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21 September 2012

Ms. Stephenie Fox
The Technical Director
International Public Sector Accounting Standards Board (IPSASB)
International Federation of Accountants
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Dear Ms. Fox:

1. The International Consortium on Governmental Financial Management (ICGFM) welcomes the opportunity to respond to the IPSAS Board Work Plan. We are pleased that the IPSASB is willing to consider our priorities as they plan for the use of their limited resources for future projects.
2. Working globally with governments, organizations, and individuals, ICGFM is dedicated to improving financial management by providing opportunities for professional development and information exchange. ICGFM conducts two major international conferences each year and publishes an international journal twice each year. Services are provided to its membership through an international network. ICGFM represents a broad array of financial management practitioners (accountants, auditors, comptrollers, information technology specialists, treasurers, and others) working in all levels of government (local/municipal, state/provincial, and national). Since a significant number of our members work within government and audit institutions around the world, our response to this exposure draft is one from an international perspective.
3. Our thoughts as we read the Consultative Paper are as follows:
 - a. (pg. 5) We support the emphasis on the sovereign debt crisis but it needs to be balanced against the need for good cash reporting in order to maintain fiscal discipline.
 - b. In our view there needs to be a clear objective for the future role of IPSAS compliant general purpose financial statements in relationship to statistical reports on sovereign governments. At present reliance is placed on statistical reporting for assessing sovereign risk. Is this to be changed, or are the GPFS to supplement statistical reporting? If the latter what are the respective roles of the two reporting systems?

- c. (pg. 6) We acknowledge the increase in adoption of the accrual IPSAS but we must not lose focus on the Cash IPSAS since most countries around the world are not yet ready to adopt the accrual IPSAS.
 - d. (pg. 7) The adoption of the Cash IPSAS is the first step that many developing countries and countries in transition must take in order to be in a position to adopt the accrual IPSAS. Yet there is no mention of the Cash IPSAS in this section of this CP. We feel that the Cash IPSAS must be addressed in this section as a critical project. Otherwise, many of us will keep spinning our wheels as we try to help countries implement better accounting reporting systems. We support the development of a conceptual framework as a backdrop to the standards. However, work must continue on the critical projects (especially the Cash IPSAS)!
 - e. (pg. 7) Some of our members have been appointed to the existing CAG but (to the best of our knowledge) have never been called upon to address any issues. Hopefully, this can be corrected in the future.
 - f. (pg. 10) We would like to see the Social Benefits project added to the 2013-14 work program. We think the various social security schemes should be recognized as a liability especially as it impacts the long-term sustainability of any country.
 - g. We do not consider the issue of the entity concept at the level of sovereign governments has been adequately addressed. This is included in our comments below on the Cash Basis IPSAS, but also applies to accrual IPSAS. The sovereign entity as a reporting entity is a unique concept and is different to all other reporting entities in law and in substance. By definition the sovereign entity is “sovereign” and controls everything within its sovereignty. This control is exercised by government subject to the constitution of a particular entity. Hence the concept of control as a basis for entity definition of sovereign governments is not appropriate. The analogy of a multi layered onion may be more appropriate, with different layers appropriate for different reporting purposes.
 - h. Related to the above, there is at present no guidance on the definition of sub-national entities that should publish GPFS. Should these be legal entities, public interest entities, or some other definition. Some guidance would be helpful for many countries embarking for the first time on publishing financial statements for their public sector entities.
4. Relative to our thoughts above, our priorities for the 2013-2014 work program and the reasons are as follows:
- 1. **Review of Cash Basis IPSAS**—To the best of our knowledge, all of the developing countries and some countries in transition (as well as some of the more industrialized countries) follow cash reporting practices. This is primarily due to the cash budgeting systems in place. Many are trying to implement Part 1 (required) of the Cash Basis IPSAS but have difficulty with the consolidation provision. It is our belief that this IPSAS should include a section to require the controlling entity to break their controlled entities into the following categories: budgetary entities, GBEs, and all other entities. The preparation of a consolidated whole of government report should be included in Part 2 (optional). This change would simplify the process and help many countries move toward compliance of the Cash Basis IPSAS for cash reporting (especially if this change

was undertaken with others to simplify the mandatory requirements of this standard and ensure that it better reflects existing good practice). Once they are in compliance with this revised Part 1, they can then work on the optional provisions in Part 2. After they have implemented these optional provisions, they are then in a position to implement the accrual IPSASs. It is our belief that this review should be of the highest priority for the future work program to first ensure that cash is properly reported before the IPSASB exerts much more effort on improving the accrual IPSAS for the relative few countries that are in a position to implement the accrual IPSAS.

2. **Revision of IPSASs 6-8**—As we mentioned earlier, we think there should be a section in Part 1 of the Cash Basis IPSAS to require categorization of public sector entities and the present requirement for a consolidated whole of government report should be moved to Part 2 and made optional. In addition, IPSAS 6 should clarify the classification of quasi-government entities (i.e. central banks, etc.) to ensure that these are handled consistently throughout the world.
3. **Reporting on the Long-Term Sustainability of Public Finances**—We agree that this area should be of high priority for the IPSASB. However, it should be expanded to include some provisions in the Cash Basis IPSAS on how to achieve long-term sustainability for those countries that are not in a position to implement the accrual IPSAS. This could be achieved by reflecting the debt to GDP ratio as a footnote in the Statement of Cash Receipts and Cash Payments. In addition, each public sector entity should be encouraged to include a Medium Term Fiscal Framework (3-5 years).
4. **Social Benefits**—We know this is a controversial area but we think it is an important issue that the IPSASB should address as soon as they can get it back on their work program. The issue applies to both the Cash Basis IPSAS (optional) and the accrual IPSASs (required). As a minimum, financial reporting of social security schemes in the financial statements is extremely important since many countries provide benefits whenever their constituents reach retirement age (or otherwise qualify to draw government benefits). When we reach age 65, many of us become eligible for social security and will draw on those benefits until we die. We believe that sounds like a liability (just like any other pension plan) and should be reflected in the financial statements. Even though it is controversial, we believe the IPSASB should include it in their work program during the next two years. Again, we do not think that we can keep kicking this can down the road and hope that our children/grandchildren will be able to pay for our wellbeing during our retirement years.
5. **Public Sector Conceptual Framework**—We also agree that this should be a high priority. Care must be taken to ensure that the conceptual framework is broad enough to provide an interim framework for those countries that are only able to implement cash reporting under the Cash Basis IPSAS.

6. **Financial Statement Discussion and Analysis**—This also should be a high priority since many decision-makers in the public sector do not have the financial background to fully utilize the information contained in required financial statements. Thus, a plain language narrative (with charts) is necessary to assist them in this regard.
 7. **IPSASs and Government Finance Statistics Reporting Guidelines**—It is our understanding that a future GFSM will include a suggested Chart of Accounts. If so, it needs to be closely coordinated with the IPSASB to ensure that the Chart of Accounts is sufficient to meet the needs of an accrual accounting system. The present GFSM does not do this since it was only anticipated that the GFSM be a statistical reporting system that extracts the necessary data from the accounting system and is then reported to the IMF for their analytical purposes.
 8. **Report Service Performance**—Service performance data is most beneficial in an accrual system since full costs are necessary for comparability purposes. But we need to get cash reporting fully implemented throughout the world (to the maximum extent possible) before we worry about service performance.
 9. **First Time Adoption of Accrual IPSASs**—This is not a high priority since IFRS 1 addresses this adequately at the present time. It can be more fully addressed at a later date.
 10. **Government Business Enterprises**—We also do not consider this a high priority since the existing IAS/IFRS adequately address these issues at the present time. It can be more fully addressed at a later date.
 11. **Improvements (biennial)**—Agree with this biennial review but would not divert resources away from the first seven priorities identified above.
 12. **Public Sector Financial Instruments**—Not a high priority for most countries around the world since they do not have sophisticated financial instruments.
 13. **Public Sector Combinations**—Not a high priority from our perspective.
 14. **Amendments to IPSASs 28-30**—Not a high priority from our perspective.
5. We appreciate the opportunity to comment on this exposure draft and would be pleased to discuss this letter with you at your convenience. If you have questions concerning this letter, please contact Dr. Jesse Hughes, CPA, CIA, CGFM at jhughes@odu.edu or 757.223.1805.

Sincerely,



ICGFM Accounting Standards Committee

Jesse W. Hughes, Chair

Anthony Bennett

Michael Parry

Maru Tjihumino

Andrew Wynne

Cc: Linda Fealing
President, ICGFM

Swiss Comments to

Consultation Paper Work Program 2013 - 2014

Table of Content	Page
1. Introduction.....	1
2. General Remarks to Consultation Paper.....	1
2.1. Question 1	1
2.2. Question 2	2
2.3. Question 3	3

1. Introduction

The Swiss Public Sector Financial Reporting Advisory Committee (SRS-CSPCP) was established in 2008 by the Swiss Federal Ministry of Finance together with the intercantonal Conference of Cantonal Finance Directors (Finance Ministers at the States level). One of its aims is to provide the IPSAS Board with a consolidated statement for all the three Swiss levels of government (municipalities, cantons and Confederation).

The SRS-CSPSP has discussed *Consultation Paper Work Program 2013 - 2014* and comments as follows.

2. General Remarks to Consultation Paper

The SRS-CSPCP is of the opinion that it is basically positive that a Consultation Paper on the Work Programm2013-2014 is being circulated for comment. Indeed, it is important that the Conceptual Framework is completed first, because it will have an influence on all other projects. The work capacity that it frees up should be employed as efficiently as possible for projects that enjoy wide support

2.1. Question 1

Considering the additional potential projects identified above and described in Appendix C, are there any other projects that you think need to be added to the list of potential projects?

The SRS-CSPCP is of the opinion that the following problem areas are interesting and important enough for the IPSAS Board to deal with them.

1. IPSAS 25

As IAS 19 (Employee Benefits) has been revised and becomes effective from 1.1.2013, the IPSAS Board should consider a revision of the corresponding IPSAS. Pension fund liabilities also play a growing role in the public sector. It is therefore important that the differences between IFRS and IPSAS are not of a methodological nature. There should only be differences, if the peculiarities of the public sector demand them (e.g. because of the financing model "differential funding" with the system of partial capitalisation under Art. 72a BVG in Switzerland). The SRS-CSPCP believes that it is important to emphasise that the revised standard IAS 19 is not taken over 1:1 in IPSAS 25.

In calculating the liability both IPSAS 25 and IAS 19 use a standardised method ("Projected Unit Credit Method"). This provides a result that systematically varies from the legal liability according to the revised Federal Law on Occupational Welfare (BVG). The legal liability is often significantly less than the liability calculated under IPSAS/IAS. There is no practice of meeting claims that exceed the legal liability. Therefore disclosing the liability according to IPSAS/IAS results in a systematic overstatement of the liabilities. A revision of IPSAS 25 should therefore govern how to deal with variant legal liabilities.

2. Leasehold rights

Leasehold rights are similar to leases, but are not explicitly mentioned in the relevant IPSAS standard. As Leases is included in the list of Additional Potential Projects, it would make sense and be desirable, if leasehold rights were added to the list.

3. Investment grants

While investment grants are dealt with in IPSAS 23, this is confined to the recipient. The paying side is not considered. It is desirable, above all for statistical purposes, that investment grants are recorded symmetrically by donor and recipient and depreciated using the same method.

2.2 Question 2

Which project do you think the IPSAS Board should prioritize for 2013-2014 ? In your response you could consider providing your assessment of the 3 most important projects or a ranking of all projects on the list. Please explain the reasons for your answers.

The SRS-CSPCP prioritized 5 projects, but then agreed on a list of 3. The reasons are in part already included in the responses to Question 1.

1. **Presentation of Financial Statements (Update of IPSAS 1 – underlying standards IAS 1)**

The presentation of financial statements is very important and has the highest priority for understanding and interpreting the financial position of a public authority. A uniform and consistent presentation of the financial statements and also of the national debt is of fundamental importance for all involved (stakeholders).

2. **Improvements to IPSAS 23 – Non-Exchange Revenues**

As already mentioned in response to Question 1, investment grants should be considered not only from the recipient, but also from the paying side. A symmetric recording method for donor and recipient and the same depreciation methods for both sides should be clearly laid down.

3. **IPSAS 25**

With the revision of the standard IAS 19, an adjustment of IPSAS 25 will be necessary. The IPSAS Board should deal with the revision of IPSAS 25. The differences between IFRS and IPSAS should not be of a methodical nature. There should only be differences, if the peculiarities of the public sector demand them (e.g. because of the financing model “differential funding” with the system of partial capitalisation under Art. 72a on the Ordinance on Occupational Retirement, Survivors and Disability Pension Plans in Switzerland). The revised standard IAS 19 should not be taken over 1:1 in IPSAS 25, given that the difference between “comprehensive income” and “other comprehensive income” has no relevance under IPSAS.

The other 2 projects, which the SRS-CSPCP considers to be important are:

Leases

In particular the treatment of leasehold rights, which could be attached to/explained in this standard.

Small and Medium Enterprises (SMEs)

Standards for SMEs would be especially interesting for Switzerland, because there are many small public authorities. However this topic does not have absolute priority, because up to now the small public authorities have always been able to look after themselves. Furthermore, the financial reporting standards for municipalities are anyway legally set by the upper tier of government (i.e. by each canton for its municipalities). Additionally there are already some standards (together with a chart of accounts) that are provided nationwide by the so-called "Harmonised Accounting Model for the cantons and municipalities".

2.3 Question 3

Please provide any further comments you have on the IPSASB's Work Program for 2013 - 2014

The SRS-CSPCP has no further comments on the Work Program 2013- 2014.

Lausanne, October 11 2012

Instituut van de Bedrijfsrevisoren
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Date

Dear Technical Director,

Re: Answers IPSAS Board – Consultation Paper on IPSASB Work Program 2013-2014

The Belgian *Instituut van de Bedrijfsrevisoren - Institut des Réviseurs d'Entreprises* (hereinafter IBR-IRE) thanks the International Public Sector Accounting Standards Board (hereinafter the “IPSASB”) for its invitation to answer to the Consultation on the IPSASB 2013-2014 Work Program.

Please find hereafter our answers to the following questions:

1. Considering the additional potential projects identified above and described in Appendix C, are there any other projects that you think need to be added to the list of potential projects?
 - a) *Regarding the relationship and link with the traditional budgetary accounting systems (often cameralistic accounting) governments are familiar with, IBR-IRE encourages the IPSASB to examine more thoroughly the possible issues encountered by the first-time adoption of accrual accounting IPSAS standards.*
 - b) *IBR-IRE believes that there is a lack of accounting standards for not-for-profit organizations and that the IPSASB would benefit from enlarging its scope to include more often privately organized not-for-profit organizations rather than merely publicly organized entities.*



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2. Which projects do you think the IPSASB should prioritize for 2013-2014?

The IPSASB is using its best endeavours in supporting and promoting the IPSAS standards. However, taking into account the limited (financial) resources of the IPSASB, IBR-IRE advises the IPSASB not to overload the planning for 2013-2014.

3. Please provide any further comments you have on the IPSASB's Work Program for 2013-2014.

IBR-IRE strongly encourages a faster and more widely spread mandatory conversion to IPSAS which is only achievable with enhanced resources for IPSASB.

Please do not hesitate to contact us should you need any further information.

Yours sincerely,



Michel DE WOLF
President



**COMITE CONSULTATIF
SUR LA NORMALISATION
DES COMPTES PUBLICS**

The Chairman

Paris, 31 October 2012

Cour des comptes

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Re: Consultation on IPSAS Work Program 2013-2014.

Dear Ms Fox,

Please find below the French Cour des comptes reply to the consultation on IPSASB Work Program 2013-2014.

Yours truly,

Raoul BRIET

Preliminary remarks

We take note of the gap between, on one hand, the content of the consultation paper itself dedicating pages to issues of the utmost importance such as the planned changes in the IPSASB governance, and making statements on the sovereign debt crisis and, on the other hand, the three questions limited to prioritize 2 or 3 “additional potential projects” in a list of 16 projects.

As regards the priority to be given to projects, we stress that the list in Appendix C “Additional Potential Projects” seems to be a “shopping list” and it is difficult to determine the underlying IPSASB strategy –. This is for us a matter of concern since we do not have the complete picture; in this context, the present consultation appears to be quite limited and is de facto restricted to ranking “additional potential projects”.

It results from the above two remarks that the title of the consultation (“Consultation on IPSASB Work Programme 2013-2014”) could be misleading as it does not reflect the content of the consultation paper.

QUESTION 1

Considering the additional potential projects identified above and described in Appendix C, are there any other projects that you think need to be added to the list of potential projects?

Rather than proposing an additional project aiming at issuing a new standard or revising an existing one, we would favour an umbrella planning project titled “*drawing the consequences, for the IPSASB work program, of the replies to the ED on “key characteristics of the public sector with potential implications for financial reporting”*” (to this respect we note that more than one year after the 31 August 2011 deadline for submitting responses to this ED, the responses have not yet been discussed, as far as we know). This would allow for identifying projects addressing constituents needs (the long introduction of the present consultation refers many times to constituents needs without specifying what are these needs and by which process they were identified by the IPSASB).

QUESTION 2

Which projects do you think the IPSASB should prioritize for 2013-2014? In your response you could consider providing your assessment of the 3 most important projects or a ranking of all projects on the list. Please explain the reasons for your answers.

We strongly favour the prioritization of the four public sector specific projects “(social benefits”, “improvements to IPSAS 23”, “heritage assets” and “sovereign powers and their impact on financial reporting”).

QUESTION 3

Please provide any further comments you have on the IPSASB’s Work Program for 2013-2014.

We note that out of 16 projects listed in Appendix C, 12 are linked with the IASB work programme and many of them are justified by the IPSASB strategy to align IPSASs with IFRS. The predominance of “IFRS/IPSAS projects” in the IPSASB work plan is still higher if we consider the current or committed IPSASB projects for which no consultation was issued by the IPSASB.

This clearly demonstrates that maintaining the IFRS alignment strategy leads to a growing instability of IPSASs. In our response to Eurostat consultation on the suitability of IPSASs to the EU Member States, we emphasized that the IPSASs were not finalised and could not be finalised in the near future, due to the IFRS convergence policy, which obliges the IPSASB to frequently update and revise IPSAS, in a perpetual motion. For instance, as stated in the present consultation paper, the IPSASB adopted the IPSAS on financial instruments in December 2009 (IPSAS 28-30) and is already planning to revisit them further to changes in the IAS/IFRS on which the IPSASs are based. Similarly, it adopted IPSAS 25 in November 2007 and plans to revisit it as a result of changes to IASB. This seems to mean that IPSASB 1st priority is more to adjust IPSAS to IFRS than to build a corpus of IPSAS Standards mainly devoted to public sector specificities.

In addition, having 12 projects of 16 relating to IFRS alignment or linked to IAS work plan does not seem consistent with the IPSASB current commitment to issue a conceptual framework not convergent with the IASB conceptual framework. This inconsistency is likely to increase the above mentioned instability of IPSASs.

In conclusion, we consider that the work programme should give priority to fill the gap open to criticism as regards standards dealing with public sector specificities and put in second rank the revising work of existing standards.

Réponse en français

Remarques préliminaires

Nous prenons note de l'écart existant entre, d'un côté, le contenu du présent document de consultation qui consacre des pages à des problèmes de la plus haute importance tels les changements envisagés dans la gouvernance de l'IPSASB ou qui contient des jugements sur la crise des dettes publiques, et, d'un autre côté, les trois questions objet de la présente consultation, limitées à assigner un ordre de priorité à 2 ou 3 projets dans une liste de 16 projets potentiels pour le programme de travail 2013-2014 de l'IPSASB.

Sur la question des priorités du programme, nous souhaitons souligner que la liste de « projets additionnels potentiels » de l'annexe C ressemble davantage à une « shopping list » et qu'il est difficile d'en déterminer la stratégie sous-jacente. C'est là un sujet de préoccupation puisque nous ne disposons pas de la vue d'ensemble ; dans ce contexte, l'objet de la présente consultation semble assez limité et il est de facto restreint à assigner un ordre de priorités à une liste de « projets potentiels additionnels » non reliés à une programmation dont les principes seraient explicités.

Il résulte enfin de ces deux remarques que le titre du document soumis à consultation (« consultation sur le programme 2013-2014 de l'IPSAS Board ») est trompeur (il ne reflète pas vraiment son contenu).

Question 1

S'agissant de la question posée, plutôt que de proposer un projet additionnel visant à établir une nouvelle norme ou à en modifier une, nous serions favorables au lancement d'un projet d'ensemble sur le thème « *conséquences pour l'établissement du programme de travail de l'IPSASB de l'analyse des réponses reçues à l'exposé-sondage sur les caractéristiques clés du secteur public et leurs implications sur le reporting financier* » (à cet égard nous observons que plus d'un an après la date limite fixée pour soumettre les commentaires à cet exposé-sondage, les réponses, à notre connaissance, n'ont toujours pas été discutées ni les conséquences tirées pour le travail de l'IPSASB). Un tel projet d'ensemble permettrait d'identifier les projets comptables répondant aux attentes des parties intéressées (au passage nous avons remarqué que la longue introduction du document de consultation mentionne à plusieurs reprises « *les besoins des parties intéressées* » mais sans indiquer quels sont ces besoins ni par quelles procédures ces besoins ont été identifiés).

Question 2

Nous sommes résolument en faveur de donner la priorité aux quatre projets de la liste axés sur les spécificités du secteur public (« *social benefits* », « *improvements to IPSAS 23* », « *heritage assets* » et « *sovereign powers and their impact on financial reporting* »).

Question 3

Il est à remarquer que sur les 16 projets de la liste de l'annexe C, 12 sont liés au programme de travail de l'IASB et nombre d'entre eux sont justifiés par la stratégie de l'IPSASB de calquer les IPSAS sur les IFRS. Le poids des projets IFRS/IPSAS est encore plus lourd si on

prend en compte les projets actuels de l'IPSASB, projets pour lesquels il n'y a pas eu de consultation des parties intéressés.

Cela démontre clairement que maintenir l'alignement des IPSAS sur les IFRS conduit à une instabilité croissante du référentiel IPSAS. Dans notre réponse à la consultation d'Eurostat sur l'adéquation des IPSAS aux Etats membres de l'UE, nous avons mis l'accent sur le fait que le référentiel IPSAS n'était pas finalisé et ne pouvait l'être dans un futur proche, en raison de la politique de convergence avec les IFRS, qui oblige l'IPSASB à mettre à jour et réviser fréquemment les IPSAS, dans un mouvement perpétuel. Par exemple, comme l'indique le présent document de consultation, l'IPSASB, qui a adopté les normes IPSAS sur les instruments financiers en décembre 2009 (IPSAS 28-30), envisage déjà de les modifier, subséquemment aux modifications des normes IFRS sur lesquelles ces IPSAS sont basées. De la même manière l'IPSASB qui a adopté en 2007 la norme IPSAS 25, qui prescrit notamment le traitement comptable des retraites de fonctionnaires, a entrepris de la modifier à la suite des changements introduits par l'IASB à la norme IAS sous-jacente. Cela semble suggérer que l'IPSAS Board a pour priorité essentielle d'ajuster les normes IPSAS aux normes IFRS, plutôt que de construire un corps de normes répondant aux spécificités du secteur public.

En outre, le fait d'avoir 12 projets sur 16 liés à la stratégie d'alignement avec les IFRS ou liés au programme de travail de l'IASB ne semble guère cohérent avec les travaux en cours de l'IPSASB sur le cadre conceptuel des normes IPSAS, cadre conceptuel qui a été explicitement présenté comme n'étant pas un projet de convergence avec les IFRS. Ceci est de nature à accroître encore l'instabilité précitée du référentiel IPSAS.

Au total, il importe que le programme de travail s'attache prioritairement à combler des lacunes dont la persistance est très critiquable au regard des spécificités du secteur public et à placer en second rang les travaux de révision des normes existantes.



NZ ACCOUNTING
STANDARDS
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23 October 2012

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Submitted to: www.ifac.org

Dear Andreas

Consultation on IPSASB Work Program 2012-2014

The New Zealand Accounting Standards Board (NZASB) is pleased to submit its comments on the Consultation Paper *Consultation on IPSASB Work Program 2013-2014* (CP). The CP has been exposed in New Zealand and some New Zealand constituents may have made comments directly to you.

We strongly support the International Public Sector Accounting Standards Board's (IPSASB) objective of setting high quality principle-based standards. We have a particular interest in the widespread adoption of high quality International Public Sector Accounting Standards (IPSASs). Our recent decision to adopt a multi-standards approach means that the PBE Standards applied by public benefit entities¹ (PBEs) in New Zealand are based substantially on IPSASs. For-profit entities will continue to apply New Zealand Equivalents to International Financial Reporting Standards² (NZ IFRSs).

As we have previously alerted you in our letter dated 6 June 2012, one of the issues that has arisen as a result of our multi-standards approach relates to the application of IPSAS 6 *Consolidated and Separate Financial Statements* when the entity preparing the consolidated financial statements is a PBE that controls entities reporting under a different suite of accounting standards, for example, International Financial Reporting Standards (IFRSs) (the mixed group issue).

We consider that there is a risk to the adoption of IPSASs and the integrity of reporting by entities if IPSASs and IFRSs diverge unnecessarily and create significant compliance costs. That is, if divergence arises for reasons other than differences between the constituencies serviced by the IPSASB and the International Accounting Standards Board (IASB). These differences may arise in standards addressing transactions that many would regard as sector neutral because of the different timing of the two Boards' agendas, differences in the

¹ PBEs are not-for-profit public and private sector entities.

² NZ IFRSs are word-for-word the same as IFRSs.

respective developing conceptual frameworks and/or different accounting recognition and measurement approaches being developed. We urge the IPSASB and the IASB to work together to minimise differences between the two suites of standards that are not due to sectoral differences. The mixed group issue will assume greater significance as more jurisdictions adopt both IPSASs and IFRSs and, particularly, as requirements in these sets of standards diverge in their treatment of transactions where there are no apparent sector-specific differences.

The NZASB recently issued a consultation paper³ for a proposed Explanatory Guide explaining its policy on how it will consider the implication for PBEs of new or amended standards issued by the IASB. However, we urge the IPSASB to consider, with urgency, what it can do to prevent unnecessary differences arising between the two suites of standards. If the IPSASB does not address the issue then there is a risk to the integrity and adoption of IPSAS as, in order to ease the compliance burden, individual jurisdictions may:

- a. create “IPSAS-like” versions of any new or amended IFRSs; or
- b. provide exemptions from uniform accounting policies in specific standards; or
- c. permit the separate presentation of information on certain elements.

We consider that guidance from the IPSASB on the mixed group issue will go a long way to facilitate the adoption of IPSASs.

Current work program

In terms of the projects on the IPSASB’s current work program, we strongly support the IPSASB continuing to make the development of the public sector conceptual framework its highest priority. The completion of the conceptual framework is critical as it will provide a conceptually sound basis for all IPSASs.

In terms of the other projects on the current work program, we recommend that the IPSASB gives the next highest priority to the financial instruments projects: Public Sector Financial Instruments and Amendments to IPSASs 28-30. Aspects of financial instruments are found in all financial statements and the sovereign debt crisis highlights the importance of accounting appropriately for financial instruments.

In our view, accounting for the majority of financial instruments should be sector-neutral. The IASB appears to be in an advanced stage in its development of IFRS 9 *Financial Instruments*, and we anticipate that public sector entities will be interested in the IPSASB’s view of the suitability of these developments for the public sector. We recommend that the IPSASB commences a project on updating IPSASs 28-30 as soon as the IASB’s decisions are clear rather than awaiting the issuance of the final version of IFRS 9. In our view, waiting for the completion of IFRS 9 before the IPSASB undertakes any work will add an unnecessary delay to the issue of revised IPSASs 28-30.

We also support the IPSASB’s biennial improvements project which should include updating the various standards set out in the additional potential projects list (for example, borrowing costs, presentation of financial statements and related party transactions). We consider it

³ http://xrb.govt.nz/Site/Accounting_Standards/Exposure_Drafts/Current_Exposure_Drafts.aspx

important that IPSASs are kept up to date and improved, as necessary. We consider a biennial approach to be appropriate in terms of timing.

Additional potential projects

In relation to the items on the additional potential projects list, we consider that IPSASB should accord a high priority to considering the appropriateness for the public sector of the current projects on leases and revenue recognition that are being undertaken by the IASB. Both of these projects address transactions that are commonly found in the public sector and, in our view, should, in general, be sector-neutral.

Given that there are a limited number of projects that could be added to the IPSASB work program for 2013-2014, we recommend that in addition to leases and revenue recognition, the IPSASB should pursue a project addressing emissions trading schemes. Their use is increasing globally, and appropriate accounting by both operators of these schemes and emitters subject to the schemes is becoming increasingly urgent. We understand that there is diversity in practice with divergent treatments by entities of seemingly similar schemes. Additionally, accounting for emissions trading schemes will become increasingly important for many governments.

We note the comments in the CP on the environment facing the public sector and IPSASB. In relation to communication and promoting the adoption and implementation of IPSASs, we strongly encourage the IPSASB to continue in its efforts to promote IPSASs: we consider it important that the IPSASB sets as a priority the promotion of IPSASs as a set of high quality standards that are appropriate and relevant for the public sector in the way that IFRSs issued by the IASB are seen as being appropriate for the for-profit sector. While we acknowledge the work of individual IPSASB Board members in actively promoting the use of IPSASs, we consider that, to increase its effectiveness, this activity needs to be structured and included in the IPSASB's work program.

If you have any queries or require clarification of any matters in this submission, please contact Lay Wee Ng (laywee.ng@xrb.govt.nz) or me.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Michele Embling', enclosed within a circular scribble.

Michele Embling
Chairman



*Advancing
Government
Accountability*

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October 24, 2012

Ms. Stephanie Fox
Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street West, 6th Floor
Toronto, Ontario M5V 3H2 CANADA

Dear Ms. Fox:

On behalf of the Association of Government Accountants (AGA), the Financial Management Standards Board (FMSB) appreciates the opportunity to provide comments to the International Public Sector Accounting Standards Board (IPSASB) on its July 2012 Consultation Paper regarding the IPSASB's Work Program for 2013-2014. The FMSB is comprised of 25 members (list attached) with accounting and auditing backgrounds in federal, state and local government, as well as academia and public accounting. The FMSB reviews and responds to proposed standards and regulations of interest to AGA members. Local AGA chapters and individual members are also encouraged to comment separately.

The FMSB has reviewed the listing of Current Projects and the listing of Additional Potential Projects in the Consultation Paper and we have some general comments. Overall, the FMSB believes that the listing of Current Projects represents sound projects, the completion of which will help the IPSASB fulfill its mission to develop high-quality accounting standards for use in the public sector around the world. The past efforts of the IPSASB have served to enhance the quality of public sector financial reporting by providing better information to decision makers. We support your efforts as you work to improve transparency in government finances.

In reviewing the list of Current Projects, we concur with the IPSASB's assessment that the most important item on the list is the completion of the public sector Conceptual Framework project. The completion of this project will influence the standard setting for new issues as well as reviews of standards that have already been adopted. The experience of other standard setting bodies such as GASB and FASAB has found that the establishment of a Conceptual Framework is an essential ingredient for long term success and that such work is foundational in nature. As the work plan is implemented, we recommend that the IPSASB expend its utmost efforts to keep this project on track for completion by March, 2014.

Regarding the other projects on the IPSASB's agenda, we believe that projects that have already advanced to a comment stage be finalized within the timeframes outlined in the IPSASB Agenda Schedule on page 12 of the Consultation Paper. Timeliness is imperative for maximum impact. For the remaining projects on the 2013-2014 agenda, we believe that they all have merit and should advance. Recognizing that resources are limited, we recommend that current projects be completed as far as practicable before adding new projects to the agenda.



There were three specific questions posed by the IPSASB on page 10 of the Consultation Paper, the first two questions dealt with additional projects and their priorities. We have provided answers to the first two questions below. The third question asked for any further comments regarding the IPSASB's Work Program for 2013-14. We have no comments on the Work Program beyond the general comments provided in the third and fourth paragraphs of this letter. Following are our responses to questions one and two in the Consultation Paper.

1. Considering the additional potential projects identified above and described in Appendix C, are there any other projects that you think need to be added to the list of potential projects?

FMSB Response: The FMSB has reviewed the listing of potential projects identified by the IPSASB and we have no additional projects to suggest. We believe that IPSASB's current list of potential projects, in light of the current environment, limitations on resources and the need to proceed in a logical manner through the standard setting process, are sound.

2. Which projects do you think the IPSASB should prioritize for 2013-2014? In your response you could consider providing your assessment of the 3 most important projects or a ranking of all projects on the list. Please explain the reasons for your answers.

FMSB Response: We believe that the list of additional potential projects is sound. Should the IPSASB wish to add additional projects to its agenda, priority should be given to the projects on Social Benefits, Presentation of Financial Statements and Insurance Contracts, in this order.

Social Benefits - The future costs of the promises made by a government to its citizens is often the single largest obligation facing a sovereign entity. It is often the potential for changes to these social benefits which cause the largest concerns among citizens and stress on a country's finances. In order for citizens and government decision makers to deal with these issues, clear and objective financial information is needed. Nations need to understand the obligations it has incurred and the costs associated with these future obligations. Therefore we believe that this project should be added to the IPSASB's agenda.

Presentation of Financial Statements – As stated in our general comments, we concur with the IPSASB's assessment that the Conceptual Framework project is the highest priority project on the 2013-2014 agenda. The completion of this project will impact the standard setting process in many areas. Likewise, we believe that improving guidance on the organization and presentation of information in financial statements has a far reaching impact. The value of information can be diminished if it is not conveyed in the most effective manner.

Insurance Contracts – Governments often write substantial amounts of insurance and even more financial guarantees. The current IPSASB insurance standard is IFRS 4, which IPSASB notes was a temporary standard allowing preparers to use their existing, piecemeal practices until the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) finish their own comprehensive insurance projects. As the FASB and the IASB are nearing completion, it is logical that the IPSASB address this issue and provide clarity. Insurance accounting is in a state of flux and needs to be standardized, considering latest recognition and measurement approaches for liabilities.

We would like to thank you for allowing us to submit our comments to the exposure draft. Should there be any questions regarding our comments, please contact Steven Sossei at ssossei@agacgfm.org.

Sincerely,

A handwritten signature in black ink, appearing to be 'Eric S. Berman', with a long horizontal flourish extending to the right.

Eric S. Berman, CPA, Chair
AGA Financial Management Standards Board

cc: Evelyn A. Brown, CGFM-Retired
AGA National President

**Association of Government Accountants
Financial Management Standards Board**

July 2012 – June 2013

Eric S. Berman, Chair
Frank D. Banda
Robert L. Childree
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J. Dwight Hadley
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Clarence L. Taylor, Jr.
Roger Von Elm
Donna J. Walker
Stephen B. Watson
Sheila Weinberg

Relmond P. Van Daniker, Executive Director, AGA (Ex-Officio Member)
Steven E. Sossei, Staff Liaison, AGA



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Budget

The Accounting Officer of the Commission

Brussels,
BUDG.DGA.C02/MK/mt

**NOTE FOR THE ATTENTION OF PROF ANDREAS BERGMANN,
CHAIR OF THE INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS BOARD**

Subject: Consultation on IPSASB work program 2013-2014

Thank you for the opportunity to comment on your consultation paper on the IPSAS Board's work program for 2013-2014. The following comments are made in my capacity as Accounting Officer of the European Commission responsible for, amongst other tasks, the preparation of the annual consolidated accounts of the European Union which comprise more than 50 European Agencies, Institutions and other European Bodies with an annual budget of more than EUR 140 billion. After several years of receiving an unmodified opinion from the European Court of Auditors on the EU's IPSAS based accounts and given our experience in defining and implementing the accounting framework for a large governmental organisation, I believe that our input can be of value to the work of the IPSAS Board. I would stress, that this note does not represent a communication of the European Commission or any other Commission's service, rather it is my professional opinion on the program presented.

As one of the biggest international and supranational organisations with more than 7 years of experience in implementing accrual accounting based on IPSAS, we welcome your first public consultation on the IPSAS Board's work program. We share your opinion that in the current times of sovereign debt crisis it is of utmost importance to issue high-quality financial reporting standards so as to provide the addressees of financial reporting with the necessary information as a basis for their decisions. This public consultation can be seen as a starting point to address the information needs of addressees of financial reporting and certainly increases acceptance of IPSAS as well as their implementation by governments and governmental organisations.

As you also mention in your consultation paper the project on the **Conceptual Framework** is and should remain the most important project of the IPSASB. This project is already on-going for some time and explicitly takes into account public sector specificities. As the Conceptual Framework not only serves as a basis for the development of future IPSAS and other pronouncements, but can also be used as a reference point for the interpretation and implementation of IPSASs by preparers, it can be considered as the project that could pave the way for a broader IPSAS adoption and implementation worldwide. We are therefore of the opinion that IPSASB resources should be clearly focused on this project with the objective of completing it before the end of 2014.

There is a likelihood that the work to complete the Conceptual Framework in 2013 and early 2014 may be more onerous than expected, which could lead to a delayed finalisation of the Conceptual Framework, currently foreseen for March 2014. We therefore think that it might be advisable to **not start any new projects in 2013** and rather use resources from other completed projects¹ to support the Conceptual Framework project.

As already stated above, the Conceptual Framework should serve as a basis for the development of future IPSASs. We therefore believe that no new project, except small less resource intensive projects that are based on existing IFRS, should be started before the Conceptual Framework project is finished. Given the relatively long list of current projects, we believe that there are enough projects in the work program until mid-2014 to work on.

Since the project to **converge IPSASs with IFRSs** has been finished at the end of 2009, we as a financial statement preparer would welcome a **stable platform** as regards those IPSASs. One argument for this would be that there are on the one hand enough public sector specific issues to be addressed by IPSASB, and on the other hand, preparers need some time to implement new IPSASs and to reach stable processes in certain areas before the standards are re-written. We believe that the way that the IASB introduced such a stable period in the past is a good example in this area. With that in mind we do not see the need to work for the next 3 years on IPSAS 5, 18 and 20. The same applies in principle to a potential small and medium-size entity standard. Our experience with small EU agencies shows that their business operations are rather limited and a number of IPSASs do either not apply at all to them, or, when they apply, then only the very basics of the IPSASs and not the more complex parts are applicable. This essentially means that our smaller EU agencies can live very easily with the existing set of standards once a careful analysis of the relevance of certain standards or parts of standards has been performed. We thus believe that the IPSAS Board should in the near future not designate resources to this potential project.

After the finalisation of the Conceptual Framework (mid-2014 and later) we would encourage the IPSAS Board to **focus on those public sector specific issues** where either no standard exists elsewhere (i.e. no IFRS) or where inconsistencies in exiting public sector specific standards exist.

The project on **social benefits** has been started more than 10 years ago and in the meantime steps in the direction of re-initiating the project were taken. Although we acknowledge that it might be difficult to reach consensus in that area of accounting we think this really important public sector specific issue needs to be either definitively addressed by the IPSASB, as it is crucial for reporting on obligations of governments, or dropped – we favour the former. The complexity and difficultness of a project should not per se be a criterion for the in- or exclusion in the work program. From a preparers point of view it is in any case more urgent to receive guidance on issues where no standard is available elsewhere. The Conceptual Framework once finalised will enable the Board to concentrate on this kind of public sector specific projects.

Non-exchange transactions represent in most public sector entities the majority of business transaction. This is also the case in the European Union institutions where more than 95% of the transactions recorded in the financial statements are of a non-exchange nature. The issuance of IPSAS 23 was a milestone in reporting on non-exchange transactions but indeed practise might show that the compatibility with other IPSASs needs to be addressed. Therefore, although we recognise that it

¹ I.e. Financial Statement Discussion and Analysis, Reporting on the Long-term Sustainability of Public Finances, Improvements.

would mean work on already existing IPSASs, we strongly encourage the Board to look at this as it is an essential standard for many public sector entities.

The accounting for **Emission Trading Schemes** (ETS) from a grantor perspective would be another example for a public sector specific project that could be addressed by the IPSAS Board. The European Union's ETS works on the "cap and trade" principle and has as its objective that in 2020 emissions will be 21% lower than in 2005. The EU's Emission Trading Scheme launched in 2005 now operates in 30 European countries and covers CO2 emissions from installations such as power stations, oil refineries and iron and steel works. This demonstrates that this project is of relevance in the European context.

If the IPSAS Board would prefer to work on less resource intensive projects we would encourage the work on **Leases** because of the relevance to public sector entities. As outlined in the consultation paper, the IASB is changing its approach to lease accounting so that all assets and liabilities arising under a lease contract are recognised in the financial statements. As most of the buildings of the EU institutions and agencies are under lease contracts this project is of relevance to us and most likely to many other public sector entities. As there is in principle no public sector specific reason to depart significantly from the private sector standard this project could be managed with fewer resources than others and be started in parallel with more resource intensive public sector specific projects.

I look forward to our continued co-operation in the area of public sector accounting and remain at your disposal for any question you may have on the above.



Manfred Kraff

Copy: S. Fox, J. Stanford, IFAC
F. Lequiller, ESTAT D
R. Aldea Busquets, BUDG C
M. Koehler, BUDG C.2



GERT JÖNSSON
Deputy Auditor General

Date Oct. 25, 2012

Ref. no.

Comments on IPSASB Consultation Paper on 2013-2014 Work Program

The Swedish National Audit Office is Sweden's Supreme Audit Institution (SAI). The office has the full mandate to audit the financial statements of government organizations annually and to carry out performance audits concerning ministries and agencies, state-owned companies and government foundations, government projects and regulatory systems.

Our work is performed in accordance with generally accepted international standards. For financial audits this means that we work in accordance with the International Auditing Standards (ISAs). Within the realm of the International Organization for Supreme Audit Institutions (INTOSAI) the office has also taken on the responsibility to develop international auditing standards for the SAIs. When it comes to financial audits, standard-setting is done in cooperation with the IAASB. The international standards for SAIs consist of the ISAs complemented by Practice Notes developed by INTOSAI to each ISA.

Our office is also on behalf of the Swedish Parliament deeply engaged in international development cooperation aiming at capacity building of SAIs in developing countries. An important point of departure for our activities in this area is international standards for auditing as well as accounting and financial reporting.

With this background we have some comments concerning the IPSAS in general and the Board's Work Plan. Even if the Work Plan has a short-term focus we would like to emphasize some issues that are of a more long-term and strategic relevance:



- We support the further development, adoption and implementation of a globally accepted framework and standards for public sector accounting and financial reporting. We think that IPSAS in the long run may serve very well for such a purpose. However, in our opinion the IPSAS must develop substantially in order to gain acceptance from a broader range of stakeholders.
- Today, questions are raised concerning the general applicability of the IPSAS with respect to different categories of stakeholders. While domestic legislatures and other political assemblies may have expectations to get easily accessible and digested information concerning a single entity, international lenders, international organizations and other countries may have a focus on more complex data on the general status of the public sector's finances and risks. While the IPSAS may serve the needs when it comes to the consolidated financial statement of the government as a whole with respect to international investors, analysts and international organizations, the IPSAS applied on single public sector entities does not always correspond to the need for information for primary users such as members of the legislature, ministries and political constituencies on a regional or local level. It is important that the further development of the IPSAS focus more on how an entity may respond to requests to disclose information on compliance with budget regulations (how and for what purpose the entity may use allocated funds) and on disclosures concerning performance.
- It is important that IPSASB takes action to widen and deepen its consultation and co-operation with public sector stakeholders and users. In this respect we believe it is very important that IPSASB engage actively in seeking consultation with domestic users as well as international organizations that represent public sector users. We think that INTOSAI and its member bodies may be useful as a gateway to public sector users. We suggest that IPSASB develops an ambitious communication policy with this aim.
- We strongly support development of a public sector conceptual framework. This work must be given the highest priority. We see such a framework as a necessary basis for further development of the IPSAS with respect to its authority and scalability. Such a framework could form the basis for developing a General Introduction to the IPSAS, a much needed introduction that clarifies how IPSAS can and should be adopted in different circumstances and on different levels of the public sector. One

important part of the framework should be how additional information, such as information on compliance with budget regulations and performance, may be addressed in or in addition to the financial statement.

- For the coming years we would also like to express support for a project concerning *Presentation of Financial Statements*. Such a project may have a substantial impact on the readability of the financial statements and should in the long run save time and money for users and auditors.
- Many public sector entities are small or medium size. A further focus on *Small and Medium Enterprises* (SMEs) may serve the purpose of clarifying how the IPSAS can be applied proportionally on smaller entities, a matter that we have touched upon above.
- Another important area is the IPSAS and its relation to the National Accounts. The project concerning *IPSASs and Government Finance Statistics Reporting Guidelines* may serve as a basis for clarifying how general accounting standards correlates to the National Accounts. In this respect the mentioned project on framework should preferably also clarify the relationship between public sector accounting and the statistics based National Accounts.
- The Consultation Paper sets out a possible project to develop standards with respect to “Reporting on the Long-Term Sustainability of Public Finances”. Even if this may seem as a bold ambition as it is extremely difficult to accomplish, we support that IPSASB takes steps in that direction.
- The project concerning “Reporting Service Performance” is also crucial and we think that IPSASB should give priority also to this.

Our comments have been prepared within the Swedish NAO by a task force on strategic issues on accounting and financial reporting.

On behalf of the Swedish National Audit Office



Gert Jönsson

Deputy Auditor General



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The Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street, 4th Floor
Toronto, Ontario M5V 3H2
Canada

Per e-mail

26 October 2012

Dear Stephenie,

CONSULTATION PAPER ON CONSULTATION ON IPSASB WORK PROGRAM 2013-2014

We welcome the opportunity to provide comments on the Consultation Paper issued by the IPSASB on the IPSASB's Work Program for 2013-2014.

In preparing this comment letter, we have consulted individually with a number of stakeholders including our Board, the National Treasury and the Auditor-General of South Africa. The Board also issued the Consultation Paper as a concurrent exposure draft locally, requesting inputs from a range of constituents.

This letter has been prepared and issued by the Secretariat of the ASB and not the Board.

Our response is set out in two parts: Part A which outlines our general comments and observations about the proposed projects and, Part B which outlines our responses to the specific matters for comment included in the Consultation Paper.

Should you have any questions on the comments in our letter, please feel free to contact me.

Board Members: Mr V Jack (Chairperson), Ms CJ Kujenga, Mr K Kumar, Mr K Makwetu, Mr F Nomvalo,
Mr G Paul, Ms N Ranchod, Mr B Colyvas, Ms R Rasikhinya, Ms T Coetzer
Alternates: Ms L Bodewig, Mr J Van Schalkwyk
Chief Executive Officer: Ms E Swart

Yours sincerely

A handwritten signature in dark ink, appearing to read 'Erna Swart'.

Erna Swart

Chief Executive Officer

Part A – General comments and observations on the proposed list of projects

(a) *Borrowing Costs* (Update of IPSAS 5 - underlying standard IAS 23) –

When we initially issued our equivalent Standard locally, we followed the revised IAS 23 on *Borrowing Costs* which requires the capitalisation of borrowing costs. We followed IAS 23 rather than IPSAS 5 as the IAS established “newer” thinking on the topic. Following the adoption and application of our equivalent Standard, a number of our constituents indicated that they do not support the capitalisation of borrowing costs both for conceptual and practical reasons. Conceptually, some were of the view that the cost of assets is skewed depending on how they were acquired. Practically, many constituents indicated that it is often difficult to attribute borrowings to specific assets as the entity may borrow centrally to fund an overall shortfall rather than to fund specific assets. The attribution of borrowing costs in these instances is often theoretical and subjective.

These comments have led the Board to reconsider its approach to borrowing costs. At present, an exposure draft of proposed changes to the local equivalent has been issued. These proposed changes essentially require the expensing of borrowing costs, which would bring the local equivalent in closer alignment to the requirements of IPSAS 5. The ASB Board is of the view that while capitalisation may be feasible in certain instances, it wanted to limited the accounting policy choices available to entities in order to achieve comparability.

While we are of the view that this project is important, from our experience, the current guidance is appropriate and we would therefore not give this project a high priority as there are other, more urgent issues to address. This project is also likely to have linkages with Phase 3 of the Conceptual Framework.

(b) *Emissions Trading Scheme*

There are no, or a very limited occurrence, of emissions trading schemes in South Africa. Consequently, this is not a high priority from a jurisdictional perspective. We are however aware of the significance of these schemes in other jurisdictions. If the IPSASB chooses to pursue this project, we would strongly encourage the Board to work with the IASB in developing guidance on this issue. This would not only maximise the amount of resources used to develop the guidance, but would also ensure that symmetry is achieved between the accounting requirements of the issuer and the holder of these instruments.

(c) *Extractive Industries* (IFRS 6 interim standard but no comparable IPSAS)

Similar to emissions trading schemes, the South African public sector undertakes a limited amount of mining or extractive activities. As a result, this project is not seen as a priority. Through consultation with AFROSAI-E (African Organisation of English speaking Supreme Audit Institutions), it was noted that the revenue arising from mining and extractive industries is an area of concern in a number of African countries. This may be an area in which further work could be undertaken by the IPSASB in future.

(d) *Heritage Assets* (Public sector specific)

The ASB has issued a local Standard on *Heritage Assets* which requires the recognition of heritage assets where they can be measured reliably. As heritage

assets could be significant in a number of jurisdictions (including other African countries), we support adding this project to the IPSASB's work programme. It is possible that the information needs of users are currently being met through other reports (such as stewardship reports). As a result, we are of the view that other projects should take priority.

(e) *Improvements to IPSAS 23 – Revenue From Non-exchange Transactions (Taxes and Transfers)*

Our constituents have recently adopted the local equivalent of IPSAS 23. In applying this Standard, a number of issues have been identified:

- We have a number of arrangements in place where entities provide services to other entities which currently do not meet the strict description of “services in-kind” in IPSAS 23. IPSAS 23 describes services in-kind as those services provided by an individual. In many instances, entities make assets available to other entities to use in their operations, most often, land and buildings. In these instances, because the entity only has a right to use an asset and not the underlying asset, these transactions do not qualify as “goods in-kind”, but, the transaction is also not consistent with the description of “services in-kind”. The use of other entities’ assets at no charge is an area that we believe should be considered in the revision to IPSAS 23.
- In addition to these arrangements, entities may also agree to pay or share the salary costs of employees and other operational costs. For individual entities, this could represent a significant amount of their expenditure. As IPSAS 23 currently does not require the recognition of elements related to the receipt of services in-kind, fair presentation may not be achieved in many instances. Although IPSAS 23 does indicate that if these services critical to an entity’s operation then recognition should be considered, this is not considered strong enough. As a result, we would also urge the IPSASB to reconsider the current requirements of IPSAS 23 in this regard.
- As transfers which are not subject to conditions are recognised as revenue in the year that they accrue, it is possible that an entity may have a large surplus in a year, and a large deficit in another when the related expenditure is incurred. While we agree that this reflects the events that occurred in the relevant periods, entities have indicated to us that users misinterpret or do not fully understand what this surplus or deficit means and why it could vary from one year to the next. We are of the view that the disclosure requirements, both in IPSAS 23 and IPSAS 1, could be enhanced to make this clearer to users.

Apart from these issues, there is a potential opportunity to align the accounting principles for exchange and non-exchange revenue, depending on the direction taken by the IASB on its revenue project. Any revisions to IPSAS 23 may also be dependent on the outcome of Phase 2 of the Conceptual Framework project, particularly in relation to deferred inflows and outflows.

It is clear that there are probably two aspects of this project: (i) address more immediate application issues, and (ii) address longer term conceptual issues. It is possible that these two phases could be undertaken independently.

Given the significance of non-exchange revenue transactions, we would see this as a priority project.

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

There are a number of schemes in the South African public sector which are similar to insurance schemes operated in the private sector. One of the key differences between the public and private sector schemes is the absence of a contractual arrangement between the parties, as well as the fact that some participants in these schemes do not pay any contributions. These peculiarities have made accounting for these schemes challenging.

While this project is important from a South African perspective, we are of the view that this project should only be progressed by the IPSASB once the IASB has finalised its insurance project. As a result, we would urge the IPSASB to retain this project on its future agenda, but to postpone any work until the IASB has completed its project.

(g) *Leases*

The application of lease accounting in the public sector is always contentious and subject to a high degree of judgement, particularly the assessment of whether an arrangement is a finance or an operating lease. It is therefore important that a less subjective method of accounting be identified. We are however of the view that leases are “sector neutral” and as a result, the accounting requirements applied in the public and private sectors should be the same. As a result, we would not undertake any work on this project until the IASB has completed its project on leases and the accounting requirements stabilised. It has taken a significant amount of time for the IASB to develop this Standard with a number of delays experienced during its development. For this reason, it may be more appropriate to identify other projects that can be progressed that are not dependent on the actions of external parties.

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

The ASB issued a local equivalent of IFRS 5 in 2005. Recent feedback from our constituents has indicated a number of issues with the requirements of this Standard, in particular that:

- The requirements to complete the sale of the asset in one year are not feasible in the public sector because of the regulatory environment. Evidence locally suggested, in some instances, completion of the sale in 3-5 years (especially for significant assets such as property). The time taken to complete the sale means that separate classification and presentation on the statement of financial position as “held for sale” can be misleading.
- The requirements of IFRS 5 only apply to sales “at fair value”. The occurrence of these transactions in the public sector is often limited. Transfers of assets or disposal groups in non-exchange transactions are more likely.
- The requirements of IFRS 5 are only applied once an entity has a highly committed plan to sell an asset. This provides limited information to users of the financial statements for accountability and decision-making purposes. To be of value for accountability and decision-making, users of the financial statements should be

aware of any intention of management to dispose of certain assets (for example, these assets may be of importance to a community and may provoke reaction from the affected community about the intended disposal). Information should therefore be provided much earlier than what is currently required by IFRS 5.

- The requirements to disclose discontinued operations are often ignored if the “held for sale” requirements are not met.

Based on the feedback received, the ASB Board is revisiting the requirements of the local equivalent of IFRS 5 and has proposed to withdraw the “held for sale” requirements and replace these with disclosure requirements about the intention to dispose of any assets, as well as the timing and circumstances thereof. The requirements of IFRS 5 regarding the disclosure of discontinued operations will however be retained.

Based on our local experience, we would therefore not support the development of an equivalent of IFRS 5, particularly in relation to the measurement and presentation requirements for non-current assets held for sale. We would however strongly urge the IPSASB to consider whether the disclosures in the existing IPSASs provide sufficient, relevant information to users about the intended disposal of assets. We would also urge the IPSASB to consider developing presentation and disclosure requirements for discontinued operations, particularly in the light of the project on public sector combinations.

(i) *Presentation of Financial Statements* (Update of IPSAS 1 - underlying standard IAS 1)

Many of the amendments that will be required to IPSAS 1 to align it with IAS 1 relate to the notion of comprehensive income and other issues which have limited relevance to the public sector. It would be more useful and resource efficient to wait until the Conceptual Framework project has been completed so that IPSAS 1 can be revised to reflect public sector specific issues related to the presentation of financial statements.

(j) *Related Party Transactions* (Update of IPSAS 20, underlying standard IAS 24)

Our equivalent Standard on related party transaction and disclosures has been updated to reflect recent amendments to IAS 24 to the extent that they are public sector specific. While it is important to consider these amendments and the impact on IPSAS 20, we would not place a high priority on this project.

(k) *Revenue Recognition*

Similar to the lease project, we are of the view that exchange revenue transactions are “sector neutral” and as a result, the accounting requirements applied in the public and private sectors should be the same. As a result, we would not undertake any work on this project until the IASB has completed its project on revenue and the accounting requirements stabilised. It has taken a significant amount of time for the IASB to develop this Standard with a number of delays experienced during its development. For this reason, it may be more appropriate to identify other projects that can be progressed that are not dependent on the actions of external parties.

(l) *Segment Reporting* (Update of IPSAS 18, underlying standard IAS 14, superseded by IFRS 8)

When we started developing our equivalent Standard on segment reporting, we initially used IPSAS 18. On consultation with our constituents, it was indicated the information required by IPSAS 18, particularly in relation to segment assets and liabilities, could not be reported because of system constraints. As an alternative, we considered the requirements of IFRS 8. Our constituents received this approach more favourably. This approach allowed them to report the information that they used internally to report to management and did not require significant changes in existing data collection and processing systems.

We anticipate that similar experiences may exist in other jurisdictions and, as a result, would encourage the IPSASB to consider revising IPSAS 18 using the approach in IFRS 8. We would however not see this as a priority for the 2013-14 period. We do however note that the reporting of segment information has linkages with the service performance information project, and may facilitate reporting on this information.

(m) *Small and Medium Enterprises (SMEs)*

The ASB Board undertook a project in 2009-10 to assess whether (a) differential reporting is appropriate in the public sector (i.e. should there be different reporting frameworks for different types of entities) and (b) assess whether any simplifications in the IFRS for SMEs could be considered for in amending our local Standards.

The Board concluded that differential reporting is not appropriate, primarily because the users of the financial statements are the same for all entities. As a result, it would be inappropriate to report different information to the same users as this would be to the detriment of accountability and decision-making taken as a whole across government.

While there was support for some of the simplifications in the IFRS for SMEs, our constituents indicated that (a) accounting requirements are as complex or simple as the operations of particular entities and the underlying transactions that they enter into, and (b) it is not the requirements in the Standards that are complex, but their application in practice.

While it may be important to explore this as a research topic, we remain strongly of the view that differential reporting is not appropriate on the basis that the users of financial statements in the public sector are largely the same across a range of entities.

(n) *Social Benefits*

There is currently no definitive guidance that can be used to account for social benefit obligations which means that there is a significant amount of diversity in practice. Given the significance and complexity of this topic, our Board tentatively agreed to wait for the IPSASB to develop guidance in this area instead of issuing our own local Standard. Given the significance of these expenses and obligations (particularly in the current economic environment) we would urge the IPSASB to reactivate this project as soon as possible.

(o) *Sovereign Powers and their Impact on Financial Reporting*

Similar to the social benefits project, there is currently no comprehensive guidance on this area, other than the limited guidance in IPSAS 31 on *Intangible Assets*. We propose that the IPSASB commence development work on this project as a priority.

Part B – Responses to specific matters for comment

Question 1:

Considering the additional potential projects identified above and described in Appendix C, are there any other projects that you think need to be added to the list of potential projects?

While we would not support adding any additional projects to the work programme for the 2013-14 reporting period, we would urge the IPSASB to consider dealing with the Interpretations issued by the IASB in a more comprehensive and consistent manner, possibly as a separate project.

Question 2:

Which projects do you think the IPSASB should prioritize for 2013-2014? In your response you could consider providing your assessment of the 3 most important projects or a ranking of all projects on the list. Please explain the reasons for your answers.

Based on our responses above, we are of the view that the IPSASB should prioritise the following projects:

- (a) Amendments to IPSAS 23 *Revenue from Non-exchange Transactions (Taxes and Transfers)*.
- (b) Social Benefits.
- (c) Sovereign Powers and their Impact on Financial Reporting.

Question 3:

Please provide any further comments you have on the IPSASB's Work Program for 2013-2014.

We do not have any additional comments on the work program itself, but welcome the IPSASB's initiative to undertake this consultation on its work programme.