Paris, 30 April 2013

Comité consultatif sur la normalisation des comptes publics

Advisory committee on public sector accounts standards

The Chairman

Response to the Consultation Paper : IPSAS and Government Finance Statistics Reporting Guidelines".

Dear Ms. Fox,

Please find enclosed the response of the Cour des comptes, French Supreme Court of public external auditors, to the above mentioned Consultation Paper on "IPSAS and GFS Reporting Guidelines".

This response was prepared by the Internal Advisory Committee of the French supreme and local courts of public auditors, which is in charge of finalization of their positions and advices on every subject related to public accounting standards.

At first sight, one can hardly challenge the idea of limiting useless gaps between two set of standards for the public sector. But accounting standards are dedicated to accountancy of single or consolidated entities, of various sizes, and are oriented towards microeconomics, while the public sector government finance statistics and reporting guidelines are mainly oriented towards macroeconomics. It then appears that the project under discussion may not pledge for positive effects for various reasons.

The Cour des comptes notes that the question refers to matters relevant of the current discussions on the IPSAS conceptual framework. If the IPSAS Board was to decide for an increased convergence between IPSAS and GPS, this would have at first to result from conceptual proximity on the objectives of the two sets of standards, on their respective perimeters, on the definitions of entities, assets and liabilities to recognize, etc.

Although it is generally acknowledged that IPSAS and GPS both rely on the basis of accrual accounting, the CP states that many gaps exists between them, resulting from different conceptual approaches.

Fundamental differences appear first on the perimeter. GPS deal with "sectors", or collection of similar types of economic actors that do not necessarily maintain legal, control or financial links between them. Accounting standards consider collections of entities under the scope of consolidation or combination, which implies at least financial links, control or mutual transactions among them.

IPSAS being de facto mostly based on IFRS, any hypothetic convergence between them and GPS should imply more or less to emancipate IPSAS from IFRS, considering the fact that GPS international frameworks had been settled many years before and have proven their robustness, especially in EU since the ESA 1995.

IFRS are, in fact, not adapted to the production of statistics, due to their explicit priority towards the needs of a specific category of users of the Financial Statements (investors and creditors), when GPS point to more global economic concepts, such as the measurement of the impact of fiscal or economic policies on supply, demand, investment and savings.

Moreover, any convergence of IPSAS with GPS appears not compatible with the current instability of IPSAS, and the choice made of a constant rewriting of IPSAS in order to update them after every evolution of IFRS. Statisticians obviously need homogeneous historical series of data, which explains that revisions are scarce in GPS Frameworks, and that their consequences are heavy, not only in changes of the requirements of the standards, but also through retrospective retreatments of the government statistics statements themselves on long periods.

These difficulties have also been mentioned by the French national standard setter for the public sector (CNOCP) in his response of the IPSAS Board on this CP.

According to these elements, a significant convergence between IPSAS and GPS would have the probable consequence of a drastic revision of the 32 existing standards, based today on IFRS. It seems then difficult to accommodate, unless than on the fringes, the fundamental gaps between IPSAS and GPS.

As a matter of fact, in spite of some shared common terms and concepts, approaches of GPS and Financial Statements of public entities have major differences, which appear legitimate and even required, since their purposes are different.

The Cour des comptes is although not hostile to some convergence between the two systems, if this convergence remains fully compatible with the main orientations defined in the two conceptual frameworks behind them. In that view, a reference could be added, in the IPSAS Conceptual Framework under construction, on the use of general accounting of public entities as a source for GPS, and even on the concern of avoiding useless retreatments.

The Cour des comptes observes anyway today fundamental differences between IPSAS and GPS, and draws the conclusion that areas of convergence, if any, are likely to be limited in number and impact.

It notes, furthermore, as emphasized by the recent consultation implemented by EUROSTAT for the EU Commission, that EU member states have built, on the basis of the ESA 1995 rule, a common set of standards for GPS, now become mandatory, and this asset has to be protected from any risk of weakness brought through efforts of convergence with IPSAS principles, as long as the adoption of IPSAS does not make a consensus among member states.

Our specific comments are disclosed below.

Yours sincerely,

Raoul BRIET

Annex: specific matters for comments

Specific Matter for Comment 1

Divergence points existing today between IPSAS and GPS do not seem to be actually resolved in the CP for two reasons:

- Some IPSAS pronounce, on major issues, such as measurement methods of assets, financial information, non- exchange transactions, etc., options or imprecise requirements; then, gaps between IPSAS and GPS will not be expected to be eradicated since required accounting treatments are left to options or vague orientations;
- Some IPSAS are not applicable, or only applicable for a small part, to public entities, due to their insufficient attention to specificities of the public sector (IPSAS 28 to 30 on financial instruments); the convergence that seems to go along with them is then only virtual.

Specific Matter for Comment 2

Joint development of nomenclatures by the IPSAS Board and the statistic community could have a structuring effect and would increase the ability to use and practice the accounting requirements. But, on the opposite, a direct transposition of GPS nomenclatures to IPSAS accounting should be avoided. In some jurisdictions, like France, accounting nomenclatures are already standardized.

Specific Matter for Comment 3

The systematic merging of IPSAS and GPS cannot be a top priority, unless it is settled that the two systems are dedicated to the same purposes, to the satisfaction of the same needs, and have the same approach of economics, which is not the case. Thus, the convergence may only focus on some limited part of each set of standards and framework.

A larger ambition of convergence could lead to a risk of denaturation of accountancy, which would afterwards appear dedicated to satisfy the needs of a new and virtual user: "the macroeconomic agency in charge of centralization of accounts", that doesn't exist.

Specific Matter for Comment 4

IPSAS 22 requires the disclosure, in GPFS of public entities, of information on the public sector. The operational validity of IPSAS 22 is not settled, because that standard does not provide a path, precise enough to reach the projected goal. Whatever were the issues decided by the IPSAS Board on IPSAS

22, the priority should be to explain the bridges between one system (IPSAS) and the other (GPS), through an adequate analysis of gaps between the perimeters of both of them (especially on entities under review in the financial statements and their inclusion into the public sector statistical categories as defined by GPS).