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Dear Stephenie,

COMMENTS ON IPSASs AND GOVERNMENT FINANCE STATISTICS REPORTING GUIDELINES

We welcome the opportunity to provide comments on the Consultation Paper on IPSASs and Government Finance Statistics Reporting Guidelines.

This comment letter has been prepared by the Secretariat of the ASB and does not necessarily reflect the views of the ASB Board. In formulating the comments outlined in this letter, the Secretariat has undertaken a limited consultation with its constituents in the South African public sector.

Overall, there was support amongst our constituents for the project. A number of issues were however identified and have been included in the responses to the specific matters for comment and the preliminary view.

Please feel free to contact me should you require clarification on any of our comments.

Yours sincerely

Erna Swart

Chief Executive Officer

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?

We do not agree that all the issues listed in Category A as "resolved" are in fact resolved. Some of the items listed as resolved can in fact only be resolved by specific accounting policy choices. In particular, the recognition and measurement of non-financial assets (including heritage assets) and the treatment of borrowing costs (items A4 and A5) are only consistent with the statistical basis of accounting if certain accounting policies are selected by an entity. Similarly IPSAS 22 is not mandatory but merely encourages governments to 'elect' to reflect the additional information. Consequently, it could be argued that these items should be listed under the "manage differences" category (Part D of the Table).

We are also of the view that item A8 "Costs associated with R&D and other intangible assets" is not resolved in its entirety. As noted in subsequent sections of the paper, the treatment of research costs has not been resolved. We would therefore re-name this item so that it excludes research costs.

Based on the fact that the recognition point for liabilities under statistical and accounting bases is different, we question whether item C3 on "Decommissioning/restoration costs" can be resolved. As statistical reporting aims to record transactions between parties within an economy, it is unclear how decommissioning and restoration provisions could be recognised at a point earlier than when the activities associated with the liabilities are being undertaken (e.g. when a service provider is appointed to rehabilitate a particular site).

(b) Are there further differences between IPSASs and GFS reporting guidelines that should be added to this list? If so, please describe these.

We have noted two additional issues that could be considered:

- Statisticians often rely on consolidated information to prepare their statistics. It may happen that a group comprises subsidiaries that undertake different activities. In order to report statistical information based on these activities, reliance often needs to be placed on the individual subsidiaries' separate financial statements as segment information at a group level may not provide adequate detail. Statisticians are however unable to eliminate inter-entity transactions from these separate financial statements because details of these transactions are not provided in the financial statements. Although IPSAS 20 on *Related Party Disclosures* requires disclosures of such transactions, transactions that are undertaken on normal terms in a regular customer-supplier arrangement between entities in a group, are exempt from disclosure. It might be appropriate to consider disclosing all inter-entity transactions in the notes to the financial statements but clearly indicate the terms on which those transactions are undertaken.
- Although the IPSASB has not completed its project on public sector combinations, we have noted that there may be a potential difference between statistical and accounting bases regarding the treatment of comparative information when

functions or operations are transferred between entities. From a statistical perspective, the comparative information would be adjusted between the entities to reflect the transfer. For accounting purposes, the comparative information will not be amended if acquisition accounting or the modified pooling of interests is applied.

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 Chart of Accounts, and (ii) wider coverage such as that listed in paragraph 4.16 of this CP?

We support the development of guidance on how to develop a chart of accounts (as noted in paragraphs 4.15 and 4.16). This may however be too theoretical to be of practical use. While we acknowledge that it is inappropriate to develop a detailed chart of accounts given the variety of practices that may exist within jurisdictions, it would be useful if an illustrative chart of accounts could be developed to deal with those areas where the statistical and accounting bases differ.

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?

We support, in broad terms, the IPSASB's proposal to consider statistical accounting and reporting in developing its Standards. We are however mindful of the fact that the objectives of financial and statistical reporting are different, as well as the users' of such information and their information needs, and are concerned about how these objectives and needs will be assessed and considered by the Board for alignment. As a result, we would only be in a better position to comment on this proposal once the "criteria or broad principles that could guide the decision process that the IPSASB followed when considering issues that impact on GFS differences" (as noted in paragraph 5.4(b)) have been developed by the IPSASB.

As this is a significant issue, we propose that the IPSASB issues these proposed criteria and the process that the Board intends following in considering alignment issues for comment.

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

We agree in principle with the changes outlined in paragraph 5.4. We do however have a few suggestions in relation to these proposals:

- We question whether the improvements project is the most appropriate way of dealing with alignment issues. The scope of the improvements project has generally not resulted in significant changes to the principles in the IPSASs. We would suggest that a separate project be undertaken to deal with these issues. We are also concerned that such amendments could be "lost" amongst other accounting related issues and might make commenting on these proposals difficult for non-accountants.

- It was not clear from the proposal in (d) whether the term "convergence" in the handbook would be replaced with "alignment". If this is the proposed change, then we support this amendment. We do not support use of the term "convergence" as this implies a greater degree of similarity between accounting and statistics than is feasible.
- While we support publishing comparisons between IPSASs and statistical bases of accounting, it might be more useful to publish such comparisons as part of a single pronouncement (as noted in our response to Preliminary View 1).

Specific matter for comment 4 (See paragraphs 5.5 to 5.19)

Are there other areas where IPSAS changes could address GFS differences? Please describe these.

We have noted two additional areas in Specific Matter for Comment 1 where possible changes to existing IPSASs or, consideration of particular issues in developing new IPSASs, could alleviate differences between accounting and statistical bases of accounting.

It is currently unclear to what extent the measurement approaches followed in IPSASs are consistent with those envisaged in the GFS. As an example, "current market value" in GFS may not be calculated in the same way as "fair value" in the IPSASs. Consequently, we strongly support the proposal in paragraph 5.17 to investigate and improve the consistency in the measurement approaches applied in the accounting and statistical bases of accounting. We also support liaison with the IVSC in this regard.

Paragraphs 5.11 to 5.13 list two potential areas where amendments could be considered to IPSASs as part of the Board's biennial improvements project, i.e. inventory measurement and the guidance on the capitalisation and classification of defense weapons. We have two reservations about these proposals:

- We are of the view that the potential changes are significant and not consistent with the nature and spirit of the changes considered as part of the improvements project. We are of the view that inventory measurement should be considered as part of the Board's review of the IPSASs based on the outcome of its Conceptual Framework project, while guidance on defense weapons should be considered as part of a separate project.
- While accounting for military assets is a significant issue both from an accounting and a statistical perspective, we caution developing accounting guidance for specific assets. Accounting for other assets, such as infrastructure assets, is also a significant issue for many jurisdictions. If guidance is developed on military assets, this might result in constituents requesting more explicit guidance on other types of assets.

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?

We did not identify any other feasible alternatives.

(b) Which one of the options do you consider that the IPSASB should consider adopting?

We are of the view that option C should be pursued given that IPSAS 22 has had limited uptake around the world. Instead of attempting to “fix” IPSAS 22, it may be more appropriate to start with the development of a new IPSAS, which is based on the identification of users’ information needs. While we have not fully investigated the Australian model outlined in the paper, we support the idea of following an integrated approach to reporting GGS and consolidated information.

Based on our discussions with the National Treasury, it was indicated that preparing GGS information could be seen as a relevant intermediate step to the preparation of a complete consolidation based on control (as required by IPSAS 6). We do however acknowledge that this might be more relevant for some jurisdictions than others, depending on the structure of government and what is seen to be “whole-of-government”.

Preliminary view

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.

Based on recommendations under Specific Matter for Comment 5, we are of the view that the guidance should be located in the new IPSAS that will be developed to replace IPSAS 22 (possibly as application or implementation guidance). While it would be useful to draw first time adopters’ attention to statistical reporting, we do not believe that statistical accounting should only be considered when initially adopting IPSASs. If the guidance is only included in Study 14, much of the usefulness may be lost on entities that already apply accrual based IPSASs.

We are also of the view that whatever the format of the document, it should be revised on a regular basis for it to remain relevant.

Other matters

- In paragraph 1.6, the IPSASs are described as if they are developed to address the financial reporting needs of the public sector. IPSASs are developed to address the needs of the users of those accounts rather than the needs of the preparers. We suggest the wording be amended as follows: “…..the financial reporting requirements for ~~needs of~~ public sector entities….”
- Both paragraph 1.2 and 1.7 refer to the importance of financial information systems in deriving IPSAS and GFS information. We suggest this concept be brought into paragraph 2.1 as well – “….IPSAS-based financial reporting information and systems can be used as a …..”
- Table 1 – Realised and unrealised gains and losses: we suggest that the acronym “PP&E” be explained as some readers may not be familiar with the term. The last part of this section mentions that the market value changes for PP&E are not reported at all. However under the heading “Fair value, historic cost and other bases” it states that entities are encouraged to disclose fair values. We suggest the following amendment be made to the last sentence under the heading “Realised and unrealised gains and losses” – “….are not reported at all unless the reporting entity elects to do so.”

- It is unclear why segment reporting is discussed in paragraph 2.15 as this section deals with the “reporting entity” and differences between the control approach and that applied in the GGS. In addition, we question the accuracy of the reference to IPSAS 22 in paragraph 2.48, should it not refer to IPSAS 18?
- The last sentence in paragraph 2.42 states that IPSAS does not specify the number of years involved in adjustments to prior period figures for policy changes and errors. This is incorrect. IPSAS 3 provides specific guidance on the adjustments required to the prior period and or opening balance of the prior period.