

Comments and suggestions on the IPSASB Consultation for its Proposed Strategy and Work Plan 2019-2023

Task force IRSPM A&A SIG, CIGAR Network, EGPA PSG XII

27 July, 2018

The IPSASB has requested comments and answers to specific questions regarding its Proposed Strategy and Work Plan 2019-2023. The comments and responses prepared by the Task Force IRSPM A&A SIG, CIGAR Network and EGPA PSG XII are presented hereafter.

The IRSPM A&A SIG, CIGAR Network and EGPA PSG XII are three research networks that focus on Public Sector Accounting. The Task Force is made up of 17 researchers from these networks. The views expressed in this document represent those of the members of the Task Force and not of the whole research community represented by the networks, and neither of the Institutions/Universities with which they are affiliated.

Comments and suggestions considering the IPSASB document for 'Proposed Strategy and Work Plan 2019-2023'

Core assumptions

We are of the opinion that Public Financial Management (PFM), in its broadest sense, is the system by which public financial resources are planned, managed and controlled. Furthermore, the PFM system is the foundation on which the *accountability* of public sector entities, both external and internal, is built to enable and influence the efficient and effective delivery of public service outcomes and *to demonstrate value for money, especially towards citizens*. In our view, PFM is paramount for accountability and should support the stewardship function, as well as decision-making, which are subordinated.

We recognise the pivotal role of the Board in developing high quality international public sector accounting standards to support financial reporting and to enhance non-financial disclosure by public sector entities to increase citizens' trust. Thus we agree with the challenges identified in the strategy and work plan, to be addressed during the period 2019–2023.

We are of the opinion that, in general, public sector entities require public sector specific principles and standards that properly address and accommodate public sector specificities. As such, when public sector transactions resemble those taking place in the private sector, principles and standards may be kept as aligned as possible. However, for public-sector-specific transactions, we are in favour of standards that are not adapted artificially from private sector accounting and we think there is a need to seek options that best fit the public sector. This core thesis underpins our proposals and recommendations herein.

Specific Matter for Comment 1

Do you agree with the IPSASB's proposed Strategic Objective 2019–2023? If you agree please provide any additional reasoning not already discussed in the document. If you do not agree please explain your reasoning and your proposed alternative.

Comment:

Agree. Further comments on specific themes are provided hereafter.

Theme A: The IPSASB considers it necessary to develop standards on public sector specific issues.

We highlight here the core thesis that motivates our comments and general opinion. For public-sector-specific transactions, we are in favour of standards specifically developed for Public Sector Entities, considering options that best fit the public sector. This core thesis has characterised comments submitted by

our Task Force to previous documents (CP for Heritage; CP for Accounting for Revenue and Non-Exchange Expenses, ED 63 Social Benefits, ED 64 Leases). On the same line of thought, we agree with the IPSASB's policy to reduce unnecessary differences with Government Finance Statistics (GFS).

In the development of standards on specific issues, we believe that a pivotal point to be considered is that of the trade-off between the benefits in terms of transparency and accountability for those governments that do not regularly report on specific assets and liabilities or adopt a different reporting approach, and the burden from applying specific IPSAS. In this perspective, the principle of materiality should be considered to ensure that organisations do not burden themselves in seeking to comply with IPSAS for immaterial areas.

Theme B: The IPSASB considers it necessary to maintain IFRS convergence.

In general, achieving a convergence between IASB's and IPSASB's standards could be convenient for consolidation purposes in countries where commercially-oriented public sector entities prepare reports based on IFRS. This approach does make sense in the case of exchange transactions. **Otherwise, particularities of the public sector should prevail.** In the process of dealing with public sector specific issues, the Board should be prepared to take a fresh approach in the drafting of a relevant standard – starting from a clean drawing board that is ready to accept public sector specificities, without being already tainted with private sector reporting tendencies.

Theme C: The IPSASB considers it necessary to develop guidance to meet users' broader financial reporting needs.

We believe that **Recommended Practices Guidelines** represent a useful tool to provide guidance on specific public interest needs related to the broader financial reporting space.

Theme D: The IPSASB considers it necessary to promote IPSAS adoption and implementation.

We consider it important that Board members and staff develop the dialogue with the academic community and governments, engaging in a global discussion, favouring a harmonisation process to the adoption and implementation of IPSAS.

Stakeholders such as politicians, parliamentary bodies, audit institutions, statistical offices and other government organizations should be introduced to the work of the IPSASB. It is important for the IPSASB to promote a fuller understanding of the potential benefits that IPSAS adoption might bring, going beyond budgetary information and national statistics, especially for the development of a legislative backing for the adoption of IPSAS among public sector entities.

Theme E: The IPSASB considers it necessary to advocate the benefits of accrual accounting in strengthening PFM.

Agree. Further efforts should be applied to investigate and communicate the concrete benefits of accrual accounting in strengthening PFM, but also to consider a simplified approach for the adoption of IPSAS for small and medium sized public entities, taking into account an entity's size, business model, organisational structure and political context. The scope of promoting accrual accounting is broader than promoting IPSAS or simplified IPSAS for small and medium sized public entities. To this end, the identification of actual cases in developing and developed countries, where accrual accounting adds value in PFM, should be further communicated.

Specific Matter for Comment 2

Do you agree with the IPSASB's five proposed Strategic Themes for the 2019–2023 period? If you agree please provide any additional reasoning not already discussed in the document. If you do not agree please explain your reasoning, including any proposed alternatives.

Comments:

Agree, see previous comments.

Specific Matter for Comment 3

Do you agree with the criteria the IPSASB has used in deciding the proposed issues to add to its Work Plan 2019–2023? If you agree please provide any additional reasoning not already discussed in the document. If you do not agree please explain why, including any proposed alternatives.

Comments:

Agree. Careful attention should be paid in the process of convergence with IFRS, given that the IPSASB must primarily retain compliance with its own Conceptual Framework during this process. It would seem pointless for the Board to waste resources in preparing standards that are a replica of IFRS. When the IASB updates an IFRS, the IPSASB should need only to examine the revisions to see whether the changes are applicable or not to the public sector and if there is coherence with the IPSASB Conceptual Framework.

In this way, the Board could focus on issuing standards that are specific to the public sector context, such as social benefits and infrastructure, non-exchange transactions, link with budgetary accounting, link with macro-economic indicators, services that do not have economic / profit objectives but with societal aims. The financial reporting methodology used by business enterprises fails to measure the real performance of governments because it reports a bottom line for profit/loss, which is not a suitable indicator for the monitoring and evaluating the government's activities and services.

Specific Matter for Comment 4

Do you agree with the projects that the IPSASB proposes to prioritize for addition to the Work Plan 2019–2023 on Theme A: Setting standards on public sector specific issues (Natural Resources, Discount Rates, Differential Reporting and Conceptual Framework limited-scope Review)? If not please explain your reasoning, and any proposed alternatives.

Comments:

Agree. We believe that the primary focus should be on the revision of the Conceptual Framework and to Differential Reporting. Revision of the Conceptual Framework should comprise not only Elements and Recognition in Financial Statements, but also incorporate changes coherent with the Public Sector Measurement project, addressing the need to make GPFs understandable to citizens. Differential Reporting should be also prioritised, in accordance with the principles of prevalence and consequences. Addressing the needs of small and medium sized public entities should be a priority to favour a wider harmonisation process. This should mitigate many of the concerns of smaller entities.

Specific Matter for Comment 5

Do you agree with the project that the IPSASB proposes to prioritize for addition to the Work Plan 2019–2023 on Theme B: Maintaining IFRS convergence (IPSAS 18, Segment Reporting)? If not please explain your reasoning, and any proposed alternatives.

Comments:

Agree. This approach does make sense in the case of exchange transactions. Otherwise, as we have already highlighted, the particularities of the public sector should prevail.

The technicality of the IPSAS language, particularly when referenced to IFRS, can be a barrier to understandability. IFRS are written by accountants for accountants. Sometimes they are barely understandable by accountants themselves. Technical language might deter both non-accountants and also accountants with experience in budgetary accounting within the public sector. The IPSAS should be written bearing these audiences in mind. The IPSASB should avoid importing accounting jargon from the private sector and should use further practical and realistic examples from the public sector to illustrate how private sector accounting techniques are proposed for implementation within IPSAS. Additional technical guidance should be developed, where necessary, to support the implementation of specific standards.

Specific Matter for Comment 6

Are there any projects in Appendix A that you believe should be added to the Work Plan 2019–2023 in place of a currently proposed project? If you believe that any Appendix A projects should be added, please explain your views on why the project should be included, which proposed project should not then be started and why.

Comments:

We note that the IPSASB only considers accrual accounting for the preparation of GPFRs. In the process, it is overlooking the central role that budgeting and budgetary accounting and reporting has for governments and public sector entities. The setting up and authorization of governmental budgets by elected politicians are crucial for all public administrations. Often the whole budgetary process is constitutionally defined.

Budgetary accounting is far more than cash accounting. It involves the recording and reporting of the activities across the different stages; e.g. for the expense cycle we have the stages: 1/ financial planning preparation, 2/approval of the budget, 3/ funds warranted (appropriations), 4/ recognition of the actual expense, 5/ cash payment. Budgetary accounting may include multi-period budgetary planning which is easier to reconcile with some accruals bases of accounting. Appropriations included in the budget can be expressed using different bases of accounting, with the cash basis being an alternative and not the only option. The accrual accounting basis could be used.

The current IPSAS are lacking the study, analysis and integration of these traditional governmental accounting recordings and reports. Guidelines on how to apply accrual logic to budgetary accounting should be provided. Academics may be in a position to provide support and to liaise with the Board to examine this (forgotten) topic.

Furthermore, the presentation of relevant budgeting information in the financial reports would promote a holistic view of governmental financial issues. Under this lens, updating and enhancing IPSAS24 would be relevant.

The Work Plan 2019-2023 should also investigate IT means to disclose GPFR information. As the users of GPFR are also citizens, the exploitation of technology for GPFR may increase dissemination, accountability and transparency. The development of IT means would be coherent with the Theme C: Developing guidance to meet users' broader financial reporting needs.

We would suggest providing additional guidance concerning notes relating to the quality of the services provided and alternative reporting formats that are understandable by citizens. Those without specific accounting knowledge should be able to access, read and understand the financial information of a public entity, to evaluate the value for money of public services; and to consider how moneys levied through taxation have been employed to the benefit of the whole community.

Specific Matter for Comment 7

The IPSASB views building relationships with those working in the PFM space and engaging in their work as critical to furthering the use of IPSAS in PFM reform projects. Therefore, under Themes D and E, the IPSASB will actively monitor the work of others and look for appropriate opportunities to engage and support that work.

– Do you agree with the IPSASB's proposed approach under these Themes? If so, are you aware of any ongoing initiatives which the IPSASB should monitor and look to engage with (please provide details).

– If you do not agree, please explain your reasoning along with any proposed alternatives, and how those might be resourced.

Comments:

Agree.

We would also suggest attention to sustainability issues: public sector entities devote special efforts in the achievement of UN Sustainable Development Goals and a joint project with this purpose would be highly advisable. The IPSASB ought to consider the activities of academia in this area. The subjects discussed and the ensuing scientific research would be useful for the IPSASB's strategy. The IPSASB might engage with academics providing more analytical preparatory research when developing public sector accounting

standards. This kind of research is necessary as a basis for further discussions when preparing or revising standards. For instance, user needs research is very often missing; and it is not enough to just talk to some accountants. Furthermore, an open dialogue with governments (in particular, local governments that are closer to citizens) would enhance the dialogue between the IPSASB, public sector entities and their communities.

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Signed on behalf of those persons listed below

Aggestam Pontopiddan	Caroline	Associate Professor of Accounting	Copenhagen Business School, Denmark
Anessi Pessina	Eugenio	Professor of Public Management	Università Cattolica del Sacro Cuore, Milan, Italy
Biondi	Yuri	Senior Tenured Research Fellow of the CNRS (IRISSO, University Paris Dauphine PSL), France	Research Director, Laboratory of Excellence on Financial Regulation (Labex ReFI), Paris, France
Bisogno	Marco	Associate Professor of Accounting	University of Salerno, Italy
Brusca	Isabel	Professor of Accounting and Finance	University of Zaragoza, Spain
Caperchione	Eugenio	Professor of Public Management	Department of Economics "Marco Biagi", Modena and Reggio Emilia University, Italy
Caruana	Josette	FCCA, FIA, CPA, MA (Fin. Services), PhD	Lecturer, Department of Accountancy, University of Malta, Malta
Christiaens	Johan	CPA, Public Sector EY	Professor Public Sector Accounting, Ghent University, Belgium
Cohen	Sandra	Associate Professor of Accounting	Department of Business Administration, Athens University of Economics and Business, Greece
Dabbicco	Giovanna	Researcher, PhD at Parthenope University of Naples	ISTAT, Italy
Hodges	Ron	Emeritus Professor of Accounting	Birmingham Business School, University of Birmingham, U.K.
Jorge	Susana	Tenured Professor with accreditation	Faculty of Economics, University of Coimbra, Portugal
Manes Rossi	Francesca	Associate Professor of Accounting, CPA, co-chair of EGPA PSGXII	University of Salerno, Italy
Lorson	Peter	Professor of Accounting	University of Rostock, Germany
Reichard	Christoph	Professor Emeritus of Public Management	University of Postdam, Germany
Sicilia	Mariafrancesca	Associate Professor of Public Sector Management and Accounting	University of Bergamo, Italy
Steccolini	Ileana	Professor of Accounting & Finance	Newcastle University London, U.K.