

**IPSASB Strategy Consultation
AASB Staff Issues Paper**

Introduction

- 1 The International Public Sector Accounting Standards Board (IPSASB) issued a Strategy Consultation Paper (CP) in March 2014 and requested comments by 31 July 2014. This issues paper has been prepared by AASB staff with the intention of identifying the main issues and comments that could be made in an AASB submission to the IPSASB in respect of the CP.
- 2 The objective of the Strategy Consultation is three-fold:
 - (a) the IPSASB would like comments on their proposed strategic objective and the outcomes, outputs and feedback mechanisms that will aid in achieving this strategic objective.
 - (b) the IPSASB is seeking comments on the future of the Cash Basis IPSAS; and
 - (c) as a result of consultation on its work program in 2012, there are a number of potential projects that could be added to the ISASB's 2015-2019 work plan as and when resources become available and the IPSASB is seeking views on which projects should be prioritised
- 3 There are eight questions for respondents, these and staff comments are detailed below.

Question for Respondents – 1

Do you agree with the IPSASB's tentative view on its strategic objective for the period from 2015 forward? If not, how should it be revised?

Background for Question 1

- 4 The factors the CP considers when developing the IPSASB's tentative strategic objective are the environment in which the IPSASB works and how the IPSASB operates.
- 5 The CP suggests the key environmental issues that affect the future direction of the IPSASB are:
 - (a) an increased focus on public sector financial management – the sovereign debt crisis highlighted the seriousness of poor financial management and financial reporting in the public sector;
 - (b) a momentum in adoption of IPSASs globally – the focus on public sector financial management has led to an increased interest in IPSASs and a strong trend towards their adoption;
 - (c) completion of the public sector conceptual framework – finalising the IPSASB *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* continues to be the IPSASB's top priority. Due for completion in September 2014, the IPSASB considers this is critical in ensuring that

IPSASs are internally consistent and are suitable for the specific needs of the public sector.

- (d) governance and oversight – to maintain the IPSASB’s reputation as the international public sector standard setter it is necessary to implement public interest oversight of the IPSASB. This process has begun with the IPSASB Governance Review Group seeking comments on three models (the AASB responded to this consultation document). The CP states:

It is important that the IPSASB has public interest oversight in order that those adopting the standards are assured that the IPSASB is acting in the public interest and that its standards result from widespread and carefully considered comment from interested stakeholders around the world. Creating an oversight regime will also help provide assurance that the IPSASB can independently and rigorously address public sector financial reporting issues.

- 6 The IPSASB operates using a range of policies and procedures that largely mirror other standard-setting bodies. These policies and procedures address due process, nominations, reviewing and modifying IASB documents and having consideration to Government Financial Statistics (GFS) reporting, voting procedures and utilising task forces and task based groups.
- 7 The IPSASBs operations are also influenced by resource constraints. Funding is provided by the International Federation of Accountants (IFAC) (approximately 50%) with the remainder funded from external organisations, including governments, professional accountancy organisations and development banks.
- 8 The current staffing level is at 7.5 full time equivalents, therefore the IPSASB relies on in-kind contributions of staff resources from other organisations. All IPSASB members, including the chair, are volunteers therefore the IPSASB is reliant on the support of those volunteers’ organisations. Currently the IPSASB meets four times a year for four days at each meeting, however, it is possible that there may be scope for this to increase to five days per meeting.
- 9 As the adoption of IPSASs increases there will be more call to address more financial reporting issues, which will put more pressure on their resources.
- 10 Therefore, going forward it is important that the IPSASB remains focussed on public sector specific issues such as convergence with IFRSs or public sector specific projects such as social benefits.
- 11 Having regard to the environment in which the IPSASB operates and the resources available, the following tentative strategic objective for 2015 onwards has been proposed:

Strengthening public financial management and knowledge globally through increasing adoption of accrual-based IPSASs by:

- (a) developing high-quality financial reporting standards;
- (b) developing other publications for the public sector; and
- (c) raising awareness of the IPSASs and the benefits of their adoption.

Staff recommendation

- 12 Staff generally agree with the tentative strategic objective. However, staff consider that the first objective, in the sub-paragraph listing, should be to ‘develop and maintain a high-quality conceptual framework for the public sector’. Staff also suggest that sub-paragraph (a) of the tentative strategic objective above should include the term ‘public sector’, similar to sub-paragraph (b) so as not to confuse this objective with IFRSs or financial reporting standards from other standard-setters.

Question 1 to the Board

Does the Board agree with the staff recommendation in paragraph 12?

Question for Respondents – 2

Do you think that the two outcomes identified are appropriate for achieving the strategic objective? If not, what outcomes do you think are more appropriate?

Background for Question 2

- 13 The CP states that ‘credible and transparent financial reporting is in the public interest. It has the potential to improve decision-making in the public sector facilitate holding governments more accountable to their citizens and enhance global fiscal stability and sustainability.’ The CP further suggests that the adoption of accrual accounting is a fundamental step governments can take to improve their financial reporting and public financial management.
- 14 Therefore, in order to meet the strategic objective of strengthening public financial management, the IPSASB has identified two outcomes that it seeks to achieve:
- (a) improved ability of public sector entities to reflect the full economic reality of their finances as well as of stakeholders to understand; and
 - (b) increased awareness of IPSASs and their public finance management benefits in order to influence their adoption.

Staff recommendation

- 15 Staff agree that the stated outcomes are appropriate for achieving the tentative strategic objective.

Question 2 to the Board

Does the Board agree with the staff recommendation in paragraph 15?

Question for Respondents – 3

Do you think that the outputs identified will assist in achieving the outcomes? If not, what outputs do you think the IPSASB should focus on?

Background for Question 3

- 16 The outputs envisaged by the IPSASB to achieve its suggested outcomes are as follows:
- (a) developing high-quality financial reporting standards and other publications for the public sector; and
 - (b) undertaking presentations, speeches and other outreach activities in order to engage with stakeholders.

Staff recommendation

- 17 Staff agree with the suggested outputs and agree that the outputs will assist in achieving the IPSASB's suggested outcomes.

Question 3 to the Board

Does the Board agree with the staff recommendation in paragraph 17?

Question for Respondents –4

What changes to feedback mechanisms should the IPSASB make to ensure it is fully informed about the views of its stakeholders?

Background to Question 4

- 18 As mentioned in paragraph 6 (above), the IPSASB uses many policies and procedures that mirror other standard-setting bodies. The IPSASB's consultation process is largely similar to the IASBs/AASBs whereby consultation with stakeholders is via a consultation paper and/or an exposure draft that is intended to lead to an IPSAS or Recommended Practice Guideline (RPG). The IPSASB also engages with stakeholders by members, including the Chair, participating in meetings and conferences and undertaking significant outreach globally.

Staff recommendation

- 19 As IPSASs are adopted by more jurisdictions, it is likely that more queries will arise regarding the implementation of standards. Therefore, staff recommend that the IPSASB consider introducing a feedback loop with post implementation reviews to address any implementation issues. The downside is that such a process will require resources that may detract from the main objective of setting high-quality standards.

Question 4 to the Board

Does the Board agree with the staff recommendation in paragraph 19, that the IPSASB should consider implementing an interpretations process?

Question for Respondents – 5

Do you agree with the five key factors the IPSASB considers in deciding to initiate a project and assessing its priority? Are there other factors you think should be considered?

Background to Question 5

- 20 The IPSASB's work program is aimed at developing and maintaining accrual-based IPSASs and RPGs. The second part of the CP seeks views on how the IPSASB should prioritise potential new projects for the period 2015-2019, taking into account the resource limitations mentioned.
- 21 When setting its work program the CP suggests five key factors to be considered in deciding whether to initiate a project and assessing its relative priority. These factors are:
- (a) significance for the public sector – generally this would be a public sector specific project that has high relevance to the public sector, likely for which there is no equivalent private sector issue;
 - (b) urgency of the issue – developments globally may result in changes in the environment and therefore an issue becoming more important e.g. financial instruments;
 - (c) gaps in standards – the project addresses an issue that has not previously been addressed in IPSASs or RPGs;
 - (d) IFRS convergence – the project meets the goal of convergence with the IFRSs where deemed appropriate; and
 - (e) alignment with GFS – the project helps to reduce divergence between the IPSASs and GFS.

Staff recommendation

- 22 Staff agree with the five key factors for deciding on whether the IPSASB should initiate a project.

Question 5 to the Board

Does the Board agree with the staff recommendation in paragraph 22?

Questions for Respondents – 6

Do you think the Cash Basis IPSAS is a valuable resource in strengthening public finance management and knowledge globally by increasing the adoption of accrual-based IPSASs?

Background to Question 6

- 23 In November 2008, the IPSASB committed to a project to review the Cash Basis IPSAS. The objective of this review was to identify the major difficulties that public-sector entities had encountered in applying the Cash Basis IPSAS and to determine whether it should be modified or if further guidance should be provided.
- 24 A Task Force report issued in May 2010 noted that this IPSAS was not widely adopted and the identified obstacles to its adoption are as follows:

- (a) the application of a ‘pure’ cash basis model;
 - (b) the requirement for full consolidation;
 - (c) differences between jurisdictions legislation and practice and the Cash Basis IPSAS;
 - (d) a need for addition training and support; and
 - (e) specific “technical” requirements that gave rise to implementation issues in certain jurisdictions.
- 25 The size and the structure Cash Basis IPSAS were also seen to be not user friendly.
- 26 The Task Force recommended retaining the Cash Basis IPSAS with some modification and restructuring. These changes were to be issued in an ED but at the time, due to the sovereign debt crisis, the IPSASB’s focus was on the accrual basis IPSASs, so the project was deferred. It was intended to seek external funding to continue the project but to date there has not been any commitments made for such funding.
- 27 The adoption of the Cash Basis IPSAS was not as great as the IPSASB expected and the experience of those adopting it was varied. Some jurisdictions have used it to transition to full accrual IPSASs and other jurisdictions had intended to do this but instead went straight to full accrual IPSAS.
- 28 The IPSAS has a sense that the Cash Basis IPSAS has not been used as intended and one of the reasons cited is that it was seen as a retrograde step because many jurisdictions were already on a modified cash basis.
- 29 However, the Consortium of Governmental Financial Management have encouraged further work on the Cash Basis IPSAS as it is seen to be important to developing economics.

Staff recommendation

- 30 Given that the adoption of the Cash Basis IPSAS was not as great as anticipated and that it is not being applied as intended, staff do not consider it to be a valuable resource in strengthening public finance management and knowledge globally by increasing the adoption of accrual-based IPSASs. See also comments made at paragraph 32 below.

Question 6 to the Board

Does the Board agree with the staff recommendation in paragraph 30?

Question for Respondents – 7

Of the three options identified in relation to the Cash Basis IPSAS, which would you recommend the IPSASB select? Please provide the rationale for your recommendation.

Background to Question 7

- 31 Regarding the future of the Cash Basis IPSAS, the CP proposed three viable options, these being:
- (a) retain the Cash Basis IPSAS and complete the review project using existing IPSASB resources – this would mean issuing an ED that addresses the Task

Force's recommendations, analysing responses and finalising a revised Cash Basis IPSAS;

- (b) retain the Cash Basis IPSAS unchanged – this would mean suspending the review project and doing no further work on the IPSAS; or
- (c) withdraw the Cash Basis IPSAS from the IPSAS Handbook – this could be immediate or at some future date.

Staff recommendation

- 32 Staff consider that because the IPSASB's proposed strategic objective is focussed on accrual-based IPSASs, and considering the IPSASB's resource constraints, the recommended course of action would be to withdraw the Cash Basis IPSAS, or at a minimum do no further work on it.

Question 7 to the Board

Does the Board agree with the staff recommendation in paragraph 32?

Question for Respondents – 8

Considering the various factors and constraints, which projects should the IPSASB prioritize and why? Where possible please explain your views on the description and scope of the project.

Background to Question 8

- 33 The IPSAS has four current projects that the CP states are intended to be completed by the end of 2014 (however, the IPSASB's current work plan, on their website, has different completion dates). These projects are as follows with the updated completion dates shown in brackets:
- (a) public sector conceptual framework (September 2014);
 - (b) reporting service performance (September 2015);
 - (c) review of IPSASs 6-8 (December 2014); and
 - (d) first-time adoption (March 2015).
- 34 Once these projects are completed, it will free up resources for projects that were approved and committed as a response to a public consultation in July 2012. These projects and their estimated completion dates are as follows:
- (a) public sector combinations – completion 2015;
 - (b) government business enterprises – completion 2015;
 - (c) update of financial instruments (IPSASs 28-30) – completion to be determined based on IASB work;
 - (d) public sector financial instruments – completion 2016;
 - (e) IPSASs and GFS – reducing differences – ongoing activities, timing to be determined;
 - (f) emissions trading schemes – completion 2017; and
 - (g) social benefits – completion 2017.

- 35 Other projects that were identified from the 2012 consultation are attached as an Appendix to this paper and a brief description of these projects can be found in Appendix A to the CP.

Staff recommendation

- 36 Consistent with the AASB's comment letter to the IPSASB's CP *Consultation on IPSASB Work Program 2013-2014* in November 2012, staff consider that projects on Emissions Trading Schemes and Improvements to IPSAS 23 *Non-Exchange Revenues* should be addressed as a matter of urgency. Aside from these two projects, and the projects to converge with IFRS, staff have no particular view on which other projects the IPSASB should prioritise and invites the Board's views on which projects the IPSASB should add to their work program for 2015-2019.

Question 8 to the Board

Does the Board agree with the staff recommendation made in paragraph 36 regarding prioritising projects on Emissions Trading Schemes and Improvements to IPSAS 23?

Question 9 to the Board

From the projects listed in Appendix A to this paper, does the Board have any particular view as to which other projects the IPSASB should prioritise?

Potential Projects

Projects to Address Public Sector Specific Issues	Projects to Maintain Existing IPSASs	Projects to converge with IFRS	Other Projects
<i>Biological assets held for the provision or supply of services</i>	<i>Borrowing Costs IPSAS 5</i>	<i>Extractive Industries (IFRS 6 interim standard but no comparable IPSAS)</i>	<i>Differential Reporting</i>
<i>Heritage assets</i>	<i>Construction Contracts IPSAS 11</i>	<i>Insurance Contracts (IFRS 4 interim standard but no comparable IPSAS)</i>	<i>Integrated Reporting</i>
<i>Infrastructure assets</i>	<i>Disclosure of Financial Information about the General Government Sector IPSAS 22</i>	<i>Non-current Assets Held for Sale and Discontinued Operations (IFRS 5 but no comparable IPSAS)</i>	<i>Interim Financial Reporting</i>
<i>Intangible assets – public sector specific</i>	<i>Employee Benefits IPSAS 25</i>	<i>Rate Regulated Industries</i>	
<i>Measurement – public sector specific</i>	<i>Improvements to IPSAS 23 Non-Exchange Revenues</i>		
<i>Military assets</i>	<i>Leases IPSAS 13</i>		
<i>Natural resources</i>	<i>Presentation of Financial Statements IPSAS 1</i>		
<i>Non-exchange expenses</i>	<i>Related Party Transactions IPSAS 20</i>		
<i>Role of government as owner rather than government</i>	<i>Revenue IPSAS 9</i>		
<i>Sovereign powers and their impact on financial reporting</i>	<i>Segment Reporting IPSAS 18</i>		
<i>Trust funds</i>			