



February 4, 2014

Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street West
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**Re: PSAB Staff Comments on Exposure Draft “First-Time Adoption of
Accrual Basis International Public Sector Accounting Standards
(IPSASs)”**

Thank you for the opportunity to comment on the First-Time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs) Exposure Draft.

Developing guidance for the adoption of accrual basis IPSASs is an important initiative to enhance their worldwide implementation.

Please note that the views expressed in this letter and the specific comments in the attached Appendix are those of PSAB staff and have not been considered by the Public Sector Accounting Board.

Sincerely,

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APPENDIX: RESPONSES TO IPSASB SPECIFIC MATTERS FOR COMMENT EXPOSURE DRAFT: FIRST-TIME ADOPTION OF ACCRUAL BASIS INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS (IPSASs)

Matter for Comment 1

The objective of this Exposure Draft is to provide a comprehensive set of principles that provides relief to entities that adopt accrual basis IPSASs for the first time.

- (a) Do you agree with the proposed transitional exemptions included in the Exposure Draft; and
- (b) Do you believe that the IPSASB achieved its goal in providing appropriate relief to a first-time adopter in transitioning to accrual basis IPSASs?

Please provide a reason for your response.

The stated objective of this standard is to ensure that an entity's first annual financial statements prepared using accrual basis IPSASs contain high quality information. Financial information that is relevant, faithfully represented, understandable, timely, comparable and verifiable. It is presumed that an objective of the IPSASB in developing this first-time standard was to make the adoption of accrual basis IPSASs less onerous for public sector entities.

The inclusion of relief periods in the transitional exemptions however results in added complexity and reduces understandability of the financial statements. Relief periods are included in a number of other IPSASs and are proposed to be similarly included in this standard. Relief periods for other sections are from the perspective the public sector entity is already following the International Public Sector Accounting (IPSA) Handbook and allows the entity time to adjust their accounting systems, for example, to capture the new information that is now being required while still being IPSASs compliant.

Alternatively, when a public sector entity is adopting the IPSA Handbook for the first-time and a relief period is allowed, the entity is not truly adopting the IPSA Handbook. Adoption of the IPSA Handbook does not mean following some of its standards. The financial statements prepared by a public sector entity during the relief period will have limited understandability, comparability and consistency due to the many exemptions offered and the multitude of time periods over which an entity can become compliant.

There is no clear rationale indicated in the Exposure Draft as to why the IPSASB is trying to develop guidance to be followed by a public sector entity prior to its full adoption of IPSASs. Regardless of whether an entity is or is not in compliance with the

relief period guidance, the financial statements are not IPSASs compliant. For example, paragraph 40 indicates "... a first-time adopter shall only change its accounting policies to better conform to the accounting policies of IPSAS 23." Regardless of whether a public sector entity complies with the requirements in paragraph 40 during the relief period, the entity will not be compliance with IPSASs and receive a qualified opinion if it has elected any fair presentation exemptions.

The three year relief period is an arbitrary time frame for which a public sector entity may take more or less time to comply. What if a public sector entity after the three year relief period is not ready for compliance with all the IPSASs? The entity was not in compliance with IPSASs during the relief period and still would not be in compliance. What prevents an entity from taking 5 years, 10 years or how ever long it requires to be IPSASs compliance.

Alternatives to providing a relief period which would have made the adoption of IPSASs less onerous for a public sector entity while still producing high quality financial statements would include:

- *Allowing either retrospective or prospective adoption of accrual basis IPSASs. Prospective adoption would still require the reporting on transition of assets and liabilities required under IPSASs measured in accordance with the respective IPSASs, or*
- *Allowing a public sector entity to determine deemed cost on the date of transition for various assets and liabilities. Allowing deemed cost to be determined during the relief period as proposed in the Exposure Draft makes the adoption process unnecessarily complex and the financial statements during this period difficult to understand.*

Matter for Comment 2

The IPSASB agreed that there should be a differentiation between those transitional exemptions that do not affect the fair presentation of a first-time adopter`s financial statements and its ability to assert compliance with accrual basis IPSASs, and those that do.

- (a) Do you agree with the proposed differentiation and how it is addressed in the Exposure Draft, and
- (b) Do you agree that the individual categorization is appropriate?

If not, please provide a reason for your response and provide an alternative approach.

The differentiation between exemption types results from the inclusion of a relief period. The use of a relief period is addressed in response to comment 1.

Comments with respect to the inclusion and categorization of specific exemptions include:

- Exemptions are voluntary divergences from retrospective application while exceptions address where retrospective application is prohibited. The impairment requirements in paragraphs 96 to 98, 106 to 108, and 118 to 120 require prospective application but are included as exemptions rather than exceptions?*
- The requirement in paragraph 123 is addressed in the general requirement in paragraph 18 to “Recognize all assets and liabilities whose recognition is required by IPSASs.”*

Matter for Comment 3

This Exposure Draft proposes a relief period of three years for the recognition and/or measurement of specific assets and/or liabilities in allowing a first-time adopter to transition to accrual basis IPSASs. Do you agree that a relief period of three years is appropriate? If not, please indicate the time frame that, in your view, would be appropriate, supported with the reason for the longer or shorter transitional relief period.

As indicated in response to matter 1, the three year relief period is an arbitrary time frame for which a public sector entity may take more or less time to comply.

Other matters

Comments on other matters in the Exposure Draft are provided below for consideration.

Scope

Paragraph 2 of the Exposure Draft indicates a public sector entity should apply this standard “... when it prepares and presents its annual financial statements on the adoption of, and during the transition to, accrual basis IPSASs.”

Paragraphs BC5 and BC6 further describe the purpose of this standard on a going forward basis indicating when the IPSASB issues a new pronouncement, it will develop transitional provisions for the adoption of that pronouncement and include them in this first-time standard. Other IPSASs in the future will only prescribe transitional provisions that deal with changes in the respective IPSAS once it is applied.

Therefore, going forward when a new IPSAS is issued and is to be implemented, a public sector entity already following IPSASs accrual will need to refer to the first-time standard for the transitional provisions. This is not consistent with paragraph 2 of the Exposure Draft.

Comparative information

Paragraphs 75 and BC21 of the Exposure Draft indicate this standard encourages a first-time adopter to present comparative information in its first set of financial statements. However, allowing a relief period provides a disincentive for a public sector entity to provide comparative information.

The date of adoption of IPSASs is defined in paragraph 7 of the Exposure Draft as "...the date an entity adopts accrual basis IPSASs for the first time, and is the beginning of the earliest period for which the entity presents its first transitional IPSAS financial statements or its first IPSAS financial statements." Paragraph IG24 recognizes the date of adoption will change depending on whether comparative information is provided indicating "The decision to present comparative information affects not only the extent of the information presented, but also the date of adoption of IPSASs."

For a public sector entity taking advantage of the three year relief period, providing comparative information in the first set of IPSASs financial statements will result in the relief period expiring one year earlier than otherwise. The relief period starts with the comparative year.

A public sector entity should be made aware of the implication of providing comparative information on the timing of the relief period.

Various exemptions

- While mentioned in paragraph IG11, paragraph 21 should also indicate a first-time adopter's estimates at the date of adoption should be consistent with estimates made in accordance with the previous basis of accounting unless there is objective evidence that those estimates were inconsistent with the requirements in IPSASs or were made in error.
- Paragraph 36 indicates "... a first-time adopter shall only change its accounting policies during the period of transition to better conform to the accounting policies in accrual basis IPSASs ...". Why should a public sector entity not change its accounting policies during the period of transition when it results in the financial statements providing reliable and more relevant information consistent with IPSAS 3?
- It is not clear whether the exemptions in paragraph 44 to 53, for example, can be adopted incrementally by a public sector entity. This could be clarified.