



Accounting Standards Board

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The Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street West
Toronto, Ontario M5V 3H2 Canada
Per e-mail

12 June 2018

Dear John,

COMMENT ON THE IPSASB'S STRATEGY AND WORK PLAN CONSULTATION 2019-2023

We welcome the opportunity to comment on the IPSASB's proposed strategy and work plan for 2019-2023.

The views expressed in this letter are those of the Secretariat and not those of the Accounting Standards Board (the Board). In formulating our comments, the Secretariat consulted with a range of stakeholders including auditors, preparers and other interested parties.

We are supportive of the IPSASB's proposed strategy and the five strategic themes. We do however have concerns about the number of activities the IPSASB is planning to undertake during the 2019-2023 period, which includes (a) the development and finalisation of projects on revenue, non-exchange expenses, leases, measurement and heritage, and (b) commencing work on public sector issues such as infrastructure assets.

While we are supportive of some of the projects the IPSASB proposes to undertake in 2019-2023, we believe it may be appropriate for the IPSASB to focus on fewer projects and complete these (potentially) in a shortened period of time, rather than doing too many at once. It may even be appropriate for the IPSASB to re-prioritise existing projects to focus on those critical to the public sector. We view the projects on revenue and non-exchange expenses as critical as they would ensure governments are held accountable, particularly when considering comparisons with the budget.

Board Members: Ms F Abba, Ms L Bodewig, Mr C Braxton, Mr K Hoosain, Ms I Lubbe, Mr K Makwetu,
Ms P Moalusi, Ms Z Mxunyelwa, Mr V Ndzimande, Ms N Themba,
Alternate: Ms M Sedikela
Chief Executive Officer: Ms E Swart, Technical Director: Ms J Poggiolini

We are also concerned about the number of significant projects that will be completed in the medium term, e.g. on financial instruments, leases, revenue, social benefits, non-exchange expenses, and whether entities applying IPSASs have the capacity to implement so many new Standards. We urge the IPSASB to not issue too many new pronouncements, allow entities sufficient time to implement new IPSASs, and to consider playing a role in providing guidance on the application of those IPSASs.

We believe that the ability of entities already applying IPSASs to (a) comment on pronouncements and participate in the due process, and (b) implement new standards, should be key criteria the IPSASB considers in prioritising its work.

To ensure that both current and potential IPSAS adopters, users of the financial statements, and others are informed of the IPSASB's work and its objectives, it may be appropriate to formalise stakeholder relationships and outreach activities. In particular, we believe that more formal arrangements with regional bodies and standard-setters would assist the IPSASB in its efforts.

Our detailed responses to the Specific Matters for Comment and other matters are outlined in Annexures A and B.

Please feel free to contact me should you have any queries relating to this letter.

Yours sincerely

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

Jeanine Poggiolini, Technical Director

ANNEXURE A - RESPONSES TO SPECIFIC MATTERS FOR COMMENT

Specific Matter for Comment 1

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

In principle, we agree with the proposed strategy for 2019-2023. We would however suggest the following amendment "Strengthening accountability and transparency in Public Financial Management (PFM) globally through increasing adoption of accrual based IPSAS." We believe that strategic objective should articulate the outcome of strengthened PFM, which is improved accountability and transparency.

Based on the information provided in the consultation document, it was unclear how the IPSASB would measure its success in fulfilling its strategy. While the setting of standards has measurable objectives, we are unsure how the IPSASB would measure its success in raising awareness of IPSASs and promoting their adoption.

Apart from the comments above, we would like to highlight the following regarding two components of the strategy.

Development of IPSASs and other high quality financial reporting guidance

Our stakeholders expressed concern about the number of significant projects already underway as part of the 2015-2018 work plan. In particular, concern was expressed about entities having to adopt the equivalent of IFRS 9 *Financial Instruments*, IFRS 15 *Revenue from Contracts with Customers*, and IFRS 16 *Leases* in the 2019-2023 period. Given the experience in the private sector, these standards are complex to implement and require a high level of resources. As entities in government are increasingly under pressure to reduce budgets, contain public sector salaries, and curb the use of consultants, preparers and auditors expressed the need for the IPSASB to:

- (a) Not develop too many new Standards and allow for the reporting framework to stabilise.
- (b) Allow entities sufficient time to implement the three (or more) complex IPSASs already in development.
- (c) Focus instead on ensuring that the IPSASs are consistently applied by jurisdictions by providing more support.

In response to (c) above, we are of the view that the IPSASB has a greater role to play in responding to application issues experienced by preparers and/or auditors. This includes three aspects:

- i. Establishing a mechanism where users of IPSASs can raise matters of interpretation with the IPSASB.
- ii. The IPSASB issuing authoritative, interpretative guidance on the application of IPSASs. This should include considering whether the existing interpretations on IFRS should be issued. We note that there are several existing interpretations that could be of value in resolving public sector specific issues, particularly on asset retirement obligations.

- iii. The IPSASB staff should issue more FAQs on common issues experienced in practice. More FAQs would be helpful in the absence of formal interpretive guidance issued by the IPSASB.

Raising awareness of IPSAS and benefits of accrual adoption

The consultation document seemed to focus on “new” entrants into accrual accounting and IPSAS adoption. There is a strong role for the IPSASB to play in ensuring that the benefits of adopting new IPSASs that are issued are fully understood by entities. The IPSASB should communicate clearly how adopting a new IPSAS aids with decision-making and holding entities accountable.

Specific Matter for Comment 2

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

We agree with the five strategic themes as they respond directly to the strategy and the key challenges outlined in the consultation document.

We do however question whether the IPSASB has the resources to focus on all five strategic themes simultaneously and whether it may be appropriate to consider prioritising some themes and projects over others. See our comments in Annexure B.

Specific Matter for Comment 3

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

We agree with certain aspects of the criteria, but believe their description and application needs refinement. We also do not believe the list is complete.

Description and application of criteria

Criterion	Comment
Prevalence	At present the criterion indicates that the “issue is widespread amongst public sector entities”. It is unclear whether this issue should be widespread in a jurisdiction, widespread regionally, globally etc. Clarification would help application of the criterion.
Consequences	Currently described as “impairs the ability of the financial statements to provide...”. The reference to “impairs the ability” is a negative statement and should be reconsidered by potentially referring to “impact”. The criterion currently only refers to “financial statements”. We believe this should be “financial reports” given the wider focus outlined in the strategy.

Criterion	Comment
Urgency	<p>Currently drafted as “Whether the emerging issue has recently gained significance and therefore requires consideration in the near term...”.</p> <p>It is unclear how “significance” will be measured. Significance needs to be assessed in relation to something else. This “something else” needs to be described.</p> <p>It is also unclear what time frame is considered “near term”.</p>
Technical and resource considerations	<p>Currently drafted as “Whether a technically sound solution can be developed within a reasonable time period using available resources”.</p> <p>While we agree that resources should be considered, we do not support the way this criterion has been crafted. At present, it seems to indicate that the IPSASB will only take on projects that can be resolved in a reasonable period of time and within available resources. If a significant issue needs to be resolved but will take a long period of time to complete and is resource intensive, it seems as if the IPSASB will not take this onto their agenda. We do not believe this is appropriate.</p> <p>We also were unsure what measure would be applied in determining “a reasonable period”.</p>

Additional criteria to be considered

We note that there are currently no criteria that focus on the IPSASB’s constituents. As consultation with constituents is critical to ensuring the relevance of the Standards, we believe that a criterion should be developed that assesses constituents’ ability to:

- (a) Comment on proposed pronouncements and participate in the standard-setting process.
- (b) Implement new pronouncements. It is not practical for the IPSASB to issue standards that cannot be implemented by entities because of capacity and other resource issues.

Specific Matter for Comment 4

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

Our comments on the proposed projects are outlined below.

We believe that the IPSASB could better leverage the work done by national standard-setters when it commences work on its projects, in particular, the issues being considered for the Work Plan 2019-2023.

Project	Comments
Natural resources	<p>Support for project.</p> <p>Agree that this project is necessary to ensure key resources are appropriately reflected in the financial statements when it is appropriate to do so.</p>
Differential reporting	<p>Support for initial research into the topic.</p> <p>This is likely to be a complex project as defining which entities should be allowed to use another reporting framework is likely to be difficult to agree across jurisdictions. We also note that “smaller” entities are often subjected to a higher level of scrutiny as most of their funding is received from government directly. We also note that the users of the financial statements in the public sector are unlikely to change based on the size of the entity, unlike in the private sector.</p> <p>While we acknowledge that the reporting burden is high for smaller entities, the issues can usually be resolved by identifying which Standards are not relevant and by applying materiality correctly.</p> <p>It is also unclear what the objective of this project would be, i.e. the development of another reporting framework (“IPSAS” light), or if it is to reduce disclosures for certain entities, etc. As a result, it is difficult to support that the IPSASB takes this on as a project.</p> <p>Given the potential resource implications, the difficulties in reaching consensus across jurisdictions, and the lack of clarity on the outcome of the project, we find it difficult to completely support this project.</p> <p>It may be appropriate as an initial step to understand what the key issues are, establish whether there is a clear need for a different reporting framework, and then decide whether the project should be progressed. As such, we support research into the topic during the 2019-2023 period.</p>
Discount rates	<p>Support for project.</p> <p>We support the addition of this project to the work plan for 2019-2023. We have seen in practice that there is a lack of understanding, and divergence in, how discount rates are selected and applied.</p>
Conceptual Framework	<p>Support for initial research into the topic.</p> <p>While we acknowledge the need to (a) consider the extent of alignment between the current IASB and IPSAS frameworks, and (b) the impact of the IPSASB’s Conceptual Framework on existing IPSAS, we believe that the timing may be inappropriate given the other complex projects already being undertaken as part of the</p>

Project	Comments
	<p>2015-2018 work plan and the new projects listed above.</p> <p>We note that the Conceptual Framework often has a low impact for preparers as they would primarily look to the IPSASs for guidance on specific transactions, and only use the Conceptual Framework where no guidance exists.</p> <p>We are concerned that revising the Conceptual Framework has the potential to be resource intensive and could re-open significant debates about, for example, measurement and the use of fair value.</p> <p>We support the IPSASB undertaking a research type project to firstly identify the differences between the IPSAS and IFRS frameworks, as well as the potential implications for the IPSASB's Conceptual Framework on existing IPSAS. Once the IPSASB has a better understanding of the nature, extent and scope of the issues, it can make a better informed decision about how to proceed.</p>

Specific Matter for Comment 5

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

The consultation document indicates on page 14 that “the need for this project has been raised by constituents who have identified concerns with the quality and usefulness of IPSAS 18. These constituents urged the IPSASB to consider convergence with IFRS 8 *Segment Reporting* and its applicability to public sector entities, as the potential to increase the usefulness of information for GFS.”

Given that there is an acknowledgment questioning the usefulness of the current information, it may be appropriate to better understand what the issues are and how, or if, these will be addressed through adoption of IFRS 8 *Segment Reporting*.

We also note that part of the objective in the consultation document is to increase the usefulness of GFS information. We are unsure how the approach in IFRS 8 could achieve this as the disclosures are less specific than IPSAS 18.

While we believe that segment information is helpful, particularly in linking financial statements to performance information, we believe that there should be an initial assessment of the objective and role of segment information in the public sector rather than an automatic adoption/convergence with IFRS 8.

Specific Matter for Comment 6

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

For Theme C, we are of the view that the IPSASB should develop an equivalent of the IASB's practice statement on materiality. We believe this would go a long way to resolving some of the existing application issues experienced in practice, including the application of IPSAS by smaller entities.

Specific Matter for Comment 7

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

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

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

We note the IPSASB's current and planned activities in these areas. As these two areas are a key part of the IPSASB's strategy we believe that the IPSASB should develop a stakeholder consultation plan and identify specific outreach events each year, along with identifying the specific objectives of those events. Much of the work in this area is done on an ad-hoc basis by staff and members. To establish and maintain a stakeholder network may require more considered planning, understanding the roles various stakeholders play, and how they can contribute to the achievement of the IPSASB's objectives. The outreach plan should also aim to include engagements with preparers, auditors and users of the financial statements, as well as other organisations like the World Bank and OECD. Each of these groups of stakeholders have a role to play in understanding the need for accrual accounting and its role in strengthening public financial management.

We also believe that the IPSASB could make better use of regional and similar bodies, for example, the African Union, Pan African Federation of Accountants, Eastern and Southern African Association of Accountants-General.

In order to facilitate the adoption of IPSASs, it may also be necessary for the IPSASB to keep Study 14 on the transition from cash to accrual accounting current based on new IPSASs issued.

ANNEXURE B - COMMENTS ON OTHER MATTERS

Existing projects on the 2015-2018 work plan

In commenting on the work of the IPSASB for the 2019-2023 period, we reflected on the current work being undertaken as part of the 2015-2018 strategy as well as the work that is yet to commence.

We note that there are a number of complex projects of high importance that are being undertaken, particularly on leases, revenue, non-exchange expenses and measurement. We also note that work is either pending or still to commence on heritage and infrastructure assets. From consultations with stakeholders, as well as our own experience in commenting on, and providing input into, these projects, we are of the view that:

- The IPSASB may already have too many active projects that would extend into the 2019-2023 period. As a result, it may be appropriate for the IPSASB to revisit and reprioritise its existing projects.
- It may be easier for the IPSASB to complete projects faster if there are fewer projects being considered by the IPSASB Board, staff and its constituents.
- More time could be spent on the initial researching/scoping of projects to ensure the end objective is clear, and the resource consequences are better understood.

We believe that it is critical that the IPSASB focus on completing the revenue and non-exchange expense project in the medium term as these are key measures used to hold governments accountable.

Theme C “Develop guidance to meet broader financial reporting needs”

Although there was no Specific Matter for Comment on the projects in Theme C, we believe the following may be relevant to the IPSASB’s work:

- (a) We note the importance of the application of materiality in the preparation of financial statements and other general purpose financial reports. We therefore place high priority to this project (see Specific Matter for Comment 6).
- (b) We do not believe that any of the Recommend Practice Guidelines (RPGs) should be mandatory. We believe that practice in these areas in many jurisdictions is insufficiently advanced for the RPGs to be mandatory. We are also unsure of the implications for asserting compliance with IPSASs in preparing the financial statements if the RPGs are mandatory and they are not applied.
- (c) One of the challenges outlined in the consultation document was the “accessibility of financial statements for non-specialist users and civil society needs improvement”. We did not identify any specific initiatives to overcome this challenge in the IPSASB’s proposed activities for 2019-2023. We believe that this challenge should be addressed by activities under Theme C. In particular, we believe the IPSASB could consider projects on:
 - (i) Educating users of the financial statements to understand what the financial statements mean and how they link to other accountability tools such as the budget and performance information. We also believe the IPSASB could assist in ensuring there is a clear “line of sight” between the budget, financial statements and performance information.

- (ii) Developing a guideline on how to report information, in an easily understandable format, on the financial statements and/or performance information to citizens and similar users.
- (d) Given the increase in adoption of IPSAS, as well as the need to make IPSAS information more accessible to users, it may be opportune for the IPSASB to consider the need for a taxonomy such as XBRL.
- (e) While liaison with other entities about, as an example, Integrated Reporting is important, we do not believe this should be a core activity of the IPSASB given the already full agenda and limited resources.

Building capacity of IPSAS preparers

Preparers and auditors consulted as part of this project expressed the need to strengthen the capacity of IPSAS preparers, as well as increase the number of preparers and auditors who understand IPSAS. We believe that the IPSASB has a vital role in promoting IPSAS education in professional accounting qualifications as well as at higher education institutions. We also believe that the IPSASB could partner with universities to undertake research in identified areas that could go some way in alleviating the resource burden on the IPSASB.