

May 24, 2018

Mr. Ian Carruthers,  
Chairman  
International Public Sector Accounting Standards Board

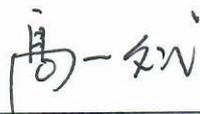
Dear Mr. Ian Carruthers,

We, the Accounting Regulatory Department of the Ministry of Finance of the People's Republic of China, appreciate the opportunity to comment on IPSASB's Consultation Document, *Proposed Strategy and Work Plan 2019-2023*, published in February 2018. We support the Board in developing a set of high-quality accounting standards applicable to the public sector entities around the world, and appreciate the efforts made and the outcomes achieved by the Board on continually improving the International Public Sector Accounting Standards (IPSAS).

We sought comments on this Consultation Document from a wide range of expert representatives, including preparers of the public sector financial statements, users of financial statements, government audit offices, audit firms, and academic circles. We received 20 responses in total and organized face-to-face discussions with such expert representatives. Our comments on this Consultation Document resulted from summarizing, reorganizing and analyzing the responses received from various sources. In general, we agree with the IPSASB's *Proposed Strategy and Work Plan 2019-2023*. Also, we hope that in addition to the development of IPSASs, the Board could devote more efforts to the promotion and implementation of IPSASs, and consider appropriate simplification of the IPSAS requirements as well as improvement of the practicality of IPSASs, so as to facilitate the adoption of IPSASs across the public sector. Please refer to the Appendix for our detailed comments on the questions raised in the Consultation Document.

For any queries concerning our comments, please feel free to contact Mr. Zhao Jie at [zhaojie7@mof.gov.cn](mailto:zhaojie7@mof.gov.cn), Accounting Regulatory Department of the Ministry of Finance.

Yours faithfully,



Director-General

Accounting Regulatory Department, Ministry of Finance, the People's Republic of  
China

## Appendix

### **Comments from the Accounting Regulatory Department of the Ministry of Finance of the People's Republic of China on the IPSASB's *Proposed Strategy and Work Plan 2019-2023***

We generally agree with the IPSASB's *Proposed Strategy and Work Plan 2019-2023*. Our detailed comments on the questions raised in the Consultation Document are as follows:

#### **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: We agree with the IPSASB's proposed Strategic Objective 2019–2023. Our additional reasoning: A set of high-quality public sector accounting standards will help to enhance the internal management of the public sector, as well as optimizing the statistics, allocation and utilization of resources in various government units.

However, we would also like to draw the Board's attention to the fact that in most countries, budget preparation is currently done on a cash basis. As a result, such government organization management's focus on cash flow information may be overlooked if the accrual basis is over-emphasized. Therefore, we propose not to completely abandon the cash basis.

#### **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.

Comment: We basically agree with the IPSASB's five proposed Strategic Themes, which are developed based on the two areas covered by the Strategic Objective. As we support the Strategic Objective, we naturally agree with the Strategic Themes as well. However, in terms of the specific wording of certain Strategic Themes, part of the contents may need further consideration.

As for Theme B, in our view, while converging development of IPSASs with IFRSs, the Board also needs to consider the differences between public sector entities and

private sector enterprises. A private sector enterprise is aimed to make profits, and so the objective of IFRSs tends to be decision usefulness oriented, which might compromise reliability to a certain extent while improving the relevance of information. However, the public sector is aimed to render public goods and public services, and so the objective of IPSASs is to be more focused on the accountability view. As a result, more importance is put on reliability in pursuit of a balance between relevance and reliability. Accordingly, the use of fair value and professional judgment should be minimized to reduce uncertainty and complexity.

Themes C and D are developed from the perspective of satisfying the needs of users of financial statements, such as the public. However, unlike the financial reporting of a private sector enterprise, the main users of the public sector financial reporting may not be the public, but the government financial departments and the administrative/supervision authorities, who are also the financial reporting providers. Therefore, we propose to develop some more feasible guidance from the perspective of the public sector to motivate the adoption of IPSASs.

### **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.

Comment: We basically agree with the criteria the IPSASB has used in deciding the proposed issues to add to its Work Plan 2019–2023, yet the wording of certain criteria could be further refined. The second criterion, "consequences", is now described from the perspective of negative effects. We propose to use a judgment based on positive logic, instead. That is, to replace the word "impairs" in the description of the criterion with "improves", which sounds more appropriate and incorporates the needs of financial reporting users.

In addition, we propose to explicitly define the priorities or weights of the four criteria for the purpose of project screening.

#### **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.

Comment: We do not agree with the project of Discount Rates that the IPSASB proposes to prioritize for addition to the Work Plan 2019–2023. Our reasoning is as follows: **(1)** Different to the purpose of holding assets by an enterprise, the main purpose of holding assets by the public sector is to provide public goods and public services rather than obtaining economic benefits. Therefore, discount rates just have an insignificant impact on the measurement of assets and liabilities by the public sector. In this case, it is not a matter of public concern and so does not meet the criterion of "consequences". **(2)** Given the unbalanced economic position of each different country around the world, not all countries are facing a low/negative interest rate environment. On the contrary, since the Federal Reserve of US has constantly raised interest rates, the global interest rates indicate an upward tendency. Therefore, the criterion of "urgency" is not met. **(3)** The use of discount rates in the public sector accounting system is very difficult, and thus may lead to a significant increase of workload and potential impairment of the accounting information quality. Because the use of discount rates is heavily dependent on the professional judgment of accountants, whose professional competence is thus strictly required. Take China for example, now the public sector accountants put more importance to budget accounting. As a result, they are not familiar with the accrual basis accounting, and also lack experience in using discount rates. Promoting the adoption of discount rates in the public sector at an earlier stage may lead to accountants' misunderstanding and misuse of discount rates, thereby impairing the quality of public sector accounting information.

#### **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.

Comment: We agree with the project of IPSAS 18, *Segment Reporting* that the IPSASB proposes to prioritize for addition to the Work Plan 2019–2023 on Theme B: *Maintaining IFRS convergence*.

Based on our view on Theme B as explained in our comments on Specific Matter for

Comment 2, although we believe that among the five Strategic Themes, maintaining IFRS convergence is neither paramount nor foremost, it is a basic consensus to reduce any differences in respect of similar business. The existing IPSAS 18 is based on IAS 14 *Segment Reporting* (IAS 14). Since it was replaced by IFRS 8 *Operating Segments* (IFRS 18) in November 2006, IAS 14 has indicated good stability and is not expected to be amended in the near future. Therefore, we believe that maintaining IFRS convergence can be achieved in this case.

In addition, given the need to publish comprehensive financial reports by the public sector, segmental reporting will provide important supplementary information to comprehensive financial reporting. As the public sector consists of many different components and each of them has different characteristics, segment information is useful and necessary.

#### **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 your reasoning.

Comment: We propose to add the *Public Sector Guidance for Cost Accounting* in Appendix A to the Work Plan 2019–2023. Our reasoning is as follows: (1) Cost accounting is the basis of government performance management and procurement service pricing. The development of a guidance for cost accounting will help to promote the modernization of the public sector's own governance system and capability, and realize the Strategic Objective of the Board, i.e. strengthening the Public Financial Management (PFM). (2) The implementation of the accrual-basis accounting is a prerequisite for the accurate cost accounting, and the development of a public sector guidance for cost accounting will facilitate the extensive application of IPSASs.

Based on our view on Specific Matter for Comment 4, we suggest that the project of Discount Rates should not be initiated.

#### **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.

Comment: Agree. We also suggest that the Board should strengthen communication and interactions with stakeholders from various countries, such as governments, academic circles and accounting firms, so as to further promote the use of IPSAS in PFM reform projects.