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working world**

Ernst & Young Global Limited
Becket House
1 Lambeth Palace Road
London SE1 7EU

Tel: +44 [0]20 7980 0000
Fax: +44 [0]20 7980 0275
www.ey.com



INVESTOR IN PEOPLE

Stephenie Fox
Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street West, 6th Floor
Toronto,
Ontario M5V 3H2,
Canada

1 August 2014

Email: stepheniefox@ipsasb.org

Dear Ms. Fox

IPSASB Strategy Consultation

Ernst & Young Global Limited, the central coordinating entity of the global EY organization, welcomes the opportunity to offer its views on the above consultation. We agree with the IPSASB that this formal public consultation process will help contribute to the IPSASB's public accountability and legitimacy, and ensures that the Board's priorities are aligned with stakeholders' needs.

Please find our responses to the specific questions for respondents 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-Marques Berger at (+49) 711 9881 15844 or via email at thomas.mueller-marques.berger@de.ey.com or Serene Seah-Tan at (+65) 6309 6040 or via email at serene.seah-tan@sg.ey.com.

Yours sincerely,

Ernst + Young Global Limited

Appendix

Question 1:

Do you agree with the IPSASB's tentative view on its strategic objective for the period from 2015 forward? If not, how should it be revised?

We broadly agree with the stated objective but suggest the following wording improvements:

- ▶ For bullet point (a), we suggest adding 'developing high-quality financial reporting standards specific to the needs of the public sector'. First, that would put the focus back on public sector entities, which is consistent with the language in bullet point (b). More importantly, we believe that the IPSASB should focus on developing standards that would provide accounting guidance on public sector-specific issues that is currently lacking in the IPSASB's literature. For example the treatment of non-exchange expenses.
- ▶ For bullet point (b), we suggest explicitly stating the purpose for these 'other publications'. If the purpose of these other publications is to promote better reporting and increase accountability of public sector entities for the benefit of users, the objective could make that clearer. For example, 'developing other publications that would result in better reporting for the public sector'.

Question 2:

Do you think that the two outcomes identified are appropriate for achieving the strategic objective? If not, what outcomes do you think are more appropriate?

Comments on outcome a):

- ▶ The outcome to 'reflect the **full economic reality** of their finances' may be beyond the objectives stated in bullet points (a) and (b) of the tentative strategic objectives and purposes of financial reporting. We think that the outcome needs to reflect what is achievable through the financial reporting framework. In addition, we do not think that this outcome is achievable through general purpose financial statements alone; and other reports such as an intergenerational equity report and budgetary reports would be needed to achieve that outcome.
- ▶ In outcome (a), it is unclear to us what stakeholders should understand and whether the Board intended for stakeholders to understand the 'full economic reality' of an entity's finances.

Question 3:

Do you think that the outputs identified will assist in achieving the outcomes? If not, what outputs do you think the IPSASB should focus on?

We agree with the outputs identified.

Question 4:

What changes to feedback mechanisms should the IPSASB make to ensure it is fully informed about the views of its stakeholders?

As mentioned in the strategy consultation document, there has been increasing interest in IPSASs and a strong trend towards their adoption which is anticipated to continue. With the increasing number of jurisdictions implementing IPSAS, there would be more implementation issues arising from various jurisdictions. Therefore it may be time to consider establishing an interpretations committee to address application issues arising from existing IPSASs. This would be in line with what is envisaged in the European context in relation to *European Public Sector Accounting Standards* (EPSAS). An interpretations committee is also an additional channel available to preparers and other stakeholders to provide feedback on how operational the standards are and where there is guidance missing in the application of a standard.

Question 5:

Do you agree with the five key factors the IPSASB considers in deciding to initiate a project and assessing its priority? Are there other factors you think should be considered?

We agree.

Question 6:

Do you think the Cash Basis IPSAS is a valuable resource in strengthening public finance management and knowledge globally by increasing the adoption of accrual-based IPSASs?

Question 7:

Of the three options identified in relation to the Cash Basis IPSAS, which would you recommend the IPSASB select? Please provide the rationale for your recommendation?

Cash Basis IPSAS is a valuable resource for jurisdictions that are looking to strengthen their public finance management and accountability of public sector entities, but are not ready and lack the resources to implement accrual-based accounting. Therefore we believe that the IPSASB should retain the Cash Basis IPSAS.

However, the Board should consider taking measures to clearly differentiate between the suite of accrual-based IPSASs and Cash Basis IPSAS. It may not always be clear when entities or jurisdictions claim to be applying IPSAS, whether they are referring to accrual IPSAS or Cash Basis IPSAS. Therefore we think a greater differentiation would ensure greater clarity for constituents regarding which set of standards is being applied.

As mentioned previously, we support retaining the Cash Basis IPSAS, and retaining it unchanged. Taking into account the resource constraints at the IPSASB and that we have not observed any significant defect in the Cash Basis standard, we suggest suspending the review project and that the IPSASB should only restart the project if specific funding or resources are available from other organizations to progress this project for the benefit of jurisdictions that are or will be using Cash Basis IPSAS.

Question 8:

Considering the various factors and constraints, which projects should the IPSASB prioritize and why? Where possible please explain your views on the description and scope of the project.

As noted previously, we believe that the IPSASB should focus on addressing public sector-specific financial reporting gaps where there is a lack of guidance in current IPSAS literature. In terms of priority, we believe non-exchange expenses and revenue recognition - including improvements to *IPSAS 23 Revenue from Non-exchange Transactions* - should be of top priority.

The next group of topics that are of importance would be standards addressing the recognition and measurement of assets specific to public sector entities such as infrastructure and military assets and other intangible assets of public sector entities. In our view the project on intangible assets (public sector specific) is closely linked to the projects on sovereign powers and their impact on financial reporting. Therefore we recommend that the Board consider taking these projects on board collectively.

We would also place high importance on maintaining ongoing alignment of IPSAS with IFRS as there should not be divergence between the two suites of standards except for public sector-specific issues.