



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

31 October 2012

Dear Ms Fox,

Consultation on IPSASB Work Program 2013-2014

PwC welcomes the opportunity to respond to the consultation paper on IPSASB work program for 2013-2014, which addresses fundamental questions for the development of public sector accounting.

This response summarises the views of firms in the PricewaterhouseCoopers ('PwC') network 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.

PwC is one of the world's largest accounting firm and services organisation. Since the first IPSAS adoption by the OECD (Organisation for Economic Co-operation and Development), we have been involved in large accounting reforms in international organisations and governments. We have developed a network of IPSAS specialists who have experience in implementing IPSAS. In this capacity, we are very committed to promoting good and transparent accounting as well as sound public finance management.

Moreover, the sovereign debt crisis is more than ever reinforcing the need for robust and transparent public accounting and financial reporting. In this context, this IPSASB consultation paper provides a unique opportunity to actively participate in the public debate and impact on the development of public accounting and financial reporting in the world.

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Our responses do not comment on the technical content of the various accounting topics which are included as current projects in the IPSASB work program or identified as additional potential projects. We only provide our views on the areas in which the IPSASB should place its focus when developing the IPSAS framework in order to meet the needs of its stakeholders.

We fully support the IPSASB's strategy in developing its work program for 2013-2014. Our responses to the specific questions in the consultation paper can be found in the Appendix to this letter.

If you would like to discuss any of these points in more detail, please contact Jan Stureson ((+46) 10 212 99 39), John Hitchins ((+44) 207 804 2497), Jean-Louis Rouvet ((+33) 1 56 57 85 78) or Patrice Schumesch ((+32) 2 710 40 28).

Yours sincerely,

PricewaterhouseCoopers IL

A handwritten signature in black ink, appearing to read 'Ian Dilks', with a stylized flourish at the end.

Ian Dilks,
PwC Global Leader Policy and Public Affairs

Appendix: Response to the questions in the IPSASB consultation paper on its work program 2013-2014

1. Considering the potential projects identified and described in Appendix C of the consultation paper, in addition to the projects which are part of the IPSASB current work program, are there any other projects that you think need to be added to the list of potential projects?

We believe that the projects which are either part of the IPSASB's current work program, or which are identified as potential projects in Appendix C of the consultation paper, cover most of the important topics to be considered by the IPSASB in its work program.

For 2013-2014, the full focus should be on finalising the projects which are most critical to develop a high-quality framework which is comprehensive in the sense that it addresses the major accounting and financial reporting principles and topics that are relevant for public sector entities, and which is sufficiently tailored to address the specific characteristics of the public sector.

This will provide an adequate response to those who criticise the alignment of IPSASs to IFRSs on the grounds that certain accounting rules applicable to private sector companies are not suitable for governments and other public sector entities, and will greatly contribute to the credibility of the IPSAS framework and hence to its recognition as a global and widely accepted framework.

Keeping this objective in mind, we recommend putting additional projects on the agenda to deal with topics which are currently not specifically covered by a standard or for which divergent application by governments is noted in practice. We are in particular thinking of the following two topics:

- accounting for military weapons and equipment: whether and when should they be recognised as assets? how should they be classified and measured? and
- treatment of grants or other financial contribution/aid/funding from the perspective of the donor/contributor/lender: this project would address the accounting of non-exchange transactions by the transferor and might in certain circumstances involve the standards on financial instruments.

Because these items or transactions usually involve large amounts for governments, we believe that specific accounting guidance should be developed for them. This will enhance consistency of IPSAS application by governments and other public sector entities.

In order to be credible, the standards issued must not only be of a high quality, they must also follow an independent standard-setting process and gain the widest consensus. Oversight of the IPSASB is thus a key area of focus in the IPSAS rule-making process.

We believe the IPSASB should be careful not to take too much on its agenda to be able to finalise in the shortest possible time those projects that will be identified as the main priorities. Our views in terms of priorities are explained under question 2. below.

2. Which projects do you think the IPSASB should prioritize for 2013-2014? In your response you could consider providing your assessment of the 3 most important projects or a ranking of all projects on the list. Please explain the reasons for your answers.

We provide below our comments on the projects that should, in our view, be finalised in priority as part of the IPSASB 2013-2014 work program.

Priority n° 1

We agree with the IPSASB that developing a conceptual framework that addresses the unique characteristics of public sector entities should be priority number one on the IPSASB's agenda. A sound and robust conceptual framework that clarifies the concepts, definitions and principles that form the basis for the development of the accounting standards is the foundation of any accounting framework.

Primary users of IPSAS financial statements are the citizens and their representatives as well as funding providers. The information needs of these users and hence the objective of the IPSAS financial statements is therefore specific and this specificity should be adequately addressed in the standards. In this regard, we welcome the development of a conceptual framework which will help further achieve this objective. Completing this conceptual framework project will greatly add to the quality of the IPSAS framework and to its recognition by stakeholders around the world.

Priority n° 2

Completion of the conceptual framework should be accompanied by a review of existing standards to identify those that conflict with the framework and need to be amended, and prioritising the amendments to be made.

It should also be accompanied by an increased focus on some of the projects which are directly impacted by the principles defined in the framework and that have a potential significant impact on the IPSAS financial statements.

The first area of focus is consolidation. Clear rules and principles regarding the boundaries of the consolidation scope are important to produce financial statements that can serve the accountability and decision-making objectives of financial statements. The concept of control should be clearly defined taking into account the specific facts and circumstances of the public sector and a link should be made with the definition of a reporting entity addressed in the conceptual framework. From this perspective, revisions to IPSAS 6 'Consolidated and separate financial statements', IPSAS 7 'Investments in associates' and IPSAS 8 'Interests in joint ventures' should be finalised according to the initially defined timeline. The development of a standard addressing the issues specific to public sector combinations is also important to provide comprehensive rules and principles on consolidation matters.

The second area of focus relates to those other topics that may potentially significantly impact the financial statements of public sector entities reporting under IPSAS. In our view, the most important topics which may concern very large amounts, especially for governments, and are directly impacted by the definitions of assets and liabilities in the conceptual framework, are the following: 'Heritage assets', 'Sovereign powers and their impact on financial reporting' and 'Social benefits'. These topics are identified as additional potential projects in the consultation paper. Because of their potential significance, we believe that these projects should be added to

the IPSASB 2013-2014 work program. This is in line with the estimated number of new projects for 2013-2014 mentioned in the consultation paper.

Priority n° 3

The IPSASB 2013-2014 work program includes a project on public sector financial instruments. The recent financial crisis has led many governments to intervene in various ways, including by investing in financial institutions that needed capital injection or by purchasing so-called “toxic” financial assets. Governments at all levels often incur large amounts of borrowings to fund their activities, including their social programs or the construction of infrastructure assets. Public sector entities can also provide financial guarantees to banks and other fund providers, putting them at risk if the debtor defaults. With the recent financial crisis, financial guarantees have been provided by governments in many countries. This context increases the relevance of the IPSASB project. We recommend that this be conducted in coordination with the projects amending IPSAS 28 ‘Financial instruments: presentation’, IPSAS 29 ‘Financial instruments: recognition and measurement’ and IPSAS 30 ‘Financial instruments: disclosures’, as well as with the project on ‘Fair value measurement’, the latter not being part of the IPSAS current work program for 2013-2014.

Priority n°4

Another high priority project is the project on ‘IPSASs and government finance statistics reporting guidelines’. Many governments use the statistical basis of reporting to provide information which is suitable for analyzing and evaluating fiscal policy options and outcomes and to make national and international comparisons. Accounting and statistical reports provide complementary financial information that enables users to evaluate the performance of government and the economy as a whole. Accounting and statistical standards are both primarily accrual-based and are used to record the same transactions and events, although important differences arise due to differences in their underlying reporting objectives.

Highlighting the similarities and differences between IPSASs and the rules included in the government finance statistics manual 2008 (GFSM 2008), and working on a further alignment of the two sets of rules will facilitate understanding of IPSAS by a wider range of potential users and hence its adoption by governments around the world.

In this respect, we welcome the issuance by the IPSASB of its consultation paper on IPSASs and government finance statistics reporting guidelines.

Priority n° 5

Other projects that we consider critical are those projects that address issues specific to the public sector. These include projects that provide information that is complementary to the information included in the IPSAS financial statements and related notes. These are the projects on:

- ‘Reporting service performance’ which will provide financial and non-financial information about the achievement of the entity’s service delivery objectives during the reporting period;

- 'Reporting on the long-term sustainability of public finances' which will give prospective financial and non-financial information about its future service delivery activities, objectives and resource needs;
- 'Financial statement discussion and analysis', which will develop mandatory guidance on narrative information that accompanies financial statements.

Priority n° 6

As suggested under question 1, we would add the following two topics to the list of projects: accounting for military weapons and equipment, and treatment of grants or other financial contribution/aid/funding from the perspective of the donor/contributor/lender.

Next in terms of priority we would put the other public sector critical projects included by the IPSASB on its current work program, including the projects on 'First-time adoption of accrual IPSASs' and 'Government business enterprises'.

3. Please provide any further comments you have on the IPSASB's work program for 2013-2014.

We encourage the IPSASB to continue working cooperatively with the IASB to have alignment of IPSAS and IFRS for transactions and events that are not specific to the public sector. Where facts and circumstances are the same, we do not see any basis for having a different accounting treatment. In addition, more and more governments prepare consolidated accrual based accounts that include all their controlled entities, both entities reporting under IPSAS and GBEs reporting under IFRS; aligning the two sets of rules where appropriate should reduce the number of restatements on consolidation and hence facilitate the consolidation process.

Looking at the IFRS developments proactively is also important to ensure timely alignment of the two sets of rules where needed.

This recommendation does not negate the need to focus first on those accounting topics that are specific to public sector entities, and to develop standards that are sufficiently tailored to address the specific characteristics of the public sector.