



Accounting Standards Board

P O Box 74129  
Lynnwood Ridge  
0040  
Tel. 011 697 0660  
Fax. 011 697 0666

The Technical Director  
International Public Sector Accounting Standards Board  
International Federation of Accountants  
277 Wellington Street, 4<sup>th</sup> Floor  
Toronto, Ontario M5V 3H2  
Canada

Per e-mail

31 July 2014

Dear Stephenie,

**RESPONSE TO THE IPSASB STRATEGY CONSULTATION PAPER**

We welcome the opportunity to respond to the IPSASB's Strategy Consultation Paper. We believe that the consultation process demonstrates the IPSASB's commitment to setting standards in the public interest, and believe that the process will yield positive results both for the IPSASB's future strategy and work plan.

This comment letter has been prepared by the Secretariat of the ASB. In formulating the comments outlined in this letter, the Secretariat has consulted a number of stakeholders through meetings and workshops. The stakeholders consulted include finance practitioners, auditors, as well as representatives of the Auditor-General of South Africa and the National Treasury. The Consultation Paper was also discussed at the ASB Board meeting held on 19 June 2014. The inputs received during these various consultations have been collated and are included in this letter, and thus represent a range of views.

Our detailed comments on the questions raised in the Consultation Paper are included as Annexure A.

Board Members: Mr V Jack (Chairperson), Mr S Badat, Ms T Coetzer, Mr B Colyvas, Ms CJ Kujenga,  
Mr K Kumar, Mr G Paul, Ms N Ranchod, Ms R Rasikhinya, Mr M Sass  
Alternates: Ms L Bodewig, Ms L le Roux  
Chief Executive Officer: Ms E Swart



Please feel free to contact me should you have queries relating to any aspects of this letter.

Yours sincerely

A handwritten signature in cursive script that reads "Erna Swart". The signature is written in a dark ink and is positioned above the printed name.

Erna Swart

Chief Executive Officer

## Annexure A

### Strategy for the period 2015 onwards

**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?**

1.1 The IPSASB's tentative view on its strategic objective is as follows:

"Strengthening public financial management and knowledge globally through increasing adoption of accrual-based IPSASs by:

(a) Developing high-quality financial reporting standards;

(b) Developing other publications for the public sector; and

(c) Raising awareness of the IPSASs and the benefits of their adoption."

1.2 While we agree in principle with the strategic objective, we do not believe that financial reporting standards can themselves enhance financial management. We believe that it is the credible, reliable, transparent information that is produced by applying those standards which facilitates strengthened financial management because users have better information to make decisions and hold entities accountable. As such we believe that the first part of the strategic objective should be reformulated to focus on the credible, reliable, transparent information that is produced by applying IPSASs, and that this facilitates the strengthening of public financial management through improved decision-making and accountability. An illustration of this re-formulation could be:

Facilitating the strengthening of public financial management through the production of credible, transparent financial information that results in improved decision-making and accountability, which is achieved by:....

**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?**

2.1 The first outcome states the following: "Improved ability of public sector entities to reflect the full economic reality of their finances as well as of stakeholders to understand".

2.2 We interpreted this outcome as referring to the ability of users to understand the financial information provided to them. We do not believe that the way or extent to which users understand information provided to them is solely within the IPSASB's control, nor do we think that this is measurable as an outcome. Consequently we believe that this outcome should be deleted.

2.3 We agree in principle with the second outcome as stated.

2.4 We are of the view that a key outcome of the IPSASBs work would be the number of governments or other organisations that adopt IPSASs. As such we believe that an additional outcome should be added which measures the actual adoption of IPSASs in jurisdictions or other entities.

**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?**

3.1 We agree with the outputs proposed.

3.2 While we commend the IPSASB for the extent of its outreach, which is undertaken voluntarily by board members and technical advisers, we do believe that improvements could be made in this area.

3.3 We would urge the IPSASB to consider a more targeted, focused approach when undertaking its outreach activities. This would include developing a more regular schedule of interactions with specific outcomes or objectives of the interaction, for example, is the objective of the interaction relationship building, imparting information i.e. a high level overview of a Standard, ED, RPG etc., or soliciting feedback on proposals. It would also be useful if the outreach is targeted towards those jurisdictions that clearly indicate that adoption of IPSASs is possible or feasible in their jurisdiction.

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

4.1 As demonstrated in the diagram on page 12 of the Consultation Paper, there is a considerable amount of effort focused on developing the requirements of the Standards and RPGs. We believe that receiving feedback after the development of the Standard, through interactions with jurisdictions or other entities that apply IPSASs, would be invaluable. This would provide the IPSASB with information about the adoption, application and implementation of the IPSASs, and enable it to assess (a) whether the principles in the Standards are appropriate, (b) where issues of divergence exist in accounting for similar transactions, and (c) whether amendments are necessary to the Standards as part of the improvements project or whether new projects to deal with issues should be initiated.

4.2 The IPSASB could use a number of mechanisms to receive this feedback. It could be formally through a post-implementation review process, or it could be informally as part of its outreach activities. This process could also be formalised through an Interpretations Committee, although this would have significant resource implications.

4.3 Other suggestions to improve the IPSASB's feedback mechanisms include the development of high level presentations and summaries of IPSASs and RPGs once they are issued, as well as train-the-trainer material.

**Work plan for the period 2015-2019**

**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?***

5.1 We agree with the five factors used by the IPSASB in assessing the need for, and priority of, projects.

**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?***

6.1 While we ourselves do not have specific experience in applying the cash basis IPSAS, we can provide feedback on what we have heard through our discussions with other jurisdictions that apply the cash basis IPSAS, as well as how we have used the cash basis IPSAS to develop our modified cash framework.

6.2 We have recently encountered a number of jurisdictions where the cash basis IPSAS is being adopted, mainly because particular organisations or funders critical to their development have requested that they adopt the cash basis IPSAS. It would therefore appear that there is a need to retain the cash basis IPSAS. We can however not provide specific information about what the potential issues are or have been in adopting the cash basis IPSAS in those jurisdictions.

6.3 The National Treasury has used the requirements of the cash basis IPSAS, as well as the encouraged disclosures, as a basis for developing the modified cash reporting framework applied by our government entities pending migration to accrual accounting. From our experience, the cash basis IPSAS provides an important “stepping stone” to migrate to accrual accounting, and as such, believe it is a valuable resource.

**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 our recommendation.***

7.1 We would support retaining the cash basis IPSAS, but we can unfortunately not provide a clear view on whether the project to review the cash basis IPSAS should be continued or not. In principle we support completing the project as this is likely to resolve many of the issues currently experienced by users of the Standard, and may even increase the adoption rate of the IPSAS (and potentially accrual basis IPSASs in the future). We would however balance the need for continuing this project with the other priorities of the IPSASB.

7.2 If the IPSASB were to continue work on the cash basis IPSAS and spend resources on updating and revising it, it may be appropriate to consider how this project contributes to the adoption of accrual basis IPSASs in the long term. If the IPSASB could articulate the importance of adopting the cash basis IPSAS as a stepping stone on the way to adoption of full accrual accounting, then this might be a more appropriate way to justify continuing with the project.

7.3 The review of the cash basis IPSAS could also be supported by, for example, a clear roadmap of adoption from cash to accrual, and how entities could use the cash basis IPSAS in this context. For example, this roadmap could articulate the initial application of the cash basis IPSAS with the required disclosures as a first step, a second step would be to add the encouraged disclosures, and subsequent steps could include recognising items previously disclosed on the statement of financial position, and so on.

**8. *Considering the various factors and constraints, which projects should the IPSASB prioritise and why? Where possible, please explain your views on the description and scope of the project.***

8.1 The priority projects identified through our consultations are outlined in paragraph 8.2. Many of these priorities reflect the needs of our constituents for guidance in certain areas. We may have issued guidance on, or already dealt with, some of the topics listed in the Consultation Paper. This means that our constituents may not have identified them as priority projects. This does however not mean that the IPSASB should not consider these as they will add to accounting in the public interest. These issues have been discussed separately.

8.2 The issues identified by our constituents as priority projects are as follows:

*Public sector specific projects*

- Infrastructure assets.
- Non-exchange expenses.
- Measurement of assets.
- Intangible assets and military assets.
- Trust accounts.
- Role of government as owner.

*Projects to maintain existing IPSASs*

- Revisions to IPSAS 23 *Non-exchange Revenue (Taxes and Transfers)*.
- Revisions to revenue related standards.

The rationale for supporting these projects is outlined in paragraphs 8.3 to 8.17 below.

8.3 With the exception of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* (which is discussed separately below), our constituents did not support any of the projects to converge with IFRS. Most felt that the IFRSs could either be used, or sufficiently modified, to suit their needs where these transactions existed. There was also no strong support expressed for the Other Projects listed. Our Board has already dealt with differential reporting (and concluded that differential reporting is not appropriate for the public sector), and constituents were of the view that the other projects were “nice to haves” rather than critical. These projects also implied a level of maturity in reporting which many jurisdictions do not have at present.

Infrastructure assets

8.4 During discussions with our constituents on the application of our Standards (which are based on IPSASs), accounting for infrastructure assets is consistently raised as an issue. Issues are raised regarding the level of componentisation required, that the annual assessment of residual values and useful lives is onerous, that it is difficult to make clear decisions about whether subsequent expenditure on an asset is repairs and maintenance or of a capital nature, and a number of issues have been raised on the impairment of these assets.

8.5 We recently completed a post-implementation review of our equivalent Standards on *Property, Plant and Equipment* and *Investment Property*. The results of this review may be useful in identifying key issues to include in this project. These results can be accessed on our website.

8.6 Given that a number of issues exist in this area for which clear guidance is needed, we believe this is a high priority project.

Non-exchange expenses

8.7 We are often asked how to account for these expenses, and given that there is currently no guidance on these transactions, we believe that this should be a high priority project for the IPSASB.

### Revisions to IPSAS 23 on *Non-exchange Revenue (Taxes and Transfers)*

- 8.8 While the consultation document did not outline the specific examples or issues that require amendment to IPSAS 23, we believe that amendments are needed in certain areas based on our experience in applying an equivalent IPSAS 23.
- 8.9 Our constituents have applied the equivalent of IPSAS 23 for some time. One of the key issues we have identified during the application of that Standard is the treatment of services in kind. Some of our entities receive significant services in kind, e.g. secondment of staff from other entities or are provided free office accommodation. Where the receipt of these services is significant to an organisation, merely encouraging disclosure of these services is insufficient. In these instances, we believe recognition should be mandatory.
- 8.10 We have also identified a few minor changes which could be effected to IPSAS 23.
- 8.11 In principle, we support initiating this project, and believe it would be useful to request jurisdictions which have applied IPSAS 23 to provide information to the IPSASB about application issues they have experienced.

### Revisions and possible alignment of revenue from exchange and non-exchange transactions (including revenue from construction contracts)

- 8.12 Given the recent approval of IFRS 15 *Revenue from Contracts with Customers*, and the withdrawal of IAS 18 *Revenue* and 11 *Construction Contracts* by the IASB, we support a revision of the equivalent IPSASs. We would however urge the IPSASB to consider whether using one approach to the recognition of all types of revenue (exchange and non-exchange) is feasible. As such we support a broader revision of the package of revenue standards.

### Measurement of assets

- 8.13 Given the unique nature of assets in the public sector, and that they are held to generate service potential rather than to realise cash, we support a project on the measurement of assets. We believe that this project should focus on applying the principles in the conceptual framework, as well as consider the need to issue an equivalent of IFRS 13 *Fair Value Measurement* which could deal with when fair value is appropriate in the public sector, and how fair value should be determined given the types of assets held.

### Military assets and intangible assets

- 8.14 While we do not have an immediate need for guidance on accounting for military assets generally, we would be interested in the linkages between military assets and the intangible assets project in relation to research and development costs. A significant amount of resources are expended every year on research into military assets and military applications, and thus a change in the treatment of research costs incurred in the public sector context may be useful to explore.

### Trust accounts

- 8.15 We have a number of "trust" accounts, which often relate to the collection and holding of funds for specific individuals or communities. The "trust" accounts may be governed by a specific trust deed, although often they are not; while some are established in terms of specific legislation.

8.16 These “trust” accounts create a number of issues for entities in terms of: (a) whether they control the “trust”, (b) what reporting framework should be applied for the “trust”, (c) whether the entity acts as a principal or an agent in relation to the “trust”, and (d) what should be recorded in the public sector entity’s financial statements in relation to the trust. If the project addresses these accounting issues, we believe it would be valuable to initiate a project of this nature as no clear guidance exists.

#### Role of government as owner

8.17 We believe that this is an important issue to resolve, but any project of this nature should be undertaken in conjunction with the IASB. The main issue relates to the treatment of amounts received by entities which are controlled by government but apply IFRSs, and whether these should be treated as transactions with owners or as revenue. While this is an important issue, it is less important relative to other projects outlined above.

#### Other projects

8.18 As noted above, the identification of our key projects is based on constituents’ experiences and needs. That being said, we believe that a number of the other projects listed would be useful to pursue. In these instances, we have issued our own local Standard, or have adopted an IFRS equivalent when the IPSASB is yet to do so.

- Heritage assets. Given their significance to the public sector, urgent guidance is needed. We have developed a Standard on how to account for these assets (GRAP 103 *Heritage Assets*).
- Biological assets held for the provision or supply of services. This is a significant issue in terms of accounting for animals held in zoos; service animals such as those used in policing, customs, border control or in the military; animals used in agricultural research, etc. We have recently initiated a research project on this issue and will publish a Discussion Paper *Living and Non-living Resources* in due course.
- Natural resources. African countries hold a variety of natural resources, which range from conservation areas to mineral resources such as gold, platinum, copper, diamonds, natural gas, and oil. Given that these are often significant sources of revenue for these governments, it is critical that clear accounting guidance is provided for these resources. It may also be an opportunity to develop reporting outside the financial statements as many of these resources are held in a custodial capacity by the government. The Discussion Paper mentioned in the previous bullet also deals with these issues.
- Related party transactions. We believe that the IPSASB should initiate a project to align IPSAS 20 *Related Party Disclosures* with IAS 24 *Related Party Disclosures* as a matter of urgency. In particular, relationships relating to control are dealt with differently in IPSAS 20 and IAS 24, and we believe that these need to be addressed. The need to undertake this project is also highlighted by the IPSASB’s revisions to IPSAS 6 *Consolidated and Separate Financial Statements*, IPSAS 7 *Investments in Associates*, and IPSAS 8 *Interests in Joint Ventures* which modify the concept of control.



- Segment Reporting. We have adopted IFRS 8 *Operating Segments* as application of it results in the most amount of flexibility for entities to report segment information. This facilitates better linkages between the financial statements and performance information. We urge the IPSASB to consider aligning IPSAS 18 *Segment Reporting* with IFRS 8 as a matter of urgency.
- Non-current assets held for sale and discontinued operations. While we do not support the measurement, presentation and disclosure of non-current assets held for sale in the public sector, we do support the discontinued operations presentation and disclosure in IFRS 5 and believe that this is a key gap in the current suite of IPSASs.