

INSTITUTE OF CHARTERED ACCOUNTANTS OF JAMAICA

COMMENTS ON IPSAS B STRATEGY CONSULTATION

The Institute of Chartered Accountants of Jamaica (ICAJ) wishes to commend the IPSAS Board for affording its stakeholders the opportunity to participate in the process of shaping the strategic direction of the IPSASB. This consultative approach will undoubtedly facilitate the development of an agenda that addresses the needs and priorities of the users of public sector accounting standards, and will achieve the desired effects of enhancing the credibility of IPSAS, and contributing to the IPSASB's public accountability and legitimacy.

Set out below are the responses to the specific questions raised in the strategy consultation paper, as well as some general comments/observations arising from the information contained therein.

SPECIFIC RESPONSES TO QUESTIONS FOR RESPONDENTS

Question 1

Do you agree with the IPSASB's tentative view on its strategic objective from 2015 forward? If not, how should it be revised?

Response

Yes. The strategic objective proposed is appropriate. However, it is recommended that the phrase ***"..which responds to the needs of the users of public sector reports" be added to bullet "a)".***

Question 2

Do you think that the two outcomes identified are appropriate for achieving the strategic objective? If not, what outcomes do you think are more appropriate?

Response

The outcomes identified are appropriate for achieving the strategic objective. However, it is proposed that Outcome 1 be separated into two outcomes and expanded to read as follows:

"Improved ability of public sector entities to prepare high-quality financial reports which reflect the full economic of reality their finances and which meet the needs of the users of these reports"

"Improved ability of stakeholders to understand and effectively utilize public sector financial reports "

Question 3

Do you think that the two outputs identified are appropriate for achieving the strategic objective? If not, what outcomes do you think are more appropriate?

Response

The two outputs identified are appropriate for achieving the strategic objective. However, there are two recommendations in this area as follows:

- i) There should be an output relating to capacity building in the area of implementation of IPSAS. The following text or some similar formulation is proposed: ***"Developing a framework for, and facilitating the process of, capacity building for the implementation of IPSAS."***
- ii) In identifying the outcomes and the outputs, it is suggested that some performance criteria, which would facilitate measurement of the achievements, be included.

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Question 4

What changes to feedback mechanisms should the IPSASB make to ensure it is fully informed about the views of its stakeholders?

Response

The IPSASB's feedback processes could be enhanced by greater use of Information Technology, particularly social media. Virtual focus group meetings could be facilitated, for example, after comments are received on Exposure Drafts. This will allow stakeholders the opportunity to further aerate views and will allow for more effective exchange of ideas on critical and/or contentious areas.

Question 5

Do you agree with the five key factors the IPSASB considers in deciding to initiate a project and assessing its priority. Are there other factors you think should be considered?

Response

The five key factors identified are considered relevant and appropriate. However, it is recommended that an additional factor be included in relation to ***“Achievement of a balance between resources required and the effect/impact of a project”***.

Question 6

Do you think the Cash Basis IPSAS is a valuable resource in strengthening public financial management and knowledge globally by increasing the adoption of accrual-based IPSASs?

Response

Yes. The Cash Basis IPSAS enhances the quality of financial reports prepared on this basis and facilitates exposure of the users to IPSAS in general. Accordingly, it is viewed as an important stepping stone that can help to prepare entities for the adoption of accrual based IPSASs.

Question 7

Of the three options identified in relation to Cash Basis IPSAS, which would you recommend the IPSASB select? Please provide the rationale for your recommendation.

Response

It is recommended that the IPSASB select Option a. We agree with the conclusion of the Task Force that the Cash Basis IPSAS should be retained, subject to modifications and restructuring. These modifications would aim to address the obstacles to adoption identified by the Task Force in its report.

As indicated in the response to Question 6, the Cash Basis IPSAS enhances the quality of financial reports prepared on this basis and facilitates exposure of the users to IPSAS in general. It is viewed as an important stepping stone that can help to prepare entities for the adoption of accrual based IPSASs and should, therefore, be retained.

Question 8

Considering the various factors and resource constraints, which projects should the IPSASB prioritise and why? Where possible, please explain your views on the description of the project.

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Response

The projects that are considered to be of priority are listed below:

PROJECT	COMMENTS
Heritage Assets	This is an area peculiar to the public sector, for which no real guidance exists. Heritage assets are quite valuable and are of great interest from the perspective of the public. The scope of the project is considered adequate. It is also agreed that the project should be deferred until completion of the Conceptual Framework, and it is further proposed that this be undertaken in the latter part of the five year horizon, given the resource requirements.
Measurement – public sector specific	Issues with valuation are a major challenge in the process of adopting IPSAS. It is also necessary to ensure that measurement techniques are most suitable in the context of the operations of public sector entities, and will result in the economic reality of their performance being fairly presented in financial reports. The scope of the project is considered adequate.
Natural Resources	Natural resources can be a major asset for governments and may give rise to economic benefits. These resources should, therefore, be considered in public sector financial reports. The scope of the project is considered adequate.
Borrowing Costs	This is considered to be a project of the highest priority as borrowing is a key element of the financing of many public sector operations. It is also an area closely monitored by international lending organisations. However, for the reasons outlined, it is agreed that this should be deferred until completion of the Conceptual Framework. The scope of the project is considered adequate.
Construction Contracts	This is considered to be a project of the highest priority, given the key role of governments to provide infrastructure that will promote development, and impact the quality of life of its citizens. The peculiarities experienced in relation to public-private sector partnerships, which are becoming increasingly commonplace, present challenges for financial reporting and accountability. It is envisaged that this would be addressed in a standard covering this area.
Disclosure of Financial Information About the General Government Sector	The main purpose of financial statements prepared in accordance with statistical bases of financial reporting is to provide information suitable for analyzing and evaluating fiscal policy. Given the increased emphasis on this area, the General Government Sector financial information disclosure project is considered useful. The scope of the project is considered to be adequate.
Employee Benefits	Employee benefits tend to represent a major portion of the expenses of public sector entities. It is extremely important to have pension fund liabilities accurately calculated and reflected in public sector financial reports. This will facilitate informed decision making by the appropriate authorities and

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PROJECT	COMMENTS
	will also allow beneficiaries/stakeholders to consider and assess issues relating to funding etc.
Presentation of Financial Statements	This is considered to be of high priority as the organisation and presentation of information in financial reports affect the interpretation of the reports. In addition, it is considered desirable to achieve congruence with this standard's IFRS counterpart, except where departures are necessary to address certain unique nuances of public entities. The scope of the project is considered to be adequate.
Revenue IPSAS	This is considered to be of high priority. Alignment with IFRS is desirable, wherever possible, and this project will address that issue. The scope of work should, however, also include identification and consideration of areas that may not be adequately addressed due to peculiarities of the operations of public sector entities.
Segment Reporting	This is considered to be of medium priority. Segment information is useful in undertaking in-depth analyses of public sector financial reports and helps to present a clearer picture of financial performance. The scope of the project is considered to be adequate.
Differential Reporting	This is considered to be of high priority. Based on the issues outlined in the strategy paper, development of such a standard would promote a greater level of adoption of IPSAS by addressing some of the obstacles to implementation.

It is also agreed that the finalisation of the Conceptual Framework is of the highest priority as it impacts greatly on other standards.

GENERAL COMMENTS

Resource Constraints

The ICAJ has taken note of the IPSASB's resource constraints outlined in the strategy consultation paper. As highlighted in the document, the current context in which the IPSASB operates is shaped by a number of factors, including the following:

- The fact that high quality accrual based financial reporting is considered critical for accountability and transparency in government financial reporting;
- The increasing demand for development and implementation of robust financial reporting standards for the public sector, in the context of sovereign debt crises;
- The enhanced focus on public sector management.

Against this background, it can be foreseen that additional demands will be made of the IPSASB going forward, in order to meet the needs of its stakeholders. The current structures and processes for staffing and funding of the operations of the IPSASB may, therefore, be inadequate to support this anticipated increase in demands made of the Board. It is, therefore, recommended that a review be conducted on possible options to address this concern and that this be incorporated into the discussions on strategy.

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Facilitating the Implementation Process

An increase in the number of public sector entities adopting IPSAS is one measure of the success in achieving the strategic objective of the IPSASB. Such an increase would also lend further credibility to and promote greater acceptance of the standards. Given that difficulties in (first-time) implementation of the standards are a deterrent to adoption of IPSAS, it is felt that IPSASB must consider the extent to which it should play a role in facilitating the implementation process.

In our view, there is a role for the IPSASB in:

- Linking stakeholders;
- Facilitating the process of sharing information on experiences, pitfalls and best practices for conversion;
- Developing or encouraging development and sharing of tools to facilitate transition;
- Highlighting common transition issues and sharing information on solutions to these problems.

Institute of Chartered Accountants of Jamaica
31st July 2014