



Paris, February 5<sup>th</sup> 2014

G 2014-33/1

**Comité consultatif sur la normalisation des comptes publics**

*(Advisory Committee on Public Sector Accounting Standards)*

*The Chairman*

**IPSAS Board Exposure Draft ED 53 “First Time Adoption of Accrual Basis IPSAS”.**

Dear Mrs. Fox,

The French Cour des comptes is the superior audit institution in charge of external audit and control of public sector entities according to the constitution of the French Republic. The Advisory Committee on Public Sector Accounting Standards prepares its statements, answers and advices on public sector accounting standards matters, relating to entities from the three sub sectors (Central Government, Local Authorities, and Social Security).

The present consultation gives the opportunity for the Cour des comptes to express its views on the ED 53 “First time adoption of accrual basis IPSAS”.

The Cour des comptes has developed a significant experience on the process of implementing for the first time IPSAS in the public sector, especially through its external audits of International Organizations. Many of them have achieved a transitional process towards IPSAS in the past years, or are still struggling with it at present times.

On the another hand, the Cour des comptes has been involved in the conceptual and preparatory works that have led to the adoption of an accrual basis accounting system for the French central government (starting with 2006 financial statements), most of which have been built in accordance with IPSAS compliant principles.

Like the IPSAS Board, the Cour des comptes expresses a great interest for a tool dedicated to the first time adoption of IPSAS. It acknowledges that the framework and guidance provided until now by the very helpful "Study 14" could not pretend to answer to all the questions raised by the implementation of IPSAS for the first time. Such questions may arise when an entity is moving from a cash basis system as well as when evolving from a preexisting accruals system. This would be the case in France, where most of the public sector entities have been compliant with national accruals accounting sets of standards for several years now.

The Cour des comptes, as an external auditor, is concerned by the consequences of the mechanism proposed in the ED, according to which an entity that has taken advantages of exemptions that affect fair presentation would not be able to claim compliance with IPSAS until the transitional period is over.

It may then appear a strong risk of uncertainty for the entity and for the external auditor, who will not be able, during the transitional period, to assess the compliance of the financial statements neither to the IPSAS, nor to a previous set of standards.

Practice and experience show that, when moving to IPSAS, entities must withdraw from their previous accounting basis which are not suitable anymore, due, for example, to the removal of previous information systems or to new orientations in accounting policies. In that regard, entities will not be able to revert to their previous accounting basis and, in the same time, claim to be compliant with IPSAS.

This is a serious concern, especially for International Organizations which could be exposed to qualified opinions from their external auditors motivated by the presence of exemptions, which would appear as a sanction despite their efforts to improve the quality of their financial statements through a long process of implementation of IPSAS.

On the basis of its experience of the public sector, the Cour des comptes would not welcome alternative endeavors such as a dual presentation of financial statements (one set compliant with the former basis, and one as a prototype on the basis of IPSAS), possibly leading to confusion, redundant costs, even misbeliefs and frauds.

The Cour des comptes would have preferred that the projected standard allow a progressive compliance with IPSAS, step by step during the transitional period, on the basis of predefined milestones established by the entity, endorsed by its governance, and disclosed within the financial statements, in the preface or in the notes.

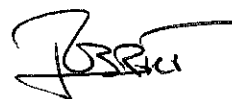
The Cour des comptes understands that the transitional period have to be limited to a small number of years, but does not agree that it should be set by the IPSAS Board to three years, indiscriminately for all the public sector entities. Practice shows that the transitional period may be affected by exogenous factors such as challenges due to new information systems developments, maintenance breakdowns of old software or delays in data migrations towards new ERPs. Other delays may occur through recognition and value measurement of some specific assets or voluntary contributions, not forgetting significant areas where there is no existing IPSAS yet, such as social benefits.

The duration of the transitional period should be best defined by each entity, according to, among others, its size, its complexity, its activities and its public services deliveries.

This aspect is even more important considering the fact that IPSAS do only admit consolidated financial statements for entities controlling others, which brings a supplementary challenge. It seems then unrealistic to request from complex entities to complete altogether and in three years short all the steps towards consolidated financial statements clear of any major exemption.

In conclusion, the Cour des comptes regrets that the IPSAS Board did not take more fully into account the feedback available from entities that have successfully moved towards IPSAS in the previous years. The risk that some entities could differ their transition to IPSAS is real, if they are to expect qualified opinions from their external auditors due to exemptions impacting fair presentation. The Cour would have rather welcomed a draft RPG, listing and supporting available practice collected from successful experiences that were concluded by unqualified opinions from external auditors.

Specific comments are displayed hereafter.



Raoul BRIET

## **Appendix : Specific matters for comment**

### **Specific matter for comment 1**

(See above).

The Cour des comptes is not in favor of an approach based on a limited list of exemptions that would consequently lead entities that take advantage of them to be unable to claim compliance, at least partially, with IPSAS. The Cour would have rather have a progressive compliance on the basis of milestones, decided by the entity, endorsed by its governance and disclosed in full transparency in its financial statements, with the projected timetable for fulfillment of all the gaps listed in order to reach full compliance with IPSAS.

Otherwise, the Cour des comptes considers that the list of “exemptions” lacks some fields such as exemption of consolidation to the extent of all existing controlled entities inside a large perimeter, and possibility to extend the transitional period till the resolution of problems linked to IT adaptation.

### **Specific matter for comment 2**

(See above).

The Cour des comptes is not in favor of a global approach of exemptions, especially the concept of exemptions impacting fair presentation, which is not acceptable in its current form ( see SMC. 1 ).

But, if this approach through exemptions was to be confirmed, the Cour des compte could admit the concept of “exemptions to IPSAS non impacting fair presentation”, avoiding the impossibility to claim compliance, being stated that they imply strong disclosures within the notes.

### **Specific matter for comment 3**

(See above).

The Cour des comptes would rather have the duration of the transitional period decided by the entity itself, as part of a program of implementation of IPSAS that would include a time table, and settled by its governance bodies (especialy, the Parliament or the deliberating councils specific to public sector entities).