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International Federation of Accountants
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31 March 2013

Dear Ms. Fox

Consultation paper: IPSASs and Government Finance Statistics Reporting Guidelines

The global organization of Ernst & Young is pleased to submit its comments on the above Consultation Paper (CP). We have consulted within EY's International Public Sector Accounting network in respect of this letter.

General comments

We support the IPSASB's efforts to harmonize International Public Sector Accounting Standards (IPSASs) for accrual-based financial statements and Government Finance Statistics (GFS) reporting guidelines. As mentioned in the Introduction of the CP, we believe that significant benefits, as listed in paragraph 1.2 of the CP, can be gained from generating IPSAS financial statements and GFS reports using a single integrated financial information system.

However, we do have concerns regarding how issues are categorized as resolved as a result of differences in the two frameworks and the development of the basic components of an integrated Chart of Accounts. Further, we believe that in order to facilitate the systematic approach to address GFS differences, a 'Rules of the Road' process guideline would be needed to guide the IPSASB's decision process when developing IPSASs and considering GFS differences.

Resolution of differences between IPSASs and GFS reporting guidelines

We are concerned that it is not clear to what extent that the issues identified as resolved in Table 2 (pg 22) are indeed resolved. For example issue A8, even though it is noted that 2008 SNA revisions are aligned with IAS 38 *Intangible Assets*, C6 indicates that there are some possible differences in practice, also, D 12 notes that there are differences in terms of the definition of 'research', which would indicate that research costs that are required to be expensed under IPSAS 31 may not always be expensed under GFS reporting guidelines. Further, paragraph 6.20 identifies a further difference in 2008 SNA as a result of the lack of guidance in 2008 SNA on internally generated intangible assets, which in practice would allow capitalization of internally generated intangible assets that IPSAS 31 does not allow for capitalization.

In addition, it will be helpful for users to fully understand the extent of the resolution of issues, and for the IPSASB to continue resolving the issues, if the issues are categorised into 'Differences arising from conceptual differences' versus 'Differences not arising from

conceptual differences'. Using this categorization as a starting point, the IPSASB can then consider the different methods and levels (e.g. conceptual vs standard level; recognition, measurement options or presentation/disclosure options) at which to resolve remaining differences.

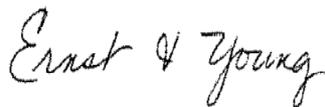
Development of integrated Chart of Accounts

We support the development of an overview of the basic components of integrated charts of accounts (CoA) in conjunction with the statistical community. We are also of the view that a single, standard CoA with a "one size fits all" approach would not be feasible for all jurisdictions with the differences as discussed in paragraph 4.12. Therefore we do not support the IPSASB developing guidance on the wider set of issues related to development of an integrated CoA as outlined in paragraph 4.16. These issues (e.g. paragraph 4.16(b)) are often jurisdictional and entity-specific, and there needs to be adequate room for jurisdictional and entity specific circumstances to be dealt with.

Paragraph 4.13 notes briefly the development of an IPSAS Taxonomy for XBRL, i.e. an XBRL representation of IPSASs, which we would strongly encourage the IPSASB to develop or work in conjunction with others to develop. In our view, an IPSAS taxonomy would support developing an integrated Chart of Accounts, and could be realized by building an extension on the IFRS taxonomy.

Please find our responses to the specific matters for comments set out in the appendix to this cover letter. Should you wish to discuss the contents of this letter with us, please contact Thomas Müller Marqueś-Berger at (+49) 711 9881 15844 or Serene Seah-Tan at (+44) 20 7980 0625.

Yours faithfully

A handwritten signature in cursive script that reads 'Ernst & Young'.

Appendix - Responses to the specific matters for comments

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.

As mentioned in the cover letter, we believe that it is not clear to what extent that the issues identified as resolved in Table 2 (pg 22) are indeed resolved and categorizing the differences between those arising from conceptual differences and those that are not would be helpful in resolving these differences.

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?

As mentioned in the cover letter, we support the IPSASB's development of an overview of the basic components of an integrated CoA, but not the wider coverage such as those listed in paragraph 4.16 for the reasons covered above.

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?

As mentioned in the cover letter, we support the IPSASB taking a more systematic approach to reducing differences between IPSASs and GFS reporting guidelines, furthermore, a "Rules of the Road" for this process should be developed, which is in line with the idea expressed in paragraph 5.4(b). In line with the development of "GFS Rules of the Road" we are of the view that the IPSASB's *Terms of Reference* need to be adapted accordingly (see para. 8.0 *Due Process of IPSASB's Terms of Reference*) and that the IPSASB's bi-annual Improvement project also needs to consider GFS alignment issues. Furthermore, we believe the criteria and policies need to consider circumstances where changes are made to IPSAS standards as a result of IFRS changes, which may contradict GFS guidelines in certain circumstances. In

addition, we would like to continue to stress the importance of public consultation when implementing changes to IPSAS standards to address GFS differences.

Besides including GFS comparisons in all IPSASs as proposed in paragraph 5.4(e), it would be useful to include in the Basis for Conclusions the details of the decisions taken by the IPSASB to arrive at a decision for convergence or a difference to exist. For example, the IPSASB may decide not to change an IPSAS and to allow a difference to continue as a result of irreconcilable conceptual differences, and therefore require disclosure of GFS information in the notes as a result of the continuing difference.

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.

Reference in CP	EY Comments
Paragraphs 5.5, 5.15	We question the extent the IPSASB would go to change current requirements, in order to be further aligned with GFS reporting guidelines. We think that the IPSASB needs to consider the current accounting and financial reporting options that are available under IPSAS (e.g. measurement option of cost for investments in unquoted shares under IPSAS 29 is allowed if no reliable measurement under fair value is available, whereas 2008 SNA adopts a current market price across all assets), and consider whether such options should continue to be available, whilst still maintaining convergence with IFRS as far as possible (as discussed in Appendix A <i>Background on IPSASs and Public Sector GFS Reporting Guidelines</i> paragraphs A 19 & A20), and cohesiveness with the Conceptual Framework once its complete.
Paragraph 5.12	We are not sure what the IPSASB meant by 'there may be scope to address this difference'. For an asset class like inventory, which a public-sector entity may hold, with no intention of selling in a market, or there may not be a market value in some instances, we don't believe requiring a market value measurement base would be appropriate in such circumstances. Perhaps a way to manage this type of difference could be through disclosure requirements in IPSASs.
Paragraph 5.13	We agree with the way described to tackle the lack of guidance in IPSAS 17 regarding defense weapons. We do note that the guidance should be principles-based, and if recognition and measurement exceptions are necessary for such assets, clear reasons and principles be provided.

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 note that IPSAS 22 is not a mandatory standard at the moment, and we question whether there has been adequate time allowed for IPSAS 22 to be used in practice, and to collect feedback on the usefulness and other implementation issues (similar to a post-implementation review) of IPSAS 22 in practice. Following the post-implementation review, then the IPSASB could make an informed decision on IPSAS 22. We think that as a medium term solution, option A would seem to be the suitable next step.

However, as noted previously in our cover letter, we think that ultimately, IPSAS 22 should be replaced with a new IPSAS (ie option C be adopted).