

Responses to IPSASB Consultation Paper: Proposed Strategy and Work Plan 2019-2023
(January, 2018; Comments due: June 15, 2018)

CONSULTATION PAPER (CP)

PROPOSED STRATEGY AND WORK PLAN 2019-2023

The Technical Director

International Public Sector Accounting Standards Board (IPSASB)

International Federation of Accountants

277 Wellington Street West, 6th floor

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Brasília, Brazil

June 14th, 2018

Dear Mr. John Stanford,

The *Conselho Federal de Contabilidade* (CFC) of Brazil welcomes the opportunity to collaborate with the consultation on IPSASB *Proposed Strategy and Work Plan 2019-2023*. CFC, alongside with its regional arms - Regional Accounting Councils or *Conselhos Regionais de Contabilidade* (CRCs), is the Professional Accountancy Organization that carries out regulatory activities for overseeing the accountancy profession throughout the country.

Our points of view and comments can be found on the Appendix of this document that was prepared by the Brazilian Public Sector Accounting Standards Advisory Board (GA/NBC TSP) of the CFC.

If you have any questions or require clarification of any matters in this submission, please contact: tecnica@cfc.org.br.

Regards,



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Technical Vice-President
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APPENDIX

1. Context and General Comments

The Brazilian Federation is composed by central government, 26 states, one federal district, and 5,569 municipalities. These levels of governments are responsible for formulating, implementing and evaluating public policies in cooperative and/or competitive arrangements.

In the next section, we present our comments and answers on specific matters for comment of the consultation paper on an international level.



2. Responses to the Specific Matters for Comment and Preliminary Views

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.

GA/CFC **agrees** with the IPSASB's proposed Strategic Objective 2019-2023.

The strategic objective is broad and allows the planning and execution of several relevant projects to the public sector. In addition, identifying the benefits of the accrual basis can contribute to boost the use of accounting information by different users and, consequently, strengthen IPSAS adoption and implementation.

However, to better clarify IPSASB strategy, the differences between users (political agents, bureaucrats, accountants, controllers, auditors, international organizations, citizens and others) regarding knowledge, concerns, technical language proficiency, effort and benefits should be addressed. Consequently, the objectives could be presented in a more specific towards IPSAS' main users. It is necessary to make the usefulness of accrual accounting information better disseminated to these different stakeholders so as to reduce possible resistance to the transition from budget-based or cash-based information to the full set of accrual based IPSAS.

In addition, the IPSASB could consider regional variations or differences, e.g., Europe and Latin America. In fact, there are strategies that are common to different regions, but others should be adapted according to their peculiarities, in particular, to the second area of activity.

It is also worth mentioning the possibility of including an area of institutional strengthening and governance activities, with emphasis on resources, training programs, information technology and support from multilateral agencies.



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.

GA/CFC agrees with the IPSASB's proposed Strategic Themes for the 2019-2023.

However, there seems to be no correspondence between strategic objective and the five strategic themes, since the objective is audacious and the themes have been developed in a conservative way. In addition, it should be clear that themes A and B were prioritized over other themes, given the prioritization criteria pointed out by the IPSASB in the document.

Most IPSAS are based on IFRSs that are applicable to private sector entities. However, despite the importance of comparability of information across sectors due to the consolidation process required by the IPSAS themselves or by public finance statistics models, it is necessary to consider the particularities of the public sector, not only in the specific scope of a standard, but also as to the emphasis of the model as a whole. For example, in defining whether the focus would be on the assessment of financial capacity by one or more specific user groups.

It is unclear whether there is a primary targeting - for example, financial capacity - and one or more user groups for which IPSAS are targeted. If any, it is relevant to identify the primary targeting and its possible ramifications, for example, cost of public services. Thus, the discussion of the assumptions and the basic concepts of the model could contribute to the strategic objective, evaluation of the adequacy of the themes and priorities setting.

At some point, it turns out that there is possibly a hierarchy between the themes, since, for example, Theme A has more projects prioritized than the other. If IPSASB understands the approach is adequate, it should make clear that there is a prevalence of one theme over another. In addition, there is an intersection between themes D and E, because advocating the benefits of accrual in strengthening the PFM results in promoting the adoption and the implementation of IPSAS as a natural consequence.

In line with the suggestion presented SMC 1, it is also suggested to include a theme aimed at institutional and governance strengthening.



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.

GA/CFC **partially agrees** with the criteria the IPSASB has used in deciding the proposed issues to add to its Work Plan 2019-2023.

Based on the document, it is not possible to understand how the criteria were used to set priorities. This is because the hierarchy among the five criteria and their operational definitions have not been presented.

It is necessary to establish whether the criteria have equal or different weights. If the criteria have different weights, the weights of each of them should be determined and, consequently, those that are priority would be identified. In this case, the prevalence should be the criterion with greater weight. In addition, the relevance criterion should be considered together with the prevalence or separately. This would be a more defensible and scientific way of showing the criteria used.

Consideration of the differences among regions, countries and entities within the same country when the criteria are operationalized is not an easy task. For example,, how to approach the different levels of governments in the operational definition of prevalence? Given that the regions / countries are unequal in terms of the degree of development and implementation of IPSAS, could the urgency of the project have different views?

In relation to the criterion of relevance, the application of standards on the consolidated financial statements may generate different results in the various jurisdictions. For example, a natural resource standard can generate significant changes in the consolidated financial statements in countries or regions where such resources are an important economic source. One possible solution could be the regionalization of the application of these standards according to the situation of each block of countries and/or jurisdictions.

In addition, promoting transparency regarding the prioritization process can contribute to the legitimacy of the IPSASB Strategy and Work Plan 2019-2023, which includes presenting the operational definitions of the criteria as well as the weights assigned to each one of them.



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.

GA/CFC doesn't agree with the projects that IPSASB proposes to prioritize for addition to the Work Plan 2019-2023 on Theme A.

Differential Reporting: The GA / CFC understands that it should be the priority project of Theme A, given the set of local governments - 5,569 Brazilian municipalities, the majority of which are small or medium in size and which perform low complexity transactions. In small and medium municipalities, the full adoption of IPSAS requires human, operational, and financial resources, whose scarcity is a limitation for their implementation. Besides that, the use of such resources is not justified on the basis of the cost-benefit of the information generated (which is one of the constraints of information according to the IPSAS conceptual framework).

Discount Rates: The opinion of the GA / CFC is that this project should not be a priority because low or negative discount rates are not a reality in Latin American countries, in general, and in Brazil, in particular. Although it is important to establish general principles applicable to discount rates, it is a specific issue related to the measurement of items in the financial statements, and there are entities that standardize the measurement, such as The International Valuation Standards (IVS) Council. Thus, it would not correspond the core of the accounting information that encompasses the recognition, the measurement, and the disclosure of specific phenomena. It may be extremely challenging for the IPSASB to define general measurement bases, especially the one presented in the project brief in the S & W 2019-2023 document.

Conceptual Framework limited-scope review: GA / CFC identified the need for revisions, such as those related to the use of the term fair value. On the other hand, since the Conceptual Framework - CF was recently issued, it would be important for the jurisdictions to have the opportunity to conduct a more in-depth analysis, which would occur even from their use over a longer period of time. One of the main features of the conceptual framework should be stability and it is necessary to avoid making changes, even if they are of limited scope. Given the relevance of the CF, there is an understanding that any change, even if it is small, has a significant impact on stakeholders and generates some instability in the standardization process. In addition, it is perceived that the current text of the CF fully complies with the general conceptual principles that should be reflected in IPSAS and in the use of public sector accounting information.

Natural Resources: The GA / CFC understands that it is a relevant but not a priority project among those who have been presented. IPSAS are still in process of being implemented in most of the countries that have adopted it, and, therefore, there is an overall view that the board should focus on the developing standards that are more relevant and comprehensive. , The GA / CFC understood that there are other gaps to be met before a standard for the accounting of natural resources is developed, even considering that in our jurisdiction and, in general, in Latin America, countries have many resources of this nature and they affect the decision making and the accountability.



In the replacement to the Discount Rates, Conceptual Framework limited-scope review and Natural Resources, GA / CFC suggests the inclusion of two projects on Theme A and one on Theme C (as presented in our response of SMC 6).

Sovereign Powers and Their Impact on Financial Reporting: GA / CFC understands that this project is a priority in comparison to Intangible Assets and Natural Resources because the specificities regarding the treatment of such items may be related to Sovereign Power. This is because decisions arising from Sovereign Power may have repercussions on different assets and liabilities, for example, by increasing the service potential of an asset or reducing the obligations related to liabilities. Thus, the scope and impact of Sovereign Power on different assets and liabilities make this project a priority. However, due to its comprehensiveness and difficulty in defining scope, we believe that this project could initially be covered by Theme C and, after a deeper understanding of the implications of the Sovereign Power over the elements of the financial statements, could be object of a specific standard. A guidance issued by the IPSASB related to the Sovereign Power could also encompass other projects proposed by the S & W 2019-2023 document, such as the natural resources project.

Accounting for Tax Expenditures: The GA / CFC understands that the criteria of prevalence, consequences and urgency are present on this proposed project and therefore should be prioritized. Nevertheless, there are challenges regarding technical and resource considerations. Countries with a high tax burden, such as our jurisdiction and other developing countries with a more interventionist economic policy, especially in Latin America, usually reduce the tax burden in order to induce a certain economic behavior, rather than directly disburse of resources to particular sectors of the economy. Tax relief is important for most countries that are adopting IPSAS, and their adequate recognition and measurement could contribute strongly to Theme E of the document, which is to advocating the benefits of accrual in strenghtening PFM.



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.

GA/CFC agrees with the project that the IPSASB proposes to prioritize for addition to the Work Plan 2019-2023 on Theme B.

The GA / CFC understands that the prioritized project is the most relevant to the public sector since it permits demonstrate, for example, how much each segment of government contributes to the performance of the public sector entity as a whole, being an extremely relevant information in strengthening PFM, in line with the proposed strategic objective.

If it is possible to include new projects, we suggest prioritizing IFRS 5 - Non-current Assets Held for Sale and Discontinued Operations, since the regulations on non-current assets held for sale and discontinued operations is necessary to fill an IPSAS gap, once that neither the inventories nor property, plant, and equipment standards provide accounting treatment for this situation.

Although not prioritized, IPSAS 1 - Presentation of Financial Statements was highlighted as being of interest by the group, which involves a bigger picture of the public sector finance.



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 projects should be included, which proposed project should not then be started and your reasoning.

GA/CFC believes that the **Public Sector Guidance for Cost Accounting should be added to the Strategy and Work Plan 2019-2023**. In the answer of SMC 4, we indicated the projects should not be started and why.

Introduction

Convergence to IPSAS generates a significant burden regarding available resources to this task and there are many questions about its benefits, one of which is the possibility to calculate the costs of different cost objects, which is essential for both purposes of the general purpose financial statements – decision-making and accountability.

The peculiarities of the public sector in relation to the IPSAS target stakeholders, fundraising, purpose, performance management and accountability refer to a cost dynamics that does not have as a primary assumption the maximization of financial results, but the quality of the expenditure of the public sector that is a fact that demands procedures and analysis different from those applicable to the private sector.

Relevance of Cost Accounting Applied to the Public Sector

In a context of fiscal constraints, the cost information can increase the efficiency of the budgetary resources and other obtained from different sources that are used for the implementation of the public sector policies. It also promote the judgment of different users regarding the cost-benefit / cost-effectiveness of the governmental activities. Additionally, it allows the prioritization of budget allocations based on a performance criterion.

In the performance evaluation of entities and public policies, the use of data generated on a basis other than accrual basis can generate biases in the analysis because it does not allow to determine the resources consumed in the provision of public goods and services. Knowing the resources consumed is preponderant in the evaluation of the alternatives for the provision of public goods and services regarding efficiency and combinations of products / services that generate the best cost-effectiveness. In addition, it is an essential element for assessing the sustainability of the public policies in the long term.

Why is it necessary a Project on Cost Accounting Applied to the Public Sector?

In the evaluation of the different dimensions of the performance of entities and public policies - efficiency, effectiveness, inputs, outputs, outcomes, quality, etc. - the comparative analysis allows to obtain conclusions about a unit of analysis over time and in relation to the other units. Therefore, discussions on cost objects (standardized x specifics), costing methods, costing system, measurement bases (for example, historical cost x opportunity cost) and predictive and confirmatory cost values are essential.

The prioritization of public sector cost accounting, on a comparative basis, has the potential to complement RPG 3 of the IPSASB and even allow for a more in-depth approach to performance evaluation in the public sector. In addition, it may enhance the strengthening of other dimensions, in addition to financial capacity, by making the benefits of adopting the accrual basis more evident and, more specifically, of accrual based IPSASs use.



GA / CFC understands that there is a need for establishing principles and developing a conceptual framework that will be the basis for cost accounting in different jurisdictions and entities within the same jurisdiction, but not a standard methodology, because the specificities of the entities regarding the informational needs of its users should be observed. In addition, it is verified that the adequate treatment of cost accounting information in the public sector is aligned with the proposed strategic objective and its unfolding, as well as to Themes A, C, D, and E, and not only to Theme C as proposed by the document. This demonstrates the relevance of a cost accounting project in the public sector.

Next Steps

The projects proposed by the IPSASB have different degrees of complexity and, perhaps, the elimination of one can allow the insertion of more than one originally non-prioritized project. Therefore, as a suggestion, the GA / CFC understands that, after the cost accounting project, those that should be prioritized are (in the order presented), Defining Public Sector Key Financial Performance Indicators and IASB Initiative - Better Communication in Financial Reporting. There is also an important gap in accounting information in the public sector, which is the analysis of the financial statements by means of indicators, given the specificities of these entities and the fact that they do not follow, in general, the logic of market basis applied to private sector.



Specific Matter for Comment 7:

The IPSASB views building relationship 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.

GA/CFC agrees with the IPASB's proposed approach under these Themes.

The GA / CFC suggests that should also be engagement with other international bodies related to more directly to the civil society, such as the Open Government Partnership (OGP). Consistently with the interest in the integrated report, the International Integrated Reporting Council (IIRC) is suggested. In addition to international organizations, partnerships with regional organizations could enhance the dissemination and strengthening IPSAS, such as the Forum of General Governmental Accounting Offices of Latin America (Foro de Contadurías Gubernamentales de América Latina – FOCAL).

The IPSAS adoption and implementation process is often weakened by conflicts between players of different profiles, so the GA / CFC propose that the macro-level understandings are aligned (e.g. IPSASB versus INTOSAI) for the purpose to avoiding conflicts at the micro level (countries, levels of governments and entities that compose the structure of governments).

In this sense, in order to promote congruence of objectives between different players, the IPSASB could implement an IPSAS “train-the-trainers” policy for different audiences. The definition of players who will be targeted for each group of actions conducted by the IPSASB is not clear, although this is a sensitive point. Emphasis should be given to public managers, whose support for the convergence to the IPSAS is essential for their effective implementation.

In the process of raising awareness of PFM managers about the relevance of IPSAS, it is necessary to schedule visits of the main players of IPSAS standardization (international standard-setters) - such as the IPSASB Chair or IFAC high level staff - in the selected countries that are reference on IPSAS adoption and implementation,. The aim is demonstrate the importance of these institutions for information to the decision-making in the public sector, the governance mechanisms, the process of standard setting, and the overview of adoption on a global scale. In addition, the raising awareness process should have the credit rating agencies and multilateral organizations (OECD, WB, IADB, etc.) as an audience. For all of these players, the main message would be about the benefits of the implementing IPSAS versus the associated costs.

IPSASB could also evaluate the strategy of establishing enforcement mechanisms for the adoption of its standards, as well as awards or certification in an independent manner and with objective criteria.

Besides the congruence between the objectives, it is also important a balance on the countries represented on IPSASB. Thus, the suggestion is increase the representation of Latin America countries in the IPSASB.

Another point worth mentioning is the licensing policy for the use of IPSAS provided by IFAC, which has made it difficult for some countries in Latin America to adopt them. Specifically in relation to topic E, there are motivations for the IPSASB to apply resources in translating its documents (CPs, EDs, IPSAS, RPGs, etc.) into several languages allowing users of standards and other pronouncements contribute to raise the adoption and the implementation on a global scale.