



IPSASB
Response to Proposed Strategy and Work Plan 2019-2023

15 June 2018

Introduction

1. ICAS welcomes the opportunity to comment on this consultation. We are a leading professional body for chartered accountants with over 20,000 members working across the UK and internationally.
2. ICAS's Charter requires its committees to act primarily in the public interest, and our responses to consultations are therefore intended to place the public interest first. Our Charter also requires us to represent our members' views and to protect their interests, but in the rare cases where these are at odds with the public interest, it is the public interest which must be paramount.

Key Points

3. We do not agree with IPSASB's approach of rewriting existing IFRS standards to create a suite of freestanding public sector standards. In our view, this is not a proportionate response to the gap relating to public sector differences and is too slow. We are also concerned that it creates an opportunity to be selective of changes from existing international standards creating unnecessary divergences. Managing potential conflicts of interest, and demonstrating this, is therefore critical. This should be recognised and addressed by IPSASB. This approach also drives over specialisation and complexity which is inconsistent with transparency and easily understandable accounts for the public.
4. A radical rethink on approach is needed. A short, single accompanying guide to IFRS would be a more efficient, speedier and targeted approach to support judgement and application of an international accounting framework (IFRS) in public sector circumstances. This need only apply where there is a risk of the public sector context impacting the ability to meet the true and fair view.
5. It appears uncertain whether IPSASB has sufficient resources to undertake all the planned work. We need a clearer picture of how IPSASB has matched its aspirations in the strategy with available resources to understand how the work plan can be delivered in a reasonable timescale.
6. We would welcome an update on IPSAS actual adoption rates to inform the cost benefit analysis of IPSASB's current approach and estimated impact. This would include full and partial adoption, any perceived obstacles to full adoption, how they may be addressed and confirmation of the number of jurisdictions with plans in place to progress to full adoption.
7. The prime objective should be to encourage a move towards accruals accounting and an international accounting framework.

IPSASB's approach to addressing the gap for public sector standards

8. We agree with the aim to converge with IFRS but do not believe that there is a need to rewrite IFRS standards for the public sector. In our view, this is not an efficient or proportionate approach to addressing public sector accounting differences. This approach unnecessarily creates extra development work for IPSASB, when resources are already constrained, which is accentuated over the longer term by the need to keep pace with changing IFRSs. It also creates a time burden for others to evaluate and comment on consultations – a more concise approach would enable others to respond without being overloaded and would strengthen stakeholder challenge and Board accountability.
9. Accountants qualified with a recognised body will be familiar with IFRS through their training. It is therefore logical to use these standards as the reference point. Instead of learning a new separate suite of standards, all they need to understand is how to apply IFRS where specific significant differences have been identified in a public sector context. A separate suite of standards creates significant additional costs for the public sector to learn how to apply a new set of standards and a financial opportunity for those selling training. This potential conflict of interest in its standard setting process should be recognised and addressed by IPSASB.
10. **Our principle would be minimum deviation – the principle of consistency with private sector standards should only be broken where there is a clear, justifiable need of a uniquely public sector matter that is material, adversely impacts the true and fair view and is not covered by IFRS.**

11. The UK has successfully and speedily implemented IFRS across the public sector – a fact which seriously challenges the need and cost justification of a separate public sector suite. Moreover, consistent application of IFRS offers greater comparability across the public and private economy. We suggest that more can be done to raise awareness of how IFRS can be implemented successfully to achieve high quality accruals accounting, possibly using the UK as a case study.
12. A separate suite of standalone standards does not sufficiently focus effort on targeted differences and risks reducing transparency of what has changed from IFRS. We would prefer to see IFRS as the standard with IPSASB focusing on a short, single supplement to offer guidance on application for specific and significant public sector circumstances which risk impacting the true and fair view.

Other observations

Progress since 2015

13. The work plan for 2019-2023 appears to set an ambitious programme to achieve within current resource constraints. It raises a question over the feasibility of pursuing a bespoke set of standards. For example, it identifies over 20 projects¹. Since 2015, it appears that 5 projects have been completed plus an RPG². Whilst social benefits is forecast for completion in 2018, given the variety of views expressed, this looks challenging. We would welcome further confirmation from IPSASB regarding how realistic these estimates are and how they are adapting their approach to meet delivery needs. We note that several projects from the 2015 plan are either on-going or in proposed projects for the 2019-23 strategy.

Adoption rates

14. There needs to be a balance between the aspirations, time and resource commitment and likely impact (i.e. the number of countries likely to adopt full IPSAS). A further breakdown of the adoption rates cited in the consultation paper are needed. We highlight the following questions:
 - The foreword cites IPSAS adoption rates increasing from 31% in 2015 to a forecast 71% in 2020. What are the actual figures today and what proportion are full versus partial adoptions? How many of these countries have plans to progress from partial to full adoption?
 - If there is a significant gap and therefore effort required to achieve the forecast 71%, what is the impact on resources and achievement of other objectives?
 - What is the longer-term projection for full adoption of IPSASs and how does this compare with a cost benefit analysis which balances need and demand (from the expected volume of adoptees) with cost given the current approach of developing separate IPSASs requires significant resource? How feasible is the current approach?
 - Have IPSASB undertaken an exercise to understand the barriers to full and partial implementation within countries? Many may be content with cash based accounts, but we need to understand what inhibits their progression to accruals accounting and if IPSASs present any barriers to a country moving towards high quality accounting. This understanding can help to inform resource management, approach and prioritisation.
 - What is the impact of potential European public sector standards on the demand for IPSASs?

Response to consultation questions

SMC 1

Do you agree with the IPSASB's proposed Strategic Objective 2019–2023? If you agree please provide any additional reasoning not already discussed in the document. If you do not agree please explain your reasoning and your proposed alternative.

Strengthening Public Financial Management (PFM) globally through increasing adoption of accrual-based IPSAS.

Delivered through two main areas of activity, both of which have a public interest focus:

- *Developing IPSAS and other high-quality financial reporting guidance for the public sector; and*

¹ Consultation paper Appendix A with a timeline on page 4

² Consultation paper page 3.

- *Raising awareness of IPSAS and the benefits of accrual adoption.*

Accrual accounting using an international framework is the main priority. Currently, governments may choose to apply IFRS or IPSAS, given that not all jurisdictions are willing to achieve full IPSAS compliance. As explained above, we do not agree with the approach to develop a separate suite of public standards.

We need clarity on how awareness raising is to be undertaken efficiently and effectively and how this affects the availability of resources for development work. One would expect the objective to evolve over time and we suggest that more time may be needed to support those proceeding with implementation.

SMC 2

Do you agree with the IPSASB's five proposed Strategic Themes for the 2019–2023 period? If you agree please provide any additional reasoning not already discussed in the document. If you do not agree please explain your reasoning, including any proposed alternatives.

A – Setting standards on public sector specific issues

The approach to address key public sector specific reporting issues needs to be revisited (as explained above) to minimise duplication of effort with IFRS.

The policy to reduce differences with GFS is appropriate but the way this is done is key. We need clarity of the differences identified, priorities and targets. There are likely to be some differences which remain so a way of encouraging a proportionate disclosure of what the differences are and explaining the impact would be useful.

B – Maintaining IFRS convergence

We support alignment with IFRS and agree with the statement that these standards should be the main reference. One of the consequences of the existing approach is that it creates a longer-term commitment to keep pace with IFRS. This demonstrates another reason to remain with one set of international accounting standards (IFRS) and for IPSASB to focus more strictly on only the major public sector differences. A more focused approach using an accompaniment guide to support IFRS application in the most significant public sector circumstances would be more consistent and efficient.

C – Developing guidance to meet users' broader financial reporting needs

Additional guidance may not necessarily be a role for IPSASB, particularly given the current business model and resource constraints. We note that IPSASB proposes not to add any specific projects to the work plan in Theme C and agree with this.

D - Promoting IPSAS adoption and implementation

We believe the focus should be on supporting wider accruals adoption and implementation. IPSAS adoption and implementation should be subject to a cost benefit analysis on the estimated likely impact (to be informed by the adoption rates of full IPSAS).

E – Advocating the benefits of accrual in strengthening PFM

We agree. The prime objective should be to move towards accruals accounting and an international accounting framework.

As mentioned earlier, figures on full versus partial IPSAS adoption rates and how many jurisdictions have plans to move from partial to full adoption of IPSAS are needed.

SMC 3

Do you agree with the criteria the IPSASB has used in deciding the proposed issues to add to its Work Plan 2019–2023? If you agree please provide any additional reasoning not already discussed in the document. If you do not agree please explain why, including any proposed alternatives.

Broadly we agree but would prefer “need” and “significance” to be more clearly articulated.

SMC 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)? If not please explain your reasoning, and any proposed alternatives.

We are not convinced that topics which affect both the private and public sector such as “discount rates” and “(military/infrastructure) assets” need a separate project. Greater clarity of the differences driving the need for a separate project in theme A is needed to justify the investment.

Given the scale of work identified in the work plan, we are also not convinced of the need for a project on differential reporting and suggest there is scope to reduce the volume of projects and to have a faster method of delivery.

Quick fixes to free up resource for completing priority work should be identified. There needs to be a balance of need versus timely completion.

SMC 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)? If not please explain your reasoning, and any proposed alternatives.

Yes, to maintain alignment, however as IFRS develops long term, a simpler method for maintaining convergence is needed. This is not assisted by the current approach to rewrite separate public sector standards. We have suggested that an accompaniment guide to assist in the application of IFRS would be more proportionate.

We therefore suggest that Theme B and greater alignment should be the focus of resources instead of Theme A and separate public sector specific projects which can drive complexity and divergence.

SMC 6

Are there any projects in Appendix A that you believe should be added to the Work Plan 2019–2023 in place of a 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 why.

No.

SMC 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.

a) Do you agree with the IPSASB’s proposed approach under these Themes? If so, are you aware of any ongoing initiatives which the IPSASB should monitor and look to engage with (please provide details).

b) If you do not agree, please explain your reasoning along with any proposed alternatives, and how those might be resourced.

IPSASB should keep itself and other stakeholders informed but the extent of investment will need to be carefully prioritised and balanced, given the scope of the existing workload and demands on scarce resource. Much of this approach appears to be desirable rather than essential.