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The International Public Sector Accounting Standards Board

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[Submission via website](#)

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Dear Ross

### **COMMENTS ON THE IPSASB'S MID-PERIOD WORK PROGRAMME CONSULTATION**

We thank you for the opportunity to provide comments on the mid-period work programme consultation. The ASB has a policy of converging with IPSAS when convergence is consistent with the ASB's mandate and strategy. As a result, the ASB has an interest in the ongoing work of the IPSASB and its strategic direction.

The comments outlined in this letter are those of the Secretariat of the ASB and not the Board. The comments have been formulated after limited consultation with our stakeholders which included preparers, auditors, technical experts, consultants, professional bodies and users.

Our comments on the IPSASB's proposals are outlined below.

#### **Major projects**

The IPSASB proposes undertaking major projects on the presentation of financial statements and differential reporting. Other projects considered by the IPSASB, but not proposed, relate to discount rates and tax expenditures.

##### *Presentation of financial statements*

Support for the project.

As the users of the financial statements in the public sector differ from those in the private sector, there is a potential need and/or motivation, for the presentation of financial statements to be different. A key consideration of this project should be to identify the information needs of public sector users when they review the primary financial statements.

In our experience, the presentation of information in the financial statements requires improvement – both from the standards-level requirements, but also how these requirements are applied by preparers in practice. The project should aim to address both components.

The application of judgement, including materiality, are key to improving the presentation of information in the financial statements. As a result, this project would have strong linkages to the development of a materiality practice statement (or equivalent).

Board Members: Mr C Braxton (Chair), Mr D Dlamini, Ms W de Jager, Ms K Maree,  
Dr P Masegare, Ms P Moalusi (Deputy-Chair), Ms A Muller, Ms N Themba, Mr A van der Burgh  
Chief Executive Officer: Ms E Swart, Technical Director: Ms J Poggiolini

### *Differential reporting*

Mixed support.

Some stakeholders strongly support the need for differential reporting, while others strongly oppose differential reporting.

Those that support differential reporting emphasised the constrained resources of entities and the need to alleviate the reporting burden. It was also observed that the IAASB has proposed different auditing requirements for less complex entities. The audit reform should be accompanied by an equivalent accounting reform. However, whether there is clear alignment between the audit and accounting reform is unclear at this stage.

The stakeholders that do not support differential reporting noted that conceptually, the principles in the reporting frameworks should be scalable to any entity's transactions, activities, operations, nature, size, etc. Materiality is the factor that should be applied to "scale" the reporting framework to an entity's circumstances.

The ASB considered the need for differential reporting twice. In both instances, the conclusion was that there should be no differential reporting. The reasons were as follows:

- The same principles should apply to all entities, and materiality should be applied to determine what principles in the Standards are most relevant to users of the financial statements. Again, we would place emphasis on developing a materiality practice statement as this may assist entities in simplifying their reporting.
- It was difficult to decide on a universal principle that distinguishes one entity from another for financial reporting purposes. We noted that the "small, less complex" entities, are often most reliant on government funding and the communities they service are highly dependent on the entity for basic services. Arguably, this emphasises the need for a comprehensive reporting framework rather than a more simplified one. The difficulty in identifying differentiating criteria existed despite knowing what entities exist in the local environment and understanding the activities they undertake, their financial significance, etc.
- Most governments subscribe to certain information being available internationally, particularly for statistical purposes. It is difficult to meet this objective if different information is generated by different entities.
- Most governments aim to prepare a whole-of-government consolidation (or a consolidation of the General Government Sector). This is not possible if different information is produced by different entities. As a result, consideration may need to be given by the IPSAS to the preparation of consolidated financial statements and the requirement to use uniform accounting policies in the economic entity.

If the IPSASB proceeds with this project, these issues would need to be carefully considered.

### *Discount rates*

Although this project was not identified as a major project by the IPSASB, given the complexity associated with determining interest rates, there was support for this project. There was an acknowledgment that any guidance would likely need to accommodate a range of jurisdiction specific issues which could make the project complex. For example, South Africa operates in a high interest rate environment in comparison to other countries that have zero, or negative

interest rates. These differences in interest-rate environments would make finding a uniform solution difficult.

Jurisdictions are also on different phases in their IBOR reforms, and as a result, it may not be the right time to address discount rates.

In summary, the proposal to not undertake work in this area during this period was supported.

#### *Tax expenditures*

This was a potential project considered by the IPSASB and ultimately not identified as a major project. Based on the deliberations leading up to publication of the consultation document, the scope of the project seemed to relate to rebates/reductions related to tax. Municipalities locally (there are 257 of them) levy property taxes and offer rebates. The project would be relevant to them as well as the central tax collection agency.

During the COVID-19 pandemic, governments offered various types of support. A significant component of the support was foregoing revenue on goods and services provided for all or certain categories of beneficiaries. For example, water and electricity was provided at no, or only a nominal fee. If the project was modified to include the measurement and/or reporting on “foregone revenue”, it may have more relevance to constituents and policy makers at a macro-economic level. The IPSASB may wish to consider modifying the scope of the project and including it its next strategy consultation.

#### **Minor projects**

- Practice statement on materiality – The development of a practice statement (or equivalent) should be a priority of the IPSASB. Materiality is a fundamental principle underpinning the preparation of the financial statements and comprehensive guidance is needed. Prior to developing the practice statement, the IPSASB may need to consider the “positioning” of materiality as an overall constraint in the Conceptual Framework as opposed to an aspect of relevance. From experience locally, it is difficult to apply materiality to the qualitative characteristics other than relevance.
- Impairment of non-cash-generating assets – The impairment of non-cash-generating assets is difficult in practice, and in particular, where assets are used for dual purposes. From local experience, the difficulties relate to identifying whether assets are cash or non-cash-generating and determining the value in use for non-cash generating assets. The determination of value-in-use could be resolved by the IPSAS on *Measurement*. The IPSASB would need to be clear about what issues need to be addressed, and/or whether additional guidance/changes would still be needed to IPSAS 21 on *Impairment of Non-cash-generating Assets* once the measurement project is finalised.
- Intangible assets – There was limited support for this project as there are few “genuine” intangible assets in the public sector. After completing our equivalent project on natural resources, we did not identify any new intangible assets that needed to be recognised. Unless there are other intangible assets that need to be addressed from other projects, we do not see the need for a new project on intangible assets. As an alternative, it may be more beneficial to revise IPSAS 20 on *Related Party Disclosures*. There have been a number of changes made to IAS 24 on Related Party Disclosures that would ensure better reporting of related party transactions.

- First-time adoption of IPSAS – The legislative environment in South Africa requires that the ASB determines transitional arrangements for different entities. As a result, the ASB has not issued an equivalent of IPSAS 33 on *First-time Adoption of Accrual Basis IPSASs*. If a key strategy of the IPSASB is promoting the adoption of its Standards, then IPSAS 33 should be modified to ensure it meets adopters' needs.

### **Sustainability reporting**

The importance of information on sustainability and accountants' role in its reporting is acknowledged.

As the IFRS Foundation's intention is to issue uniform international sustainability reporting standards, the role of the IPSASB should be to observe this process and identify public sector issues that may be relevant.

The initial focus of the International Sustainability Standards Board (ISSB) is likely to be assessing the impact of sustainability and related issues on entities. This would allow investors to measure the impact on individual entities. A later focus would be assessing entities' effect on the environment. As the IPSASB develops standards for a broad base of users and not just investors, the IPSASB's existing due process and procedures means that it is well positioned to consider sustainability and its effects more broadly. This expertise could be a useful input into the international process.

The IPSASB still has a significant amount of work to do to promote the adoption of IPSAS and ensure consistent application of the Standards. The resources of the IPSASB should primarily focus on financial statements. The involvement of staff and IPSASB Board members in sustainability reporting should be weighed against the work still needed on IPSAS and their adoption and application.

The IPSASB should consider whether there are any IASB projects that are public sector specific and should be observed, e.g. the project on rate regulated activities.

### **Other comments**

As the IPSASB moves into its next strategy consultation, stakeholders identified potential focus areas:

- Stakeholders acknowledged the need to "slow down" rather than introduce new or revised reporting requirements. Many implementers of IPSAS still find interpreting the Standards difficult. The IPSASB should focus on developing more application guidance to explain the principles in IPSAS.
- In an effort to improve the quality of the financial statements, the IPSASB should focus its efforts on "judgement based" financial reporting. For example, introducing objective based disclosure requirements along with applying materiality are good examples of how "judgement based" financial reporting could be introduced.
- As the adoption of IPSAS increases, the IPSASB should assess the effect of IPSAS adoption on the budget. For example, if an entity has a budget of CU100, how much of the budget is measured on an accrual basis and how much is still cash-based. This assessment will assess the actual implementation of accrual accounting in fiscal systems.

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

Your sincerely

A handwritten signature in black ink, appearing to read "Poggiolini". The signature is written in a cursive, flowing style with a large initial 'P'.

Jeanine Poggiolini

Technical Director