International Public Sector Accounting Standards Board

IPSASB Strategy Consultation

IPSASB International Public Sector Accounting Standards Board™

IPSASB STRATEGY CONSULTATION

Introduction

The International Public Sector Accounting Standards Board (IPSASB) is pleased to present this IPSASB Strategy Consultation for the period from 2015 forward. With this consultation we seek to gather views from our stakeholders on the future strategic direction of the IPSASB.

The IPSASB's mission is:

To serve the public interest by developing high-quality accounting standards and other publications for use by public sector entities around the world in the preparation of general purpose financial reports.

We are also seeking the views of our stakeholders on the priority of individual projects on the IPSASB's work program for the five-year period from 2015-2019.

High-quality, robust and effective accrual-based financial reporting systems, such as those based on International Public Sector Accounting Standards (IPSASs), are integral to enhancing accountability and transparency in government financial reporting. In the wake of the sovereign debt crisis the IPSASB is facing increasing demands for its standards and for guidance on the adoption and implementation of those standards. In light of its limited resources, the IPSASB is anxious to ensure that its priorities are aligned to suit stakeholder needs.

The objective of this consultation is to give our stakeholders an opportunity to provide their views on the strategic direction of the IPSASB for the period from 2015 forward. We believe that a formal public process will help contribute to the IPSASB's public accountability and legitimacy, and above all, will enhance the credibility of IPSASs.

In addition to providing feedback on the strategy of the IPSASB, we seek stakeholders' views on the IPSASB's work program for the period 2015-2019. We want to ensure that our work program continues to support the development of high-quality accounting standards and other publications for the public sector that will serve the objectives of financial reporting by public sector entities, providing information about the entity that is useful for accountability and decision-making purposes. The feedback we receive from this consultation will help shape and focus our thinking about how to allocate scarce resources.

The consultation period extends to July 31, 2014. During this period IPSASB members and staff will engage in a number of activities to gather input from stakeholders as well as considering formal written responses to this request for comments. We will actively monitor the recommendations of the IPSASB Governance Review Group including plans for their implementation. We anticipate that the IPSASB will approve a final Strategy for the period from 2015 forward at its December 2014 meeting. At that time the IPSASB will also prioritize projects for its work program for 2015-2019.

We encourage all stakeholders to respond to this public consultation on the IPSASB's Strategy and help shape the future direction and the 2015-2019 work program of the IPSASB.

We look forward to receiving your views on both matters as we continue to respond to the global financial reporting needs of governments and other public sector entities.

High-quality, robust and effective accrual-based financial reporting systems, such as those based on International Public Sector Accounting Standards (IPSASs), are integral to enhancing accountability and transparency in government financial reporting.

Please submit comments via the website:

www.ipsasb.org
or via email and hardcopy.

Comment Deadline: July 31, 2014.

DEVELOPING THE IPSASB'S STRATEGY

I The IPSASB's Environment

There are key environmental issues that affect the future direction of the IPSASB.

INCREASED FOCUS ON PUBLIC SECTOR FINANCIAL MANAGEMENT

The ongoing impact of the sovereign debt crisis emphasizes the seriousness of the results of poor financial management and financial reporting in the public sector. The lack of complete and audited information about government finances continues to be a major cause of concern in government accountability and informed decision-making. Moreover, concerns about sustainability of key government programs are prevalent. There is also a greater awareness of the quantitative and qualitative relevance of information about public sector borrowers for the global financial markets.

MOMENTUM IN ADOPTION GLOBALLY

The enhanced focus on public sector financial management has created increasing demands for high-quality standards and for guidance on how to adopt and implement such standards. The IPSASB is the global body dedicated to developing accounting standards for public sector entities (IPSASs).

Over the past five years there has been an increasing interest in the IPSASs and a strong trend towards their adoption; this trend is anticipated to continue. Currently over 80 jurisdictions have either adopted or have processes in place to adopt IPSASs, directly or indirectly, including the government of

New Zealand, South Asian countries like Thailand, Indonesia and Malaysia, African countries such as Nigeria, and South Africa, Latin and South American countries such as Peru and Brazil and some European countries, Switzerland, Austria, Lithuania and Estonia among them. A number of international organizations have also adopted IPSASs, for example, the United Nations Systems, the Organisation for Economic Co-operation and Development (OECD) and Interpol. The European Commission (EC) report issued during 2013 considered the suitability of IPSASs for the member states of the European Union and described the standards as an "indisputable reference" in the development of European Public Sector Accounting Standards. Other countries like Russia, India and China have also signaled their intention to adopt, though specific deadlines have not been set.

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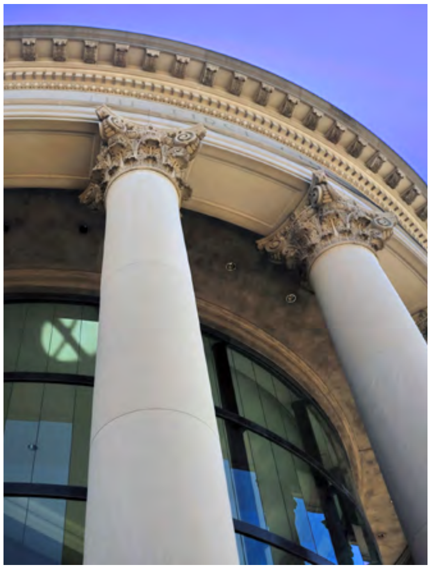
COMPLETION OF THE PUBLIC SECTOR CONCEPTUAL FRAMEWORK

The *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (the Conceptual Framework) establishes and makes explicit the concepts that are to be applied in developing IPSASs and RPGs applicable to the preparation and presentation of general purpose financial reports (GPFRs) of public sector entities. As part of this, the IPSASB has developed a preface to the Conceptual Framework to highlight characteristics of the public sector that underpin the development of IPSASs.

This continues to be the IPSASB's most important project until its completion, planned for later this year, and is critical in ensuring that IPSASs are internally consistent and are suitable for the

specific needs of the public sector. Currently approximately half of the IPSASB's agenda time is devoted to the development of the Conceptual Framework. Once it is completed this will free up a significant amount of the IPSASB's resources in terms of meeting time as well as staff resources currently devoted to the project.



GOVERNANCE AND OVERSIGHT

To sustain the IPSASB's growing reputation as the international standard setter for the public sector it is necessary to implement public interest oversight of the IPSASB, something the IPSASB has been working towards in recent years. It is important that the IPSASB has public interest oversight in order that those adopting the standards are assured that the IPSASB is acting in the public interest and that its standards result from widespread and carefully considered comment from interested stakeholders around the world. Creating an oversight regime will also help provide assurance that the IPSASB can independently and rigorously address public sector financial reporting issues.

An IPSASB Governance Review Group (the Review Group) was established, chaired by representatives of the International Monetary Fund, the OECD and the World Bank. Its members include the Financial Stability Board, the International Organization of Securities Commissions and the International Organization of Supreme Audit Institutions. In addition, the observers to the Review Group include representatives from the EC and Eurostat, the International Federation of Accountants (IFAC) and the IPSASB.

The Review Group has agreed that the review will consider oversight arrangements as well as the broader questions of IPSASB governance, including measures to enhance the perceived relevance, quality and legitimacy of IPSASB. The Review Group issued a consultation paper in the first quarter of 2014 with responses due April 30, 2014. These responses will be analyzed and the Review Group plans to issue its final recommendations later this year.

The Review Group has agreed that the review will consider oversight arrangements as well as the broader questions of IPSASB governance, including measures to enhance the perceived relevance, quality and legitimacy of IPSASB.

These proposed changes will need to be incorporated into the IPSASB's operations and will have an impact in terms of resources to create the necessary structures and support processes, including board time as well as staff resources. Ultimately however this is a positive step that will enhance the IPSASB's processes and add credibility to its standards.

II The IPSASB's Operations

The IPSASB has a staff complement of 7.5 full time equivalents, and currently has four meetings per year lasting four days each. It operates using a range of policies and procedures, which largely mirror those of the other Independent Standard-setting Boards.

These include:

- due process policies;
- rigorous nominations process;
- policy papers for Reviewing and Modifying IASB Documents, and Considering GFS Reporting Guidelines during Development of IPSASs;
- policies for use of task forces and task based groups (TBGs); and
- formal voting procedures.

The IPSASB considers all of its policies and procedures and the resources available to develop a program of activities that aims to achieve the outputs it has identified. Doing so may result in identifying areas where additional policies or procedures are needed. There may also be changes to the IPSASB's existing policies and procedures as a result of other circumstances. For example, the addition of a public interest oversight regime to the IPSASB's operations will ultimately have to be integrated into the IPSASB's operations and will have an impact on the IPSASB's policies and procedures, with a related effect on the IPSASB's work program.

RESOURCE CONSTRAINTS

The structures and processes that support the operations of the IPSASB are facilitated by IFAC. The IPSASB's operating budget is funded approximately fifty percent by IFAC with the remainder coming from external funders, including governments, professional accountancy organizations and development banks. Support in-kind, through staff secondments, has previously been provided by some governments and other organizations. In addition the IPSASB receives in-kind contributions of staff resources on specific projects, currently from two national standards setters.

The IPSASB members, including the Chair, are all volunteers. The IPSASB therefore relies on the continued support of members' employing organizations in providing the time for them to prepare for and attend meetings and participate in TBGs. This is also the case for technical advisors who support many IPSASB members.

As the adoption of IPSASs increases, the need to address even more financial reporting issues also rises. For example, the IPSASB needs to address major public sector specific issues such as social benefits and public sector financial instruments; projects on both are underway and are likely to be resource intensive. The IPSASB continues to monitor the outputs of the IASB with a view to maintaining convergence. Since the IASB is a fully compensated board with significantly higher staff resources it is challenging to keep pace with their outputs. Also, there have been calls for a mechanism to address urgent or emerging accounting issues and provide interpretations of IPSASs. This would require a significant increase in staff capacity.

In addition, the current structures and processes mean that a standard-setting project takes a minimum of 18 months, with the average project taking 24 to 30 months. More challenging projects take 36 to 48 months to completion. If urgent issues arise the IPSASB is challenged to be able to address these within a short period of time and without diverting already scarce resources.

The result is an environment with increased competition for the IPSASB's resources. Given the high public interest aspect to the IPSASB's work it is incumbent that the IPSASB have sustainable funding over the long term. This paper has been developed on the basis that the current level of funding will be maintained.

As the adoption of IPSASs increases, the need to address even more financial reporting issues also rises.

III The IPSASB's Strategic Objective – the tentative conclusion

Having regard to the matters outlined above, the IPSASB has developed a tentative conclusion on a single strategic objective that should determine its future direction from 2015 forward.

Public finance management, in its broadest sense, is the system by which financial resources are planned, directed and controlled both externally to and internally within the public sector entity, to enable and influence the efficient and effective delivery of public service goals.

The longer term impacts of the sovereign debt crisis emphasize the urgent need to strengthen the quality of financial management in governments around the world. The crisis has shown that poor financial management by governments can have dramatic consequences, such as loss of democratic control, social unrest and the failure by governments to meet their commitments today and in the future.

Strategic Objective

Strengthening public financial management and knowledge globally through increasing adoption of accrual-based IPSASs by:

a) developing high-quality financial reporting standards;

(b) developing other publications for the public sector; and

(c) raising awareness of the IPSASs and the benefits of their adoption.

Credible and transparent financial reporting is in the public interest. It has the potential to improve decision-making in the public sector, facilitate holding governments more accountable to their citizens and enhance global fiscal stability and sustainability. The importance of improved and more consistent financial reporting by governments worldwide has never been clearer.

Adoption of accrual accounting is a fundamental step governments can take to improve their financial reporting and public financial management. Accrual-based accounting practices provide a comprehensive picture of the financial performance and position of public entities. Implementing high-quality accrual-based accounting standards improves the quality and usefulness of financial information for all stakeholders, thereby helping to strengthen public finance management. High-quality accrual-based accounting standards reinforce the principles of transparency and accountability by providing faithful, understandable and comparable information for a wide set of national and international users, and they can reduce the risk of financial reporting fraud. The only globally recognized accrual accounting standards for the public sector are IPSASs. Increasing the adoption of accrual IPSASs will strengthen public financial management globally.

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IPSASB OUTPUTS AND OUTCOMES

To meet its strategic objective the IPSASB has identified two outcomes it seeks to achieve. These are:

(a) Improved ability of public sector entities to reflect the full economic reality of their finances as well as of stakeholders to understand; and

(b) Increased awareness of IPSASs and their public finance management benefits in order to influence their adoption.

To achieve these outcomes the IPSASB will be focused on delivering the following outputs:

(a) Developing high-quality financial reporting standards and other publications for the public sector; and

(b) Undertaking presentations, speeches and other outreach activities in order to engage with stakeholders.

As the international standard-setter for the public sector, the IPSASB's role is to provide governments and other organizations in the public sector with high-quality financial reporting standards and other publications that will enhance public financial management. This will include accrual-based IPSASs as well as non-authoritative Recommended Practice Guidelines. By developing accrual-based IPSASs and RPGs the IPSASB will be assisting governments in "getting the numbers right" and thereby enabling governments to reflect the full economic reality of transactions. This addresses a fundamental aspect of strengthening public financial management and enhancing accountability and decision-making in the public sector.

Integral to this is the need to engage with our stakeholders by undertaking presentations, speeches and other outreach activities. Through all of these activities the IPSASB aims to raise awareness of IPSASs and the public finance management benefits of adopting them. The activities will focus on persuading governments to prepare accrual-based financial reports using IPSASs and encouraging users of government financial reports to demand better information from governments – information that would be available by reporting in accordance with IPSASs.

Figure 1 below portrays the relationship between inputs, outputs and outcomes and how these contribute to achieving the strategic objective.

FIGURE 1:
STRENGTHENING PUBLIC FINANCIAL MANAGEMENT AND KNOWLEDGE GLOBALLY THROUGH INCREASING ADOPTION OF ACCRUAL-BASED IPSASs

INPUTS	OUTPUTS	OUTCOMES
Funding Staff IPSASB members IPSASB technical advisors Stakeholder input Operational procedures	High-quality public sector financial reporting standards and other publications- IPSASs & RPGs Presentations, speeches and other outreach activities in order to engage with stakeholders	Improved ability of public sector entities to reflect the full economic reality of their finances as well as of stakeholders to understand Increased awareness of IPSASs and their public finance management benefits in order to influence their adoption

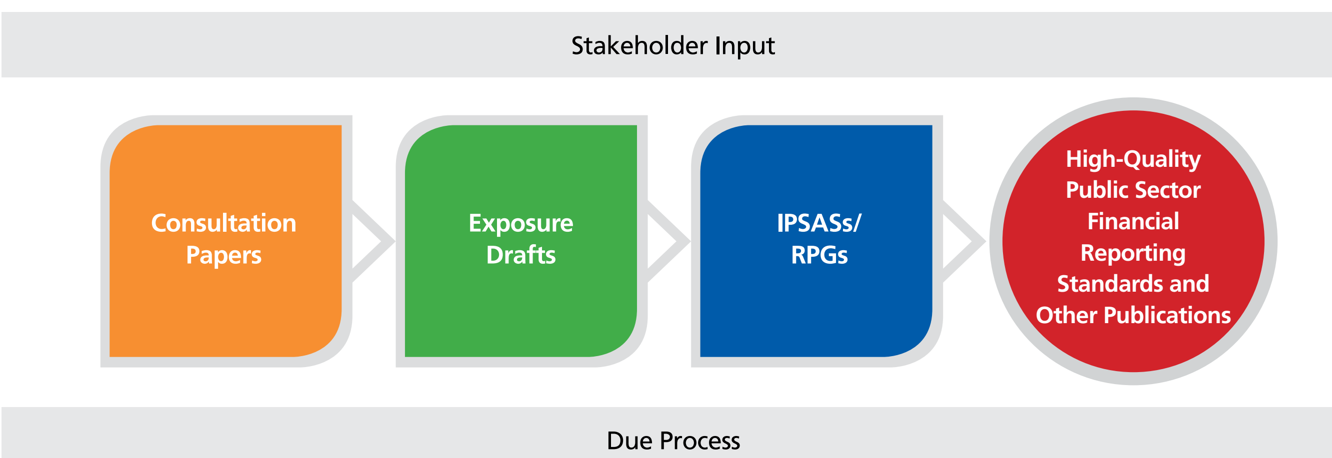
GETTING IT DONE

In order to achieve the desired outcomes the IPSASB needs to consider each of the outputs identified and, using its inputs and operational processes, develop a program to achieve these. The first output requires a work program for developing high-quality public sector financial reporting standards and other publications and the second a program of activities engaging with stakeholders to promote its adoption.

Developing high-quality public sector financial reporting standards and other publications

Figure 2 below demonstrates the relationship between the stages of the due process and the feedback from stakeholders in developing high-quality financial reporting standards and other publications for the public sector.

FIGURE 2:
HIGH-QUALITY PUBLIC SECTOR REPORTING STANDARDS AND OTHER PUBLICATIONS



Undertaking presentations, speeches and other outreach activities in order to engage with stakeholders

To raise awareness of IPSASs and the benefits of their adoption, the IPSASB continues to believe that a strong program of outreach is important. The IPSASB has a number of stakeholders –preparers and auditors, ministries of finance, national standard setters, international organizations, development banks, investors and others. To date the IPSASB has dedicated significant resources to outreach activities and it is intended that these efforts will continue for the period 2015-2019 with the explicit goal of increasing adoption of accrual-based IPSASs. There has been a strong effort to date by members to participate in meetings, conferences and other key events and these efforts have resulted

in increased momentum for adoption. The IPSASB Chair and members undertake significant outreach globally - these efforts are supported with current resources and will continue to be. Wherever possible, costs of outreach are recovered from hosting organizations and to date the IPSASB has been successful in achieving a high volume of activities.

The IPSASB wants to consider all aspects of engagement with stake-holders. The IPSASB is interested not only in continuing its communications and other outreach activities but also in finding additional ways to actively engage with all stakeholders in order to establish credible feedback mechanisms. As adoption increases getting feedback from adopters of the IPSASs to address emerging issues is more and more important. The IPSASB gets feedback through its standards development processes and outreach activities. The IPSASB wants to consider whether feedback processes need to be enhanced.

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

The next section of this consultation paper focuses on the IPSASB's work program for the period 2015-2019, which is aimed at developing and maintaining accrual-based IPSASs and RPGs. The IPSASB is interested in your views on the projects that should be prioritized and encourages you to consider this part of the consultation paper and provide your feedback. There are a number of specific questions highlighted and the IPSASB welcomes your responses.

International Public Sector Accounting Standards Board

IPSASB Consultation on Work Program 2015-2019

DEVELOPING A WORK PROGRAM FOR THE PERIOD 2015- 2019

In addition to seeking your views on the proposed strategic objective, outcomes and outputs, for the period from 2015 forward, we also want to learn your thoughts on how you think we should prioritize potential new projects for the five-year period from 2015 – 2019, taking into account resource limitations. The responses to this consultation will assist the IPSASB in developing a work program for the five-year period from 2015 – 2019. Given that changes to the IPSASB's oversight and governance arrangements are likely to occur during that period, work program decisions may be reviewed part way through the period.

The IPSASB has to balance financial reporting needs for the public sector with constraints faced by the Board and stakeholders, within this context of its strategic objective, outcomes and outputs and considering existing commitments. The views of stakeholders in prioritizing projects for selection are an important consideration and it is for this reason the IPSASB is seeking your feedback. Ultimately, the IPSASB wants to establish and complete an ambitious yet realistic work program that meets the needs of stakeholders.

I Assessing Potential Projects

Factors to be considered

In setting IPSASB's work program, potential projects are assessed in the context of a number of considerations. Ultimately the IPSASB has to balance and weigh many factors.

The key factors to be considered in deciding whether to initiate a project and assessing its relative priority are:

1. ***Significance for the public sector*** – generally this would be a public sector specific project that has high relevance to the public sector, likely for which there is no equivalent private sector issue.
2. ***Urgency of the issue*** – developments globally may result in changes in the environment and therefore an issue becoming more important. For example, as a result of the global financial crisis in 2008 the IPSASB accelerated work on IPSASs 28-30 as it deemed it important to have standards on financial instruments.
3. ***Gaps in standards*** – the project addresses an issue that has not previously been addressed in IPSASs or RPGs.
4. ***IFRS convergence*** – the project meets the goal of convergence with the IFRSs where deemed appropriate. This would allow leveraging resources in terms of possibly collaborating with the IASB.
5. ***Alignment with GFS*** – the project helps to reduce divergence between the IPSASs and GFS.

CONSTRAINTS ON INPUTS

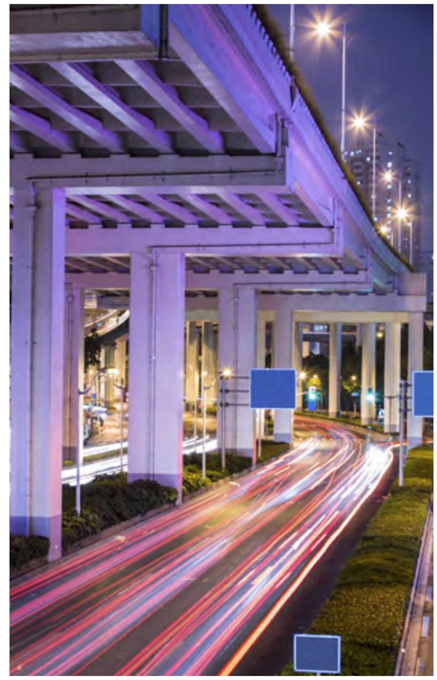
In developing the work program the IPSASB needs to be mindful of several constraints on its inputs. The IPSASB currently meets four times per year for four days – a total of sixteen meeting days per year. Though demands on the IPSASB are increasing, it is a challenge to increase the total number of meeting days given that the IPSASB is a volunteer board. As a result it is expected that the number of meetings will remain at four per year, though there may be scope to increase the meeting days to five per meeting.

Also related to the increasing demands is the ongoing need for technical staff at a level that can appropriately support the IPSASB. As noted, the current staff composition is 7.5 full time equivalents with additional staff resources being provided on two projects by two national standard setters. As oversight changes are implemented there will be higher demands on staff and the need for an additional full time equivalent is envisioned in the future.

Related to this is the extent of resource a particular project requires. Some projects are more complex and may require more due process steps, along with extra IPSASB agenda time and staff resources. Others may be more straightforward and may be completed more quickly. The number of projects any staff member can take on at any one time will be partially determined by the scope of the projects.

The IPSASB also needs to consider the ability of stakeholders to respond to the documents it issues for consultation as well as to implement new IPSASs and RPGs.

The IPSASB meets for 16 days per year. There is a possibility of increasing that to 20 days.



Questions for Respondents

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?

II Existing Commitments

When deciding on projects to add to the work program, the IPSASB will consider them in the context of its existing commitments.

ACCRUAL-BASED IPSASs

The IPSASB intends to give priority to progressing work on a number of projects it has already approved. There are four current projects that will be completed by the end of 2014, at which point resources can be allocated to new projects. These are:

- Public sector conceptual framework
- Reporting service performance
- Review of IPSASs 6-8
- First time adoption

Other committed projects will still be in progress at the end of 2014 and the IPSASB intends that these be completed. They are in various stages of completion and resources will continue to be allocated to them to get them to completion. The responses to the public consultation undertaken in July 2012 were supportive of all of these projects. These approved and committed projects are:

- Public sector combinations – completion 2015
- Government business enterprises – completion 2015
- Update of financial instruments (IPSASs 28-30) – completion to be determined based on IASB work
- Public sector financial instruments –- completion 2016
- IPSASs and GFS – reducing differences – ongoing activities, timing to be determined
- Emissions trading schemes – completion 2017
- Social benefits – completion 2017

REVISIONS TO IPSASs AS A CONSEQUENCE OF THE CONCEPTUAL FRAMEWORK

In 2014 the IPSASB's *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* will be completed. The project has been undertaken in four phases:

- Objectives and users, scope, qualitative characteristics and reporting entity;
- Elements – definition and recognition;
- Measurement; and
- Presentation.

The Conceptual Framework does not override existing standards. Concepts in the finalized Conceptual Framework will be inconsistent with some requirements in existing IPSASs. As part of its work program for 2015-2019, the IPSASB will need to assess the impact of all chapters of the Conceptual Framework on the existing IPSASs, identifying necessary changes and establishing a plan for addressing them. This plan will be developed based on prioritizing the consequential changes and dealing with them through the due process mechanisms. While there may well be limited changes to certain standards, the IPSASB is not expecting there to be a need for widespread revisions.

CASH BASIS IPSAS

In addition to the projects to develop accrual-based IPSASs, the IPSASB currently has a committed project on the Cash Basis IPSAS. The IPSASB approved a project to review the Cash Basis IPSAS in November 2008. The primary objectives of the review were to identify the major difficulties that public sector entities in developing economies have encountered in implementing the Cash Basis IPSAS and to determine whether the IPSAS should be modified, or if further guidance should be provided in light of difficulties identified.

A Task Force undertook work on this project and issued a report in May 2010. That report noted that the Cash Basis IPSAS is not widely adopted and that the most frequently identified obstacles to adoption are application of a "pure" cash basis model and the requirement for full consolidation. Differences between the Cash Basis IPSAS and existing legislation and practice, and the need for additional training and support were also identified as significant obstacles to its adoption. Finally, specific "technical" requirements that give rise to implementation issues in certain jurisdictions were highlighted as well as some concern that the size and structure of the IPSAS is not user friendly.

In 2014 the IPSASB's Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities will be completed.

The Task Force's overall recommendation was that the Cash Basis IPSAS should be retained, subject to modifications and restructuring. To this end, the Task Force made a number of specific recommendations for changes to the Cash Basis IPSAS. At the time it was proposed that these be issued as an Exposure Draft (ED) with a goal of making changes to the Cash Basis IPSAS based on feedback to the ED.

When the IPSASB considered the Task Force report in June 2010, the focus on the accrual basis IPSASs in the existing environment of the sovereign debt crisis was noted, as were resource constraints of the IPSASB. The IPSASB decided at that time that it would defer further work on the review of the Cash Basis IPSAS but that it would seek specific external funding to complete the project. While efforts to obtain such funding have been made this has not resulted in any commitments to fund the project. As a result, no further work has been done on this project.

The IPSASB is considering the future of the Cash Basis IPSAS.

As part of this current consultation, the IPSASB is interested in your views on the future of this project to review the Cash Basis IPSAS as the IPSASB does not consider the current situation of deferring the project to be tenable. The IPSASB has considered three viable options for proceeding. These are:

(a) Retain the Cash Basis IPSAS and complete the review project using existing IPSASB resources; this would mean issuing an ED that addresses the Task Force's recommendations, analyzing responses and finalizing a revised Cash Basis IPSAS;

(b) Retain the Cash Basis IPSAS unchanged; this would mean suspending the review project and doing no further work on the IPSAS; or

(c) Withdraw the Cash Basis IPSAS from the IPSASB Handbook; this could be immediate or at some future date.

In discussing these options the IPSASB has noted that the number of jurisdictions adopting the Cash Basis IPSAS is below that expected when the IPSAS was developed. Experience of those adopting the Cash Basis IPSAS has varied. A few countries have used it as a transitional step towards adopting accrual IPSASs. Some jurisdictions have reported that adopting the Cash Basis IPSAS first was a helpful transitional step. In other jurisdictions we have learned that plans to adopt the Cash Basis IPSAS as a transitional step were abandoned and a move to full accrual was made.

As a general comment the IPSASB has a sense that the Cash Basis IPSAS is not being used as originally thought or intended as a transitional step towards the adoption of accrual-based IPSASs. Some feedback has indicated that one of the reasons for this is that many jurisdictions are on more of a modified cash basis and that adopting the Cash Basis IPSAS is therefore seen as a retrograde step in the transition to full accrual accounting. Others have indicated that the requirements are somewhat onerous for those adopting cash accounting and so moving straight to full accrual IPSASs is seen as more feasible as a long-term project.

However, the IPSASB has also received a presentation from the International Consortium on Governmental Financial Management (ICGFM) encouraging further work on the Cash Basis IPSAS and highlighting its importance in developing economies. The IPSASB is also aware that there are other stakeholders who agree with this perspective. The challenge is balancing the momentum and demand for accrual-based IPSASs with the need to devote resources to the Cash Basis IPSAS to ensure its relevance since in a resource constrained environment allocating resources to one area necessarily means not allocating them to the other.

It is for these reasons that the IPSASB is interested in your views on the options set out above as to the future of the Cash Basis IPSAS and what the IPSASB should do for the period 2015 and forward. The IPSASB asks that you consider this in the context of the strategic objective of strengthening public finance management and knowledge globally by increasing the adoption of accrual-based IPSASs.

Questions for Respondents

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?
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.

III Potential New Projects

This consultation seeks stakeholders' views on new projects that should be added to the work program for the period from 2015 forward.

The table on the next page summarizes potential projects and Appendix A to this paper provides brief descriptions of each project. The IPSASB developed this based on its deliberations as well as feedback from the July 2012 work program consultation. The projects have been grouped in order to assist respondents in commenting on priorities by group if desired.

Questions for Respondents

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.

Potential Projects

Projects to Address Public Sector Specific Issues

- *Biological assets held for the provision or supply of services*
- *Heritage assets*
- *Infrastructure assets*
- *Intangible assets – public sector specific*
- *Measurement – public sector specific*
- *Military assets*
- *Natural resources*
- *Non-exchange expenses*
- *Role of government as owner rather than government*
- *Sovereign powers and their impact on financial reporting*
- *Trust funds*

Projects to Maintain Existing IPSASs

- *Borrowing Costs IPSAS 5*
- *Construction Contracts IPSAS 11*
- *Disclosure of Financial Information about the General Government Sector IPSAS 22*
- *Employee Benefits IPSAS 25*
- *Improvements to IPSAS 23 Non-Exchange Revenues*
- *Leases IPSAS 13*
- *Presentation of Financial Statements IPSAS 1*
- *Related Party Transactions IPSAS 20*
- *Revenue IPSAS 9*
- *Segment Reporting IPSAS 18*

Projects to converge with IFRS

- *Extractive Industries (IFRS 6 interim standard but no comparable IPSAS)*
- *Insurance Contracts (IFRS 4 interim standard but no comparable IPSAS)*
- *Non-current Assets Held for Sale and Discontinued Operations (IFRS 5 but no comparable IPSAS)*
- *Rate Regulated Industries*

Other Projects

- *Differential Reporting*
- *Integrated Reporting*
- *Interim Financial Reporting*

NEXT STEPS

The IPSASB is seeking public input on its strategic objective for the period from 2015 forward as well as the related work program for 2015-2019. Responses are requested by July 31, 2014.

It is anticipated that responses to this consultation will be considered by the IPSASB at its September 2014 meeting with a view to approving a final Strategy for the period from 2015 forward in December 2014. Decisions about the IPSASB's work program for 2015-2019 will also be made at that time.

ACTIVITIES

MARCH 2014	JULY 2014	SEPTEMBER 2014	DECEMBER 2014	2015
Issue consultation	End of consultation period	Review responses	Approve final Strategy; approve final Work Program	Implement Strategy; implement Work Program

APPENDIX

Projects to Address Public Sector Specific Issues

Biological Assets Held for the Provision or Supply of Services

IPSAS 27 deals with biological assets and agricultural produce for sale, including exchange and non-exchange transactions.

In the public sector, there are biological assets which are used in the supply of services, including plants and trees used for environmental protection purposes. However, such biological assets are not dealt with in IPSAS 27. Some stakeholders have proposed that the IPSASB develop standards for such biological assets in the near future.

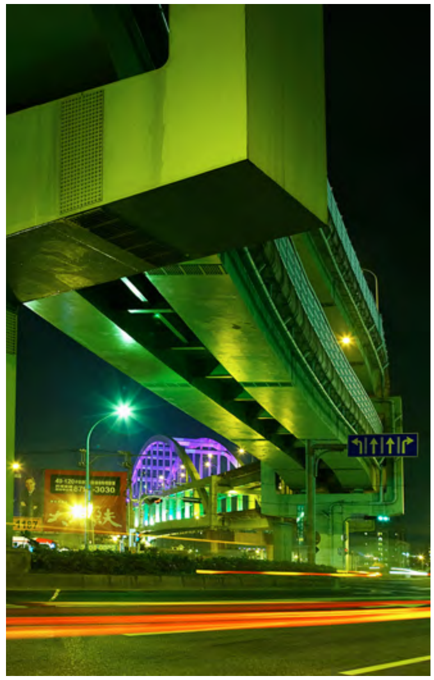
Heritage Assets

This is a public sector specific project that would develop accounting and disclosure requirements for heritage assets. While IPSAS 17 identifies the characteristics of heritage assets, neither IPSAS 17, *Property, Plant and Equipment*, nor IPSAS 31, *Intangible Assets*, define heritage assets or require recognition of heritage assets. If heritage assets are recognized by a public sector entity, the IPSASs require applying disclosure requirements and allow but do not require applying the measurement requirements. The IPSASB decided to defer this project until completion of the Public Sector Conceptual Framework project because of the potential implications the development of a definition of an asset may have on heritage assets. Existing national practices may be able to be built upon for research purposes. This is likely to be a research intensive project given the lack of international guidance and the challenges in garnering consensus.

Infrastructure Assets

In the public sector, the infrastructure assets account for a large part of the total assets. Infrastructure assets are included in the scope of IPSAS 17, *Property, Plant and Equipment*. However, some stakeholders have proposed a specific standard to deal with the recognition, measurement and disclosure of infrastructure assets on the basis that, given the nature of infrastructure assets they may require longer implementation periods. In addition, there is some question about whether there should also be more information for depreciation, tear and wear, revaluations and, the treatment of improvements, which in most cases result in maintenance expenses of service potential. There is some evidence of varying accounting treatments for infrastructure assets between countries. For example, some jurisdictions require revaluation at the replacement cost; others do not require such revaluations (or allow entities to measure assets at historical cost basis).

Since infrastructure assets are addressed in IPSAS 17, the project would need to start with research of the specific problems related to accounting for infrastructure assets in practice. This would assist in determining whether any issues could be handled through a revision of IPSAS 17.



Intangible Assets – Public Sector Specific

Responses to the Consultation Paper, IPSASs and *Government Finance Statistics (GFS) Reporting Guidelines*, highlighted the view that differences remain between IPSASs and GFS with respect to the treatment of costs related to research and development (R&D). IPSAS 31, *Intangible Assets*, is based on IAS 38, *Intangible Assets*, and some stakeholders have raised the issue as whether there are public sector specific intangible assets. For example, the question has been raised as to whether governments' investment of research has different objectives from those in the private sector and whether this therefore might be a public sector specific difference that warrants a different accounting treatment – meaning that capitalization prior to development may be justifiable.

Measurement – public sector specific

The Conceptual Framework Chapter on Measurement gives rise to a number of public sector specific issues which are not currently addressed by IPSASs, including the application of replacement cost. The aim of the project would be to clarify the various valuation approaches and their application, as well as to address whether the references to 'fair value' in existing IPSASs should be retained if it is defined as an exit value as in IFRS 13, *Fair Value Measurement*.

The project would also be an important opportunity to consider the feasibility of increasing consistency with Government Finance Statistics (GFS) and the Framework standards and guidance of the International Valuation Standards Council and to remove the many uncertainties in this area. It would involve input from the valuation and statistical accounting communities.

Military Assets

IPSAS 17, *Property, Plant and Equipment*, applies to specialist military equipment. Similar to infrastructure assets, these items or transactions usually involve large amounts for governments. The IPSASs and Government Finance Statistics (GFS) project identified that guidance for defense weapons on requirements with respect to capitalization, classification and measurement (for example, expense versus capitalize) would be helpful. This would enhance consistency of IPSAS application by governments and other public sector entities, as well as with GFS.

Specialized military equipment is currently included in the scope of IPSAS 17. One of the key aspects of the project would be to consider whether this is appropriate or whether applying IPSAS 12, *Inventories*, would be more appropriate.

Natural Resources

In the public sector the point of recognition of natural resources differs between jurisdictions. There is often little idea of their value, despite their prominence. They are frequently granted for use by third parties (gold and copper mines, sand extraction, oil exploitation, use of rivers and energy resource, use of waters).

A project on natural resources would consider whether these are assets of governments and if so how they should be measured. Consideration of the impact of the value of any rights granted for exploitation of the assets by third parties might be addressed. Natural resources under conservation might also be considered.

This project may be able to be combined with the project on *Biological Assets Held for the Provision or Supply of Services* described above.

This is likely to be a resource intensive project given the lack of international guidance and the challenges in addressing the myriad of natural resources that exist.

Non-Exchange Expenses

This project would develop guidance and requirements for expenses incurred in non-exchange transactions. It would have a broader scope than the recently reactivated project on social benefits and respond to the characteristic that many public sector entities have a high volume of financially significant non-exchange transactions. It would be a counterpart to IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*. The aim would be to ensure that there are common principles for dealing with all expenses incurred in non-exchange transactions

Role of Government as Owner rather than Government

GBEs are currently required to apply IFRSs not IPSASs. IFRSs include IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*. In IAS 20 the accounting treatment of funds and resources provided by governments in their capacity as government rather than in their capacity as shareholder is not well defined. Some stakeholders have suggested that there may be questions about determining when the government is acting as government rather than acting as the shareholder of a GBE, or as the shareholder of a public sector entity that is not a GBE but does provide below market price goods and/or services to the public.

Sovereign Powers and their Impact on Financial Reporting

This potential project has been identified as a result of the Public Sector Conceptual Framework project. Governments are unique in that they have a number of sovereign powers, for example, the power to issue permits, concessions and licenses or to impose taxation.

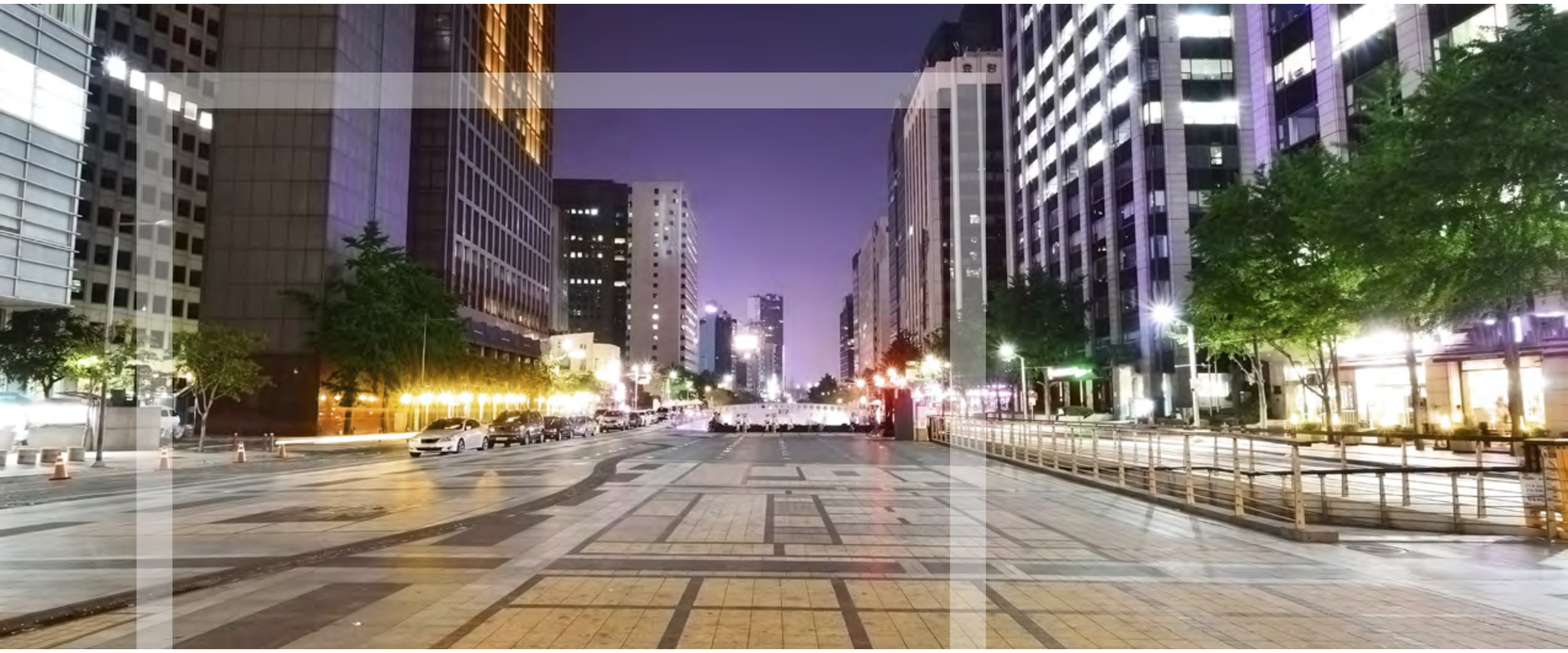
Some constituents have raised the question of whether a government's sovereign powers are intangible assets that should be measured and reported in the financial statements. The IPSASB deferred any separate consideration of this issue until the Public Sector Conceptual Framework project is completed since the definition of an asset will be critical to determining whether sovereign powers are assets of the government.

This project may be related to the project on *Intangible Assets – public sector specific*, described above

Trust Funds

Trust funds are frequently used in the public sector to draw funds from the financial administration and manage them more independently, or at least with greater flexibility from the budgetary aspects. Trust funds may be constituted for different activities, such as the construction of houses, schools and hospitals, projects defined by the government, and other objectives. Trust funds are often considered by national laws, as separate from the government. Some countries consider it as another accounting entity of the Government while others as a credit or account collectible due to the assets transferred to the trust fund. Given the inconsistencies in practice some consider the accounting treatment to be unclear and have requested guidance.

Projects to Maintain Existing IPSASs



Borrowing Costs IPSAS 5

IPSAS 5 is based on the December 2003 version of IAS 23. The IASB issued a revised version of IAS 23 in March 2007 which is now different from IPSAS 5. The main difference is that IAS 23 does not allow an option to immediately expense borrowing costs directly attributable to the acquisition, construction and production of a qualifying asset. The IPSASB started a project to review IPSAS 5 and ultimately issued an Exposure Draft that allowed the expensing option to be maintained on the basis that there are public sector reasons to depart from the provisions of IAS 23. The ED concluded that capitalization should be allowed in respect of all cash generating assets, but that expensing of borrowing costs should be required in all other cases. Responses to the ED were polarized and the IPSASB decided to defer this project until completion of the Public Sector Conceptual Framework project because of the potential implications the development of a definition of an asset may have on the capitalization of borrowing costs to qualifying assets. Because the project is assessing guidance that already exists, this is likely to be less resource intensive than some other projects.

Construction Contracts IPSAS 11

Some stakeholders have proposed that this standard be adapted to provide guidance that is more public sector-specific. Over time the Construction of Works undertaken by public sector entities have decreased while contracts by the government of private entities for the performance of works have increased, primarily through concessions. Given this, there have been questions about whether IPSAS 11 needs to be amended to address such new public sector situations.

For example, a governmental entity may construct an asset which is then transferred to another governmental entity in a non-exchange transaction. Revenues may be insignificant in relation to the product to be delivered. Other situations identified as needing improvement relate to when the government hires the work from a third party under different characteristics to be considered, such as:

- Contract key in hand, where the third party (private) constructs and delivers the work finished, and at that moment the government implements its payment method;
- Contracts key in hand, but with regular payments by the government; or
- Contracts for work progress.

This project is related to the project to update IPSAS 9.

Disclosure of Financial Information about the General Government Sector IPSAS 22

IPSAS 22 was issued in December 2006. Since then there have been significant developments, including revisions to the GFS related pronouncements referred to in IPSAS 22. The Consultation Paper, *IPSASs and Government Finance Statistics (GFS) Reporting Guideline*, outlined options for the future of IPSAS 22 given the lack of uptake of the IPSAS (only one country is known to be applying IPSAS 22) and the fact that it is not generally being used as intended. Respondents' views on the future of IPSAS 22 were divided between the three options in the CP—withdraw, replace and revise—with relatively little support for revision. When IPSAS 22 was developed, it was noted that the benefits of applying IPSAS 22 might not exceed the costs for those governments that do not regularly report this information and it was on that basis that IPSAS 22 was not made mandatory.

This project would consider the future of IPSAS 22, specifically whether it should be withdrawn, replaced with guidance that might be more useful or whether it should be revised.

Employee Benefits IPSAS 25

Pension fund liabilities are prominent in the public sector. IAS 19, Employee Benefits, has been revised, and some stakeholders have proposed that a revision of IPSAS 25 is therefore needed. Any differences between IAS 19 and IPSAS 25 should be a result of public sector specific reasons.

Some stakeholders have noted that in calculating the liability for employee benefits obligations both IPSAS 25 and IAS 19 use a standardised method ("Projected Unit Credit Method") which provides a result that varies from the legal liability. The legal liability is often significantly less that the liability calculated for accounting purposes. Stakeholders have questioned whether this is an overstatement of the liabilities and proposed that IPSAS 25 should address this issue.

Improvements to IPSAS 23 Non-Exchange Revenues

IPSAS 23 was approved in December 2006. A number of examples have been identified where the interaction between IPSAS 23 and other IPSASs has resulted in inconsistencies in dealing with non-exchange issues.

Certain accounting treatments in IPSAS 23 have also been identified for further review. The IPSASB considered this project in March 2011 and decided to defer this project until completion of the Public Sector Conceptual Framework project because of the potential implications the development of a definition of revenues may have.

Leases IPSAS 13

The objective of the project would be to develop revised requirements for lease accounting covering both lessees and lessors in order to maintain alignment with the underlying IFRS. The project would result in a new IPSAS that would replace IPSAS 13.

The aim of the IASB's leases project is to develop a new single approach to lease accounting that would ensure that all assets and liabilities arising under lease contracts are recognized in the statement of financial position. In August 2010 the IASB and the FASB published an Exposure Draft (ED), Leases. The main problem that the project addresses is the position under the current IAS 17, where, if a lease is classified as a finance lease, assets and liabilities are shown on the lessee's statement of financial position, whereas for an operating lease the lessee does not show any assets or liabilities on the statement of financial position. For an operating lease the lessee simply accounts for the lease payments as an expense over the lease term. The IASB issued a revised ED in late 2012. Responses indicate the project is controversial; it is scheduled for approval during 2014. Because this project is assessing an existing IPSAS it may be less resource intensive than other projects. However if a public sector specific difference is warranted it may take longer.

Presentation of Financial Statements IPSAS 1

IPSAS 1 is based on the December 2003 version of IAS 1. The IASB issued a revised version of IAS 1 in September 2007 which includes the notion of comprehensive income. The IPSASB has not considered this notion. IAS 1 has undergone further amendment in June 2011 and the IASB is considering a project to improve guidance on the organization and presentation of information in the financial statements. The completion of the Public Sector Conceptual Framework project, specifically phase 4 on Presentation, may have implications for the presentation of financial statements so this project was previously deferred

Related Party Transactions IPSAS 20

In 2009 the IASB issued a revised IAS 24 to simplify the definition of "related party" and to provide a partial exemption from the disclosure requirements for some government-related entities. The structure and substance of IPSAS 20 differs significantly from IAS 24. The IPSASB previously decided that updating this Standard was not a priority compared to other projects.

Revenue IPSAS 9

The objective of the project would be to develop revised requirements for revenue from exchange transactions in order to maintain alignment with the underlying IFRS. The project would result in a new IPSAS that would replace IPSAS 9 and IPSAS 11. The IASB issued a revised ED in November 2011. Changes from the initial ED include clarifying the proposals for identifying separate performance obligations, clarifying the definition of performance obligations, adding requirements for determining when a performance obligation is satisfied over time and adding the "risks and rewards of ownership" as an indicator of when control is transferred at a point in time.

Currently IPSAS 9 contains very few departures from IAS 18 and these departures primarily concern matters of general terminology rather than the substance of revenue recognition. IPSAS 11 contains departures relating to the inclusion of "binding arrangements" that are not legally enforceable contacts and cost-based and noncommercial contracts within its scope. It is likely that these adaptations from IAS 11 will still be necessary, but the impact on the accounting requirements may be minimal. The usage of the term "performance obligations" may not be consistent with its usage in IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*.

Segment Reporting IPSAS 18

Concerns have been raised about the usefulness of the reporting requirements in IPSAS 18 and whether these should be amended. There are two aspects to this potential project. Firstly, IPSAS 18 is based on IAS 14 and this has been superseded by IFRS 8. There is a question therefore whether IPSAS 18 needs to be updated in line with IFRS 8. In considering this potential project in 2007 members expressed concern about whether the basis of the approach in IFRS 8 is readily transferable to the public sector. An example raised

was the difficulty in identifying the chief operating decision maker in public sector entities. Some were of the view that segment reporting should be dealt with as a public sector specific project rather than as an IFRS convergence project. At its July 2007 meeting, the IPSASB agreed to defer a proposed project to update IPSAS 18 because of other project priorities, including the development of the Public Sector Conceptual Framework. The objective of a new project would be to enhance the usefulness of segment reporting for the public sector. This would include an assessment of IFRS 8 in the context of the IPSASB's policy paper on Modifying IASB Documents to determine whether there are public sector specific issues that warrant a departure.

Projects to converge with IFRS

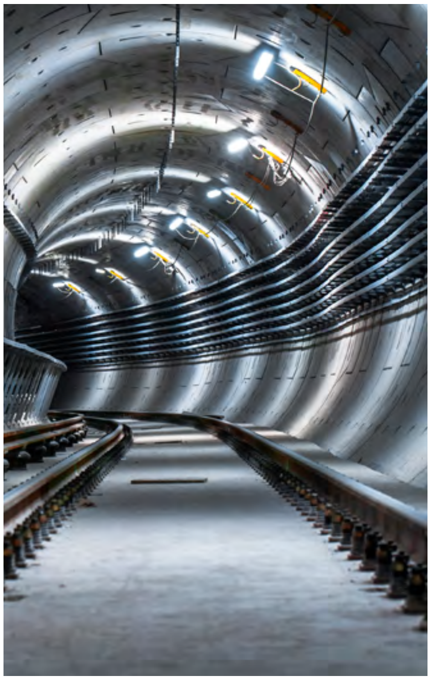
Extractive Industries

The IASB developed IFRS 6 as an interim standard until it develops a comprehensive standard for exploration for and evaluation of mineral resources. Extractive industries are the exploration for and discovery of minerals, oil and natural gas deposits, developing those deposits and extracting the minerals, oil and natural gas. The IASB now intends to include this project in its research agenda. The IPSASB previously deferred its consideration of the applicability of IFRS 6 to public sector entities until the IASB issues a comprehensive standard on this topic. However indications are that this could be an important project in the public sector and that there is a desire for better guidance on the issues in public sector accounting. This is likely to be a research intensive project to fully understand current practices and issues.

Insurance Contracts (IFRS 4 interim standard but no comparable IPSAS)

The IASB developed IFRS 4 as an interim standard that allows insurers to continue using various existing accounting practices that have developed in a piecemeal fashion over many years. The Insurance Contracts project aims to providing a single source of principle-based guidance to account for all types of insurance contracts.

The IASB issued an ED of a proposed comprehensive standard in June 2013. There is a sense that this is a topic with applicability in the public sector but to date there has been little call for a comparable project. The IPSASB has deferred its consideration of insurance until the IASB issues a comprehensive standard on this topic.



Non-current Assets Held for Sale and Discontinued Operations (IFRS 5 but no comparable IPSAS)

IFRS 5 was issued in 2004 to replace IAS 35, *Discontinuing Operations*. IFRS 5 sets out requirements for measurement and presentation on non-current assets held for sale. The IPSASB considers that this topic has relevance in the public sector. The IPSASB briefly considered adding this project to its Work Plan as part of consideration of the project *Revision to IPSASs 6–8* at its September 2011 meeting. However, there was no clear indication of how to proceed. The completion of the Public Sector Conceptual Framework project may have implications for the presentation of non-current assets held for sale and discontinued operations. On that basis the IPSASB previously decided to defer this project until completion of the Public Sector Conceptual Framework project. At the June IPSASB meeting the IPSASB tentatively agreed that IFRS 5, *Non-current Assets Held-for-sale and Discontinued Operations*, should remain outside the scope of the project to revise IPSASs 6-8. However, the IPSASB noted that the temporary control exemptions in existing standards would be re-examined as part of that project.

Rate Regulated

Rate regulation is the setting of prices that can be charged to customers for services or products through regulations. Generally, it is imposed by regulatory bodies or governments when an entity has a monopoly or dominant market position that gives it significant market power. In the public sector some controlled entities are subject to regulation, for example government owned telecommunications entities.

The issue to be addressed is whether IPSASs should require public sector entities operating in rate-regulated environments to recognise assets and liabilities arising from the effects of rate regulation.

Subsidized rate regulated activities are different from subsidized market based activities and subsidized social service based activities. Generally they are monopolies, hence the need for a regulator to assess their performance and the prices they charge for their goods and services. Those good and services are subsidized by government because there is an element of social provision in making those goods and services available to all the public. Stakeholders have suggested that guidance in this area would be useful.

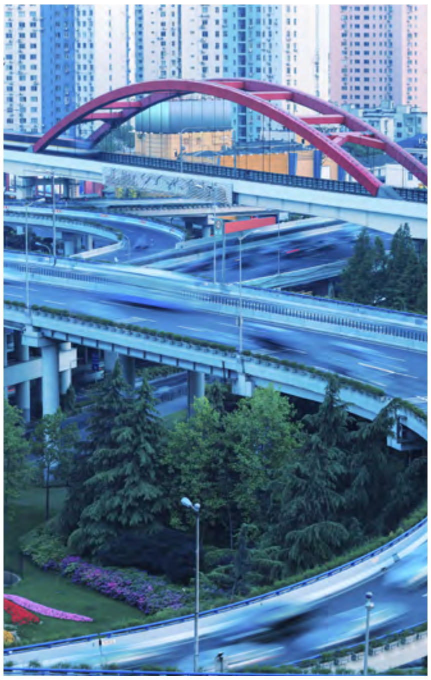
Other Projects

Differential Reporting

The IASB issued a standard on small and medium enterprises in 2009 with the objective of developing an IFRS to meet the financial reporting needs of entities that (a) do not have public accountability and (b) publish general purpose financial statements for external users. Examples of such external users include owners who are not involved in managing the business, existing and potential creditors, and credit rating agencies. Users of the financial statements of SMEs do not have the same needs as equity investors in public capital markets, but rather are more focused on assessing shorter-term cash flows, liquidity and solvency. Also, many SMEs say that full IFRSs impose a burden on them — a burden that has been growing as IFRSs have become more detailed and more countries have begun to use them.

There has been some interest from constituents for the IPSASB to consider this project in the context of governments, often positioning the issues based on the burden that smaller governments have in adopting full IPSASs. The IPSASB has previously discussed a project in differential reporting for governments including in the context of the Public Sector Conceptual Framework. One of the major challenges to be considered relates to the definition of public accountability, which the IASB's SME standard hinges on. It is difficult to argue that any public sector entity could be assessed as not having public accountability. So, to develop a standard for governments on differential reporting might have a different focus to determine who this would apply to.

Some governments that have adopted IPSASs have developed guidance documents to assist smaller entities with adopting the standards and this might be a model that could be considered on this project.



Integrated Reporting (<IR>)

<IR> is a process founded on integrated thinking that results in a periodic integrated report by an organization about value creation over time and related communications regarding aspects of value creation. An integrated report is a concise communication about how an organization's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value in the short, medium and long term. In December 2013 the International Integrated Reporting Framework was issued. The Framework establishes guiding principles related to the overall content of an integrated report, and explains the fundamental concepts. While written primarily in the context of the private sector it has been acknowledged that it can also be applied, adapted as necessary by public sector organizations. The IPSASB has been monitoring the project and some stakeholders have suggested that a project to adapt the framework for the public sector be considered.

Interim Financial Reporting

A project on interim financial reporting would provide guidance on what should be included in interim reports. This project is likely to be most applicable for jurisdictions that have already adopted accrual-based IPSASs and so might result in the development of a Recommended Practice Guideline. The IASB provides non-mandatory guidance in IAS 34, *Interim Financial Reporting*, and this might serve as the starting point. Issues that might need to be considered included whether full re-measurement of assets and liabilities is required at each interim reporting date.

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