



**ACT**  
Government

Chief Minister, Treasury and  
Economic Development

Mr Ian Carruthers  
Chair  
International Public Sector Accounting Standards Board  
International Federation of Accountants  
529 Fifth Avenue  
New York, NY 10017 United States of America

Dear Mr Carruthers

***Proposed Strategy and Work Plan 2019-23***

The Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC) welcomes the opportunity to provide comments to the International Public Sector Accounting Standards Board (IPSASB) on their *Proposed Strategy and Work Plan 2019-23*.

HoTARAC is an intergovernmental committee that advises Australian Heads of Treasuries on accounting and reporting issues. The Committee comprises the senior accounting policy representatives from all Australian States, Territories and the Australian Government.

HoTARAC is generally supportive of the proposed strategic objective, strategic themes and work plan of the IPSASB for 2019-23. HoTARAC recommends that the IPSASB should include funding considerations and focus on full convergence with IFRS. HoTARAC also recommends the IPSASB to consider developing a strategy to address urgent issues for public sector entities.

The attachment to this letter sets out HoTARAC's response to the specific matters for comment. If you have any queries regarding our comments, please contact Peter Brown from the Australian Department of Finance on +61 2 6215 2969 or by email to [peter.brown@finance.gov.au](mailto:peter.brown@finance.gov.au).

Yours sincerely

David Nicol

Chair

Heads of Treasuries Accounting and Reporting Advisory Committee

28 June 2018

## Specific Matters for Comments

### Specific Matters 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.

HoTARAC agrees.

HoTARAC recommends that the IPSASB, either as part of its strategy or as a separate project, consider funding, as adequate resources will be required to progress the strategies developed and work program proposed.

### 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.

HoTARAC agrees, but recommends that the highest priority be given to convergence with IFRS.

Maintaining convergence with the most recent IFRS provides the best basis for developing a suite of standards for public sector use. IPSASs that are not aligned to the extent possible with IFRS will lead to unnecessary divergences between public and private sector accounting.

HoTARAC disagrees that IPSAS should not align with IFRS 17 *Insurance Contracts*. While these are less prevalent in the public sector, they do exist and it is desirable that private and public sectors account for these types of schemes in the same way. HoTARAC notes that not all IPSAS users will have the capacity to apply the sophisticated approach of IFRS 17 and suggests practical expedients be considered in developing the IPSAS.

### Specific Matters 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.

HoTARAC agrees to an extent, but recommends that the IPSASB focus on full convergence with IFRS as soon as possible.

HoTARAC would particularly encourage the IPSASB to focus on IPSAS and the introduction of a concept of Other Comprehensive Income (OCI). The absence of OCI under IPSAS complicates the process of convergence with IFRSs.

Introducing this concept would also assist in aligning with Government Finance Statistics (GFS), to the extent that GFS concept of 'other economic flows' matches items in OCI.

#### **Specific Matters for Comment 4**

Do you agree with the projects that the IPSASB proposes to prioritize 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.

HoTARAC agrees, with the following comments:

- Accounting for Natural Resources should not attempt to copy IFRS 6, but should be informed by it (as well as GFS);
- The discount rates project should not be limited solely to the recent phenomenon of negative real interest rates. It should also address the ongoing issue of volatility in results caused by use of “spot” discount rates rather than average discount rates; and
- Differential reporting is an opportunity to develop less complex requirements. This form of reporting could be applicable to entities with less overall financial risk, not purely small and medium sized entities. HoTARAC jurisdictions would be happy to share their experience with Australian differential reporting at the appropriate time. HoTARAC notes the comment on Page 12 of the Consultation Document regarding accountability for use of public funds. Our view is that lower levels of disclosure, if carefully targeted, should not result in reduced accountability.

#### **Specific Matters for Comment 5**

Do you agree with the projects that the IPSASB proposes to prioritize 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.

HoTARAC agrees.

HoTARAC recommends the IPSASB consider how to manage divergences between IFRS and GFS, as its policy is to align with both sets of standards. The IPSASB could consider a standard or a policy statement specifically on this issue.

One possible area to highlight is a stronger relationship between the IPSASB and the International Monetary Fund (IMF) to improve harmonisation between the statistical and accounting standards related to government reporting. HoTARAC is advised that the IPSASB attends the GFS advisory committee which meets every two years, but there could be other mechanisms to minimise and/or manage conceptual differences between GFS and IPSAS.

#### **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.

HoTARAC has none.

As noted above, HoTARAC’s view is that a significant priority is updates to IPSAS 1 for the concept of OCI. However, there may be benefit in waiting until the IASB has completed its current work affecting IAS 1, so a more comprehensive review can be undertaken. This could also involve some IPSASB work on the concept of Other Comprehensive Income as part of the limited scope review of the Conceptual Framework, since we believe the IASB has not adequately addressed the concept in its recently released Revised Conceptual Framework.

### **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 resourced.

HoTARAC agrees that the initiatives proposed are appropriate, and represent a logical continuation of the present approach. However, HoTARAC is also of the view that the IPSASB needs to take stock of the progress in implementing accrual accounting across jurisdictions. If the IPSASB is not satisfied with the progress, it may need to consider additional or alternative approaches. These might include:

- Identifying the real reason(s) behind reluctance to adopt accrual accounting;
- Advocating the benefits of accrual accounting directly to legislatures/financial markets/users and civil society. The international organisations mentioned on Page 19 of the consultation document are important (see the next point), but they are substantially already in line with the view that accrual accounting is desirable. It is others that need convincing
- Working more intensively with international organisations to actively implement accrual-based IPSAS e.g. actively partnering with organisations that can provide leverage and/or funding to encourage jurisdictions to adopt IPSAS

In presenting this view, HoTARAC acknowledges the resource constraints both on the IPSASB and on many jurisdictions that are potential adoptees of accrual-based IPSAS.

HoTARAC also agrees that initiatives such as Integrated Reporting (Page 30) should be monitored at a strategic level. Our view is that most of these initiatives are in need of further development before they can be applied widely to financial reporting.

### **Other Comments**

While acknowledging the IPSASB’s resource constraints, HoTARAC recommends the IPSASB to consider developing a strategy to address urgent issues that may, from time to time, emerge for public sector entities. Often such urgent issues (e.g. when narrow amendments or interpretations are required) need to be resolved in a timely manner but do not take a significant amount of staff and Board members’ time and effort compared to some more complicated projects. A streamlined process (e.g. by establishing a separate Interpretations Committee as suggested above for Question 4 or adopting an out-of-session voting system on urgent and non-essential issues) may serve the purpose to enhance the Board’s efficiency in addressing these issues.

### **Theme C**

HoTARAC’s view is that Theme C: Developing Guidance to meet users’ broader financial reporting needs is important in the medium to long term to provide adequate information to enable assessment of public financial management.

**Theme C - Continued**

HoTARAC notes some of the possible projects under this theme, set out in the Appendix on Page 29.

In this respect:

- Many public sector key financial indicators are already defined in the GFS system, and these indicators are used and accepted by international organisations;
- Basic cost accounting principles and methodology have been well established for many years and are commonly taught in undergraduate degrees. If the resulting cost information is to be used for (internal) management purposes, the logic of a standard or statement as part of a suite of documents relating to external financial reporting (such as IPSAS's) is unclear. There may still be a rationale for a statement on cost accounting, but the rationale requires further development.

