



PO Box 1077  
St Michaels, MD 21663  
T. 410-745-8570  
F. 410-745-8569

January 28, 2014

Ms. Stephenie Fox  
The Technical Director  
International Public Sector Accounting Standards Board (IPSASB)  
International Federation of Accountants  
277 Wellington Street West, 6th Floor  
Toronto, Ontario M5V 3H2 CANADA

Dear Ms. Fox:

1. The International Consortium on Governmental Financial Management (ICGFM) welcomes the opportunity to respond to Exposure Draft (ED) 49 distributed by the IPSASB on Consolidated Financial Statements. We are extremely pleased that the IPSASB is working with the IMF to harmonize the standards in both reporting systems to the maximum extent possible.
2. Working globally with governments, organizations, and individuals, ICGFM is dedicated to improving financial management by providing opportunities for professional development and information exchange. ICGFM conducts two major international conferences each year and publishes an international journal twice each year. Services are provided to its membership through an international network. ICGFM represents a broad array of financial management practitioners (accountants, auditors, comptrollers, information technology specialists, treasurers, and others) working in all levels of government (local/municipal, state/provincial, and national). Since a significant number of our members work within government and audit institutions around the world, our response to this exposure draft is one from an international perspective.
3. We believe that the following should have been emphasized to lay the foundation for the discussion in the ED:
  - a. The Scope (para. 3) limits this Standard to those entities that apply the accrual basis of accounting. The principles in this Standard should also apply to those entities adhering to the Cash Basis IPSAS.

- b. A reference to the information in statistical reports published by the International Monetary Fund and the United Nations in the *Government Finance Statistic Manual* (GFSM) should be included.
4. Relative to our thoughts above, our responses to the comments on the specific matters are as follows:
- a. **Comment 1.** [Do you agree with the proposed definition of control? If not, how would you change the definition?] **Response.** Agree with clearly defining control except we would like to have seen the application of control as expressed in Chapter 2 of *GFS: Compilation Guide for Developing Countries* and Chapter 2 of *GFSM 2013* (draft). The new definition of control is very prescriptive and quite narrow. It is easy to envisage situations where de facto control exists, but one of the conditions is not met. The IMF definition is much less prescriptive. Reporting will become very complex if an entity is controlled for GFS reporting but not for IPSAS reporting. More fundamentally we have doubts about the whole concept of control as applied to the domain of sovereign governments. Both by law and in practice a sovereign government controls everything within its domain subject to constitutional limits. This was demonstrated in the UK during the banking crisis when the government simply took control of private sector banks to avert a financial disaster.
  - b. **Comment 2.** [Do you agree that a controlling entity should consolidate all controlled entities (except in the circumstances proposed in this Exposure Draft)? If you consider that certain categories of entities should not be consolidated, please justify your proposal having regard to user needs and indicate your preferred accounting treatment for any such controlled entities. If you have any comments about temporarily controlled entities, please respond to Specific Matter for Comment 3.] **Response.** There is not a consensus in our Committee relative to the value of a consolidated whole of government financial statement since (to the best of our knowledge) few decisions are made for the government as a whole. We agree that consolidated accounts provide additional and more complete information for decisions by users of general-purpose financial statements, but that the inclusion of each controlled entity in a consolidation should depend on whether the incremental benefits to defined users outweigh the incremental costs. We also think that consolidations for the sub-sectors defined in the IMF-GFS Consolidation Guide (see Attachment 1 below) should precede any whole-of-government consolidation. Ideally, we agree that a controlling entity should prepare consolidated financial statements presenting the results of the controlling entity and its controlled entities as a single economic entity. But, the preparation of consolidated financial statements is in addition to the separate financial statements of the controlling entity and the separate financial statements of its controlled entities. Thus, the consolidated financial statements could provide better understanding of the financial statements by the parliament and external users through the elimination of thousands of transactions and balances that exist between

a controlling entity and its controlled entities. We envisage a Venn diagram model where there are different circles of consolidation for different purposes, sometimes sub-sectors, sometimes overlapping circles. In any event, the transition period should be at least five years (or more).

- c. **Comment 3.** [Do you agree with the proposal to withdraw the exemption in IPSAS 6, *Consolidated and Separate Financial Statements* (December 2006) for temporarily controlled entities? If you agree with the withdrawal of the exemption please give reasons. If you disagree with the withdrawal of the exemption please indicate any modifications that you would propose to the exemption in IPSAS 6 (December 2006).] **Response.** Agree since temporarily controlled entities comprise some of the financial wealth of a controlling entity. In addition, there is no absolute guarantee that the temporarily controlled entity will be disposed within twelve months from acquisition even if the management is actively seeking a buyer. A number of governments have temporarily taken control of banks, and (in some cases) these are larger than the rest of the public sector. To consolidate such temporarily controlled entities would so dominate the financial statements that the statements would become largely meaningless. Therefore, there must be some exemption for special circumstances.
- d. **Comment 4.** [Do you agree that a controlling entity that meets the definition of an investment entity should be required to account for its investments at fair value through surplus or deficit?] **Response.** Agree.
- e. **Comment 5.** [Do you agree that a controlling entity, that is not itself an investment entity, but which controls an investment entity should be required to present consolidated financial statements in which it (i) measures the investments of the controlled investment entity at fair value through surplus or deficit in accordance with IPSAS 29, *Financial Instruments: Recognition and Measurement*, and (ii) consolidates the other assets and liabilities and revenue and expenses of the controlled investment entity in accordance with this Standard?] **Response.** Agree.  
[Do you agree that the proposed approach is appropriate and practicable? If not, what approach do you consider would be more appropriate and practicable?] **Response.** Agree.
- f. **Comment 6.** [The IPSASB has aligned the principles in this Standard with the Government Finance Statistics Manual 2013 (GFSM 2013) where feasible. Can you identify any further opportunities for alignment?] **Response.** As indicated in Comment 2, we believe consolidated financial statements should be prepared for the sectors and subsectors used by the IMF as indicated in Attachment 1 except we would exclude social security schemes until further developed by the IPSASB. In addition, we believe the Illustrative Examples section of the ED should include an example of consolidated statements similar to those included in Attachment 2. Further, we believe that unless there are very good reasons for a different definition the GFS definitions should be used. Thus, we would prefer that the Standard used the GFS definition of control and for valuation of investments.

6. We appreciate the opportunity to comment on this ED and would be pleased to discuss this letter with you at your convenience. If you have questions concerning this letter, please contact Dr. Jesse Hughes, CPA, CIA, CGFM at [jhughes@odu.edu](mailto:jhughes@odu.edu) or 757.223.1805.

Sincerely,

A handwritten signature in blue ink that reads "Jesse W. Hughes". The signature is written in a cursive style with a large, stylized 'J' and 'H'.

ICGFM Accounting Standards Committee

Jesse W. Hughes, Chair

Iheanyi Anyahara

Anthony Bennett

Steve Glauber

Kennedy Musonda

Hassan Ouda

Anne Owuor

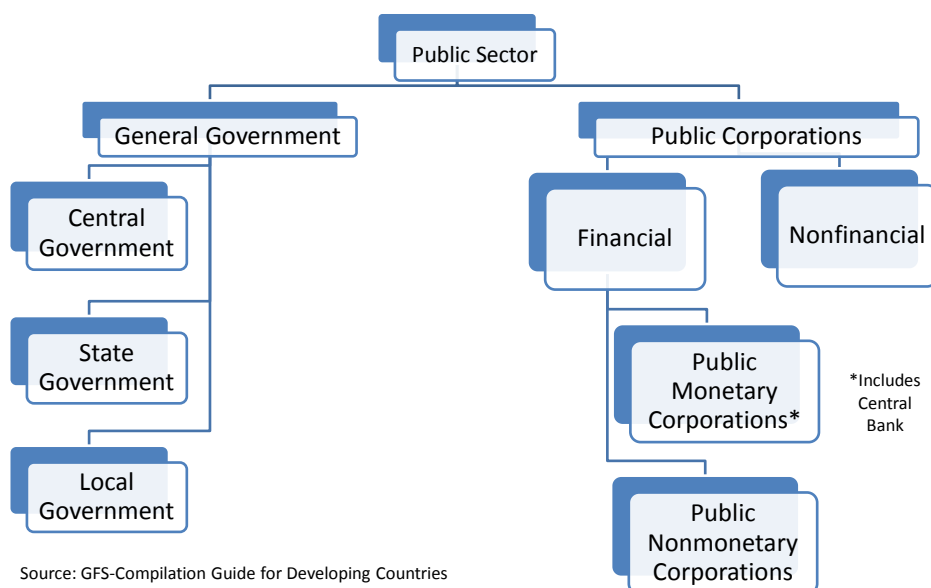
Michael Parry

Maru Tjihumino

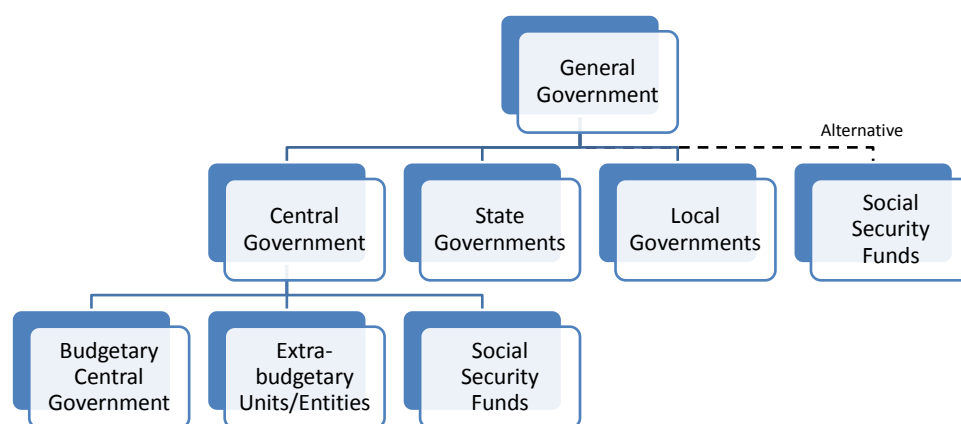
Andrew Wynne

Cc: Manuel Pietra  
President, ICGFM

## The Public Sector and Its Subsectors



## General Government Sector and Its Subsectors



## Attachment2. Illustrative Example of Consolidated Financial Statements

### GOVERNMENT A COMPARATIVE STATEMENT OF BUDGET TO ACTUAL AMOUNTS<sup>1</sup>

#### GENERAL GOVERNMENT SECTOR\*

#### Budget Approved on the Cash Basis

#### (Classification of Payments by Function)\*\*

#### FOR YEAR ENDED DECEMBER 31, 20XX

| (in thousands of currency units)       | Actual<br>Amounts | Final<br>Budget | Original<br>Budget | Differences |
|----------------------------------------|-------------------|-----------------|--------------------|-------------|
| <b>CASH INFLOWS</b>                    |                   |                 |                    |             |
| Taxation                               |                   |                 |                    |             |
| Aid agreements                         |                   |                 |                    |             |
| International agencies                 |                   |                 |                    |             |
| Other grants and aid                   |                   |                 |                    |             |
| Proceeds from borrowings               |                   |                 |                    |             |
| Proceeds from disposal of fixed assets |                   |                 |                    |             |
| Trading activities                     |                   |                 |                    |             |
| Other receipts                         |                   |                 |                    |             |
| <b>Total Receipts</b>                  |                   |                 |                    |             |
| <b>CASH OUTFLOWS</b>                   |                   |                 |                    |             |
| Health                                 |                   |                 |                    |             |
| Education                              |                   |                 |                    |             |
| Public order/safety                    |                   |                 |                    |             |
| Social protection                      |                   |                 |                    |             |
| Defence                                |                   |                 |                    |             |
| Housing and community amenities        |                   |                 |                    |             |

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<sup>1</sup> Op. Cit., *IPSAS 24*.

Recreational, cultural and religion

Economic affairs

Other

**Total Payments**

## **NET CASH FLOWS**

\*Separate Comparative Statements would be prepared for the State and Local Governments, when appropriate.

\*\*A separate statement on classification of payments by economic class could be prepared, if desired.

**NOTES:** Actual amounts are presented on the budgetary basis. Actual amounts paid encompass both cash and third party settlements. The "Difference" column is not required. However, a comparison between actual amounts and the original or the final budget, clearly identified as appropriate, may be included.

**GOVERNMENT A**  
**STATEMENT OF CASH FLOWS<sup>2</sup>**  
**FOR YEAR ENDED DECEMBER 31, 20XX**

(in thousands of currency units)

|      | GGS  |      | PFC  |      | PNFC |      |
|------|------|------|------|------|------|------|
| 20x2 | 20x1 | 20x2 | 20x1 | 20x2 | 20x1 | 20x1 |

**CASH FLOWS FROM OPERATING ACTIVITIES**

Receipts

Taxation

Sales of goods and services

Grants

Interest received

Dividends from other sectors to government

Other receipts

Payments

Employee costs

Retirement benefits

Suppliers

Interest paid

Dividend to other sectors

Other payments

**Net Cash Flows from Operating Activities**

**CASH FLOWS FROM INVESTING ACTIVITIES**

Purchase of plant and equipment

Proceeds from sale of plant and equipment

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<sup>2</sup> Op. Cit., *IPSAS 2*.

Proceeds from sale of investments

Purchase of foreign currency securities

**Net Cash Flows from Investing Activities**

**CASH FLOWS FROM FINANCING ACTIVITIES**

Proceeds from borrowings

Repayment of borrowings

**Net Cash Flows from Financing Activities**

*NET INCREASE/(DECREASE) IN CASH AND CASH  
EQUIVALENTS*

*CASH AND CASH EQUIVALENTS AT BEGINNING OF  
PERIOD*

**CASH AND CASH EQUIVALENTS AT END OF  
PERIOD**

# GOVERNMENT A

## STATEMENT OF FINANCIAL POSITION<sup>3</sup>

AS OF DECEMBER 31, 20XX

(in thousands of currency units)

|                                      | GGS  |      | PFC  |      | PNFC* |      |
|--------------------------------------|------|------|------|------|-------|------|
|                                      | 20x2 | 20x1 | 20x2 | 20x1 | 20x2  | 20x1 |
| <b>ASSETS</b>                        |      |      |      |      |       |      |
| <b>Current Assets</b>                |      |      |      |      |       |      |
| Cash and Cash Equivalents            |      |      |      |      |       |      |
| Receivables                          |      |      |      |      |       |      |
| Inventories                          |      |      |      |      |       |      |
| Prepayments                          |      |      |      |      |       |      |
| Other Current Assets                 |      |      |      |      |       |      |
| <b>Total Current Assets</b>          |      |      |      |      |       |      |
| <b>Non-Current Assets</b>            |      |      |      |      |       |      |
| Investments                          |      |      |      |      |       |      |
| Other Financial Assets               |      |      |      |      |       |      |
| Infrastructure, plant, and equipment |      |      |      |      |       |      |
| Land and buildings                   |      |      |      |      |       |      |
| Intangible Assets                    |      |      |      |      |       |      |
| Other Non-Financial Assets           |      |      |      |      |       |      |
| <b>Total Non-Current Assets</b>      |      |      |      |      |       |      |
| <b>Total Assets</b>                  |      |      |      |      |       |      |
| <b>LIABILITIES</b>                   |      |      |      |      |       |      |
| <b>Current Liabilities</b>           |      |      |      |      |       |      |
| Payables                             |      |      |      |      |       |      |

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<sup>3</sup> Ibid., *IPSAS 1*.

Borrowings

Provisions

Employee Benefits

Other Current Liabilities

**Total Current Liabilities**

**Non-Current Liabilities**

Payables

Long-Term Borrowings

Long-Term Provisions

Employee Benefits

Superannuation

Other Non-Current Liabilities

**Total Non-Current Liabilities**

**Total Liabilities**

**NET ASSETS**

**NET ASSETS/EQUITY**

Reserves

Accumulated surpluses/(deficits)

**TOTAL NET ASSETS/EQUITY**

\*An optional consolidated column may be added to reflect the total net assets from all government controlled entities.

# GOVERNMENT A

## STATEMENT OF FINANCIAL PERFORMANCE<sup>4</sup>

FOR YEAR ENDED DECEMBER 31, 20XX

(in thousands of currency units)

|                                    | GGS  |      | PFC  |      | PNFC* |      |
|------------------------------------|------|------|------|------|-------|------|
|                                    | 20x2 | 20x1 | 20x2 | 20x1 | 20x2  | 20x1 |
| <b>Revenue</b>                     |      |      |      |      |       |      |
| Taxes                              |      |      |      |      |       |      |
| Income, profits, and capital gains |      |      |      |      |       |      |
| Payroll and workforce              |      |      |      |      |       |      |
| Goods and services                 |      |      |      |      |       |      |
| Excises                            |      |      |      |      |       |      |
| Other                              |      |      |      |      |       |      |
| Grants                             |      |      |      |      |       |      |
| <b>Total Revenue</b>               |      |      |      |      |       |      |
| <b>Expenses**</b>                  |      |      |      |      |       |      |
| General public services            |      |      |      |      |       |      |
| Defence                            |      |      |      |      |       |      |
| Public order and safety            |      |      |      |      |       |      |
| Economic affairs                   |      |      |      |      |       |      |
| Environmental protection           |      |      |      |      |       |      |
| Housing and community amenities    |      |      |      |      |       |      |
| Health                             |      |      |      |      |       |      |
| Recreation, culture, and religion  |      |      |      |      |       |      |
| Education                          |      |      |      |      |       |      |
| Social protection                  |      |      |      |      |       |      |

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<sup>4</sup> Ibid., *IPSAS 1*.

**Total Expenses****Surplus/(deficit) for the period**

\*An optional consolidated column may be added to reflect the total surplus or deficit for the whole of government.

\*\*A separate statement on classification of payments by economic class could be prepared, if desired.

**GOVERNMENT A**  
**STATEMENT OF CHANGES IN EQUITY/NET ASSETS<sup>5</sup>**

AS OF DECEMBER 31, 20XX

|                                                      | Contributed<br>Capital | Translation<br>Reserve | Other<br>Reserves | Accum.<br>Surplus/<br>(Deficit) | Total |
|------------------------------------------------------|------------------------|------------------------|-------------------|---------------------------------|-------|
| <b>Balance at Dec. 31, 20X0</b>                      |                        |                        |                   |                                 |       |
| Gain/Loss on property revaluations                   |                        |                        |                   |                                 |       |
| Gain/Loss on investment revaluations                 |                        |                        |                   |                                 |       |
| Translation exchange differences                     |                        |                        |                   |                                 |       |
| Net revenue recognized directly in net assets        |                        |                        |                   |                                 |       |
| Surplus/(Deficit) for the period                     |                        |                        |                   |                                 |       |
| Total recognized revenue and expenses for the period |                        |                        |                   |                                 |       |
| <b>Balance at Dec. 31, 20X1</b>                      |                        |                        |                   |                                 |       |
| Gain/Loss on property revaluations                   |                        |                        |                   |                                 |       |
| Gain/Loss on investment revaluations                 |                        |                        |                   |                                 |       |
| Translation exchange differences                     |                        |                        |                   |                                 |       |
| Net revenue recognized directly in net assets        |                        |                        |                   |                                 |       |
| Surplus/(Deficit) for the period                     |                        |                        |                   |                                 |       |
| Total recognized revenue and expenses for the period |                        |                        |                   |                                 |       |
| <b>Balance at Dec. 31, 20X2</b>                      |                        |                        |                   |                                 |       |

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<sup>5</sup> Ibid., IPSAS 1. As proposed, separate statements would be required for GGS, PFC, and PNFC.