ICGFM The International Consortium on Governmental Financial Management

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March 9, 2013

Ms. Stephenie Fox
The Technical Director
International Public Sector Accounting Standards Board (IPSASB)
International Federation of Accountants
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Toronto, Ontario M5V 3H2 CANADA

Dear Ms. Fox:

1. The International Consortium on Governmental Financial Management (ICGFM) welcomes the opportunity to respond to the Consultative Paper (CP) distributed by the IPSASB on IPSAS and GFS Reporting Guidelines. We are extremely pleased that the IPSASB is working with the IMF to harmonize the standards in both reporting systems to the maximum extent possible.

2. Working globally with governments, organizations, and individuals, ICGFM is dedicated to improving financial management by providing opportunities for professional development and information exchange. ICGFM conducts two major international conferences each year and publishes an international journal twice each year. Services are provided to its membership through an international network. ICGFM represents a broad array of financial management practitioners (accountants, auditors, comptrollers, information technology specialists, treasurers, and others) working in all levels of government (local/municipal, state/provincial, and national). Since a significant number of our members work within government and audit institutions around the world, our response to this exposure draft is one from an international perspective.

3. We believe that the following general overview should have been emphasized in the Executive Summary to lay the foundation for the discussion in the CP:

## Developing the Accounting System

"The government's accounting system lies at the foundation of an FMIS and should meet certain recognized standards. While it is important that the system should be able to record more than just cash transactions, this does not imply a move to a full accrual basis of accounting which involves considerable costs in its introduction and maintenance. Rather, the output of the accounting system should match the information requirements demanded by the PFM system's stage of development. Accordingly, a development path for the accounting system can be described as a progressive movement to full accruals: first getting cash accounting to work well; progressively integrating operating accounts and financial asset and liability accounts (to move to modified accruals); introducing more elements of accrual recording, and finally recognizing nonfinancial assets (final stage for accrual accounting). A further stage of development, to move to accrual accounting and budgeting, (currently attempted by only a very few countries), is perhaps best pursued after operating full accrual accounting for a period of time. The intermediate accrual stage (modified accruals) should be regarded as a reasonable target for LICs, and would allow them to satisfy international reporting requirements. In this regard, IPSAS cash and GFSM 2001 standards, met at least at the central government level, are the most relevant. The production of financial reports compliant with these international standards should be considered a benchmark output for a successfully functioning FMIS and a requirement for moving to further reforms beyond the "core". "[1]

## Government Finance Statistics

In order to collect comparable government finance statistics, the International Monetary Fund (IMF) issued the Government Finance Statistics Manual (GFSM 2001) to implement the System of National Accounts promulgated by the United Nations in 1993. "Although the GFS system is described in standard accounting terms, it is important to remember that it is a statistical reporting system that might differ in important ways from the underlying financial accounting system from which most of the GFS will be derived."[2] The GFSM requires the data to be collected on the accrual basis of accounting and to be reported in the following financial statements:

- Balance Sheet
- Statement of Government Operations
- Statement of Sources and Uses of Cash
- Statement of Other Economic Flows

Since many countries were not on the accrual basis of accounting, IMF issued a compilation guide[3] for developing countries to assist these countries in transitioning from the prior requirement for cash reporting to the current requirement to report on the accrual basis of accounting. This Guide recommended that the GFSM 2001 methodology be implemented in the following four main stages (the time estimated to complete each stage is shown in parenthesis):

1. Introducing the presentation (summary statements and detail tables) and classifications of the GFSM 2001 only for existing budget execution data, commonly referred to as adoption of the GFSM 2001 format (about one year);
2. Expanding the institutional and transactional coverage of GFS to include all general government (public) units, on a cash basis (2-4 years);
3. Expanding the coverage of GFS to include selected noncash items, commonly referred to as compiling GFS on a modified cash basis (3-5 years); and,
4. Expanding the coverage of GFS to cover all flows and stocks associated with general government (public) units, i.e., compilation of GFS on both a cash basis and an accrual basis for the whole general government (public) sector and its sub-sectors (10 years or more).

In Chapter 2 of the Guide referenced above, the IMF further recommends that consolidated financial statements for each of the following controlled entities be included in the financial statements of the controlling entity, as appropriate:

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[1] Jack Diamond, *Good Practice Note on Sequencing PFM Reforms, page 20 (January 2013).*

[2] *Footnote 5, Government Finance Statistics Manual 2001* (p. 5). This GFSM is being updated and is due to be released in 2013.

[3] *Government Finance Statistics Manual: Compilation Guide for Developing Countries*, September 2011.

1. General Government Sector (GGS)—encompasses the central operations of government and typically includes all those resident non-market, non-profit entities that have their operations funded primarily by the government and government entities. Includes the following:
   a) Central Government—the political authority of a country's central government extends over the entire territory of the country. The central government can impose taxes on all resident institutional units and on non-resident units engaged in economic activities within the country. It also includes those expenses incurred on the provision of services primarily for the benefit of individual households (e.g. education and health).
   b) State Government
   c) Local Government
   d) Social Security
2. Public Financial Corporation Sector (PFC)—comprises resident government controlled financial corporations, quasi-corporations and non-profit institutions which primarily engage in financial intermediation and the provision of financial services for the market. Includes the following:
   a) Monetary (e.g. Central Bank)
   b) Non-monetary
3. Public Non-Financial Corporation Sector (PNFC)—comprises resident government controlled non-financial corporations, quasi-corporations and non-profit institutions that produce goods or non-financial services for the market. Included within this sector are entities such as publicly owned utilities and other government owned entities that trade in goods and services.

## The Accounting System

The IPSAS identify which accounting elements are to be recognized and how these elements will be measured. The chart of accounts used in the accounting system will need to be robust enough to meet the needs of management as well as provide the data required for government finance statistics identified above. It is not necessary that the chart of accounts use the same coding as identified in the GFSM 2001 since the data for those codes can be derived electronically from the accounting system through the use of bridging tables. However, in those instances where there are differences in the way that the accounting elements are measured (i.e., historical cost in the IPSAS and current market prices in the GFSM), the data extracted from the accounting system will need to be adjusted for reporting in the statistical reporting system.[4] The financial statements required to be prepared from the accounting system are as follows:

**Cash IPSAS**

Statement of Cash Receipts and Payments (with a separate column for budgetary comparisons or a separate Comparative Statement of Budget and Actual Amounts)

**Accrual IPSASs**

Comparative Statement of Budget and Actual Amounts
Statement of Cash Flows
Statement of Financial Position
Statement of Financial Performance
Statement of Changes in Equity/Net Assets

The accrual IPSASs are based on the International Accounting Standards/International Financial Reporting Standards (IAS/IFRS) published by the International Accounting Standards Board and applicable to the private sector. The IAS/IFRS have been modified by the IPSAS Board, where appropriate, to adapt them to the public sector. If there are no applicable IAS/IFRS, separate IPSASs have been established. However, the Government Business Enterprises (GBEs) should adhere to the IAS/IFRS in a manner similar to that applied in the private sector. These are referred to as Public Corporations (financial and non-financial) in the GFSM.

[4] For a matrix identifying the differences, see research report *IPSASs and Statistical Basis of Financial Reporting: An Analysis of Differences and Recommendations for Convergence* (January 2005).

Since most countries around the world currently report on the cash or modified cash/modified accrual basis, developing countries intending to migrate to the accrual basis of accounting will generally accomplish this in stages for each of the government controlled entities identified in the GFSM 2001. Sequence and timing are only indicative and some countries or some elements within the country may follow a different sequence or proceed at a different pace. To transition to the accrual IPSAS, ICGFM has identified the following six main stages (the time estimated to complete each stage is shown in parenthesis):

1. Preparing a Statement of Cash Position, as well as a Comparative Statement of Budget to Actual Amounts, for select entities within the **central government** (about 1 year).
2. Expanding the coverage to include a Statement of Cash Receipts and Payments, as well as a Comparative Statement of Budget to Actual Amounts, as prescribed in Part 1 of the Cash Basis IPSAS for the **central government**. However, it is not expected that consolidated statements would be prepared at this stage. This is generally referred to as the Cash Basis (about 3 years). Preparation of financial statements for the other controlled entities within the GGS, as well as the public corporations, is delayed until later stages;
3. Expanding the coverage to include **financial assets and liabilities** for **central government** in the format required for the statements prescribed by the accrual IPSAS above. Part 2 of the Cash Basis IPSAS can assist in this effort. This is generally referred to as the Modified Cash or Modified Accrual Basis; for ease in presentation, this will be referred to as the Modified Cash Basis in this Guide (3-5 years);
4. Expanding the coverage to include **all assets and liabilities** for the **GBEs (public corporations in the GFSM literature)**. This is referred to as the full accrual basis of accounting in the format required for the statements prescribed by the IAS/IFRS (3-5 years).
5. Expanding the coverage in Stage 3 to include **all assets and liabilities** for **general government** in the format required for the statements prescribed by the accrual IPSAS above. This is generally referred to as the full accrual basis of accounting. Some developing countries may prefer to break Stage 5 into two sub-stages: 5a—simple accrual, basically tangible, non-heritage assets without anything complicated and 5b—all the IPSAS (which may not be achievable in the near term for many developing countries). (5-8 years); and
6. Expanding the coverage to include **all assets and liabilities** for **all general government controlled entities and GBEs** in the format required for the statements prescribed by the accrual IPSAS above. This is generally referred to as the full accrual basis of accounting (10 or more years).

4. In addition to including the above in the Executive Summary, we would like the following additional points considered:
   a. (pg. 7, par. 1.1) GPFRs are subject to a financial audit by the SAI while the financial statements in the GFSM are not.
   b. (pg. 7, par. 1.2) IPSASs provide the foundation (recognition and measurement) for the accounting system while GFSs could extract most of their information from the accounting system. This was alluded to in footnote 5 of the GFSM 2001 as noted above.
   c. (pg. 8, par. 1.6) There is also a Cash Basis IPSAS for those public sector entities that are not yet prepared to implement the accrual IPSASs. There is no similar requirement in the GFSM except for the preparation of a Statement of Sources and Application of Cash.
   d. (pg. 8, par. 1.7) A Compilation Guide for Developing Countries was issued by the IMF in September 2011 but IPSAS was not recognized until footnote 99, pg. 193 on valuation of nonfinancial assets.
   e. (pg. 47, Box 1) The Cash Basis IPSAS is not mentioned.

5. Relative to our thoughts above, our responses to the comments on the specific matters are as follows:

a. **Comment 1.** [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?] **Response.** Agree.
[(b) Are there further differences between IPSASs and GFS reporting guidelines that should be added to this list? If so, please describe these.] **Response.** No further differences are noted.

b. **Comment 2.** [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?] **Response.** Agree but would like the following to be addressed: **1**. Specific inclusion/exclusion of central banks, **2**. Specific reference as to the way to handle differences between those that implement the Cash Basis IPSAS and the Guidelines for Implementing the GFSM, **3**. Liability recognition of purchase orders outstanding at the end of the FY if they do not lapse, and **4**. Split GGS between budgetary entities and all other controlled entities except GBEs since some of these other controlled entities are required to prepare separate financial statements and are heavily subsidized (e.g. universities), and **5**. Codes for changes in assets and liabilities (Codes 3 and 4) in the GFSM are not needed in the CoA since these can be computer generated.

c. **Comment 3.**
[(a) Do you think that the IPSASB should take a more systematic approach to reducing differences between IPSASs and GFS reporting guidelines?] **Response.** Agree as long as the financial elements are verifiable in order for the SAI to express an audit opinion on the fair presentation of the financial statements.
[(b) If so, are there changes other than those listed in paragraph 5.4, which the IPSASB should consider adopting?] **Response.** No other changes considered necessary.

d. **Comment 4.** [Are there other areas where IPSAS changes could address GFS differences? Please describe these.] **Response.** None other than those presented in Comments 2 and 3 above.

e. **Comment 5.** [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?] **Response.** A further option would be to include the general requirements in IPSAS 22 with a separate document (similar to Study 14) to include detailed illustrations (i.e. CoA as well as reconciliation between IPSAS financial statements and GFS financial statements). In addition, we believe that the Whole-of-Government column in the illustrations should be optional.
[(b) Which one of the options do you consider that the IPSASB should consider adopting?] **Response.** Our preferences (in order) are as follows: 1. Option A, 2. Option C, and 3. Option B.

f. **Preliminary View 1.** [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.]

**Response.** We would prefer a separate document with a compilation guide for developing countries similar to that published by the IMF for transition to the GFS as noted in Comment 5 above.

6. We appreciate the opportunity to comment on this CP and would be pleased to discuss this letter with you at your convenience. If you have questions concerning this letter, please contact Dr. Jesse Hughes, CPA, CIA, CGFM at jhughes@odu.edu or 757.223.1805.

Sincerely,

Jesse W. Hughes

ICGFM Accounting Standards Committee
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Cc: Manuel Pietra
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