

IPSASB Strategy Consultation

response to consultation

31 July 2014

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As the world's only professional accountancy body to specialise in public services, CIPFA's portfolio of qualifications are the foundation for a career in public finance. They include the benchmark professional qualification for public sector accountants as well as a postgraduate diploma for people already working in leadership positions. They are taught by our in-house CIPFA Education and Training Centre as well as other places of learning around the world.

We also champion high performance in public services, translating our experience and insight into clear advice and practical services. They include information and guidance, courses and conferences, property and asset management solutions, consultancy and interim people for a range of public sector clients.

Globally, CIPFA shows the way in public finance by standing up for sound public financial management and good governance. We work with donors, partner governments, accountancy bodies and the public sector around the world to advance public finance and support better public services.

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Submitted electronically

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Dear Stephenie Fox

IPSASB Strategy Consultation

CIPFA is pleased to present its response to this consultation, which has been reviewed by CIPFA's Accounting and Auditing Standards Panel.

General comment

As noted in successive responses, CIPFA strongly supports IPSASB's development of high quality standards for public sector financial reporting, whether through the development and maintenance of IPSASs on topics covered by IFRS, through wholly public sector specific IPSASs, or through other initiatives which may be necessary to support the requirements of public sector financial reporting.

Now that the work on the Conceptual Framework is drawing to a conclusion, and the Board's governance arrangements are in the process of being formalised, we believe it is important that the Board is seen to build on this foundation and:

- ensure that existing standards remain fit for purpose;
- review the IPSASB literature to identify any gaps to be filled by standards or guidance; and
- develop such standards and guidance deemed necessary, as well as
- maintaining the suite of standards in the light of the work and pronouncements of the International Accounting Standards Board.

The Board's strategic direction from 2015 should reflect this and CIPFA looks forward to continuing to support the Board's work over the coming years.

As the consultation notes, the effects of the financial crisis and the related sovereign debt issues have both highlighted the need for improved public sector financial reporting and, beneficially, have increased the appetite for improved reporting. The Board has a crucial opportunity to serve the public interest by facilitating high quality reporting, but at the same time it is particularly important to make the best use of the Board's resources.

The enlarged field of IPSAS implementation also reinforces the need for the Board to consider the needs of preparers at very different stages of the implementation process, including governments and international organisations with stable and secure implementations, governments in transition to accruals IPSAS from cash based or other financial reporting, current users of the Cash Basis IPSAS, and

governments which have yet to apply any international standards to their financial reporting. At the same time, the Board needs to have regard to the wide range of stakeholders other than preparers, including citizens and service recipients, taxpayers, international donors, lenders and other funding providers.

The dynamics of the adoption of IPSAS are complicated, and one of the most recent developments is in relation to the improvement and harmonisation of public sector reporting in Europe, where IPSASB standards have, after some discussion and debate during consultations by Eurostat, been proposed as a reference for standards rather than being directly adopted or incorporated as local standards.

Perceptions of improved governance that should result from the recent consultation led by OECD may also stimulate improvements in the level of engagement with some public sector stakeholders. IPSASB standards were subject to some criticism during the Eurostat consultations, although in our view some of this may have been unfair, or perhaps more relevantly, may have taken a view of the nature of standard setting which is unrealistic for standard setters in any sector. Nevertheless, against this background we suggest that a key element of the Board's program is to address stakeholder perceptions that the IPSASB set of standards is incomplete. This is not a new consideration for IPSASB: indeed the Board has for many years considered the read across between IFRS and IPSAS with a view to developing standards corresponding to IFRS where these are of significance to public sector preparers, while also considering those public sector specific issues which most warrant additional standards or guidance.

We are conscious that Europe is only part of the stakeholder community to which IPSASB needs to pay attention, so 'gap filling' activity should not only be justified in terms of the effect on EPSAS, but should have regard to the benefits to all public sector stakeholders globally. Furthermore, while the most straightforward approach to gap filling is to ensure that IPSAS standards cover all matters in IFRS which are relevant to public sector preparers, there may be other approaches which are helpful in the short term. In particular, in those cases where the Board has decided not to converge with a particular IFRS because it is not urgent, it might be helpful if the Board were to separately publish an information sheet setting out the reasons for the decision: this might include signposting to the relevant IAS or IFRS, an explanation of the Board's perception that the standard is applicable to relatively few public sector situations, and any view the Board might have on the ease with which the private sector standard could be applied to those cases where it was relevant. On the latter point, the experience of jurisdictions such as the United Kingdom might be relevant, given that in many cases the UK applies IFRS without adaptation, or with a small amount of additional guidance.

Further to the above, we are also conscious that education and outreach have a key role to play both in the European discussion and more generally. We strongly support the Board's activities in this regard, including its engagement with the EPSAS project and participation in FEE round tables on this topic. While the strategy consultation is clear that the Board's resources are limited, and the standards development agenda will be demanding, it is still vital that the Board is seen to be engaged with stakeholders and promoting the benefits of IPSAS in order to encourage adoption. While we see the development of standards and guidance as the principal activity of the Board, we strongly support the inclusion of paragraph (c) in the IPSASB strategic objective.

Once the Board has processed the proposals in the light of responses from stakeholders, we expect the remaining workload will be challenging, but with the potential to substantially contribute to improved public sector financial reporting.

CIPFA will of course continue to support the Board through contributing to its consultations and by other means.

Response to specific questions

Observations on the questions for respondents are provided in the attached Annex.

I hope this is a helpful contribution to the Board's planning process. If you have any questions about this response, please contact Steven Cain (e: steven.cain@cipfa.org, t: +44(0)20 7543 5794).

Yours sincerely

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Questions for Respondents

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?

CIPFA agrees with the IPSASB's tentative view on its strategic objective for the period from 2015 forward.

Clearly it is fundamental to the Board's purpose to strengthen public financial management and knowledge globally through developing high-quality accrual based financial reporting standards.

CIPFA also supports the Board's development of other publications such as Recommended Practice Guidelines, which can address issues on which it is problematic to develop international standards. These are nevertheless of considerable importance and potentially cover a wider range of issues than in private sector reporting, where the IASB has issued non-mandatory guidance only in the area of Management Commentary. While we envisage the main output of the Board being in the development of accrual IPSAS, we do agree that development of RPGs will in some cases be necessary and beneficial.

As explained in the covering letter, it is also important that IPSASB engages with key stakeholders to raise awareness of the benefits of adopting high quality accrual based accounting in line with standards developed by and for the international public sector financial reporting community. The ultimate objective is of course that governments should achieve these benefits by implementing accrual IPSAS, rather than just be aware of the benefits.

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?

CIPFA agrees that both of these are appropriate.

CIPFA agrees that accrual IPSASs and RPGs should be designed to improve the ability of public sector entities to reflect the full economic reality of their finances. While accrual reporting is, almost by definition, more complete than most cash basis reporting, the further benefit of IPSASs is that they seek to better address the economic substance of public sector transactions and balances. While it may arguably not be possible to represent the 'full' economic reality, the IPSAS standards need to provide relevant and reliable information for accountability and decision making, having regard to the need to balance the costs and benefits of information provision. RPGs provide further non-mandatory guidance on how to provide a more complete understanding of the affairs of the entity and its effect on citizens, service recipients and other stakeholders. These matters have been extensively discussed in the development of the conceptual framework, while also noting that that financial reporting should be as understandable as possible – a position with which CIPFA also strongly supports.

Furthermore, having taken steps to develop high quality standards and guidance, these are only useful if they are adopted by governments and other public sector entities. IPSASB cannot and impose or mandate its standards, and so it is in the public interest that, having developed high quality material in line with stakeholder needs and following the exacting due process required of a standard setter, IPSASB promotes this material in a persuasive manner to encourage adoption. There is perhaps a risk that such activities might be seen as 'self-serving' on the part of IPSASB or IFAC, and this may be something that the Board needs to manage, to make it clear that this work is a key part of its public interest role: we hope that the Board's position in this regard, will be eased by developments in its governance arrangements over time.

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?

In line with our response to Question 2, CIPFA agrees with the Board's proposed focus on

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

A key factor linking these outputs is that the Board's materials must be seen to be relevant, sufficiently comprehensive, and responsive to the needs of public sector stakeholders. IPSASB pronouncements also need to be clear and sufficiently easy for preparers to interpret, while in turn promoting financial reporting which is clear and as easy as possible for readers to understand.

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

The IPSASB Board is well aware of the need to engage preparers and users in government in a wide range of jurisdictions, and has made some efforts to liaise with governments and international pan-public sector organisations in order to encourage this. Nevertheless, the majority of responses to consultation and other communications with IPSASB are from a limited number of correspondents, and in many cases the organisation or key individuals within the organisation are members of IFAC's professional accounting community.

We hope that the ongoing review of IPSASB governance will lend further credibility to the Board and its standards, which may make it easier to engage with wider categories of stakeholder, and get them to participate in the main consultation processes. We would also encourage the Board to maintain its current engagement with governments and international organisations such as the OECD and the World Bank which may serve to provide input on stakeholder needs in those jurisdictions which do not currently have the capacity to contribute to IPSASB discussions.

While ultimately governments need to reach their own view of the benefits of IPSASs, we would also encourage the board to continue to work through IFAC member bodies, INTOSAI members and through donor organisations who may often be in a better position to understand local issues relevant to PFM improvement and to influence governments.

Additionally, we note that IPSASB analyses of responses to consultations include a linguistic breakdown, and these indicate that responses from English speaking jurisdictions are frequently in the majority. While we recognise that the primary business of the Board is for practical reasons conducted in English, we suggest that it would be beneficial to increase the reach of the Board's consultation process so that it ranges more widely outside the Anglophone community.

The process of translation into other languages is of course, potentially very expensive. However, the Board could demonstrate its awareness of the issues around language by asking questions in its consultation documents which ask respondents to consider whether the text of proposed pronouncements raises any issues from the perspective of non-English speakers. The IAASB includes a specific question on issues which might arise from translation of its standards: a similar question could be included in IPSASB exposure drafts and consultations. The Board might also consider another approach which might increase engagement, which is the translation of its short 'At A Glance' documents into a small number of languages such as French and Arabic which might directly help speakers of those languages, and act as a better bridging language than English in certain other jurisdictions.

In addition to the pre-standard consultation process, IPSASB may wish to consider whether it would be beneficial to carry out post-implementation reviews, although this may be an approach which will work better after a larger number of jurisdictions have adopted IPSASs. An alternative approach, which while possibly less objective would probably consume less resources, would be to seek views on implementation from current known users, either through a survey process, or in a less structured manner.

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?

CIPFA agrees generally with the five key factors identified.

The drafting of the first factor 'significance for the public sector' could be clarified and improved to explain that this includes both public sector specific issues where it is more likely that there will be a 'gap' in standards, but also includes generic material which applies to large numbers of reporting entities in both the public and private sector. An example of this would be financial instruments, which in the United Kingdom and many other jurisdictions are highly relevant to government as a whole.

We have not identified any other factors that the IPSASB should consider.

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?

CIPFA supported the development of the Cash Basis IPSAS by IPSASB both as an expedient approach for jurisdictions lacking the capacity to develop and maintain the necessary reporting systems, and also as a stepping stone to full accrual accounting.

The Cash Basis provides inherently less useful information than accrual accounting, and in practice we understand that governments almost always supplement this reporting with additional information which they find helpful. While well intentioned, this often means that the information is less useful than it would be if presented in a standardised manner developed through consultation.

On balance, we are inclined to see the Cash Basis IPSAS as a useful resource and one which is in some cases followed by a transition to full accrual – this has been more evident recently.

In some cases, the Cash Basis IPSAS may serve to reinforce reliance on cash. While this is obviously less desirable, there is some benefit from the adoption of this international standard than operating without standards, or using standards which are not subject to as rigorous a development process.

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 Cash Basis IPSAS fulfils a useful function although the current form of the standard is not necessarily the best one. In due course it might be useful to redevelop the standard to provide a staged transition to the accrual based IPSAS, having regard to the material which is already in Study 14 *Transition to the Accrual Basis of Accounting: Guidance for Public Sector Entities*, and linking this to material which the Board is developing on its proposed IPSAS on first time adoption; it is also possible that this might be best developed through RPGs or other non-mandatory guidance.

Having regard to the position in Europe which is the constituency within which CIPFA has most direct intelligence, the greatest benefit for the period under consultation would be obtained if the Board focussed its efforts on accruals based standards, and so followed option (b). This would also be helpful to other jurisdictions which have implemented or are moving to the accrual IPSAS standards.

Bearing in mind our wider experience in countries where reporting is less well developed and accountancy resources may be highly constrained, we can also see merit in pursuing option (a). However, given the constraints on resources, CIPFA suggests that it may be most practical in the short term to follow option (b), except that the Board might see whether it is feasible to collect or make more publicly available any guidance, implementation aids and other resources which have already been developed by preparers and their auditors. One such example might be disclosure checklists developed by SAIs such as the UK National Audit Office in their work on Cash Basis IPSAS accounts.

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.

All the projects listed have merit as future projects for IPSASB, but on balance we suggest that priority should be given to the following projects.

Public Sector Specific Issues

Non-exchange expenses

Measurement – public sector specific

Infrastructure assets

Projects to Maintain Existing IPSASs

IPSAS 25 Employee Benefits

Improvements to IPSAS 23 Non-exchange Revenues