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Ms Kris Peach
Chair
Australian Accounting Standards Board
PO BOX 204 Collins Street West
Victoria 8007

Dear Kris

Re: Invitation to Comment ITC 41 The AASB's Approach to International Public Sector Accounting Standards

Stevenson McGregor ('SM') is pleased to provide the following comments on the AASB's Invitation to Comment ITC 41 *The AASB's Approach to International Public Sector Accounting Standards* (ITC 41).

1. While we understand the Board's motivation in seeking comments on its approach to International Public Sector Accounting Standards (IPSAS), we believe there is a threshold issue that should govern the timing of a decision by the AASB to adopt IPSAS for use as Australian Accounting Standards. Consistently with the approach adopted by Australia when adopting International Financial Reporting Standards (IFRS) we believe strongly the following conditions must be met before the AASB considers adopting IPSAS for use in Australia:
 - a) The standard setting structure within which the IPSASB operates must be reformed, such that the setting of public sector accounting standards can take place, and be perceived to be taking place, independently of the undue influence of vested interests. The model for such a transformation is the International Accounting Standards Board (IASB) within the IFRS Foundation, which succeeded the IPSASB's private sector counterpart, the International Accounting Standards Committee, in 2000¹. Not only Australia but many other countries chose to adopt IFRS following the reformation.
 - b) The new standard setting structure must be adequately resourced so that high-quality public sector accounting standards can be developed and timely improvements in public sector financial reporting can occur. Among other things, a higher level of funding will be needed to appoint full-time members of the IPSASB, increase the level of technical and support staff and facilitate more in depth and extensive engagement with constituents.

¹ A vision of a possible global standard setting architecture that would achieve such a transformation is discussed in McGregor *It's time...for global, high quality public sector financial reporting* Institute of Chartered Accountants Australia, May 2013.



2. Until these changes occur and there is evidence of support for IPSAS from economically significant jurisdictions internationally, we believe the following arguments support retention of the status quo:
- a) There is no substantive benefit compared to the current approach whereby public sector topics that are not dealt with by the suite of AASB/IASB standards can be added as and when needed.
 - b) There is significant cost to preparers and auditors in mastering two sets of requirements.
 - c) There is no kudos to be gained internationally as other national standard setters have chosen not to do what New Zealand has done.
 - d) There would be a loss of mobility between sectors for professionals involved in financial reporting and auditing.
 - e) There would be significant problems for mixed group entities containing both Government Business Enterprises and Budget-dependent Entities whenever IPSAS lag behind IFRS. The IASB is significantly better resourced than the IPSASB which means lags will inevitably arise (eg leases, revenue, financial instruments). This would result in mixed group entities having to apply different standards to the same economic events resulting in internal inefficiencies and a lack of comparability externally.
 - f) The threat of Brexit and the EU dalliance with home-grown public sector accounting standards means that it is a precarious time to enter into a closer association with the IPSASB.
 - g) The Australian model of transaction neutral accounting standards provides significant benefits to preparers and users of financial statements. For example, it lowers the cost of application of accounting standards by requiring the same accounting for the same transactions and other economic events, enhances the mobility of professionals between sectors and enhances the comparability of financial statement information². In our opinion, there needs to be demonstrable evidence of the benefits of an alternative model before the AASB makes a decision to move away from the current model.

If you have any questions concerning our comments, please contact Kevin Stevenson at +61416250008 or Warren McGregor at +61417340664.

² A simple example of the potential benefit of cross sector comparability is the potentially lower cost of finance for governments resulting from an enhanced capacity of investors/lenders to evaluate the financial position and financial performance of governments when compared to other public sector and private sector participants in the capital markets.



Signed on behalf of Kevin and Warren

Yours sincerely

A handwritten signature in black ink that reads "Warren McGregor". The signature is written in a cursive style.

Warren McGregor

Director

18 October 2018