



Office of the Auditor General of Canada
Bureau du vérificateur général du Canada

13 June 2018

John Stanford
IPSASB Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street West, 6th Floor
Toronto, Ontario M5V 3H2

Dear Mr. Stanford:

Thank you for the opportunity to comment on the International Public Sector Accounting Standards Board's Consultation Paper on the *Proposed Strategy and Work Plan 2019-2023*. I am responding on behalf of the Office of the Auditor General of Canada.

We are pleased with the Board's progress over the last work plan period. With the conceptual framework and a new governance and advisory framework in place, the Board is now well positioned to continue to develop relevant public sector financial reporting standards that are in the public interest, with a focus on matters specific to the public sector.

We offer the attached responses to the questions posed to respondents. We trust that you will find these comments helpful in finalizing the Board's strategy and work plan. Should you have any questions, please do not hesitate to contact me at (613) 995-3708.

Yours sincerely,

Stuart Barr
Assistant Auditor General

Enclosure

Specific questions

1. Do you agree with the IPSASB's proposed Strategic Objective 2019-2013?

Yes, we agree with the proposed IPSASB's strategic objective. We note that it remains consistent, as we would expect, with the strategic objective under the current strategy "2015 Forward – Leading through change".

2. Do you agree with the IPSASB's five proposed Strategic Themes for the 2019-2023 period?

Yes, we agree with the proposed five strategic themes for the 2019-2023 period. We have no additional comment to provide.

3. Do you agree with the criteria the IPSASB has used in deciding the proposed issues to add to its Work Plan 2019-2023?

Yes, we agree with the proposed criteria. We have no additional comment to provide.

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)?

Yes, we agree with the proposed projects to address public sector specific issues, especially differential accounting, and natural resources.

We support the Board's proposal to consider a differential reporting solution to assist small and medium sized public sector entities, which represent a significant part of the public sector. In many instances, the cost and effort required to prepare IPSAS compliant financial statements far outweigh the benefits for smaller entities. They need a balanced approach that will allow them to discharge their accountability reporting obligations that also considers their limited capacity. We agree that now is the time to invest the Board's resources in developing a differential reporting solution, especially in the context of its current objective to promote broader adoption of IPSAS globally. With a proper differential reporting solution in place, the Board will increase its relevance and credibility with this important stakeholder community.

We agree that additional guidance addressing natural resources would be helpful. A significant question is whether natural resources controlled by a public sector entity or government should be measured and recognized as assets in the entity's financial statements before they are extracted. A fundamental question that needs attention is whether events or factors negatively impacting the natural resources of a government, like pollution, should impact a government's reported financial position or performance. If they would, governments would likely pay more attention to and better manage these risks.

Regarding the proposed project on discount rates, we agree the Board needs to consider the existing requirements for discounting throughout the IPSAS in connection with the current Public Sector Measurement project. However, to develop an approach that will make efficient use of the Board's limited resources, we encourage the Board to first consider the findings of the IASB research project on discount rates recently finalized, as some of these findings may also be relevant in the public sector context. We also note that the IASB plans to consider some of these findings as part of current projects, such as IAS 19 *Employee Benefits* and IAS 36 *Impairment of Assets* and future projects. Assessing the applicability of the IASB's research project findings to the public sector and monitoring the IASB's efforts to address some of these matters through the IPSASB's IFRS convergence strategy would in our view be an efficient approach.

5. Do you agree with the project that the IPSASB proposes to prioritize for addition to the Work Plan 2019-2023 on Theme B: Maintaining IFRS convergence (IPSAS 18, Segment Reporting)?

Subject to our comment made under Question 6 below, we have no concerns with the project proposed.

6. Are there any projects in Appendix A that you believe should be added to the Work Plan 2019-2023 in place of the 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 your reasoning.

IFRS 14, Regulatory Deferral Accounts

This topic is a significant matter in the public sector in Canada. There are long-standing significant public sector specific issues with regulatory deferral accounts not currently addressed by existing national private sector standards in this area, such as the independence of the regulator. While it may be too early to add this project to the IPSASB work plan, we encourage the Board to adopt a more proactive strategy to actively influence the development of IFRS from the outset rather than wait until the IASB completes its project. This may add to the credibility of IPSAS.

We also note from the strategy paper that an IPSASB project in this area would be limited to governments and regulatory bodies which have regulatory powers. We question whether such a limited scope would be sufficient for this project. We understand there are broader and more complex issues to consider for public sector entities that conduct regulated activities and are neither a government nor a regulatory body. We encourage the Board to take a broader look at issues currently experienced by regulated public sector entities.

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?

Theme D, Technical Guidance:

As IPSAS adoption continues to grow, first-time adopters will continue to experience implementation and interpretation issues, and the demand for additional application or interpretive guidance will also grow stronger. The Foreword section of the strategy document briefly acknowledges that the pace and scale of IPSAS adoption will continue to increase and the IPSASB will need to meet the practical requirements of an expanding user group. However, this phenomenon and potential strategies to address it are not well articulated under Theme D.

While Staff Questions and Answers noted in the document may be a step in the right direction, they may not be sufficiently robust to address the substantial demand for additional technical guidance that we foresee in the future. IPSASB should consider more robust mechanisms that will not rely on the Staff's limited resources, which must focus on the development of standards. Mechanisms similar to those used by the IASB, such as the IFRS Interpretations Committee and the transition resources groups (TRGs) recently used to support implementation of complex standards such as IFRS 15 *Revenues from Contracts with Customers* and IFRS 17 *Insurance Contracts*, should be considered.

We acknowledge the significant resources required to implement such mechanisms, which the Board may not currently have. But without formal mechanisms in place to actively monitor implementation challenges and assess the need to additional guidance, the IPSAS is exposed to the risk of wide divergence in the application and interpretation of IPSAS by different jurisdictions, which could impact the credibility of IPSAS. We encourage the Board to consider elevating this matter as an important strategic issue requiring further consideration.