

AT/PSC/JEB

IPSASB  
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31 July 2014

Dear Sir/ Madam,

## IPSASB STRATEGY CONSULTATION – RESPONSE FROM ICAS

### Introduction

1. ICAS welcomes this opportunity to comment on IPSASBs strategy. We are a leading professional body for chartered accountants with over 20,000 members working across the UK and internationally. Our members work across the private and not for profit sectors. Our Public Sector Committee is a broad based committee of ICAS members with representation from across the public services. ICAS's Charter requires its Committees to act primarily in the public interest, and our responses to consultations are therefore intended to place the public interest first.

### Strategy and approach – key messages

2. IPSASB is strongly positioned to make a valuable contribution to public sector financial reporting internationally and we believe IPSASB is best placed to provide public sector accounting pronouncements. We see the high level objective as being to help increase the adoption of high quality accruals based public sector financial statements using an international framework. We believe there is potential for IPSASB to become more focused and relevant to accelerate the achievement of this. In our view, a radically different approach is required to ensure more benefit can be obtained from the work of the IASB in its development of IFRS by tweaking, not rewriting international accounting standards.
3. We see the proposals for European public sector accounting standards as a worrying development. It is crucial that IPSASAB gets its strategy right or other jurisdictions may develop their own accruals based standards. Whilst the aim at the outset may be to base standards on IPSAS, there is the inherent risk of significant deviation from an international norm over time which dilutes the original purpose of improving comparability and transparency. We would also like to see a strategy include greater outreach activity with a range of stakeholders around the globe, developing clear networks to support delivery.
4. ICAS sees three main priorities for this strategic review to position IPSASB more strongly to meet the various challenges ahead:
  - We need a strategy which is more strictly focused on addressing the material public sector differences which can be evidenced as affecting the true and fair view (or equivalent) of financial statements of public sector entities;
  - The establishment of a clear and consistently applied boundary that focuses on the financial statements rather than wider financial management; and
  - A more proportionate approach to addressing these differences which is based more on interpreting IFRS for the public sector and signposting good practice through the production of a 'companion' rather than recreating a full specialist alternative.

#### *Focusing more strictly on the material public sector differences*

5. We believe there is potential for greater clarity in the approach to adapting IFRS to avoid moving too far along a trajectory of greater public sector specialism. **Our principle would be minimum deviation – the principle of consistency with private sector standards should only be broken where there is a clear, justifiable need of a uniquely public sector matter that is material, adversely impacts the true and fair view and is not covered by IFRS.** Moreover, definition changes should be minimal. This would be more consistent with a higher level principles-based approach to address public sector differences, where an international framework should sit.

### *The establishment of a clear and consistently applied boundary*

6. We believe it is essential for greater clarification of the purpose and the boundary of IPSASBs remit so it can be applied efficiently and consistently going forwards. This supports the need for a more targeted and achievable strategy. A clearly articulated boundary for scope of work reduces the risk of creating a more demanding framework and an unintentional barrier to adoption. Clarification includes:
- What should sit within mandatory accounting standards;
  - What should be part of recommended practice; and
  - What is better suited to national regulation by local jurisdictions.

### *A more proportionate approach to addressing public sector differences*

7. ICAS is not convinced that the gap to tailor IFRS to the public sector is as large as IPSASB perceives and we urge rigorous challenge of the size of this gap moving forwards. We are not convinced of the need or cost/benefit of a detailed reworking of recognised international accounting standards, concepts and definitions to produce a full alternative suite for the public sector. This is lengthy and resource intensive for IPSASB and its stakeholders. It also raises a question on the sustainability of this approach in the face of resource constraints.
8. Practice for developing accounting standards has evolved and the historic approach being followed by IPSASB needs greater challenge. We would encourage consideration of recent developments. Our preference would be for international standards to develop and operate in a similar manner to the UK Accounting Standards Board who produced a concise principles based [Interpretation for Public Benefit Entities](#) in 2007 rather than a separate conceptual framework and secondly, the FRC Financial Reporting Standard (FRS) 102 in the UK. This is an all-encompassing accounting standard, substantially based on the IFRS for SMEs, which establishes one accounting framework for the private and not for profit sectors.
9. IPSASB is well placed to provide a more interpretative role targeting how to address the most significant public sector differences which affect a true and fair view and substance/economic reality of transactions (as per our principle in paragraph 5). We believe this would be a more effective use of IPSASB resources. Our vision would be for IPSASB to develop a companion to the IFRS i.e. one document which interprets IFRS for the public sector. This leverages existing standards and good practice more strongly and minimises the greater level of detail and duplication which is inherent in a full alternative framework. This would be more consistent with a principles based approach. A companion guide could perhaps also provide sector illustrations and signpost examples of pragmatic solutions used by other jurisdictions.

### **Establishing a stable platform for IPSAS's**

10. The convergence policy with IFRS's and cycle of amendments are one contributory factor to not yet having a stable platform of IPSASs. An appropriate balance is needed between a continuous update of the standards and establishing a stable platform of standards for implementation. We suggest that IPSASB has scope to make a decision to improve stability. A pragmatic approach is needed to minimise disruption through establishing a change policy such as the UK FRC's envisaged approach for FRS 102 which commits to 3 years before revisions<sup>1</sup>. This is in line with the IASB's timetable for the IFRS for SMEs.

### **Funding**

11. In our [submission to the OECD on the future governance of IPSASB](#), we suggested that existing funding arrangements need reviewed and that a wider pool of funding should be investigated, such as at G20 level, to reduce the risk and perception of conflict of interests. International bodies with an interest in high quality, transparent financial reporting should also be considered as they are likely to have an incentive to support the development of high quality public sector public reporting standards. This may include the IMF, World Bank, OECD etc. amongst others.

### **Answers to specific questions**

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

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<sup>1</sup> [FRC - The Future of Financial Reporting in UK and ROI](#) (pg. 3)

12. No, we suggest amending the mission statement and strategic objective from ““*developing high-quality accounting standards...and other publications*” to *interpreting* international accounting standards for the public sector. We do not believe it is either the best use of resources or a proportionate response to address public sector differences by recreating a separate suite for the public sector. We have concerns that the trajectory for greater specialism increases complexity which reduces transparency and understanding of public sector financial reporting for a wider audience. It also reduces comparability with the private sector (particularly relevant given the increasing use of Government Business Enterprises [GBEs] to deliver services by some public bodies).
13. The landscape is different from when IPSASB was first established. An international accounting framework already exists in the form of IFRS. The UK has now shown that IFRS can be successfully implemented in the public sector and obstacles can be successfully managed<sup>2</sup>. This challenges the need for a whole separate specialist framework.
14. As an example, when IAS 19 Employee Benefits was adopted in the UK<sup>3</sup> a public sector specific issue was addressed by introducing a statutory intervention to neutralise the potential and significant impact of holiday pay accruals affecting the local government tax calculation. This was addressed by a targeted approach with the solution led by the national jurisdiction. It demonstrates that public sector tailoring is not necessarily best achieved by a blanket approach of developing a separate standard but targeted action on a specific issue may suffice.
15. We also see a priority for IPSASB to encourage wider adoption of accruals based accounting by the public sector internationally. The consultation paper (page 10) cites “[the] only globally recognised accrual accounting standards for the public sector are IPSASs” yet it is not the only option available and the mission statement of IPSASB with its support for the adoption of accrual accounting should recognise this. The strategy should be updated to reflect that some jurisdictions may choose to adopt IFRS to achieve the same end and there is no added value (with potentially significant costs) of transferring from IFRS to IPSASs.
16. The existing approach and work programme may represent in an ideal world what IPSASB could do however there is insufficient evidence that the significant resource constraints will be addressed to support this or that the adoption rates for IPSASs and accruals based accounts justify such a detailed approach. In the context of today’s challenges, we question the sustainability of the business model to develop standards and keep pace with the IASB with their greater resource capabilities.
17. Some specific concerns we have identified on the current approach include recent consultations where IPSASB has redefined basic terms such as “assets”, “liabilities<sup>4</sup>”, “parent” and “subsidiary<sup>5</sup>”. We are not convinced that these changes are justifiable. This suggests a lack of focus on what is materially different in the way the public sector operates and why it may need to account differently to present a true and fair view or to better represent the substance of a transaction. Redefining basic terminology also does not consider the impact on public sector hybrid organisations and GBEs, such as those which are increasingly being used to deliver services in UK local authorities. There is a risk of an inconsistent approach followed by a group company based on IFRS which is not in accordance with local authority group policy definitions based on IPSASs. This could lead to the need for further consolidated accounting adjustments at the group level and potentially may also have implications on the audit opinion expressed.
18. We also note that recent exposure drafts on groups (ED 48-51) demonstrated closer alignment with IFRS equivalents which we support. This also raises the question of cost benefit and how IPSASB can justify the resource to rewrite and consult on these separate exposure drafts for the public sector if we are also seeking convergence with IFRS.
19. We believe IPSASB should identify a more proportionate approach to addressing public sector differences. Our preference is for IPSASB to produce a shorter, simpler **companion** which interprets IFRS, focusing on those areas which are material and particular to the public sector and signposts good practice examples of how other jurisdictions have managed specific issues. We also suggest engagement with the IASB perhaps through consultation at exposure draft stage to discuss how material public sector issues could be addressed and adding extra wording into the standard itself.

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<sup>2</sup> ICAS research on **The implementation of IFRS in the UK devolved administrations** [icas.org.uk/Connolly-wall/](https://icas.org.uk/Connolly-wall/)

<sup>3</sup> [Explanation and statutory references \(England\) line 747](#)

<sup>4</sup> Consultation paper Conceptual Framework - Elements and Recognition in Financial Statements

<sup>5</sup> Exposure Draft 48 which changes terminology from IAS 27

20. The IPSASB Conceptual Framework is, in our view, overly long, detailed and complex. We are not convinced of the need for a separate Conceptual Framework and do not believe that it is necessary to go back so far to first principles to address public sector differences. We question whether the correct balance is being struck to maintain a high level principles-based approach. Our preference would be for greater leveraging of the existing IFRS conceptual framework supported by an interpretation for the public sector, similar to the UK Accounting Standards Board who produced a concise [Interpretation for Public Benefit Entities](#) in 2007. This sets out the principles which should underlie the preparation and presentation of general purpose financial statements of public benefit entities.
21. Financial Reporting Standard (FRS) 102 in the UK is a new all-encompassing accounting standard, substantially based on the IFRS for SMEs, which establishes one accounting framework for the private and not for profit sectors but which can also be tailored by specialist sector Statements of Recommended Practice (SORPs). This is a more concise and proportionate approach building on common framework, without rewriting it, and only specialises for those material differences where a difference in accounting is needed to better represent the substance of a transaction. Notably, this approach is much quicker to implement. Development, consultation and implementation are quicker given its presentation as one comprehensive FRS and one SORP for all areas of the accounts rather than a series of papers on a suite of standards.
22. Although IPSASB does not set accounting standards for both companies and other entities as the UK Financial Reporting Council (FRC) does, it does demonstrate that with some flexibility, accounting standards can apply across all sectors without a need to 're-invent the wheel'. This is an approach which ICAS supports.
23. Less time spent developing and consulting on a public sector specific conceptual framework and standards would not only fit better with resource constraints but also enable more time to be spent looking outwards i.e. helping increase adoption of accruals based accounts and delivering the outcome of high quality financial reporting.
24. Once the outcome of this strategy review has been decided, it would be helpful to publish the SMART objectives, key performance indicators and milestones. The statistic quoted on page 4 "over 80 jurisdictions have either adopted or have processes in place to adopt IPSASs, directly or indirectly" is wide ranging. To strengthen scrutiny and inform strategic planning it would be helpful to have more specific information on the number of countries, over time, who:
- Have fully adopted IPSASs;
  - Have partially adopted IPSASs with adoption rates for specific IPSASs;
  - Have plans in place and how long it takes to fully adopt IPSASs;
  - Apply IFRS (private and not for profit sectors); and
  - Apply cash or accruals based accounting.
- 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?**
25. We agree with outcome 1: *"Improved ability of public sector entities to reflect the full economic reality of their finances as well as of stakeholders to understand."*
26. Outcome 2 is too wide ranging, our preference would be to prioritise increased adoption of accruals based accounts using an international framework to recognise the existence of IFRS and that it is used by some jurisdictions for the public sector. We also challenge the inclusion of financial management, preferring the focus to be on strengthening public sector financial reporting, not to extend the role of IPSASB to address the significantly broader remit of financial management which risks conflicting with local jurisdictions' arrangements.
27. The boundary of IPSASBs scope needs to be more clearly articulated and applied consistently. Our view is that extending beyond the remit of an accounting standard setter risks conflicting with audit mandates and local statutory reporting arrangements. We have noted in the past, some apparent confusion around the boundary and scope of IPSASB's work on the financial statements and wider financial reports. We welcome the latest decision to introduce service performance reporting as an RPG. We hope that the recognition that service performance reporting is best suited to an RPG is indicative of greater clarity of where the IPSASB boundary sits.
28. A second example of providing an authoritative pronouncement on a topic that is not normally within the scope of accounting standards is IPSAS 24 (Presentation of Budget Information in Financial Statements). This appears to be mixing up management accounting and financial accounting in an

accounting standards framework. This is not normal accounting practice, as accounting and budget information may be prepared using different bases<sup>6</sup>. It is another area subject to local regulation and one we believe is better suited to national regulation so countries can develop their own tailored solutions and therefore an RPG would be more appropriate. Perhaps given IPSASBs clarification of its boundary with the recent work on service performance reporting, the status of IPSAS 24 needs reviewed to ensure its consistency with IPSASBs scope.

**3. Do you think that the outputs identified will assist in achieving the outcomes? If not, what outputs do you think the IPSASB should focus on?**

29. Output 1 - it is not a proportionate approach to develop a full suite of public sector specific standards. Standard development, consultation and board paper analysis is all resource intensive. More targeted and proportionate approaches are needed (see our response to question 1).
30. Output 2 – it is not clear if there are resources to deliver outreach activities or if other mechanisms, such as networks are in place to have greater impact. We would like to see greater outreach activity across a range of stakeholders and a better understanding of how engaged IPSASB is with international organisations (e.g. OECD given the governance review consultation), EC (with the development of EPSAS), preparers, auditors and regulators across different jurisdictions. We believe it would be useful to seek more key stakeholder meetings across the globe. As an example other IFAC boards such as the IAASB hold roundtables on specific issues in key locations such as Asia, Europe, and South America etc.

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

31. More open and automatic reporting of the outcome of consultations and how IPSASB has responded to the issues raised would be helpful to facilitate wider scrutiny and strengthen the accountability of IPSASB. We note that detailed analysis of consultation feedback is publicly available in Board minutes on the IFAC website along with staff conclusions. This could be more easily accessible on the website so that consultees can better identify how their points have been taken on board in the finalisation of a document and understand any reasons otherwise. We suggest that all updates, feedback analysis papers and conclusions are better signposted.
32. We would welcome clearer communication of the outcome of consultations in the form of a published summary report. This could identify the main issues raised by consultees to each question, any general matters, the IPSASB response, an explanation of conclusions, next steps and cross-referenced to the detailed analysis for the Board to avoid duplication. This would be more specific to the consultation questions than the project updates currently on the website. Greater transparency would help to show how IPSASB have considered and dealt with issues raised and support greater accountability.

**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?**

33. To increase focus, we would also add the principle of minimum deviation - consistency with private sector standards should only be broken where there is a clear, justifiable need of a uniquely public sector matter that is material, adversely impacts the true and fair view and is not covered by IFRS. A clearer articulation of the boundary as per paragraph 27 would help focus and reduce the risk of scope creep.
34. We understand that the IPSASB vision is to provide a clear expectation to governments of what they should be reporting publicly and help raise global standards. However, compelling evidence needs to be presented to support any proposals that depart from generally accepted practice and that it will not unnecessarily increase or overlap with existing regulation which could reduce likely adoption.

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

35. The public interest would be served by all governments producing accruals based accounts and using such information for budgetary and decision making purposes. We do however; recognise that this ideal scenario will take time, particularly in developing nations. We therefore propose that the cash based standard is retained at present but IPSASB should detail a clear timetable for the withdrawal of this standard over the medium term. Allocating further resource to this project is inconsistent with the priority for wider adoption of high quality accruals based accounting. It is also incompatible with IPSASB's resource constraints.

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<sup>6</sup> [IPSAS 24](#) – para IN6(a)

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

36. Option c – future withdrawal for the reasons given in paragraph 35 above.

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

37. The breadth of projects listed against a backdrop of financial constraints poses questions on the feasibility of delivering the work programme and IPSASBs prioritisation. We are not convinced that all the topics listed merit a project and refer back to our principle in paragraph 5 and our view that more proportionate approaches to addressing specific public sector issues are needed. In terms of existing commitments, of all the projects listed, we suggest that progressing social benefits is a greater priority to help governments consistently quantify their social benefits programme, given its level of materiality.

38. A recurring theme which appears to underlie prioritisation and focus of work is the polarity of views received from stakeholders on what needs tailored for the public sector. It is not evident how representative these views are, whether independence or conflicts of interest have been considered and how this is managed by IPSASB in its formulation of priorities. More accessible feedback reports on the evidence basis for additional tailoring, judgements, representations and consultations could help the process of scrutiny and accountability. We also suggest that a more focused strategy based on what IPSASB can reasonably be expected to deliver within its constraints and the principle we set in paragraph 5 is used to aid decision making. Broadening outreach and stakeholder engagement activities is also relevant (paragraph 30).

*Other projects*

39. We are not convinced of the need for IPSASB to undertake a separate project on interim financial reporting or to allocate resource to develop a separate standard on differential reporting. With regards to the latter, we note the concerns relating to the definition of public accountability cited in the consultation paper. In the UK, when the ASB were drafting [FRS 102](#), which is based on the IASB's SME standard, they decided to amend the IFRS for SMEs by eliminating public accountability as a differentiator so that this standard is relevant to a broader group of preparers and users across both the private sector and public benefit entities<sup>7</sup>. We suggest that instead of looking to develop a public sector equivalent standard, IPSASB could liaise with the IASB to discuss making appropriate revisions to IFRS for SMEs to broaden its scope and use FRS 102 as a model to support this review.

40. We support modifying the existing approach to leverage the work undertaken by other organisations more greatly to reduce duplication of effort and question the priority of a project on Integrated Reporting whilst the IIRC are progressing this.

*Convergence projects*

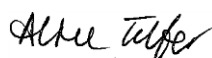
41. We are not convinced IPSASB needs to revisit work by the IASB and rewrite a separate IPSAS. It would be more efficient to draft a concise interpretation of IFRS for the public sector.

42. We also note that the convergence projects include IFRS 6. IPSASB should stay loyal to the principle of IFRS convergence by deferring work until the IASB have completed their work. This approach should be applied consistently. Moreover, this topic is likely to be resource intensive yet IPSASB is resource constrained so this must also be factored into prioritisation.

*Projects to address public sector specific issues*

43. For heritage assets we would point to the pragmatic approach taken by the FRC in [FRS 30](#).

We trust this is helpful.



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<sup>7</sup> See pages 4, 231 and 234 of FRS 102.