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Comité consultatif sur la normalisation des comptes publics

(Advisory Committee on Public Sector Accounting Standards)

The Chairman

IPSAS Board Exposure Draft EDs 48 to 52 “Interests in other entities”

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 EDs 48 to 52 on “Interests in other entities”.

1. The Cour des comptes wishes at first to underline the strong complexity of consolidation matters in the public sector. The notion of “group” is less intuitive than in the private sector, especially because of the specific role of the Central government, which, at least in France, but also within a large number of other countries, takes a preeminent part in macroeconomics steering and surveillance, in parallel with its status as a “leader” of the large group of entities that are components of the national public sector. Its influence is also increased by the prerogatives of the central state and its role in the preparation and execution of the budgets submitted to the Parliament.

It is then very reductive to deal with consolidation in the public sector only from a simple attempt to update IPSAS because of changes introduced in IFRS, which are standards for consolidation in the private sector where capitalistic and economic

controls are emphasized.

Complexity in the public sector is also impacted by larger numbers of entities. In France, for example, there are about 170,000 public divided into national, local or social security sectors where financial statements and accounting operations are conducted by services depending from the central government, according to the legal rules on public accounting. The consolidation of such a large collection would obviously bring considerable operational difficulties.

2. The Cour des comptes observes that the EDs introduces a rewriting of a lot of IPSAS without any other justification but changes in IFRS. The Cour acknowledges here again a negative effect of the strategic priority of a convergence between IPSAS and IFRS, rather than the building of a set of standards adapted to the specificities of the public sector. The proposals mentioned in the EDs never appear to be motivated by an evaluation of the strengths and weaknesses of existing IPSAS that would be backed by an analysis of the feedback from entities having implemented them (or having decided not to implement them). The Cour cannot approve a method ignoring the lessons of practice of IPSAS in the name of a systematic follow up of IFRS, whose suitability for the public sector remains to be demonstrated.

3. The EDs illustrate, furthermore, the obstacle attached to the obligation, in order to be able to claim a full compliancy with IPSAS, to produce consolidated financial statements. Such a constraint only adds a difficulty that increases the reluctance of entities to adopt IPSAS. It appears even more rigid than what is settled for the private sector, in the European Union, where consolidated financial statements under IFRS are mandatory only for groups tapping the international financial markets. Private entities produce separate financial statements under the local GAAP (in France: the Plan Comptable Général), and only a minority of them match the legal criteria to produce consolidated financial statements, or choose to do so. The dogma of a systematic convergence with IFRS would lead, as a paradox, to establish for the public sector a consolidation requirement that would be exhaustive and therefore more rigid than in the private sector.

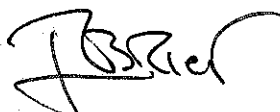
4. The EDs, as in other consultations, avoid to propose any distinction between entities according to their size or their nature, although these are substantial factors or issues in the field of consolidation. In the area of central government or social security, the opportunity and the feasibility of a consolidation as defined would be at huge costs and would need to be challenged, taking into account the previous existence of solid GFS frameworks and practices, founded on stable international standards, especially in the EU, which already produce a wide range of information for transparency and surveillance.

5 The EDs do not provide evaluations of existing practices implemented in the public sectors in various jurisdictions that could have increased the relevance of the

proposals, now too much focused on following the moves in IFRS. For example, the French Social Security uses “combination”, very close to consolidation techniques, but providing solutions relevant in that field. The Social security has also established a “Patrimony table” that determines the net asset of the global system, which appears to be a useful and reasonable substitute for a consolidated balance sheet. Such a statement would have been hard to build otherwise according to the organization of the Social security branches and regimes, without any unique “mother entity”. It is unfortunate that the alignment of IPSAS on IFRS leads to ignore the progresses and good practices implemented in some jurisdictions on the basis of an actual knowledge of the specificities of their public sectors.

As a conclusion, the Cour des comptes regrets that the IPSAS Board method is only focused on the transposition of IFRS evolutions into IPSAS through a kind of updating that does not take into account the specificities of the public sector, when the ability of IFRS to give a faithful picture of them has not been demonstrated. The Cour deems that the exigency of a consolidation in the public sector as a condition to claim full compliance with IPSAS will discourage its diffusion, without any actual added value in countries already submitted to a solid system of GFS and its benefits in terms of macro- economic pilotage and transparency.

Specific comments are displayed hereafter.



Raoul BRIET

Appendix : Specific matters for comment

Specific matter for comment ED 48

(See above).

No specific comment.

Specific matter for comment ED 49

SMC 1 (definition of control)

The definition of control is founded on schemes transposed from the private sector, through notions such as ability of an entity to exert power on another, interests in benefits produced by the controlled entity, ability to affect the nature or amount of those benefits through power on the controlled entity. These criteria misjudge the specificities of the public sector. In France, for example, the law has settled principles to secure the permanency of public services, in central, local or social fields, which guarantees the stability and the independence of the managers and teams among entities that could be assimilated to “controlled entities” at short view, in order to protect them from changes that would be consequences of political changes in the “mother entities”. The focus made on the ability to receive benefits do not adapt to public sector context where “mother entities” are more likely to be requested to cover deficits in “subsidiaries” or “controlled entities”.

Specific matter for comment 2

(See above).

The Cour des comptes deems that the principle of a consolidation of all controlled entities is excessive, especially because they are frequently very large numbers of them, and they may be submitted to various accounting standards. Entities such as GBEs or non profit institutions refer to accounting standards specific to the private sector, and they may sometime consolidate themselves, in their own perimeter. Line by line consolidation of these bodies within a single perimeter of the public sector would bring huge costs and implementing difficulties, compare to their hypothetic added value in transparency or answers to the expectations of the users. Those expectations could be more easily satisfied through disclosures in the notes. The IPSAS Board has not, anyway, the capacity to make prescriptions of standards for GBEs or entities outside of its competency.

No comment on

SMC 3: “temporary controlled entities”;

SMC 4: “investment entities”;

SMC 5: consolidation within “investment entities”;

SMC 6: GFS

Specific matter for comment ED 50

SMC 1: No comment

SMC 2: restriction in case of « ownership interests »

No comment, noticing that the notion of “ownership interests” is not here defined or recalled if defined in another IPSAS

SMC 3: (equity for investments in « joint-ventures»

The Cour is in favor of this proposal

Specific matter for comment ED 51 (Joint Arrangements)

SMC 1: classification « joint ventures, joint operations»

The Cour is in favor of this classification, which allows to keep the notion of “joint operations”, useful in the public sector where a lots of partnerships exist, along with a sharing of expenses, revenues and powers. The Cour has some interrogations on the description of “joint control”, which refers to the rule of unanimous consent, when practice shows that partnerships are more often organized on the basis of consensus.

SMC 2: Equity method for « joint ventures» in consolidated financial statements

The Cour agrees with the proposal

Specific matter for comment ED 52 (Disclosures)

SMC 1:

The Cour agrees with the disclosure of relevant information in the notes, especially for matters dealing with interests in other entities, which appears to be an essential support for transparency for users, especially in the knowledge of the perimeter and the nature of the relations, interests and commitments of an entity towards others in its proximity.

SMC 2: « structured entities »

The Cour is not certain of the adequacy of the present definition of these “structured entities”. It assesses that in structured entities, the dominant factors for power or decision are not those defined by legal or administrative rules. This definition could be misunderstood, and seen as admitting the existence, in the public sector, of some kind of control mechanisms that would not be in accordance with laws. This could be seen as illegal in many jurisdictions. In France, for example, public sector entities have to conform to legal rules and not to others. The proposed definition has to be changed.