

# Differential Reporting **FEEDBACK STATEMENT**

January 2024



**IPSASB**

International Public  
Sector Accounting  
Standards Board®

## Feedback Statement Purpose

The IPSASB added Differential Reporting to its work program in March 2022, based on constituent responses to the [2021 Mid-Period Work Program Consultation](#). The aim of the project was to explore the potential development of an international differential reporting model. The first stage of any major standard-setting project is to conduct research and scoping activities.

The purpose of this Feedback Statement is to provide an overview of the project initiation, key outcomes from research and scoping activities, and the deliberations leading to the IPSASB's decision to support the development of practical support material instead of an international differential reporting model.

*This document has been prepared by IPSASB staff. It is a non-authoritative document issued for information purposes only.*

## A Brief History

The IPSAS literature includes a single set of accruals-based standards for all entities in the public sector.<sup>1</sup>

Public sector entities vary substantially in size, complexity, and capacity, and therefore may face challenges with adoption and implementation of the accrual IPSAS suite of standards. These adoption and implementation challenges generated interest in exploring whether an international solution, such as an international differential reporting model, is possible so that entities could obtain the benefits of accrual accounting without applying full IPSAS.

The IPSASB initially consulted on adding a differential reporting project during the strategic consultations between 2012-2018 but received limited constituent support. The IPSASB received greater constituent support in response to its 2021 Mid-Period Work Program Consultation. However, some constituents still shared concerns regarding whether an international standard-setting solution was achievable and feasible. The IPSASB decided in March 2022 to undertake research and scoping work to explore differential reporting, and to determine the nature and extent of a future project.

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<sup>1</sup> The IPSASB literature also includes an IPSAS for *Financial Reporting Under the Cash Basis of Accounting* (Cash Basis IPSAS), which is comprised of two parts: Part I is mandatory and Part II is encouraged but not mandatory. The Cash Basis IPSAS plays an important role in enhancing the quality of financial reporting by entities on cash basis of accounting and supporting entities in their transition to accrual IPSAS. The IPSASB encourages governments to progress to the accrual basis of accounting.

# Understanding the Public Need

## CONDUCTING RESEARCH AND SCOPING ACTIVITIES

The IPSASB undertook research and scoping activities through an open and inclusive process to better understand the issues, which included:

- a) **Reviewing existing differential reporting models**, to understand the different regimes in various public sector jurisdictions and in the international private sector, as well as in relevant academic research papers;
- b) **Further considering constituent feedback** to the 2021 Mid-Period Work Program Consultation received in formal public comment letters and from regional roundtable attendees from over 75 countries;
- c) **Analyzing the inputs provided** from international public sector representatives from approximately 40 countries with diverse perspectives (from different functional backgrounds, including preparers, auditors, academics, parliamentarians, standard setters, and others) at outreach events; and
- d) **Obtaining advice** from the IPSASB Consultative Advisory Group (CAG).



These activities helped the IPSASB better understand the public need which originally prompted interest in a standard-setting solution. They also explored the issues and challenges of developing an international differential reporting model, including identifying characteristics of entities that may be eligible to apply such a model, and what financial reporting approaches may be appropriate to provide relief to such entities. This enabled the IPSASB to identify the best solution to address the public need in its role as the global public sector standard setter.

## REFLECTING ON FEEDBACK AND UNDERSTANDING THE PUBLIC NEED

Several key considerations were identified through research and scoping activities which did not support development of an international differential reporting model for the public sector:

<p><b>Is it conceptually achievable?</b></p>	<p><b>Likely no</b> – Feedback highlighted the importance of remaining consistent with the IPSASB’s existing work. IPSASB members had a rigorous debate, and considered whether an international differential reporting model in the public sector would be consistent with its <i>Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities (Conceptual Framework)</i>. Ultimately, the IPSASB concluded that while there is a broad range of public sector entities internationally, they are all inherently publicly accountable. Thus, a conceptually-sound model is likely unachievable at an international level, as public sector entities that use (or will use) IPSAS vary substantially, and a separate or different set of financial reporting requirements applied by a select group of entities would not faithfully represent the substance of public sector transactions.</p>
<p><b>Is it practically feasible?</b></p>	<p><b>Likely no</b> – An international differential reporting model must reflect public sector realities and transactions. While public sector entities are all publicly accountable, they still vary substantially within, and across, jurisdictions. The IPSASB concluded that it might be difficult, if not technically infeasible, to determine a characteristic(s) to practically identify which entities could apply differential reporting at the international level. From a practical perspective, national standard setters are better able to make their own determinations based on their jurisdiction’s needs.</p>
<p><b>Does it address the public need?</b></p>	<p><b>Likely no</b> – The IPSASB concluded that, at its core, there is a public need for additional practical support with adoption and implementation challenges. These challenges are magnified by an entity’s capacity and resource limitations, which impede on the ability to understand and apply accrual IPSAS. Public sector entities often need additional practical support materials to better access and understand IPSAS and identify accounting guidance applicable to its transactions. However, an international differential reporting model likely would not appropriately or effectively address this public need nor mitigate challenges and could instead add new challenges. Therefore, alternative solutions should be considered.</p>

IPSASB members acknowledged that the IPSAS Handbook is lengthy, as it provides comprehensive guidance for all potential public sector transactions. Some entities may find it challenging to identify which pieces of accounting guidance are relevant and applicable to their entity’s transactions. Considering this public need, the IPSASB unanimously agreed that some form of support must be provided to help public sector entities better access and understand IPSAS, thereby supporting broader public financial management reform programs. The IPSASB considered how best to proceed, in its role as a standard setter, to support public sector entities in navigating, understanding, and applying IPSAS.



## Addressing the Public Need as a Standard Setter

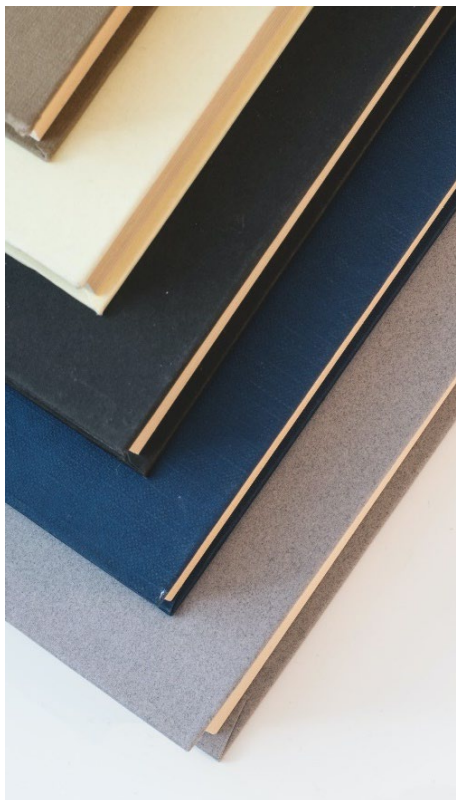
The transition to IPSAS rarely occurs in isolation but rather as part of a larger public financial management reform program, and acquiring adoption and implementation support is a significant challenge for many public sector entities. However, the IPSASB's core role and capabilities are as a standard setter, and adoption and implementation issues cannot be addressed by IPSASB on its own. As a standard setter, the IPSASB is not able to resolve the resource and capacity constraints of public sector entities but strives to create and maintain accounting guidance that is understandable, applicable, and appropriate.

Considering the public need and the IPSASB's role and capabilities as a standard setter, the majority of IPSASB members<sup>2</sup> concluded that they would support the development of practical support material to address the public need effectively and pragmatically, while avoiding potential technical and conceptual inconsistencies with the IPSASB's existing work and potential reputational challenges.

The IPSASB concluded that practical support material could help public sector entities better access, understand, and apply accrual IPSAS. This would improve access to the relevant guidance in the full accrual IPSAS and help ease the burden of adopting and implementing IPSAS, particularly for entities with resource and capacity constraints. Practical support material would serve as a guide to help an entity consider its transactions in the context of materiality, identify IPSAS requirements relevant to those transactions, and obtain a high-level understanding of the accounting principles.

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<sup>2</sup> Three members voted against a non-standard-setting approach because in their view, it may not provide expected relief, as it would not necessarily address the resource and capacity challenges faced by public sector entities in applying full accrual IPSAS, nor provide additional guidance on the application of materiality.



## The Way Forward

The IPSASB plans to engage a strategic partner, knowledgeable with IPSAS and implementation challenges, to develop the practical support material. This approach will help public sector entities to better navigate, understand, and apply IPSAS. The IPSASB has taken such an approach to develop other materials with strategic partners to help address resource and capacity issues in the public sector, such as those developed under IFAC adoption and implementation of international standards activities, including [Pathways to Accrual](#), [Train the Trainer materials](#), and [COVID-19 Intervention Assessment Tool](#). These practical support materials have and can continue to evolve with the IPSASB Standards and constituent feedback.

In light of its decision, the IPSASB officially completed its research and scoping activities, and removed the Differential Reporting project from its formal Work Program as it is no longer a standard-setting project. The IPSASB tasked IPSASB staff with engaging a strategic partner organization to execute the envisioned practical support material and ensuring the quality and vision of the proposed support material.

For further information about this initiative, please visit the [IPSASB website](#) or [contact IPSASB staff](#).

## Appendix A – Additional Information: Analyses and Decisions

The IPSASB and its Consultative Advisory Group (CAG) discussed this initiative throughout 2022 and 2023. The following table provides direct links to the IPSASB's analyses and decisions, and CAG advice.

Meetings	Analysis (Issue Papers)	Decisions or Advice (Minutes)
IPSASB September 2022	<a href="#">IPSASB papers</a>	<a href="#">IPSASB minutes</a>
IPSASB CAG December 2022	<a href="#">CAG papers</a>	<a href="#">CAG minutes</a>
IPSASB June 2023	<a href="#">IPSASB papers</a>	<a href="#">IPSASB minutes</a>
IPSASB September 2023	<a href="#">IPSASB papers</a>	<a href="#">IPSASB minutes</a>



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