

June 5, 2018

Dear Chairman Carruthers and Members of the Board –

Thank you for the opportunity to comment on IPSASB's *Proposed Strategy and Work Plan 2019-2023* consultation document. Overall, I support the proposed strategy, areas of activity, and work plans contained therein. IPSASB is undoubtedly making great strides in enhancing the usefulness and effectiveness of public sector financial reporting each and every year.

The consultation document candidly acknowledges several opportunities and challenges in public financial management (PFM) and IPSAS adoption. With these issues in mind, I identified a few potential improvements to your strategy and work plans, along with proposed alternatives for your consideration. My observations, proposed alternatives, and responses to the specific matters for comment (SMCs) are noted below.

I hope my comments will prove useful to the IPSASB and its staff as they strive to inspire informed decision-making and sustainable fiscal environments across the public sector.

SMC 1

Do you agree with the IPSASB's proposed Strategic Objective 2019–2023? If you agree please provide any additional reasoning not already discussed in the document. If you do not agree please explain your reasoning and your proposed alternative.

There may be opportunity to align the wording of the strategic objective to better address the challenges and opportunities faced in the PFM community, which are often alluded to elsewhere in the document.

The proposed strategic objective would drive the priorities, resource allocations, and focus of the Board over the coming years; therefore, it may be in the Board's best interest to ensure its strategic objective, plans, and efforts are aligned to address these challenges and opportunities to promote accrual-based IPSAS and strengthened PFM.

Allow me to further explain my concerns in more detail. My observations are as follows:

- A.** The proposed strategic objective removes the word “knowledge” when compared to the 2015-2018 version of the IPSASB strategic objective. When juxtaposed with the challenges cited in the 2019-2023 consultation document, this seems inconsistent. Consider the following examples:

“The accessibility of financial statements for non-specialist users, and civil society in general, needs improvement” (p. 5)

“Capacity constraints impact on the ability of many jurisdictions to undertake accrual transition projects which limits the pace of adoption. Promotion of, and support for, accrual adoption and IPSAS implementation, both in individual jurisdictions and globally, needs to be enhanced.” (p. 6)

“the IPSASB also believes it needs to sharpen the focus of its activities in the area of promoting awareness of IPSAS and the benefits of their adoption and

implementation, in particular by working more closely with global and regional bodies to raise the profile of IPSAS with financial regulators and markets, all of whom we believe should be key advocates and more consistent supporters of IPSAS adoption.” (p. 2)

Global and regional bodies, the Public Interest Committee, volunteer groups, task forces, contractors, technology, and other stakeholders and tools will be integral in addressing challenges across the entities adopting IPSAS. Many entities are not very far along in adopting accrual-based financial statements and face significant challenges in building knowledge and capacity to adopt IPSAS. Removal of the word “knowledge” seems inconsistent with some of the important work IPSASB is doing under Strategic Themes D and E to address these matters. Such work should be elevated into the wording of the strategic objective to better demonstrate IPSASB’s strategy and role.

- B.** There are no areas of activity in the proposed strategic objective to sufficiently address the issues and challenges noted in Item **A** above. Only two areas of activity are listed, with plenty of room to add a third. Simply “raising awareness” (as stated in the current second area of activity) may not be commensurate with the challenges faced by many public sector entities. Consider broadening the second area of activity description to encompass the full breadth of work currently underway and continuing over the next five years. Perhaps add a third area of activity, too; see the proposed alternative below.
- C.** Devoting too many resources to the first area of activity could actually be counterproductive from the perspective of public sector entities that may be experiencing knowledge, resource, and capacity constraints in transitioning to accrual-based financial reporting. This is not to say that there are not important IPSAS and guidance projects to be undertaken; however, balancing areas of activities is something to keep in mind as you prioritize projects and allocate limited resources to these areas of activity.

Proposed Alternative: *“Strengthening public financial management and IPSAS adoption capacity globally ~~through increasing adoption of accrual-based IPSAS~~. Delivered through three ~~two~~-main areas of activity, all both of which having a public interest focus:*

- 1. Developing IPSAS and other high-quality financial reporting guidance for the public sector; ~~and~~*
- 2. Raising awareness and knowledge of IPSAS and the benefits of accrual adoption; and*
- 3. Supporting IPSAS accrual adoption and transition projects across the public sector through enhanced outreach, education, and capacity-building efforts.”*

SMC 2

Do you agree with the IPSASB’s five proposed Strategic Themes for the 2019–2023 period? If you agree please provide any additional reasoning not already discussed in the document. If you do not agree please explain your reasoning, including any proposed alternatives.

Although the Strategic Themes are not listed in order of priority, I would nevertheless consider elevating Strategic Themes D and E above B and C. Consider expanding D and E a bit and making them more customer-service-oriented. Consider placing the current Strategic Theme B at the bottom of the list; IFRS convergence is a mundane theme that—although important from a conceptual framework and standards-setting perspective—does not necessarily require the

level of resources and attention of the other strategic theme areas. Strategic Theme B seems like more of an important concept and factor to be considered in the areas of activity supporting other strategic themes rather than a separate, stand-alone strategic theme.

Proposed Alternatives:

<p>Theme <u>BD</u>: Promoting <u>and facilitating</u> IPSAS adoption and implementation</p>	<p>Promoting and <u>facilitating</u> the adoption and implementation of IPSAS is in the public interest as it can lead to improvements in public sector financial reporting globally, which benefits users by providing greater transparency and providing information to inform better decision-making and accountability. The IPSASB therefore has a very active approach to outreach, enabling it to engage in a global dialogue, <u>educate and build capacity, and partner</u> with constituents on the adoption and implementation of IPSAS.</p>
<p>Theme <u>CE</u>: <u>Educating, and promoting</u> Advocating the benefits of accrual in strengthening PFM</p>	<p>The IPSASB's view is that the use of accrual information provides the foundation for strong PFM. <u>However, such efforts cannot yield improved PFM without advocating for and facilitating the use of GPFs.</u> In furthering its Strategic Objective, the IPSASB works with <u>constituents</u>, other professional groups, and sponsoring organizations to help <u>educate preparers and users, promote the use of GPFs and IPSAS, and inform the international community</u> develop the understanding of the PFM benefits of IPSAS adoption in improving transparency, accountability, and decision-making.</p>

SMC 3

Do you agree with the criteria the IPSASB has used in deciding the proposed issues to add to its Work Plan 2019–2023? If you agree please provide any additional reasoning not already discussed in the document. If you do not agree please explain why, including any proposed alternatives.

Partially. The criteria provided are appropriate, but incomplete. Consider leveraging language from paragraphs 151-155 of the U.S. FASAB's [Statement of Federal Financial Accounting Concepts 1 \(SFFAC 1\)](#) and including similar criteria. The criteria currently cited primarily consider the benefits of selecting projects without considering the costs to constituents. Costs should also be considered to allow for informed decision-making and consistent frames of reference amongst Board members and consultation document respondents. SFFAC 1 provides good examples of such criteria; it is a great resource in my opinion and has been an influential and integral part of the FASAB's standards-setting process for many years.

SMC 4

Do you agree with the projects that the IPSASB proposes to prioritize for addition to the Work Plan 2019–2023 on Theme A: Setting standards on public sector specific issues (Natural Resources, Discount Rates, Differential Reporting and Conceptual Framework limited-scope Review)? If not please explain your reasoning, and any proposed alternatives.

Yes. I support the prioritization of these four projects for the same reasons provided for in the consultation document.

SMCs 5 and 6

Do you agree with the project that the IPSASB proposes to prioritize for addition to the Work Plan 2019–2023 on Theme B: Maintaining IFRS convergence (IPSAS 18, Segment Reporting)? If not please explain your reasoning and any proposed alternatives.

Are there any projects in Appendix A that you believe should be added to the Work Plan 2019–2023 in place of a currently proposed project? If you believe that any Appendix A projects should be added, please explain your views on why the project should be included, which proposed project should not then be started and your reasoning.

Tax Expenditures and Asset Retirement Obligations represent integral public sector financial information affecting long-term fiscal sustainability and PFM.

Tax expenditures were noted in Appendix B as having no direct relationship to the face of the financial statements; I disagree. Tax expenditures are equivalent to public sector spending through the tax code and should be subject to some level of disclosure to increase awareness. Non-exchange revenues at tax collecting entities are forgone by decision-makers through the use of tax expenditures, thus directly affecting the statements of financial performance for tax collecting entities. In order to gain a comprehensive understanding of factors affecting deficit and surplus changes from year to year, users must understand how revenues and collections are affected by tax expenditures and tax compliance issues (tax gaps) each year and any emerging issues or trends in these areas.

IPSASB guidance in this area would probably need to be in the form of an RPG, since there are tax data availability and reliability limitations across constituents, which would limit the usefulness and extent of financial information and disclosures for some constituents.

A tax expenditures project providing for disclosures similar in nature to U.S. FASAB's [Statement of Federal Financial Accounting Standards \(SFFAS\) 52](#) would not result in a resource-intensive project. *SFFAS 52* was completed in a relatively short period of time. I encourage you to review the [project history](#), [exposure document](#), [comment letters](#), and final pronouncement, and leverage this information to the extent that it might be helpful.

Given the uncertainty expressed in Appendix B surrounding the need for guidance related to asset retirement obligations, it would be helpful to at least undertake a brief research and outreach project prior to 2023 (the scope of this work plan) and determine the extent to which guidance may or may not be needed. Otherwise, you risk tabling an issue for several years that may need to be addressed through additional public sector-specific guidance.

I would forgo the *IPSAS 18, Financial Instruments* project in lieu of these two aforementioned projects. I would also avoid promulgating the complex recognition, measurement, and disclosure requirements in the *Heritage Assets* project, as I indicated in [my response to the related consultation paper](#), due to cost-benefit constraints. This would likely free up scarce resources for IPSASB and its constituents.

I would also remove the *Sovereign Powers and their Impact on Financial Reporting* project from Appendix A. Based on the description, such a project would likely not yield useful information. It seems as though it would result in (a) recognition, measurement, and monetization of items that

do not meet asset definition and recognition criteria and (b) voluminous disclosures that lack predictive value and meaningful measurement bases. Moreover, such a project would seemingly be counterproductive to addressing Strategic Theme B.

I am surprised that there are no potential projects listed for Strategic Themes D and E in Appendix A.

SMC 7

The IPSASB views building relationships with those working in the PFM space and engaging in their work as critical to furthering the use of IPSAS in PFM reform projects. Therefore, under Themes D and E, the IPSASB will actively monitor the work of others and look for appropriate opportunities to engage and support that work.

– Do you agree with the IPSASB’s proposed approach under these Themes? If so, are you aware of any ongoing initiatives which the IPSASB should monitor and look to engage with (please provide details).

– If you do not agree, please explain your reasoning along with any proposed alternatives, and how those might be resourced.

I mostly agree with it. However, please consider my responses to SMC 1, SMC 2, and SMCs 5 and 6 above; those responses—along with the proposed alternative below—could help demonstrate and encourage more active involvement and attention to Strategic Themes D and E.

Proposed alternative wording to the approach under these themes: *“The IPSASB views building relationships with those working in the PFM space and engaging in their work as critical to furthering the use of IPSAS in PFM reform projects. Therefore, under Themes D and E, the IPSASB will strategically and actively outreach and engage with constituents and stakeholders to support efforts to educate PFM communities and GPFR users, build accrual transition capacity, and promote the use of IPSAS. Such outreach efforts will be responsive to constituent needs and holistically facilitate the use of IPSAS and sound PFM practices ~~the IPSASB will actively monitor the work of others and look for appropriate opportunities to engage and support that work.~~”*

This completes my comments. Thank you for the opportunity to provide them for your consideration.

Sincerely,



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