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Respond to IPSASB strategy

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General comments
The Swedish National Audit Office finds the strategy and overall objectives to be relevant and of highest importance. The demands on more transparency and good governance within the public sector has never been higher. Relevant and accurate financial data/financial statements is one of the prerequisites for accountability. We agree with the IPSASB that the move towards accrual based accounting is a necessity and should be encouraged worldwide. But to implement accrual based accounting is not the only solution, there needs to be a set of robust and qualified accounting standards defined by an independent standard-setter and not drawn and decided by a government who presents the financial statements. There has been critics from the public sector towards the IPSAS due to their lack of relevance to critic areas relevant to the public sector. We would like to encourage the IPASB to continue it’s important work and consider to strongly focus on developing (and adjusting) IPSAS in the most essential areas such as taxes (non-exchange revenues), measurement of assets, non-exchange expenses, employ benefits and infrastructure.

Comments to specific questions

1. In overall we agree with the IPASB’s tentative view on its strategic objectives.

2. Yes.

3. We believe that the outputs are relevant and will assist the achievement of the outcomes. The only thing we would like to point out is that it could be more clearly stated to which output most resources are allocated.

4. How feedback is received from stakeholders may vary, depending on the theme and matter. Without any in-depth
knowledge about your current routines we would like to suggest a few examples for your further consideration:

- Engaging on social media more extensively, such as Facebook, Twitter, LinkedIn etc. The pages/accounts should be held “live and vivid” if you want active respondents. It is an excellent (and cheap) way of starting discussions/debates and getting response quite quickly. Though the response will be based on personal views from the respondents, the social media is a good source of information related to trends and on-going debates but might not be fulfilling all the needs of in-depth information from relevant stakeholders.

- Identify key-stakeholders and build more robust relationships with regular meetings and follow-up on development. Who those key-stakeholders are best identified by IPSASB but we could mention for example the public audit organization INTOSAI (International Organization of Supreme Audit Institutions) or specific regions EUROSASI, ASIOSAI but also universities and specific standard-setters etc.

The interest in IPSAS and the work of IPSASB will increase as more countries adopt the ISAPAS. The development within EU and the EPSAS project has indicated that there are several standards that are not suitable for the public sector and IPSASB needs to step up and focus on those standards/areas, by doing so, the interest and feedback from stakeholders will increase.

5. The listed five key factors to be considered in deciding whether to initiate a project are relevant. Though we would like to point out that there might be a need for stronger priorities in the near future and perhaps emphasizing just one or two of those key-factors.

Our comments should be read in the perspective of the development in the EU (EPSAS project) but also the call from different stakeholders (market, citizens, international organizations such as IMF etc.) for a more robust and accurate financial reporting from the public sector. The quality of the financial statements will depend on the accounting standards and in some cases these standards are drawn by the government itself. It has been difficult to identify relevant existing accounting standards, and this has forced several to design their own or adopt IPSAS/IFRS but with extensive modifications. These circumstances enhances the risk for a reporting that is adjusted to what a government would like to report in the financial statements, especially in those cases...
where the country does not have a proper accounting standard-setting organization.
We believe that it would be in favor for the IPASB to focus on one or two of the factors and only chose projects that are closely related to those. The two factors would be nr 1
Significance to the public sector and nr 3 Gaps in standards.
The reason for why those factors should be prioritized are motivated below.

- We believe that nr 1 **Significance to the public sector** is the most important factor as well as 2 **Gaps in the standards**. We believe that these two are closely related. If the standards are not relevant and applicable to the public sector, IPSASB will lose credibility and the outputs will not be fulfilled. The ongoing project with the development of EU accounting standards for the public sector (EPSAS) has shown that most of the EU countries consider that the IPSAS does not cover all important areas for the public sector environment. Countries that have implemented IPSAS has been forced to write complimentary standards on areas that are of the highest relevance for the public sector for example taxes and social benefits.
We suggest that within a transition period the ISPASB might consider to focus on areas where the IPSAS has been lacking and this could be the key factor that will set the agenda.

We would like to point out that the key-factor nr 5 **Alignment with the GFS** could be considered as far more important than IFRS convergence, from a public sector perspective. The GFS reporting has for example been one of the reasons for starting up the EU project on developing EPSAS and the new EPSAS will as far as possible be aligned with GFS standards.
The alignment with the GFS is a very difficult and complicated. It is a challenge to design and set up standards for financial reporting and at the same time adjusting those to the standards for statistics where a huge part of the balance sheet is classified differently. In our opinion the IPSASB is the only internationally recognized standard-setting body for accounting principles and therefore it is very important for the IPSASB to take a lead on these issues.

6. From our perspective it is obvious that the adoption of accrual based accounting standards would be enhanced if the cash based IPSAS did not exist. It’s existence verifies the cash-based method as internationally acceptable and it is doubtful whether the cash-based standard increases the adoption of the accrual-based IPSAS.
The adoption of an accounting method, no matter which, is an expensive investment. The two step model, to adapt cash based
and then as step two adapt accrual based, does not seem to be rational and there is no much proof supporting this argument.

To invest in IT systems, education and other support for a cash-based systems and to do it all over again in a couple of years could be an expensive strategy, instead of moving towards accrual based immediately. The pressure to adopt accrual based accounting standards is global and the PFM (Public Financial Management) reforms that are on-going in the developing countries, and other as well, is focusing on the adoption of the accrual based accounting, especially after the financial crisis.

7. We would suggest a withdrawn of the standard in a five year perspective and without any further work done on the existing standard. The five year period will give the preparers of financial statements time to adopt the accrual based standards. By doing this there will be more resources available to the other projects. The rationale for our suggestion – see answer to question nr 6.

8. The listed potential projects are all relevant and important. Though we would like to suggest a more strict focus and prioritization on a few projects with the aim to finalize them in a shorter period. Below we have indicated which projects we believe should be of highest priority. The rationale for our choice is that these projects concern significant areas often mentioned as weak and poorly addressed in the IPSAS, in relation to the public sector specific environment, and they relate to large amounts.

Studies in EU has shown that countries which already had implemented IPSAS, in several cases has been forced to develop own standards for addressing certain areas, because the IPSAS has been defined as not applicable. We believe that the credibility of the ISPAS will raise and there will be fewer arguments for not adopting the IPSAS because important areas are not properly addressed.

- Projects to address public sector specific issues:
  ✓ Measurement – public sector specific. The completion of this project will affect the other suggested projects on heritage assets, infrastructure assets etc and there should it be highlighted and of highest priority.
  ✓ Non-exchange expenses
  ✓ Infrastructure assets, heritage assets and other asset related projects.
- Projects to maintain existing IPSAS:
  ✓ Improvements to **ISPAS 23 Non-exchange revenues**
  ✓ Employee **benefits ISPAS 25**