

IPSASB Exposure Draft 53 *First-Time Adoption of Accrual Basis  
International Public Sector Accounting Standards (IPSASs)*

# **response to exposure draft**

20 February 2014

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As the world's only professional accountancy body to specialise in public services, CIPFA's portfolio of qualifications are the foundation for a career in public finance. They include the benchmark professional qualification for public sector accountants as well as a postgraduate diploma for people already working in leadership positions. They are taught by our in-house CIPFA Education and Training Centre as well as other places of learning around the world.

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Our ref: Responses/ 140220 SC0205

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Submitted electronically

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Dear Stephenie Fox

**IPSASB Exposure Draft 53 *First-Time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)***

CIPFA is pleased to present its response to this exposure draft, which has been reviewed by CIPFA's Accounting and Auditing Standards Panel.

**General comment**

As noted in successive responses, CIPFA strongly supports IPSASB's development of high quality standards for public sector financial reporting, whether through the Board's project to develop and maintain IFRS converged IPSASs or through wholly public sector specific IPSASs.

The proposals in this ED IPSAS have the effect of filling an apparent gap in the IPSAS canon by providing a counterpart to IFRS 1 *First-time Adoption of International Financial Reporting Standards*, and respond to the demand for such a standard which was evidenced by responses to the IPSASB consultation on its workplan.

CIPFA generally supports the proposals which helpfully bring together and rationalise first time adoption approaches which are currently spread across multiple IPSASs. CIPFA agrees with each of the approaches relating to individual IPSAS standards.

The ED IPSAS also extends the circumstances under which entities can formally signal their intention to adopt IPSAS, by providing an intermediate category of 'transitional IPSAS financial statements'. The ED IPSAS proposes that these statements can be prepared for a limited three year transition, and during that time can take additional exemptions to facilitate an orderly progression of fully compliant 'first IPSAS financial statements'. CIPFA supports this approach.

**Comments on the drafting approach**

Notwithstanding our support above, CIPFA is concerned that the drafting of the ED IPSAS is not sufficiently clear and will be difficult for preparers to understand.

We would note that IFRS 1 is drafted to aid understandability by using black letter text sparingly, to indicate the principles or core ideas behind its requirements. Further detail is provided in grey letter text and in quite substantial annexes.

The ED IPSAS sets out requirements for a combination of 'first' and 'transitional' publications, and this results in a standard which is necessarily more complicated than IFRS 1. However, the requirements are listed sequentially, and do not make significant use of the structuring approach used by IFRS 1. There is a large volume of black letter text

which covers both high level and more detailed matters, and material on handling the move from 'transitional' to 'first' financial statements is often duplicated.

While we understand that IPSASs do not adopt an identical drafting approach to that used by IFRS, we would suggest that the content of the ED IPSAS could more clearly separate the main principles and the supporting detail.

An alternative approach which would also be presentationally simpler would be to have an IPSAS on first time adoption which focuses on 'first IPSAS financial statements' and a Recommended Practice Guideline on transition. However, this might not achieve the degree of support for disciplined transition to full IPSAS which the Board intends.

### **Response to specific questions**

Comments on the specific matters for comment are provided in the attached Annex A.

### **Drafting suggestions**

There are a number of areas where the detailed drafting of the ED IPSAS was unclear. Suggestions on how these could be improved are attached at Annex B

I hope this is a helpful contribution to the development of the Board's guidance in this area. If you have any questions about this response, please contact Steven Cain (e:steven.cain@cipfa.org, t:+44(0)20 7543 5794).

Yours faithfully

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**Specific Matters for Comment**

Matter for Comment 1:

The objective of this Exposure Draft is to provide a comprehensive set of principles that provides relief to entities that adopt accrual basis IPSASs for the first time.

(a) Do you agree with the proposed transitional exemptions included in the Exposure Draft; and

(b) Do you believe that the IPSASB achieved its goal in providing appropriate relief to a first-time adopter in transitioning to accrual basis IPSASs?

Please provide a reason for your response.

The ED provides comprehensive guidance, and is principled inasmuch as it distinguishes between exemptions which will generally affect fair presentation and those which will not.

Having said this

(a) CIPFA agrees with each of the proposed exemptions

(b) CIPFA is content that the proposals are reasonable.

Matter for Comment 2:

The IPSASB agreed that there should be a differentiation between those transitional exemptions that do not affect the fair presentation of a first-time adopter`s financial statements and its ability to assert compliance with accrual basis IPSASs, and those that do.

(a) Do you agree with the proposed differentiation and how it is addressed in the Exposure Draft, and

(b) Do you agree that the individual categorization is appropriate?

If not, please provide a reason for your response and provide an alternative approach.

(a) CIPFA agrees with the proposed differentiation. This matches the distinction which the ED IPSAS makes between

- financial statements which achieve fair presentation in line with full accrual IPSAS, which may be published as 'first IPSAS financial statements'; and

- financial statements which achieve a lesser presentation within limits prescribed by the IPSAS, which may be published as 'transitional IPSAS financial statements' for a limited (not more than three year) period, in advance of a planned transition to full IPSAS.

(b) CIPFA is content that the individual categorization is appropriate.

Matter for Comment 3:

This Exposure Draft proposes a relief period of three years for the recognition and/or measurement of specific assets and/or liabilities in allowing a first-time adopter to transition to accrual basis IPSASs.

Do you agree that a relief period of three years is appropriate? If not, please indicate the time frame that, in your view, would be appropriate, supported with the reason for the longer or shorter transitional relief period.

CIPFA agrees with a relief period of three years.

We acknowledge that in practice, in some cases it may take longer to develop systems and staff resources. However, in our view it is important that the period for which entities can signal their intentions to adopt full IPSAS by publishing 'transitional IPSAS financial statements' should not be overly extended.

## DRAFTING POINTS

In paragraph 7, the definition of 'First IPSAS financial statements' refers to 'other IPSAS' when it appears to mean 'those IPSAS'. After correcting this, the definition would still be difficult to understand when drafted as a single sentence.

Original text

***First IPSAS financial statements are the first annual financial statements in which an entity complies with the accrual basis IPSASs and can make an explicit and unreserved statement of compliance with other IPSASs because it adopted one or more of the transitional exemptions in this IPSAS that do not impact the fair presentation of the financial statements and its ability to assert compliance with accrual basis IPSASs.***

Suggested redraft

***First IPSAS financial statements are the first annual financial statements in which an entity complies with the accrual basis IPSASs and can make an explicit and unreserved statement of compliance with ~~other those~~ IPSASs. The entity may have because it adopted one or more of the ~~transitional~~ exemptions in this IPSAS that do not impact ~~the fair presentation of the financial statements and its on the~~ entity's ability to assert compliance with accrual basis IPSASs.***



In paragraph 7, the definition of 'Period of transition' is unclear and might be misread as implying that compliance with IPSASs is achieved by making a statement of compliance.

Original text

***Period of transition is the period during which a first-time adopter applies one or more of the exemptions in this IPSAS before it complies with the accrual basis IPSASs by an explicit and unreserved statement of such compliance with IPSASs.***

Suggested redrafts

Either:

***Period of transition is the period during which a first-time adopter applies one or more of the exemptions in this IPSAS before it complies with the accrual basis IPSASs ~~by an explicit and unreserved statement of such compliance with IPSASs.~~***

Or:

***Period of transition is the period during which a first-time adopter applies one or more of the exemptions in this IPSAS before it complies with the accrual basis IPSASs, and before it is able to make ~~by~~ an explicit and unreserved statement of such compliance ~~with IPSASs.~~***

Paragraph 10 characterises the 'previous basis of accounting' in terms of 'the cash basis of accounting' or 'the accrual basis of accounting'.

This is potentially confusing, because 'basis of accounting' is being used in a narrow sense to refer to a specific GAAP or regulated framework, and is used in this way throughout the proposed IPSAS. In contrast the references to 'the cash basis of accounting' and 'the accruals basis of accounting' are normally used to refer to a range of possible GAAPs or frameworks. It would be clearer to refer to specific examples of such frameworks as 'a cash basis of accounting' or 'an accruals basis of accounting' respectively.

It is particularly important to be clear that there is not a single 'accrual basis of accounting', in order for subsequent discussions of the transition to accrual IPSAS from the previous basis of accounting to make sense.

#### Original text

*The previous basis of accounting is the basis of accounting that a first-time adopter used immediately before adopting accrual basis IPSASs which can either be the cash basis of accounting or the accrual basis of accounting. The first-time adopter may also have applied a modified version of either the cash basis or the accrual basis of accounting, or prescribed requirements.*

#### Suggested redraft

*The previous basis of accounting is the basis of accounting that a first-time adopter used immediately before adopting accrual basis IPSASs. ~~This might which can either be~~ athe cash basis of accounting or ~~the-an~~ an accrual basis of accounting. ~~The first-time adopter may also have applied, or~~ a modified version of either ~~the-a~~ a cash basis or ~~the-an~~ an accrual basis of accounting, or prescribed requirements.*

Paragraph 11 seems to incorrectly imply that the expiration of exemptions is a sufficient condition to allow an entity to make an unreserved declaration of compliance. It needs to be redrafted to make it clear that the declaration of accrual IPSAS compliance needs to reflect actual compliance.

The expiration of the exemption period is only relevant insofar as it compels compliance with full IPSAS.

A further point which we consider worth making is that in some cases the entity may achieve compliance in a particular reporting period because no transactions need to be recorded in line with a particular IPSAS, or no complex issues arise which are not straightforwardly dealt with by existing systems. Under these circumstances, fair presentation might be achieved, but the entity should only claim full compliance with accrual IPSAS if it is confident that it will be able to comply in future years, which may necessitate further system development.

We would note that similar wording is used in paragraph 8, but is unlikely to be misunderstood if the suggested changes are made to paragraph 11.

#### Original text

*An entity's transitional IPSAS financial statements are the annual financial statements in which an entity transitions to accrual basis IPSASs and adopts certain exemptions in this Standard that impact the fair presentation of the financial statements and its ability to assert compliance with accrual basis IPSASs. If a first-time adopter adopts the exemptions in this Standard that affect fair presentation and compliance with accrual basis IPSASs (see paragraphs 32–60), it will not be able to make an explicit and unreserved statement of compliance with other accrual basis IPSASs until the exemptions that provided the relief in this Standard have expired and/or when the relevant items are recognized, measured and/or the relevant information has been presented and/or disclosed in accordance with the applicable IPSASs (whichever is earlier).*

#### Suggested redraft

*An entity's transitional IPSAS financial statements are the annual financial statements in which an entity transitions to accrual basis IPSASs and adopts certain exemptions in this Standard that impact the fair presentation of the financial statements and its ability to assert compliance with accrual basis IPSASs. If a first-time adopter adopts the exemptions in this Standard that affect fair presentation and compliance with accrual basis IPSASs (see paragraphs 32–60), it will not be able to make an explicit and unreserved statement of compliance with other accrual basis IPSASs until ~~the exemptions that provided the relief in this Standard have expired and/or when~~ the relevant items are recognized, measured and/or the relevant information has been presented and/or disclosed in accordance with the applicable IPSASs ~~(whichever is earlier)~~. Once an entity has made an explicit and unreserved statement of compliance with accrual basis IPSASs, it cannot decide to apply or re-apply any of the transitional exemptions in this IPSAS.*

We are somewhat confused by Paragraph 12 which indicates that:

*An entity's transitional IPSAS financial statements are those financial statements, for example, where the entity transitions from another accounting basis such as when it:*

.....

*(b) Presented its most recent previous financial statements:*

.....

*(ii) In conformity with IPSASs in all respects, except that the financial statements did not contain an explicit and unreserved statement that they complied with IPSASs;*

It is not clear to us under what circumstances an entity which had fully complied with IPSAS except for providing a statement of compliance could not thereafter make such a statement in its next set of financial statements. Those financial statements would then be the 'first IPSAS financial statements' rather than the 'transitional IPSAS financial statements'.

For similar reasons, it is not clear to us why the previous financial statements would not be designated as 'transitional IPSAS financial statements'.