

28 March 2013

Ms Stephenie Fox
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Dear Stephenie

Consultation Paper – IPSASs and Government Finance Statistics Reporting Guidelines

Thank you for the opportunity to comment on the above. CPA Australia and the Institute of Chartered Accountants in Australia (the Institute) have considered the proposals and our comments follow. CPA Australia and the Institute represent over 200,000 professional accountants in Australia. Our members work in diverse roles across public practice, commerce, industry, government and academia throughout Australia and internationally.

The International Public Sector Accounting Standards Board (IPSASB) Consultation Paper includes a description of the “integrated approach” to financial statements and Government Finance Statistics (GFS) Reports as used in Australia. Throughout the last decade, CPA Australia and the Institute have been active participants in the development of the current Australian Accounting Standard AASB 1049 *Whole of Government and General Government Sector Financial Reporting* and its preceding versions. The approach taken in AASB 1049 is to require compliance with all other Australian Accounting Standards except as specified in AASB 1049. It is with this experience that we provide our comments to your Consultation Paper (CP).

The CP includes a discussion of possible ways that the IPSASB could support the reduction of unnecessary differences between IPSASs and GFS reporting guidelines. We are advocates for a single integrated accounting standard that specifies requirements for both whole of government financial reports and general government sector (GGS) financial reports as we believe it is this approach that best reflects the relationship between the various organisations. Australia’s state, territory and national governments are managed using GGS information prepared on a partial consolidation basis (i.e., budget information). We believe it appropriate that AASB 1049 require each of those governments to prepare a whole of government financial report in accordance with consolidation requirements, and thereby separately recognise assets, liabilities, income, expenses and cash flows of all entities under their control on a line-by-line basis. Further, given the importance of the budget information and the fact that AASB 1049 itself prescribes the particular requirements for the scope of the GGS and form and content of the GGS financial report, we are comfortable with the approach taken in Australia whereby:

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- only government controlled entities that fall within the boundary of a GGS are consolidated in a GGS financial report; and
- the accounting standard does not specify whether:
 - the GGS is a reporting entity;
 - a financial report of the GGS that is prepared in accordance with the accounting standard is a general purpose financial report.

The Appendix to this letter contains our response to the questions for comment. If you require further information on any of our views, please contact Mark Shying, CPA Australia by email mark.shying@cpaustralia.com or Kerry Hicks, the Institute by email kerry.hicks@charteredaccountants.com.au.

Yours sincerely



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Specific Matter for Comment 1 (See Section 3 and Appendix B)

With respect to the summary in Table 2 of progress on reducing differences and the supporting detail in Appendix B:

- a. Do you agree that the issues categorized as resolved (Category A in Table 2) are indeed resolved?**
- b. Are there further differences between IPSASs and GFS reporting guidelines that should be added to this list? If so, please describe these.**

We note the CP's summary in Table 2 Issues from 2005 Report – Resolution and Proposals for Consideration has been prepared at a 'point in time'. We note the IPSASB has no control over any ongoing changes to the GFS reporting guidelines (be that the System of National Accounts, the European System of Accounts, the IMF's Government Finance Statistics Manual or any non-EU government finance statistics, for example, the finance statistics manual published by the Australian Bureau of Statistics). Therefore, the status of an item currently categorised as resolved may change as a consequence of the future work of any of the organisations responsible for the GFS reporting guidelines.

It is not clear to us what type of GFS reporting the IPSAS were compared to; is it whole of government, general government sector or some other entity? Further, we understand that GFS reporting requirements published by the different responsible organisations are not identical, which in turn has consequences for the robustness of the comparison presented in Table 2.

We note that some of the words used in the resolution column of the Table 2 issues categorised as resolved suggest the opposite. There is also a lack of consistency in some of the statements made in Table 2 and the information in Appendix 2. For example, Issue A8 Costs associated with R&D and other intangible assets states the 2008 SNA revisions are aligned with IAS 38 *Intangible Assets*, with which IPSAS 31 is converged, but issue C6 states that there could be differences in practice under GFS. The details for issue A8 in Appendix B indicate that SNA treats research and development as a single category, so that research potentially might be capitalised, whereas under IPSAS 31 research is always expensed. The issue, therefore, does not appear to have been resolved. We suggest the table and the appendix be reviewed to ensure consistency.

The Australian Accounting Standard AASB 1049 identifies a range of differences between Australian GAAP and GFS requirements that do not affect measurement of key fiscal aggregates. Such differences should also be addressed in Table 2 where they arise under IPSASs. AASB 1049 also identifies differences between GAAP and GFS requirements in the recognition of deferred tax assets and liabilities by government controlled entities that are outside the GGS. We believe Table 2 should address this issue.

Specific Matter for Comment 2 (See paragraphs 4.11 to 4.17)

Do you agree that the IPSASB, in conjunction with the statistical community, should develop guidance on the development of integrated Charts of Accounts, which would include (i) an overview of the basic components of an integrated Charts of Accounts, and (ii) wider coverage such as that listed in paragraph 4.16 of this CP?

The CP notes the design of the Chart of Accounts is one of the approaches available to the preparer to manage differences between IPSASs and GFS. While we consider that guidance would be useful, we do not believe it should be given priority over the IPSASB's existing projects. For example, we have previously highlighted to you in our submission of the IPSASB future agenda, the importance of the International Financial Reporting Standards (IFRS) convergence project. We would not want to see any further delays in this project, as a result of any optional type project work that may be undertaken in other projects.

We believe that eXtensible Business Reporting Language (XBRL) reporting may have an important role to play in future developments. We encourage the IPSASB to consider the development of a XBRL taxonomy in conjunction with any work it undertakes on a chart of accounts project.

Specific Matter for Comment 3 (See paragraphs 5.2 to 5.4)

- a. Do you think that the IPSASB should take a more systematic approach to reducing differences between IPSASs and GFS reporting guidelines?**

b. If so, are there changes other than those listed in paragraph 5.4, which the IPSASB should consider adopting?

We encourage the IPSASB to take a more systematic approach so as to achieve a reduction of unnecessary differences between IPSASs and GFS reporting guidelines. However, while the changes to the IPSASB's standard-setting approach outlined in paragraph 5.4 may help in the achievement of this outcome we believe a greater benefit would be had from a decision by the IPSASB to adopt an "integrated approach" to financial statements and GFS Reports. The CP describes the Australian approach as integrated. We are advocates for a single integrated accounting standard that specifies requirements for both whole of government financial reports and GGS financial reports. This approach means that GFS information could be updated by the amendment of one standard rather than by an amendment to the particular IPSAS affected.

Specific Matter for Comment 4 (Paragraphs 5.5 to 5.19)
Are there other areas where IPSAS changes could address GFS differences? Please describe these.

In our response to Specific Matter for Comment 2 above we noted the importance we place on the IPSASB project on convergence with IFRS. The IPSASB Tracking Table document of substantial convergence with IFRS includes a list of IFRSs with no comparable IPSASs. We believe that some existing IPSAS and GFS differences would be reduced if IPSASs were made more comparable with IFRSs as part of the IPSASB project on convergence with IFRS. One example is that the adoption of IFRS 9 *Financial Instruments* which requires investments in unquoted shares to be measured at fair value would address an existing IPSAS and GFS difference.

Specific Matter for Comment 5 (See paragraphs 5.20 to 5.28 and page 39)
This CP describes three options concerning IPSAS 22: Option A, revisions to improve IPSAS 22; Option B, withdrawal of IPSAS 22 without replacement; and, Option C, replacement of IPSAS 22 with a new IPSAS.

- a. Are there any further IPSAS 22 options that should be considered? If so, what are these?
- b. Which one of the options do you consider that the IPSASB should consider adopting?

We have not identified any further IPSAS 22 options that are feasible.

We support Option C replacement of IPSAS 22 with a new IPSAS. As advocates for a single integrated accounting standard, we encourage the IPSASB to develop a new IPSAS that specifies requirements for both whole of government financial reports and general government sector (GGS) financial reports as we believe it is this approach that best reflects the relationship between the macro-economic focused GGS of a government, the other sectors of the government and the whole of government. It is our experience that governments are managed using GGS information prepared on a partial consolidation basis (i.e., budget information). We envisage a new IPSAS that would prescribe the particular requirements for the scope of the GGS and form and content of the GGS financial report (i.e., a partial consolidation basis whereby only government controlled entities that fall within the boundary of a GGS are consolidated). The whole of government financial report would be prepared in accordance with the IPSAS 6 *Consolidated and Separate Financial Statements*, and thereby separately recognise assets, liabilities, income, expenses and cash flows of all entities under the control of the government on a line-by-line basis.

Preliminary View 1 (See paragraphs 5.29 to 5.34)
The IPSASB should amend Study 14, *Transition to the Accrual Basis of Accounting: Guidance for Governments and Government Entities*, to include a chapter on IPSAS options that reduce differences with GFS reporting guidelines.

In our response to Specific Matter for Comment 5 above we stated our support for Option C. However, we see no reason why Study 14 should not be amended to include a chapter on IPSAS options that reduce differences with GFS reporting guidelines.