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Mr. Andreas Bergman
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International Public Sector
Accounting Standards Board
529 Fifth Avenue
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by electronic submission

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Dear Mr. Bergmann,

**Re.: Consultation Paper: IPSASs and Government Finance Statistics
Reporting Guidelines**

The IDW would like to thank you for the opportunity to provide the International Public Sector Accounting Standards Board (IPSASB) with our comments on the Consultation Paper: IPSASs and Government Finance Statistics Reporting Guidelines (hereinafter referred to as “the paper”). We have included our responses to each of the Specific Matters for Comment (SMCs) as well as our comments on the IPSASB’s Preliminary View (PV) in an appendix to this letter. We would also like to submit the following general comments:

General Support for the Initiative

We agree that there are merits to minimizing, to the extent both appropriate and practicable, the differences between IPSASs’ and GFS’ respective financial information “frameworks”. We certainly agree that an integrated financial information system, which is able to generate historical financial data for both the preparation of IPSAS financial statements as well as the financial information to be reported under GFS has a number of benefits both in terms of synergies for the reporting entity but also in terms of quality of information

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provided to the recipients of the general purpose financial statements (GPFs) and GFS information, as outlined in the CP.

We appreciate the support for this project shown by the statistical community, and agree that both the statistical community and IPSASB may be able to benefit from a thorough comparison of the respective frameworks, which may foster an exchange of ideas on particular issues. For example, taking due account of its Conceptual Framework, the IPSASB could consider whether users of GPFs or general purpose financial reports (GPFRs) would benefit from information on emissions trading, which is currently dealt with in GFS reporting but not in IPSASs. Similarly the differences in reporting of certain liabilities may give rise to calls for additional information in GFS reporting than is currently the case (see paragraph 2.16 of the paper).

Differences between financial reports under IPSASs and GFS

As an IFAC Member Body, the IDW has supported the IPSASB in its standard setting role in regard to the development of its suite of IPSASs for some time now. IPSASB pronouncements in relation to financial reporting are intended to meet the information needs of users who are unable to require the preparation of financial reports tailored to meet their specific information needs¹ (i.e., general purpose financial statements (GPFs) and general purpose financial reports (GPFR)). In contrast, the bodies or authorities that require GFS reports for policy making purposes are in a position to specify their own particular needs. The paper rightly recognizes that the informational needs of these respective users diverge due to the nature of their different perspectives and economic decision-making capacities, and that as a result certain differences between the two frameworks remain inevitable.

This notwithstanding, we are concerned that the paper does not make entirely clear whether fostering this initiative would mean the IPSASB is retaining or departing from its stance to date in regard to convergence of private and public sector standards. Given constituents' views in support of minimizing divergence from IFRSs², we believe that clarification about the compatibility of these two different objectives is needed. Unless there is sufficient clarity on this important

¹ IPSASB "The Conceptual Framework for Financial Reporting by Public Sector Entities", January 2013 Paragraph 1.4, second sentence

² IPSASB Meeting (March 2013) Agenda Item 10.1 Paragraph 76, second sentence.

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issue, the paper may give rise to certain – likely diverging – expectations that may not, or cannot be met.

Assurance Aspects and Confidence in Reported Financial Information

Recent developments in Europe continue to underline the necessity for all policy makers in the public sector to have access to accurate and reliable public sector financial information. As a representative of the German auditing profession, the IDW would also like to emphasize the importance of audit and assurance engagements in this context.

We are concerned that the wording of the last part of paragraph 1.7 “applying an independent audit to both the information systems and resulting information” could be understood as meaning that the IPSASB would advocate both the audit of a financial information system and of the GPFs/GFS reports; i.e., three distinct audits. According to the International Standards on Auditing (ISAs), an audit of GPFs involves the auditor performing certain audit procedures in relation to the entity’s information systems in order to assess the risks of material misstatements and design further audit procedures responsive to assessed risks. (Here, we would like to emphasize that this does not constitute an audit of those systems). The exact audit procedures may vary with the circumstances of the entity and the auditor’s risk assessment and audit approach.

The fact that an auditor will be to some degree concerned with the entity’s financial information system might ultimately, result in users perceiving that a degree of credibility attaches to GFS information when that GFS information has been derived from the entity’s same information systems. However, the degree of credibility would depend heavily on the extent to which such systems were addressed as part of the financial statements’ audit and the results of audit procedures performed. Therefore, whilst we agree with the statement that “*Independent audit of IPSAS-based financial reports can enhance their usefulness for GFS purposes*” in the last sentence of paragraph 2.1, we would like to caution that it is not possible to “quantify” such enhancement in any accurate measure, and that therefore any perceived enhancement may be difficult to assess meaningfully. The IPSASB needs to clarify that under current ISAs no audit of the financial information system as such is performed, and thus it would be inappropriate to suggest that the audit of an entity’s financial statements could be relied upon in place of an assurance engagement on GFS reports. Nevertheless, when GPFs are subject to independent audit, a degree

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of synergy could be expected in terms of work effort regarding any assurance engagements or other form of “validity” check that might be performed in respect of the GFS information.

We further note that the last sentence of paragraph 2.25 states: “*Statisticians’ measurement practices can involve sampling, indexing to inflation, and other estimation techniques that generate different values from those produced by financial accountants.*” As we do not have any information as to the extent to which such differences in measurement might be considered as material to financial statement users, we believe that this may be an issue which ought to be drawn to the attention of auditing and assurance standard setters.

These are, however, both issues that auditing and assurance standard setters would need to consider and possibly address in auditing or other assurance standards.

We would be pleased to answer any questions that you may have or discuss any aspect of this letter.

Yours truly,

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Chief Executive Director

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APPENDIX

Responses to SMCs

Specific Matter for Comment 1 (See Section 3 and Appendix B)

With respect to the summary in Table 2 of progress on reducing differences and the supporting detail in Appendix B:

- a. Do you agree that the issues categorized as resolved (Category A in Table 2) are indeed resolved?*
- b. Are there further differences between IPSASs and GFS reporting guidelines that should be added to this list? If so, please describe these.*

As noted in the accompanying letter, the IDW's members are generally not directly concerned with Government Finance Statistics. For this reason, we have not analyzed the differences in detail. We would, however, like to make the following comments in this context:

- As noted in our accompanying letter, emissions' trading is an area of difference between IPSASs and GFS that we suggest could be itemized in the list.
- We note that terminology differences were considered in the work IPSASB undertook in 2005, but none are included in Table 2. We suggest that where remaining terminology differences merit further consideration in potential changes to IPSASs or to GFS Reporting Guidelines they also be included in the list.
- To our understanding, the issue of tax payable by public sector entities was identified as a difference in 2005 and has not been fully resolved. Whilst we recognize that this issue may be of relatively little significance in some jurisdictions, we suggest it be included in the list.
- The specific point in time at which tax due shall be recognized is one further issue where we believe differences between IPSASs and GFS remain (IPSAS 23 does not require the existence of a tax demand or tax file, rather that the taxable event has occurred). There are also differences in requirement regarding the use of statistical models in the measurement of tax collectable.

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- Including one particular item in more than one category without clearly specifying the difference between the respective issues is confusing (e.g., Defense weapons: It is unclear how the issue can be stated to be resolved in A5 when the issue of capitalization vs. expense of an item is also noted as in B5. A similar issue applies to R&D described in A8 and C6).
- In our view, some areas in section B should be revisited. For example, in respect of B1 the IPSASB's discussions regarding control should not be overly influenced or driven by a desire to "harmonize" IPSASs and GFS.
- In addition, we would caution the propensity for IPSASB to give the impression that the changes to IPSASs that would be needed will (likely) be deliverable. In this context, we are not convinced that categorizing inventory measurement under "opportunities to reduce differences: IPSASs" in B4 is entirely appropriate because this might give the impression that the IPSASB is suggesting GFS has "got it right" and only IPSASB needs to re-deliberate this issue. The same applies to B7 "transaction costs".

Specific Matter for Comment 2 (See paragraphs 4.11 to 4.17)

Do you agree that the IPSASB, in conjunction with the statistical community, should develop guidance on the development of integrated Charts of Accounts, which would include (i) an overview of the basic components of an integrated Chart of Accounts, and (ii) wider coverage such as that listed in paragraph 4.16 of this CP?

We appreciate that an integrated Chart of Accounts could be beneficial in assisting public sector entities to comply with both IPSASs and GFS reporting guidelines. Provided there is sufficient take-up by public sector entities, including governments, this is an area in which synergies could likely be achievable at an international level. However, given the resources that would be required to successfully complete such an initiative, we believe potential demand for such a "product" needs to be carefully assessed as a first step. For example, it would be useful to establish the extent to which those governments already using IPSASs or a substantially similar framework and also governments committed or considering moving to IPSASs would be likely to draw upon such an initiative.

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We also note that a common taxonomy such as the XBRL taxonomy already available for IFRS is also mentioned in the paper. Given the present level of similarity between IFRS and IPSAS further consideration may be appropriate.

Which organizations or bodies might be involved in such a development will depend on a variety of factors, not least concerning potential resource capacity and funding. This will likely necessitate substantial discussion. We therefore do not express any firm view at this point in time.

Specific Matter for Comment 3 (See paragraphs 5.2 to 5.4)

- a. *Do you think that the IPSASB should take a more systematic approach to reducing differences between IPSASs and GFS reporting guidelines?*
- b. *If so, are there changes other than those listed in paragraph 5.4, which the IPSASB should consider adopting?*

As a general purpose financial reporting framework, the suite of IPSASs should continue to be directed toward financial reporting that can meet the needs of those users who are unable to request financial information on their own accord. To this end, it is the IPSASB's Conceptual Framework – and not a desire to reduce differences with GFS – that should primarily guide the IPSASB in its future standard setting. In addition, the IPSASB is committed to adhering to a strict due process in standard setting.

Formally strengthening the approach including changing the IPSASB's terms of reference along the lines put forward in paragraph 5.4 carries a danger that the IPSASB might be perceived as seeking to deviate from its aim to serve general users, as its decision making would be biased towards the needs of a specific user group (GFS statisticians), i.e., it would introduce unnecessary tension between general purpose users' needs and the specific needs of statisticians.

We do not believe it would be appropriate for the IPSASB to specify the formal changes to its current approach to standard setting proposed in paragraph 5.4 (a)-(b) and (d) so as to adopt a more systematic approach to minimizing or eliminating what the paper terms "unnecessary differences". In our opinion, the current mention in the IPSASB's terms of reference "...the IPSASB supports convergence of accounting and statistical bases of financial reporting where appropriate..." remains adequate.

Having said this, and in recognition of the fact that both frameworks have evolved to a large degree independently from one another over time, we are not suggesting that the IPSASB should not now consider fully during its

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deliberations of individual IPSASs the extent to which general purpose users and statisticians may share common information needs, and therefore support the proposal in paragraph 5.4 (c). The IPSASB annual improvements project currently concentrates on recent developments in IFRS, but – in line with the IPSASB’s terms of reference – ought certainly take due account of relevant GFS considerations, too. However, we do not agree that significant differences, such as the measurement methods to be applied to inventory (see paragraph 5.12), should be subsumed as a part of the IPSASB’s annual improvement project. Changes to such matters deserve wider consideration and need to be in line with the Conceptual Framework.

We also agree, for example, that inclusion of GFS comparisons in all IPSASs as proposed in paragraph 5.4 (e) would be useful to inform preparers and other interested stakeholders as to the differences between the two frameworks.

Specific Matter for Comment 4 (See paragraphs 5.5 to 5.19)

*Are there other areas where IPSAS changes could address GFS differences?
Please describe these.*

As noted above, we believe general purpose users’ needs, and not the needs of the statistical community must provide the basis for the IPSASB’s standard setting work.

We therefore have significant concerns at the action proposed in the second bullet point in paragraph 5.5 of the paper, which suggests adding optional additional disclosures to IPSASs where the fundamental requirements remain unaligned. Unless the IPSASB believes there is a true user need to be served proposing that these changes to IPSAS be part of the IPSASBs work program may be inappropriate, in that it would force a bias towards the needs of one specific user group. This does not mean that preparers should not be aware of the need to capture additional information over and above that required for IPSASs compliance in order to be able to submit the required GFS information. In our view, the guidance proposed in the third bullet of paragraph 5.5 of the paper may be more appropriate to deal with such circumstances.

We support the idea that IPSASB will also involve other parties in discussing current value measurement bases. However, as the suitability of various different measurement bases is not generally a purely public sector issue, the proposed discussions outlined in paragraph 5.17 of the paper ought also to involve others such as the IASB and, potentially in future, for example, the IIRC.

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We are not convinced that resolution of purely presentation issues (see paragraph 2.42 as well as paragraphs 5.18-19 and issue B8 in Appendix B of the paper) is relevant to this project at this point in time. If the desire is to have a single integrated financial information system capable of generating historical financial data for both the preparation of IPSAS financial statements as well as the financial information to be reported under GFS and to revisit differences in the two frameworks as an essentially learning process, then presentation matters such as aggregation or timing, which the Conceptual Framework Phase IV is currently deliberating as issues in their own right are not relevant at this stage.

We otherwise support consideration of the matters listed in this section in the manners proposed, since these specific matters will require further clarification or guidance from the IPSASB.

Specific Matter for Comment 5 (See paragraphs 5.20 to 5.28 and page 39)

This CP describes three options concerning IPSAS 22: Option A, revisions to improve IPSAS 22; Option B, withdrawal of IPSAS 22 without replacement; and, Option C, replacement of IPSAS 22 with a new IPSAS.

- a. Are there any further IPSAS 22 options that should be considered? If so, what are these?*
- b. Which one of the options do you consider that the IPSASB should consider adopting?*

IPSAS 22 applies only to those governments that elect to present information about the general government sector, and is not thus compulsory as is the case for other IPSASs.

Before reaching a final decision on its actions in relation to IPSAS 22 we would encourage the IPSASB to assess international demand by evaluating whether this standard has been applied widely in practice. Also as BC 4 of IPSAS 22 points out, this standard was originally viewed as a means of facilitating convergence. The IPSASB itself was not convinced (BC 5) and thus IPSAS 22 disclosures are not mandatory. Unless there is a compelling case, we doubt there is a strong argument to support the allocation of IPSASB's resources to the revision or replacement of this standard.

In addition to our comments in the preceding paragraphs, given this current initiative as well as the recent on-going developments in GFS we tend to support option B.

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Preliminary View 1 (See paragraphs 5.29 to 5.34)

The IPSASB should amend Study 14, Transition to the Accrual Basis of Accounting: Guidance for Governments and Government Entities, to include a chapter on IPSAS options that reduce differences with GFS reporting guidelines.

If changing an accounting policy in order to reduce differences with GFS were, in the particular circumstances for some reason, to be counter to the aim of achieving faithful representation of the reporting entity's finances, such change would clearly not be appropriate (see IPSAS 1.28(a) and IPSAS 3.17(b)). Whilst the paper recognises this, the second sentence of paragraph 5.30 states: *"Within these constraints, preparers can improve the support that financial statement data provides for statistical reporting (and reduce the need to collect extra data), by adopting accounting policies for their financial statements that meet both IPSAS and GFS reporting requirements. Guidance that highlights the accounting policy choices that would support...could be provided in the IPSASB's Study 14".*

In our view, it is essential that the overriding aim of achieving faithful representation for the financial statement users be made clear in any guidance given, and we therefore agree with the last two sentences of paragraph 5.34 and the Board's preference for the provision of guidance, rather than any additional requirement(s). As noted above, IPSAS 1 and IPSAS 3 already contain overriding requirements concerning the selection of and changes to accounting policies.