

23 July 2014

Ms Stephenie Fox
Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
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CANADA
Submitted to: www.ifac.org

Dear Stephenie

IPSASB Strategy Consultation

Thank you for the opportunity to comment on the IPSASB *Strategy Consultation (Strategy Consultation)*. The *Strategy Consultation* has been exposed in New Zealand and some New Zealand constituents may have made comments directly to you.

We have a keen interest in the IPSASB's strategy and work program, given that the accounting standards New Zealand public benefit entities apply from 1 July 2014 are based on IPSASs.

We broadly support the specific proposals in the *Strategy Consultation*, as indicated in our responses to the specific questions, which are set out in the Appendix to this letter.

In particular, we wish to emphasise the importance of IFRS convergence when deciding whether to initiate a project and assessing its priority. In our view, any unnecessary differences between IPSASs and IFRSs may undermine the credibility and quality of IPSASs, particularly if the IPSASs are perceived to significantly lag behind major developments in reporting in the for-profit sector that would also improve reporting in the public sector.

In addition, for jurisdictions that apply IFRSs, unnecessary differences could create a barrier to adopting IPSASs if there are group reporting entities that comprise some entities that apply IFRSs and other entities that apply IPSASs, such as a group comprising a central government applying IPSASs and its government business enterprises (GBEs) applying IFRSs. Unnecessary differences in the accounting policies applied by entities in the group would compound consolidation issues and affect compliance costs for group reporting entities when preparing consolidated financial statements.

We acknowledge that the IPSASB will face a difficult task prioritising projects, having regard to the resources required to complete those projects that are already active. In keeping with our ongoing commitment to support the work of the IPSASB, we would be pleased to assist the IPSASB with one of its projects. We are particularly interested in a project to consider revenue. In our view, such a project should encompass both exchange and non-exchange revenue, considering the implications of IFRS 15 *Revenue from Contracts with Customers* and re-considering IPSAS 23 *Revenue from Non-Exchange Transactions (Taxes and Transfers)*.

We have been concerned about the amount of information in financial statements for a number of years, and that important information is getting lost amongst less relevant information. For this reason, we would encourage the IPSASB to initiate a project similar to the IASB's *Disclosure Initiative*. Such a project could clarify the current presentation and disclosure requirements, and explain the role of materiality and judgement in preparing useful and understandable financial statements.

Although we are broadly supportive of the specific proposals in the *Strategy Consultation*, we have a number of comments and recommendations in our responses to the questions, which are set out in the Appendix to this letter. If you have any questions or require clarification of any matters in this submission, please contact Aimy Luu Huynh (aimy.luuhuynh@xrb.govt.nz) or me.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Kimberley Crook', written in a cursive style.

Kimberley Crook

Chair – New Zealand Accounting Standards Board

APPENDIX

Questions for Respondents

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?

We support the IPSASB's proposed strategic objective, particularly the objective of setting high-quality financial reporting standards. We think that this objective could be enhanced by referring not only to "high quality" but also "principle-based" financial reporting standards.

When considering the IPSASB's strategic objective we reflected on the role of the Memorandum of Understanding (MOU) between the International Federation of Accountants (IFAC) and the International Accounting Standards Board (IASB). In the MOU, both parties have agreed to enhance initiatives of common and mutual interest. We encourage the IPSASB to maximise the potential of this MOU by identifying projects of mutual interest and engaging with the IASB to see how each body can contribute to such projects. We note that the IPSASB's research project on Emission Trading Schemes is to be undertaken as a joint project with the IASB and consider that this is a good example of how the MOU should work. We consider that such collaborative projects will benefit the work of both Boards.

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?

We agree that better financial reporting and increased adoption of IPSASs are important. However, we encourage the IPSASB to align the outcomes with the objectives of financial reporting set out in the Conceptual Framework. We consider there should be more emphasis on the development of IPSASs that provide information to users that is helpful for accountability and decision-making.

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?

We largely support the proposed outputs. However, we have the following recommendations:

- (a) We encourage the IPSASB to include another output regarding research into the effectiveness of IPSASs in achieving the desired outcomes. The IPSASB would not necessarily need to engage in such research directly. Rather, it could encourage academic research, such as research on the impact of accrual-based accounting on central governments. We note that such research does occur from time-to-time, but consider that there would be benefits from more widespread research¹.
- (b) We encourage the IPSASB to be more actively engaged in research to help identify the nature of issues, their prevalence and the impact that a standard might have. This could help improve the

¹ At the OECD 2014 accruals symposium there was a presentation on a project entitled "The potential impact of accrual-based public accounting harmonization on public policy making from the perspective of national governments".
<http://www.slideshare.net/OECD-GOV/d1-amsession4giovannadabbiccoitaly>

effectiveness and efficiency of the standard setting process.

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

We recommend that the IPSASB consider establishing the following feedback mechanisms:

- (a) a Consultative Advisory Group to provide technical advice to the IPSASB on applicable topics; and
- (b) a forum for national standard setters and possibly regional groups to meet and share views, or encourage countries adopting IPSASs to establish such forums.

Other feedback mechanisms the IPSASB may want to consider are:

- (a) Using cost effective technologies for outreach to constituents such as webinars, teleconference discussion forums, and feedback statements on discussion papers and exposure drafts; and
- (b) Assessing the effectiveness of IPSASs through post-implementation reviews as more jurisdictions adopt IPSASs.

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?

We generally support the proposed factors and note the importance of IFRS convergence. In our view any unnecessary differences between IPSASs and IFRSs may undermine the credibility and quality of IPSASs, particularly if the IPSASs are perceived to significantly lag behind major developments in reporting in the for-profit sector that would also improve reporting in the public sector. In addition, for jurisdictions that apply IFRSs, unnecessary differences could create a barrier to adopting IPSASs if there are group reporting entities that comprise some entities that apply IFRSs and other entities that apply IPSASs, such as a group comprising a central government applying IPSASs and its GBEs applying IFRSs. Unnecessary differences in the accounting policies applied by entities in the group would compound consolidation issues and affect compliance costs for group reporting entities when preparing consolidated financial statements.

We acknowledge the IPSASB's desire to align IPSASs, as far as possible, with the GFS statistical reporting framework. In our view, alignment with GFS should be accorded a lower weighting because the IPSASB's prime focus should be on generally accepted accounting practice, which is suited to a wider range of users than GFS.

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?

The 2010 Task Force review (the Review) noted that the Cash Basis IPSAS has not been widely adopted and has not led to increased adoption of accrual basis IPSASs. This finding indicates that, in its current form, the Cash Basis IPSAS is not a valuable resource in strengthening public finance management and knowledge globally by increasing the adoption of accrual-based IPSASs. We acknowledge that, at the time this Standard was developed, the IPSASB considered that it would assist public sector entities to make the transition to accrual basis IPSASs. However, for the reasons noted by the IPSASB, it has not been widely adopted and has not led to increased adoption of accrual basis IPSASs. In our view, the IPSASB should consider if there is a cost-effective way of overcoming the key obstacles identified in the Review that would enable the Standard to achieve its original objective. If not, we do not support any further development of the Cash Basis IPSAS. The IPSASB's limited resources would be more effectively used in the development and improvements of accrual-based IPSASs.

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.

Based on the 2010 Task Force Review, option (a) does not appear to be a good use of the IPSASB's resources. However, if the IPSASB is able to identify a cost-effective way of overcoming the key obstacles identified in the Review, option (a) could be considered.

Nevertheless, given that one of the IPSASB's proposed outcomes is to improve the ability of public sector entities to reflect the full economic reality of an entity's finances, the role of the Cash Basis IPSAS (if retained) should be limited to providing a transitional step to adoption of accrual-based IPSASs, as the Cash Basis IPSAS is not consistent with this proposed outcome.

Based on the information available at present, option (b) appears to be the best option because it does not require the IPSASB's limited resources to be used for something with limited, if any, benefits, and the Cash Basis IPSAS remains available for use. However, in our view, option (b) is not a long-term solution because retaining a Cash Basis IPSAS that is not maintained creates a potential reputational risk for the IPSASB. Therefore, if option (b) is selected, a decision about whether to review or remove the Cash Basis IPSAS will need to be made within five years.

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.

We note that the IPSASB already has a number of important projects underway or committed and we consider that these projects should continue to be a high priority. These projects include the conceptual framework, public sector combinations, social benefits, and updating IPSASs 6 to 8 and IPSASs 28 to 30 (which will include reflecting the final version of IFRS 9 *Financial Instruments*).

The majority of IPSASs are based on IFRSs. In turn IFRSs, were developed having regard to the IASB's Conceptual Framework. We are pleased that once the IPSASB's Conceptual Framework is finalised, the IPSASB will embark upon a process to identify any inconsistencies between existing IPSASs and the Conceptual Framework and to prioritise projects where inconsistencies are identified. The IPSASB should continue to bear this in mind when prioritising future projects.

Having noted the above, there are a number of projects that we think the IPSASB should prioritise now including the following:

Revenue and non-exchange revenue

We are particularly interested in a project to consider revenue. In our view, such a project should encompass both exchange and non-exchange revenue, considering the implications of IFRS 15 *Revenue from Contracts with Customers* and re-considering IPSAS 23 *Revenue from Non-Exchange Transactions (Taxes and Transfers)*.

We consider that a convergence project to consider the implications of IFRS 15 should have a high priority now that the IASB has issued the final standard.

In considering IPSAS 23, a number of issues have been raised by our constituents, these include improving the distinction between exchange and non-exchange revenue, recognition of revenue depending on the conditions attached, and eliminating inconsistencies within the Standard. We note the revision of these standards will be influenced by the final Conceptual Framework.

In our view, there are synergies between the two standards which lends itself to being considered as one project. In keeping with our ongoing commitment to support the work of the IPSASB, we would be pleased to assist the IPSASB with this project.

Disclosure overload

We encourage the IPSASB to initiate a project similar to the IASB's *Disclosure Initiative*. We have concerns that important information is getting lost amongst less relevant disclosures in financial statements, and users are unable to see the "wood for the trees". Such a project could clarify the current presentation and disclosure requirements, and explain the role of judgement by preparers in improving the usefulness and understandability of financial statements.

Projects to Maintain Existing IPSASs

Since the completion of the IPSASB's convergence project in late 2009, the IPSASB's focus has been on public sector specific projects. We agree that this focus was appropriate at that time, particularly given the importance of developing a conceptual framework. Now that the Conceptual Framework project is nearly complete and a number of public sector specific projects are progressing, we suggest that the IPSASB should reconsider the balance between public sector specific projects and convergence projects. In determining this balance, the following factors should be considered:

- One of the IPSASB's objectives is to increase the adoption of accrual-based IPSASs. As more jurisdictions adopt accrual-based IPSASs, there are likely to be more instances of public sector entities being required to prepare consolidated financial statements that include for-profit entities that apply IFRSs. In our view any unnecessary differences between IPSASs and IFRSs may

undermine the credibility and quality of IPSASs, particularly if the IPSASs are perceived to significantly lag behind major developments in reporting in the for-profit sector that would also improve reporting in the public sector. In addition, for jurisdictions that apply IFRSs, unnecessary differences could create a barrier to adopting IPSASs if there are group reporting entities that comprise some entities that apply IFRSs and other entities that apply IPSASs, such as a group comprising a central government applying IPSASs and its GBEs applying IFRSs. Unnecessary differences in the accounting policies applied by entities in the group would compound consolidation issues and affect compliance costs for group reporting entities when preparing consolidated financial statements. We consider such issues should make convergence projects more of a priority.

- The IPSASB should consider various options for maintaining its suite of standards within its existing resource constraints. Possibilities could include partnering with national standard setters to assist with convergence projects, developing a more streamlined process for convergence projects so that they do not require as much board time as public sector specific projects, and encouraging other bodies to assist with the research phase of projects. Such strategies would allow IPSASB staff to focus more on public sector specific projects.