



PO Box 1077
St Michaels, MD 21663
T. 410-745-8570
F. 410-745-8569

21 September 2012

Ms. Stephenie Fox
The Technical Director
International Public Sector Accounting Standards Board (IPSASB)
International Federation of Accountants
277 Wellington Street West, 6th Floor
Toronto, Ontario M5V 3H2 CANADA

Dear Ms. Fox:

1. The International Consortium on Governmental Financial Management (ICGFM) welcomes the opportunity to respond to the IPSAS Board Work Plan. We are pleased that the IPSASB is willing to consider our priorities as they plan for the use of their limited resources for future projects.
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. Our thoughts as we read the Consultative Paper are as follows:
 - a. (pg. 5) We support the emphasis on the sovereign debt crisis but it needs to be balanced against the need for good cash reporting in order to maintain fiscal discipline.
 - b. In our view there needs to be a clear objective for the future role of IPSAS compliant general purpose financial statements in relationship to statistical reports on sovereign governments. At present reliance is placed on statistical reporting for assessing sovereign risk. Is this to be changed, or are the GPFS to supplement statistical reporting? If the latter what are the respective roles of the two reporting systems?

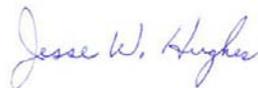
- c. (pg. 6) We acknowledge the increase in adoption of the accrual IPSAS but we must not lose focus on the Cash IPSAS since most countries around the world are not yet ready to adopt the accrual IPSAS.
 - d. (pg. 7) The adoption of the Cash IPSAS is the first step that many developing countries and countries in transition must take in order to be in a position to adopt the accrual IPSAS. Yet there is no mention of the Cash IPSAS in this section of this CP. We feel that the Cash IPSAS must be addressed in this section as a critical project. Otherwise, many of us will keep spinning our wheels as we try to help countries implement better accounting reporting systems. We support the development of a conceptual framework as a backdrop to the standards. However, work must continue on the critical projects (especially the Cash IPSAS)!
 - e. (pg. 7) Some of our members have been appointed to the existing CAG but (to the best of our knowledge) have never been called upon to address any issues. Hopefully, this can be corrected in the future.
 - f. (pg. 10) We would like to see the Social Benefits project added to the 2013-14 work program. We think the various social security schemes should be recognized as a liability especially as it impacts the long-term sustainability of any country.
 - g. We do not consider the issue of the entity concept at the level of sovereign governments has been adequately addressed. This is included in our comments below on the Cash Basis IPSAS, but also applies to accrual IPSAS. The sovereign entity as a reporting entity is a unique concept and is different to all other reporting entities in law and in substance. By definition the sovereign entity is “sovereign” and controls everything within its sovereignty. This control is exercised by government subject to the constitution of a particular entity. Hence the concept of control as a basis for entity definition of sovereign governments is not appropriate. The analogy of a multi layered onion may be more appropriate, with different layers appropriate for different reporting purposes.
 - h. Related to the above, there is at present no guidance on the definition of sub-national entities that should publish GPFs. Should these be legal entities, public interest entities, or some other definition. Some guidance would be helpful for many countries embarking for the first time on publishing financial statements for their public sector entities.
4. Relative to our thoughts above, our priorities for the 2013-2014 work program and the reasons are as follows:
- 1. **Review of Cash Basis IPSAS**—To the best of our knowledge, all of the developing countries and some countries in transition (as well as some of the more industrialized countries) follow cash reporting practices. This is primarily due to the cash budgeting systems in place. Many are trying to implement Part 1 (required) of the Cash Basis IPSAS but have difficulty with the consolidation provision. It is our belief that this IPSAS should include a section to require the controlling entity to break their controlled entities into the following categories: budgetary entities, GBEs, and all other entities. The preparation of a consolidated whole of government report should be included in Part 2 (optional). This change would simplify the process and help many countries move toward compliance of the Cash Basis IPSAS for cash reporting (especially if this change

was undertaken with others to simplify the mandatory requirements of this standard and ensure that it better reflects existing good practice). Once they are in compliance with this revised Part 1, they can then work on the optional provisions in Part 2. After they have implemented these optional provisions, they are then in a position to implement the accrual IPSASs. It is our belief that this review should be of the highest priority for the future work program to first ensure that cash is properly reported before the IPSASB exerts much more effort on improving the accrual IPSAS for the relative few countries that are in a position to implement the accrual IPSAS.

2. **Revision of IPSASs 6-8**—As we mentioned earlier, we think there should be a section in Part 1 of the Cash Basis IPSAS to require categorization of public sector entities and the present requirement for a consolidated whole of government report should be moved to Part 2 and made optional. In addition, IPSAS 6 should clarify the classification of quasi-government entities (i.e. central banks, etc.) to ensure that these are handled consistently throughout the world.
3. **Reporting on the Long-Term Sustainability of Public Finances**—We agree that this area should be of high priority for the IPSASB. However, it should be expanded to include some provisions in the Cash Basis IPSAS on how to achieve long-term sustainability for those countries that are not in a position to implement the accrual IPSAS. This could be achieved by reflecting the debt to GDP ratio as a footnote in the Statement of Cash Receipts and Cash Payments. In addition, each public sector entity should be encouraged to include a Medium Term Fiscal Framework (3-5 years).
4. **Social Benefits**—We know this is a controversial area but we think it is an important issue that the IPSASB should address as soon as they can get it back on their work program. The issue applies to both the Cash Basis IPSAS (optional) and the accrual IPSASs (required). As a minimum, financial reporting of social security schemes in the financial statements is extremely important since many countries provide benefits whenever their constituents reach retirement age (or otherwise qualify to draw government benefits). When we reach age 65, many of us become eligible for social security and will draw on those benefits until we die. We believe that sounds like a liability (just like any other pension plan) and should be reflected in the financial statements. Even though it is controversial, we believe the IPSASB should include it in their work program during the next two years. Again, we do not think that we can keep kicking this can down the road and hope that our children/grandchildren will be able to pay for our wellbeing during our retirement years.
5. **Public Sector Conceptual Framework**—We also agree that this should be a high priority. Care must be taken to ensure that the conceptual framework is broad enough to provide an interim framework for those countries that are only able to implement cash reporting under the Cash Basis IPSAS.

6. **Financial Statement Discussion and Analysis**—This also should be a high priority since many decision-makers in the public sector do not have the financial background to fully utilize the information contained in required financial statements. Thus, a plain language narrative (with charts) is necessary to assist them in this regard.
 7. **IPSASs and Government Finance Statistics Reporting Guidelines**—It is our understanding that a future GFSM will include a suggested Chart of Accounts. If so, it needs to be closely coordinated with the IPSASB to ensure that the Chart of Accounts is sufficient to meet the needs of an accrual accounting system. The present GFSM does not do this since it was only anticipated that the GFSM be a statistical reporting system that extracts the necessary data from the accounting system and is then reported to the IMF for their analytical purposes.
 8. **Report Service Performance**—Service performance data is most beneficial in an accrual system since full costs are necessary for comparability purposes. But we need to get cash reporting fully implemented throughout the world (to the maximum extent possible) before we worry about service performance.
 9. **First Time Adoption of Accrual IPSASs**—This is not a high priority since IFRS 1 addresses this adequately at the present time. It can be more fully addressed at a later date.
 10. **Government Business Enterprises**—We also do not consider this a high priority since the existing IAS/IFRS adequately address these issues at the present time. It can be more fully addressed at a later date.
 11. **Improvements (biennial)**—Agree with this biennial review but would not divert resources away from the first seven priorities identified above.
 12. **Public Sector Financial Instruments**—Not a high priority for most countries around the world since they do not have sophisticated financial instruments.
 13. **Public Sector Combinations**—Not a high priority from our perspective.
 14. **Amendments to IPSASs 28-30**—Not a high priority from our perspective.
5. We appreciate the opportunity to comment on this exposure draft 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,



ICGFM Accounting Standards Committee

Jesse W. Hughes, Chair

Anthony Bennett

Michael Parry

Maru Tjihumino

Andrew Wynne

Cc: Linda Fealing
President, ICGFM