

## **Comments and suggestions on the IPSASB Proposals of ED67**

# **“Collective and Individual Services and Emergency Relief (Amendments to IPSAS 19)”**

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

The IPSASB has requested comments and answers to specific questions regarding its Proposed Amendments to IPSAS 19 covering Collective and Individual Services and Emergency Relief. The comments and responses prepared by the Task Force IRSPM A&A SIG, CIGAR Network and EGPA PSG XII are presented below.

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 18 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 for ED 67 ‘Collective and Individual Services and Emergency Relief (Amendments to IPSAS 19)’**

We welcome the opportunity to comment on the proposed amendments to IPSAS 19 contained in ED 67. We see the development of standards and guidance on matters that are specific to the public sector as being a particularly important part of the continuing programme of work of the IPSASB.

#### **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 discharge accountability towards citizens. In our view, PFM is paramount for accountability and should support the stewardship and decision-making functions, which are both 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.

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. 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. This core thesis underpins our proposals and recommendations within which we have sought to embed issues raised in academic works.

### **Specific Matter for Comment 1**

**Do you agree with the definitions of collective services and individual services that are included in this Exposure Draft? If not, what changes would you make to the definitions?**

#### **Response:**

We support the definitions provided in respect of the distinction made between collective and individual services. We note that the definitions used in ED 67 draw upon those given in ESA2010, which could provide a basis for examples of expenditure falling into each category.

It appears that the only distinction between 'social benefits' in IPSAS 42 and 'individual services' in AG6/7 is that the former represent cash transfers, while the latter excludes these. We recommend that the definition of 'individual services' should be extended to refer to them excluding direct cash transfers and equivalent transactions made to individuals or groups.

It would be useful for the Board to offer a more precise definition of what can be viewed as addressing 'the needs of society as a whole' as opposed to the needs of specific individuals or groups. This is important because the proposals of ED 67 appear to be premised upon (i) making no provision for services which address the needs of society as a whole; but (ii) possibly making provision for emergency relief services as they do NOT address the needs of society as a whole.

### **Specific Matter for Comment 2**

**Do you agree that no provision should be recognized for collective services? If not, under what circumstances do you think that a provision would arise?**

#### **Response:**

We agree with the proposed approach that no provision should be recognized for the intention to deliver future collective services, for the reasons indicated in ED 67.

### **Specific Matter for Comment 3**

**Do you agree that no provision should be recognized for individual services? If not, under what circumstances do you think that a provision would arise?**

#### **Response:**

We agree with the proposed approach that no provision should be recognized for the intention to deliver future individual services, for the reasons indicated in ED 67. An exception to this general approach, described below, applies when a voucher scheme creates a present obligation arising from a past event and where a reliable estimate can be made of the expected resulting outflow of resources.

We agree that the reimbursement of the costs of services or the provision of vouchers to cover part of the costs of services, implies that these are individual, rather than collective, service costs (AG8 / AG9). A provision would be needed for the costs of reimbursement, if material, of those vouchers that have been activated during a particular accounting period, where the reimbursement to the individual or to the supplier is made in the following accounting period. A provision is needed in those cases when a reliable estimate can be made of the value of these future reimbursements, in line with IPSAS 19 paragraph 22. The difference between the face value of reimbursements from vouchers effective at the balance sheet date and the amount provided should be reported as a contingent liability, following IPSAS 19 paragraph 100.

The accounting treatment described above is based upon an interpretation of voucher schemes as giving rise to an obligation of a public sector entity because the service derives from an exchange transaction under which the holder of the voucher is reimbursed from public funds for all or part of a service. A different interpretation of voucher schemes is that they result in a type of cash transfer, as such schemes usually indicate a maximum cash value for reimbursement. The Board might wish to consider whether vouchers are equivalent to cash transfers and should be classified as Income Support under IPSAS 42.

#### Specific Matter for Comment 4

**Do you agree with the proposed accounting for emergency relief? If not, how do you think that emergency relief should be accounted for?**

##### **Response:**

We agree that the accounting treatment of expenditure on emergency relief should be based upon the broad criteria existing in IPSAS 19. The guidance given in paragraphs AG20 and AG21 should be made more explicit than is currently stated. There will usually be a number of different stages of the relief programme<sup>1</sup>. For example, the impact of an emergency of national importance is that there will usually be a need to provide immediate humanitarian relief to the persons affected. This might be indicated by an announcement of a formal 'state of national emergency'.

We would emphasize that a disaster in a country or in an economy is not necessarily the same as a disaster for a government or particular public sector entities. Even a whole of government account is not same as the whole economy. In other words, the government is not automatically responsible for the consequences of a disaster and its relief. The Board should consider extending its guidance to emphasise that government responsibility, and thus the accounting consequences of recognition and disclosure, depend upon political structures, legislation and governmental decisions. We cannot have accountants pre-determining the political decisions involved in deciding how the government should respond to a particular emergency situation.

We suggest that the Board seeks to provide a clearer definition and description of emergency relief than is given in ED 67. For example, the current description (AG18), indicates that "goods and services delivered through emergency relief do not address the needs of society as a whole". However, emergency relief might include measures that provide both collective benefit, such as infrastructure spending, as well as individual support. There may also be a need to distinguish local / national programmes from international support. For example, it is possible that local government relief efforts are seen to address the needs of its (local) society as a whole, whereas international aid is targeted at individuals in need.

We note that ED 67 appears to limit its consideration to natural events that trigger emergency relief. The Board should consider whether other types of events, such as financial crises, should be included in the scope of emergency relief as these have triggered even larger government interventions in recent years in many jurisdictions.

We think that, following the mobilisation of a relief effort and / or the announcement of a state of national emergency, a contingent liability should be disclosed concerning the estimated additional costs of those emergency relief plans which a government has indicated it will undertake. We think that paragraph AG21 could be made more explicit to support the disclosure of a contingent liability (if its probability is not 'remote'), rather than its current requirement that the entity should merely 'consider' whether disclosure is required.

Paragraph AG22 considers those circumstances where emergency relief is delivered as a continuing activity of government or other public entity. We consider that this is most likely to be the case where there is a unit within government, or sponsored by government, which deals with the planning of and preparation for emergency relief events. Such continuing costs might include research and development, early warning and response communication systems along with education and training for employees and volunteers. We agree that the ordinary activities of such an entity should not result in a provision for emergency relief since they are expensed when they accrue on a regular basis (AG22). The mobilisation of a relief effort and / or the announcement of a state of emergency, however, should again be sufficient to trigger disclosure, as a contingent liability, of the expected additional costs of emergency relief. This would ensure consistency with the approach adopted in those cases where there is no entity carrying out continuing activities.

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<sup>1</sup> Baker, C.R. (2014) "Breakdowns of accountability in the face of natural disasters: The case of Hurricane Katrina", *Critical Perspectives on Accounting*, vol. 25, pp. 620-632; and Sargiacomo (2015), *op.cit.*

## Other matters in the accounting for collective and individual services and emergency relief

The accounting issues considered within ED 67 are restricted to decisions on the recognition of costs, provisioning and contingent liabilities, presumably because the exposure draft is designed to provide amendments to IPSAS 19. However, there are other related accounting issues that the Board might consider within its future work programme.

It will be helpful to preparers and users if the Application Guidance was extended to provide a clearer indication of the categories of cost to be included (or excluded) from the determination of the costs of emergency relief. Accounting classification schemes have been shown to influence the scope and scale of emergency relief activities<sup>2</sup>. Guidance on cost classification would help to improve consistency in the application of standards to improve the opportunities for international comparative assessments.

A conflict in the timing of non-exchange revenue and non-exchange expenditure may arise in the case of public bodies that receive non-exchange revenue for the purposes of funding the cost of collective and individual services and emergency relief. The non-exchange revenue might be recognized immediately, depending upon the accounting that develops from the IPSASB Consultation Paper, while the future costs to be funded from that revenue would not be recognized under the proposals in ED 67. This would give a misleading (over-positive) impression of the financial position of the entity at the end of the reporting period. We suggest that the IPSASB gives further consideration to the potential mismatch in the reporting of non-exchange revenue and expenses; for example, a proposed future ED on Grants and Transfers should provide an approach which is consistent with ED 67. One solution might be to allow entities to defer non-exchange revenue to future periods to enable the subsequent matching of income and expenditure.

It is apparent that an option open to governments is to fund the cost of emergency relief either before the event (ex-ante building of an investment fund), after the event (ex-post funding and accounting) or by some combination of the two<sup>3</sup>. If ex-ante funding is adopted through the creation of special purpose entities, which build up funds for emergency relief, it would be appropriate for disclosure of (a) the accounting and investment policies followed, and (b) any restriction on the use of the resources to particular categories of events. The effectiveness of ex-ante special purpose funding may be reduced if it is controlled directly by government and there are no restrictions to prevent the 'raiding' of funds to cover other costs not anticipated when the fund was set up<sup>4</sup>. We therefore recommend that disclosure of the governance arrangements for such entities should be made, together with details of its investment policies and any significant restrictions on investments laid down by the relevant government departments.

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<sup>2</sup> Sargiacomo (2015), "Earthquakes, exceptional government and extraordinary accounting", *Accounting, Organizations and Society*, vol. 42, pp. 67-89.

<sup>3</sup> Phaup, M. and Kirschner, C. (2010), "Budgeting for Disasters: Focusing on the Good Times", *OECD Journal of Budgeting*, vol. 10, no. 1, pp. 1-24.

<sup>4</sup> Newberry, S. (2016), "Debate: Climate change and (financial) sustainability – special purpose disaster funds as disaster preparedness?", *Public Money & Management*, vol. 36, no. 4, pp. 235-238.

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Signed on behalf of those persons listed below

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