

Comments and suggestions on the IPSASB Mid-Period Work Program Consultation for its Strategy and Work Plan 2019-2023

Task force IRSPM A&A SIG, CIGAR Network, EGPA PSG XII

November 30, 2021

The IPSASB has requested comments and answers to specific questions regarding its Mid-Period Work Program Consultation for its Strategy and Work Plan 2019-2023. The comments and responses prepared by the Task Force IRSPM PSA&A SIG, CIGAR Network and EGPA PSG XII are presented hereunder.

The IRSPM A&A SIG, CIGAR Network and EGPA PSG XII are three research networks that focus on Public Sector Accounting. The Task Force is made up of 17 researchers from these networks. The views expressed in this document represent those of the members of the Task Force and not of the whole research community represented by the networks, and neither of the Institutions/Universities with which they are affiliated.

Comments and suggestions considering the IPSASB document ‘Proposed Strategy and Work Plan 2019-2023’

Core assumptions

We are of the opinion that Public Financial Management (PFM), in its broadest sense, is the system by which public financial resources are planned, managed and controlled. Furthermore, the PFM system is the foundation on which the *accountability* of public sector entities, both external and internal, is built to enable and influence the efficient and effective delivery of public service outcomes and *to demonstrate value for money, especially towards citizens*. In our view, PFM is paramount for accountability and should support the stewardship function, as well as decision-making, which are subordinated.

We recognise the pivotal role of the Board in developing high-quality international public sector accounting standards to support financial reporting and to enhance non-financial disclosure by public sector entities to increase citizens’ trust. More specifically, we agree that “*strengthening Public Financial Management through increasing adoption of accrual-based IPSAS is more relevant than ever*”. Thus, we generally agree with the projects proposed in the Mid-Period work program consultation, to be addressed by the end of 2023.

We are of the opinion that, in general, public sector entities require public sector specific principles and standards that properly address and accommodate public sector specificities. As such, when public sector transactions resemble those taking place in the private sector, principles and standards may be kept as aligned as possible (Theme B – Maintaining IFRS Alignment). However, for public-sector-specific transactions, we are in favour of standards that are not adapted artificially from private sector accounting and we think there is a need to seek options that best fit the public sector (Theme A - Setting Standards on Public Sector Specific Issues). We also appreciate the efforts made by the Board in raising awareness of IPSAS and the benefits of accrual adoption (Themes D and E), as well as the usefulness of developing guidance to meet users’ broader financial reporting needs (Theme C). This core thesis underpins our proposals and recommendations herein.

Question 1

Do you agree with the major projects proposed by the IPSASB? If not, which major project(s) would you substitute for those proposed, and why?

Comment:

Agree. Further comments on specific themes and projects are provided hereafter.

Theme A: The IPSASB considers it necessary to develop standards on public sector specific issues

As already stated in the comments submitted to the first version of this Strategy Plan, we believe that in the development of standards on specific issues, a pivotal point to be considered is that of the trade-off between the benefits (in terms of transparency and accountability for those governments that do not regularly report on specific assets and liabilities or adopt a different reporting approach) and the burden for applying specific IPSAS. In this perspective, the principle of materiality should be considered to ensure that organizations do not burden themselves in order to comply with IPSAS for immaterial areas. For this reason, as further explained below, we would also encourage the IPSASB to prioritize the minor project on materiality.

Theme B: Maintaining IFRS alignment

As already indicated in the premise, the IFRS alignment is a fruitful approach when public sector transactions resemble those taking place in the private sector, but governmental accounting should not systematically be regarded only through the lens of business accounting. The conceptual framework for governments is different in that it covers situations that almost never occur in business enterprises such as collection of taxes, non-exchange transactions, investments in capital goods (e.g. military equipment) without any aim to earn revenue or profit, etc.

Project of Differential Reporting.

We agree that this project would allow the IPSASB to include some simplification for less complex public sector entities, providing specific guidance on the financial reporting of these entities. Addressing the needs of small and medium sized public sector entities should be a priority to favour a wider harmonisation process. This should mitigate many of the concerns of smaller entities as well as the cost of adopting IPSAS.

However, apart from the size and the complexity, we believe that the Board might also consider providing additional guidance concerning notes relating to the quality of the services provided and alternative reporting formats that are understandable by citizens. Those without specific accounting knowledge should be able to access, read and understand the financial information of a public entity; to evaluate the value-for-money of public services; and to assess how money levied through taxation has been employed to the benefit of the whole community. In this perspective, the next Work Plan 2024-2028 could also investigate technological (IT) means to disclose GPFR information. As the users of GPFR are also citizens, the exploitation of technology for GPFR may increase dissemination, accountability and transparency. The development of IT means would also be coherent with Theme C: Developing guidance to meet users' broader financial reporting needs.

Theme C: The IPSASB considers it necessary to develop guidance to meet users' broader financial reporting needs.

*We believe that **Recommended Practices Guidelines** represent a valuable tool to provide guidance on specific public interest needs related to the broader financial reporting space. We recognize the efforts and the support offered by the IPSASB in addressing sustainability reporting, with a special focus on SDGs. However, we would suggest preparing specific guidelines for sustainability reporting and SDGs. The RPG 1 and RPG 3 offer guidance on reporting on the long-*

term financial sustainability of public sector entities and service performance reporting, but do not provide guidance on environmental and governance matters. As a consequence, we would suggest providing at least some examples in the IPSASB Sustainability Reporting webpage and considering the addition of a specific project to be included in the 2024-2028 Strategy Consultation (planned for 2023). Perhaps a specific consulting body (similar to the ISSB for the IFRS Foundation) could be created to support the IPSASB in developing high-quality sustainability disclosure standards for public sector entities to stakeholders' information needs.

Question 2

Do you agree with the minor projects proposed by the IPSASB? If not, which minor project(s) would you substitute for those proposed, and why?

Comments:

Agree, see the following comments for details.

IPSAS 21, Impairment of Non-Cash Generating Assets

We appreciate the intention to provide specific guidance to clarify not only the concept of value in use in measuring the impairment of an asset, but more broadly to give examples to what extent assets held for public sector specific purposes have to be impaired. It is indeed very difficult to assess the value in use of an asset that does not generate a commercial return, since there is actually no financial reference to lean on. More specifically, we would also suggest linking this project with the need for simplified principles both for small and less complex entities, which might not have the necessary resources to implement complex accounting systems that can handle changes in the value in use.

IPSAS 31, Intangible Assets

We believe that this project is highly relevant for public sector entities, especially with regards to Natural resources. Nonetheless, once again, we would invite the Board to consider the possibility of having simplified guidance for small and/or less complex entities, as already mentioned above.

IPSAS 33, First Time Adoption of Accrual Basis IPSASs

We appreciate the undergoing efforts made by the Board in supporting developed and developing countries in the adoption of accrual accounting. We also believe it necessary to continue these efforts to investigate and communicate the concrete benefits of accrual accounting in strengthening PFM. In the process, we also see it equally important to consider a simplified approach for the adoption of IPSAS for small and medium sized public entities, taking into account an entity's size, business model, risk, organizational structure and political context. However, we recognise that simplifications in the process of IPSAS adoption will hamper comparability between financial statements of different public entities for a long time.

The scope of promoting accrual accounting is broader than promoting IPSAS or simplified IPSAS for small and medium sized public entities. To this end, the identification of actual cases in developing and developed countries, where accrual accounting adds value to PFM, should be further communicated, supporting the undergoing efforts. Moreover, cases where significant problems with specific IPSAS adoption have been faced could provide food for thoughts, suggestions and practice recommendations.

Making Materiality Judgements

We agree on including a project to support public sector entities to include only relevant information in their financial reporting in order to enhance understandability and support decision making by all relevant stakeholders. Nonetheless, we would like to encourage the IPSASB to take a fresh approach in the drafting of a relevant practice guideline, starting from a clean drawing board,

that is ready to accept public sector specificities without being already tainted with private sector reporting tendencies. We also believe, in accordance with criteria for project prioritization defined in the consultation document, that this project should be highly prioritised because sound disclosure requirements are crucial for both accountability and the stewardship function, as well as for consequent decision making. In the development of this project, we believe that the distinction between financial materiality for disclosing financial information and materiality in general (e.g. in cases of non financial information disclosure) should be made clear.

Further suggestions

The consultation has been prepared on the basis that a list of potential projects can be added to the current Work Program. However, the Board also declares that “Projects considered as part of this Consultation will be considered again as part of the 2024-2028 Strategy Consultation (planned for 2023).” In this context, we take the opportunity to suggest an additional specific project on budgeting. We note that the IPSASB continues to consider accrual accounting only for the preparation of GPFs. In the process, it is downplaying the central role that budgeting and budgetary accounting and reporting have for governments and public sector entities, also in the everyday operations. The setting up and authorization of governmental budgets by elected politicians are crucial for all public administrations. Often, the whole budgetary process is constitutionally defined.

Budgetary accounting is far more than cash accounting. It involves the recording and reporting of the activities across different stages. For example, for the expense cycle, we have the stages: (a) financial planning preparation; (b) approval of the budget; (c) funds warranted (appropriations); (d) recognition of the actual expense; (e) cash payment. Budgetary accounting may include multi-period budgetary planning, which is easier to reconcile with some accruals bases of accounting. Appropriations included in the budget can be expressed using different bases of accounting, with the cash basis being an alternative but not the only option.

The current IPSAS are lacking the study, analysis and integration of these traditional government accounting recordings and reports. Guidelines on how to apply accrual logic to budgetary accounting should be provided. Academics may be in a position to provide support and to liaise with the Board to examine this topic, also in examining different possible approaches and methods.

Furthermore, the presentation of relevant budgeting information in the financial reports would promote a holistic view of governmental financial issues. This perspective makes more relevant the updating and enhancement of IPSAS 24, which should also pay attention to the different stages in budgetary recording mostly preceding the accrual accounting recognition and recording. Budgetary accounting is actually a system of agreeing, authorizing and executing spending and (tax) income in predefined stages.

As a concluding and overarching suggestion, we want to highlight the need to develop and revise IPSASs overall, bearing in mind the importance of using a simplified language. Technical language might deter both non-accountants and also accountants with experience in budgetary accounting within the public sector. The IPSASB should avoid importing accounting jargon from the private sector and should use further practical and realistic examples from the public sector to illustrate how private sector accounting techniques are proposed for implementation within IPSAS. Additional technical guidance and examples should be developed, where necessary, to support the implementation of specific standards.

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