GFS now requires these assets to be held at fair value. This issue should be addressed either as part of the measurement project, as suggested above, or as a standalone project.
• **Leases IPSAS 13**: Leasing activity commonly occurs amongst public sector entities and can represent a large component of their financial operations. A new approach to accounting for leasing is proposed for IFRS and the IPSAS should be updated accordingly.

• **Improvements to IPSAS 23 Non-Exchange Revenues and Non-Exchange Expenses**: Revenues and expenses resulting from non-exchange transactions may represent a large proportion of the financial transactions in the public sector. The recently issued IFRS standard on *Revenue from Contracts with Customers* and the upcoming *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* represent a good opportunity for the IPSASB to review the appropriateness of the existing revenue recognition principles in IPSAS 23 for non-exchange transactions and IPSAS 32 for service concession arrangements. To ensure common principles are applied to both the revenue and expenditure sides, HoTARAC suggests that the non-exchange expenses project be merged with the non-exchange revenue project.

• **Employee Benefits IPSAS 25**: HoTARAC recommends this standard be revisited following the most recent changes to IAS 19 in relation to defined benefit plans, which have had a significant impact on the Australian public sector.

• **Role of the Government as owner rather than Government**: transfers of assets and liabilities from the Government, to the Government and between entities controlled by the same Government are common. To ensure such transfers are accounted for consistently, additional guidance should be included in IPSAS 23 on how to determine whether the substance of a transfer is a contribution by or distribution to owners would be useful.