

24 July 2014

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Chair  
The International Public Sector  
Accounting Standards Board  
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submission via website: [www.ipsasb.org](http://www.ipsasb.org)

Dear Mr. Bergmann,

**Re.: IPSASB Strategy Consultation**

The IDW appreciates the opportunity to respond to the IPSASB Strategy Consultation (hereinafter referred to as “the Consultation”).

The Board has made significant progress in recent years, firstly in having achieved a suite of IPSASs based on IFRS, then issuing certain additional standards specific to the public sector and most recently in developing a – shortly to be completed – Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities. This Conceptual Framework will guide the Board in its standard setting activities going forward and should enhance the Board’s credibility considerably. The IPSASB’s outreach activities have contributed to a growing awareness and acceptance of IPSASs in many jurisdictions throughout the world. It also appears hopeful that, with the recent consultation by the Review Group, the way has been paved for the establishment of public oversight for the IPSASB.

This progress is reflected in the increasing take up of the IPSASs as detailed in the Consultation. In our view, the Board now urgently needs to focus its attention on completing its suite of standards, so that those key public-sector specifics not yet dealt with are also covered. We therefore believe that this is the right time for formal consultation with stakeholders as to the strategy and priorities for the work program. Indeed, following the 2012 work program consultation, this first full formal public consultation on the IPSASB’s future

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strategy and work plan has an important role in enhancing the credibility of the Board's standard setting process further.

In the attached Appendix the IDW is pleased to provide its views on the strategic direction of the IPSASB for the period from 2015 forward and as to the priority of individual projects for its work program for 2015-2019, in responding to the questions in the Consultation.

Yours sincerely,

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Chief Executive Officer

Gillian Waldbauer  
Technical Manager,  
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## APPENDIX

### 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?

We generally agree with the IPSASB's tentative view that its strategic objective will be to strengthen public financial management and knowledge globally through increasing adoption of accrual-based IPSASs.

Consequently, we believe that for the immediate future the IPSASB should focus its staff resources and Board meeting time on the development of public sector specific standards for general purpose financial reporting by public sector entities, i.e., on the accrual-based IPSASs and on the Recommended Practice Guidelines (RPGs) rather than on any further "other publications" or the cash based IPSAS. The Consultation is not entirely clear as to what the term "other publications" encompasses, so our response is on the assumption that papers such as Study 14, or similar are meant. We do not believe the Board currently has the resources to devote to this type of publication.

Furthermore, it would be useful to clarify that the phrase "developing high quality financial reporting standards" is intended to include development of new standards as well as appropriate maintenance of IPSASs and RPGs. Some revision may be needed in aligning existing IPSASs to the Conceptual Framework and also in response to the Board becoming aware of practical implementation issues or relevant emerging accounting issues. In the context of the latter, we would encourage the IPSASB to undertake formal post implementation reviews of its standards.

In addition, we agree that raising awareness of the IPSASs and the benefits of their adoption is extremely important, but do not believe this needs to be identified as an isolated part of the Board's strategic objective going forward.

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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?

The wording of the first of the proposed outcomes (and accompanying explanations) may give an overly optimistic impression of the potential benefits of the application of accrual-based IPSASs, in stating: “Improved ability of public sector entities to reflect the full economic reality of their finances as well as of stakeholders to understand”. In our view, it is not appropriate to refer to the reflection of “full economic reality”, since a full or all-encompassing picture of economic reality may never be attainable irrespective of whether a public sector entity applies IPSASs or another financial reporting framework. Also, since at present the accrual-based IPSASs relate solely to financial statements, and thus exclude additional reports such as those dealt with by RPGs, the phrase “economic reality of finances” may also be misunderstood. It would therefore be more appropriate to align this wording to that used in Chapter 2 the Conceptual Framework and IPSAS 1 as we suggest below.

With regard to the second outcome: “Increased awareness of IPSASs and their public finance management benefits in order to influence their adoption”, we believe that increased awareness of the potential benefits both in terms of public finance management and enhanced transparency about accountability should be subsumed within the first outcome, since increased awareness is only a means to an end, but not an end in itself (i.e., IPSASs cannot improve ability for those who are unaware of either their existence).

We therefore suggest the IPSASB should focus on a single outcome with regards to adoption of accrual-based IPSASs, which could be worded along the following lines: “Outcome: Improved ability of public sector entities to present fairly their financial position, financial performance, and cash flows, for accountability and decision making purposes.”

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?

As explained in our response to question 1, we believe that the outputs should focus on high quality standards (IPSASs and, where appropriate, RPGs), rather than on “other publications”. The key output should be IPSASs, which need to

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be enhanced so as to deal with all key public sector specifics in order to define a complete set of financial statements in the public sector environment.

We agree that presentations, speeches and other outreach activities are also important output (albeit, these do not give rise to a separate outcome as discussed in our response to q. 2). In our view, the publication of consultations and exposure drafts should also be regarded as part of the stakeholder engagement in the wider sense, as these serve the twofold purpose of making stakeholders aware of the IPSASB's proposals at an early stage and of informing the IPSASB's decisions in finalizing pronouncements.

Until relatively recently, the Board held its meetings throughout the world, achieving considerable success in terms of promoting IPSASs and forging significant contacts within a variety of host jurisdictions. In addition, the Board's visits often provided an opportunity for the hosts to hold additional outreach events for a wider interested public. In our view, it is somewhat incongruous for the Consultation to identify outreach as a second output, when a recent change in policy has resulted in 3 of 4 of the IPSASB's meetings each year being held in North America – missing out on what is probably the most powerful means of raising awareness. Besides potential lost opportunities for expanding the Board's outreach, this change in policy may impact the acceptance of IPSASs by increasing perceptions that the Board's work is largely North American driven rather than truly international.

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

Standard setting at an international level necessitates feedback on all aspects of proposals from a wide range of stakeholders, and in particular from those respondents able to envisage the potential practical impact of application of the Board's proposals.

The existing feedback mechanisms including the publication of consultation papers and exposure drafts for public comment should serve to illicit useful input to the standard setting process. However, we suspect that many public sector entities may be unable to devote the necessary resources to such tasks, whilst in other cases there may be a lack of awareness or acceptance of the need to contribute. These factors severely limit the IPSASB's formal feedback processes, and may lead to perceptions of biased input. One way to address this might be for the IPSASB to consider whether it could reach agreement with one or more organizations (e.g., International Consortium on Governmental

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Financial Management) to provide collective views of a broad range of constituents; constituents who are otherwise unable to voice their opinions individually.

Currently IPSASB's outreach is largely comprised of the Chair, individual board members and IPSASB staff participating in various events organized by others and being invited to publish articles etc. Therefore the IPSASB – whilst promoting awareness of its existence and of its work – is generally not in a position to decide which particular issues are to be addressed, nor to determine the depth of discussion or coverage.

We note that certain of the other standard setting boards operating under the auspices of IFAC have held a series of roundtable meetings at various locations throughout the world in relation to key issues. We suggest the IPSASB might consider whether it might be more proactive in this regard, certainly in relation to key or contentious issues. Roundtable discussions could be one way for the IPSASB to seek feedback from a broad range of interested parties.

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 agree with the five factors, in order of descending priority. For example, a single criterion such as “gaps in standards” alone should not be a decisive factor.

As mentioned in our covering letter, it is now essential for the Board to address those remaining key public-sector specifics not yet dealt with in its suite of standards. Thus significance for the public sector should be the primary factor in determining projects for the IPSASB's work plan 2015-2019.

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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? and
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 IDW supports accrual-based accounting in the public sector, as the informational value is superior to that derived from cash accounting alone. We therefore believe the Board should direct its resources towards ensuring its set of accrual-based standards deals with those key public-sector specifics currently not covered by IPSASs as soon as possible.

As reported in the Consultation there appears to be neither widespread support for, nor adoption of, the Cash Basis IPSAS. We therefore do not believe it is appropriate for the IPSASB to expend resources on maintaining the Cash Basis IPSAS going forward, and favor its withdrawal at a future date, as it becomes significantly outdated (option (b) and in the longer term (c)).

This would involve due notice of such intent, so as to allow those jurisdictions that are using the Cash Basis IPSAS to make alternative arrangements, including moving to accrual-based IPSASs and taking advantage of the provisions of the standard on first time adoption, which is due to be finalized shortly.

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.

As stated in our covering letter, in our view, key public-sector specifics need to be addressed as a matter of priority at present. Arguably the public sector specific projects of most major significance are already included within the current work program, e.g., social policy obligations and financial instruments. However, we believe the most urgent projects on the four lists of potential projects in the Consultation are “Non-exchange expenses” which are key issues in most countries, and issues logically following on from the Conceptual Framework: “Measurement – public sector specific” and “Sovereign powers and their impact on financial reporting”, in conjunction with “Intangible assets – public sector specific”.

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In our view, there is likely to be an expectation that following completion of the Conceptual Framework existing standards will be reviewed to ascertain whether revisions are needed. Whilst the Consultation refers to this as being part of its program for 2015-2019, it is not featured specifically under potential projects. We believe this should be viewed as a maintenance project. Certain of the individual IPSASs listed as projects to maintain existing IPSASs could be undertaken in conjunction with this assessment. In our opinion, IPSAS 25 “Employee Benefits” and IPSAS 23 “Non-exchange Revenues” ought to be addressed as a matter of priority.

The projects listed as other projects are not immediate key public-sector specifics, but may need to be addressed in the medium to longer term.