

Mr. Andreas Bergmann, Chairman
International Public Sector Accounting Standards Board
529 5th Avenue, 6th Floor
New York, New York 10017
United States of America

31 July 2014

Dear Mr Bergmann,

Re: International Public Sector Accounting Standards Board Strategy Consultation

Deloitte Touche Tohmatsu Limited is pleased to respond to the IPSASB Strategy Consultation (the Consultation). We commend the International Public Sector Accounting Standards Board (the 'Board' or 'IPSASB') for undertaking this review, especially in view of the on-going review by the IPSASB Governance Review Group about how best to strengthen the oversight, governance and accountability of the IPSASB. The Board's Consultation addresses the likely period for the implementation of the Governance Review Group's recommendations and it is appropriate that the IPSASB has a clear view both of its strategic objective and work plan if the Board's efforts to develop high-quality financial reporting by the public sector are to continue during this period of organisational change.

With respect to the Consultation, we support a Strategic Objective to improve transparency in financial reporting by the public sector through increasing adoption of accrual-based IPSASs and continuing to develop high-quality financial reporting standards. In view of the need to focus limited resources most effectively, we suggest that the Board concentrate on developing IPSASs and to commit only limited resources to the suggested related activities. Undertaking presentations, speeches and other outreach activities are of utmost importance but they may also be carried out by governments, multilateral organizations and IFAC through its Transparency Now campaign.

Some aspects of the Board's current due process do not reflect fully current best practices and we encourage the Board (and any future oversight and/or monitoring body) to review this as a matter of priority to ensure that the standard-setting process is sufficiently robust to support developing high-quality IPSASs. In particular, we would support establishing a Consultative Advisory Group (CAG) for the IPSASB, similar to the CAG of other IFAC standard-setting boards, to provide both advice on technical issues and on IPSASB's work program and project priorities, and more strategic matters.

When assessing potential future projects, we support an approach of basing IPSASs on International Financial Reporting Standards, but with adaptations made for the public sector specificities. In addition, we think that the general presumption should be that if convergence between IPSASs and IFRSs means that alignment with Government Finance Statistics is not possible, convergence with IFRSs (subject to sector-specific considerations) should be the normative action.

Our detailed responses to the invitation to comment questions are included in the Appendix to this letter.

If you have any questions concerning our comments, please contact Frans Van Schaik in Rotterdam at +31 882 881 357, or Veronica Poole in London at +44 20 7007 0884.

Yours sincerely



Frans Van Schaik
Global Leader
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Veronica Poole
Global IFRS Leader

Appendix

Developing the IPSASB's Strategy

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?*

We agree that the sovereign debt crisis emphasised that there is an urgent need to strengthen the quality and credibility of financial management and financial reporting by governments around the world. Sovereign issuers are major participants in public capital and debt markets and should provide information that is prepared using high-quality accounting standards and is comparable across governments. The work of IPSASB to develop high-quality accounting standards for the public sector that serve the objectives of financial reporting by public sector entities in public capital and debt markets, providing information about the entity that is useful for accountability and decision-making purposes, is an integral part of meeting this need.

Transparent and credible reporting contributes to global fiscal (and financial) stability and should assist citizens and lenders in holding governments accountable for the resources committed to them. Consequently, we support a Strategic Objective to improve transparency in financial reporting by the public sector through increasing adoption of accrual-based IPSASs and continuing to develop high-quality financial reporting standards. Improving financial management should also result from the discipline established by reporting under accrual-based IPSASs.

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?*

We agree with the strategic outcomes identified by the Board. However, until the Board's governance and oversight arrangements are reformed as a result of the IPSASB Governance Review Group's recommendations, we suggest that the IPSASB prioritise the first outcome: an "improved ability of public sector entities to reflect the...economic reality of their finances as well as of stakeholders to understand."

We do not think any system of accounting and financial reporting can ever show the 'full economic reality' of a reporting entity (private sector or public sector). What is important is that accounting and financial reporting present fairly the economic phenomena that they purport to present.

At present, until such time as a complete set of accrual-based IPSASs is achieved and given that the Board's resources are limited, we think that raising awareness of IPSASs through presentations, speeches and other outreach activities should not be a priority of the Board at this time. Preparers (governments), in particular, are best placed to demonstrate the benefits of adopting IPSASs both to their constituents and to other governments. Multilateral agencies such as the World Bank, the IMF, and the OECD play an important role in raising awareness of IPSASs, as does IFAC through its Transparency Now campaign.

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?*

Consistently with our view on outcomes, we support the outputs in general, but suggest that the Board concentrate on developing high-quality financial reporting standards (which might include, for a transitional period, the cash basis IPSASs). In particular, the Board should ensure that as an IPSAS is developed or amended, it is based on IFRSs but with adaptations made only for public sector specificities. Any differences between an IPSAS and a related IFRS should be transparent and discussed in the IPSAS's basis for conclusions.

Although the IPSASs now for the first time are approaching a comprehensive set of accrual-based accounting standards underpinned by a robust conceptual framework, much time-consuming standard-setting work remains to be done. Whilst undertaking presentations, speeches and similar activities is important, governments, multilateral organizations and IFAC through its Transparency Now campaign should play a more prominent role the IPSASB itself in this type of activity.

We encourage the Board to devote much of its outreach activity to support its standard-setting activity. Recent experience from the IFRS Foundation and the International Accounting Standards Board has demonstrated that the quality of standards can benefit significantly from a properly planned and executed outreach strategy throughout the development and implementation of a standard.

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

We encourage the Board to make improvements to its current due process to reflect current best practices for an international public interest standard setter. Consequently, we encourage the Board (and any future oversight and/or monitoring body) to review the due process as a matter of priority to ensure that the standard-setting process and related oversight is sufficiently robust to support the development of high-quality IPSASs.

In comments to the IPSASB Governance Review Group, we supported in particular establishing a Consultative Advisory Group (CAG) for the IPSASB, similar to the CAG of other IFAC standard-setting boards, to provide both advice on technical issues and on IPSASB's work program and project priorities, and more strategic matters. The initial membership of the CAG might include IPSASB's current Observers. In addition, we encourage greater involvement in IPSASB's standard-setting activities by those with experience of financial reporting in the public sector at the highest level, such as senior civil servants or CEOs/ CFOs of public sector agencies.

We think that the Board's due process could be improved through the use of consultation or discussion papers as the initial due process step particularly in areas in which specific public sector solutions are sought and departures from IFRSs are contemplated. Such a step would enable stakeholders to provide input, insight and potential solutions at an early stage, which could make the development of a standard more efficient.

Further, we think that the Board has an opportunity to increase the acceptance and adoption of IPSASs through the use of public roundtables and similar targeted outreach activities as part of its due process. Such meetings can identify issues and explore potential alternatives in a much more

effective way than comment letters. They can also bring together different constituents so that each may understand the others' positions and concerns.

Finally, we suggest that the Board explore establishing mechanisms for assessing whether an IPSAS has achieved what was intended when the Board issued the Standard. Such post-implementation reviews can identify matters that need amendment or further implementation guidance, or were not anticipated when the standard was issued. In addition, such reviews provide useful information on how the standard is operating in reality.

Assessing potential projects

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?*

We agree that the following factors should be considered when deciding to initiate a standard-setting project and assessing its relative priority:

- Significance for the public sector
- Urgency of the issue
- Gaps in IPSASs or Recommended Practice Guidelines
- Convergence with International Financial Reporting Standards, subject to public sector specificities
- Alignment with economic and statistical reporting, such as IMF's *Government Finance Statistics Manual (GFSM)*.

We note that GFS and IPSASs have different objectives and that these differences 'result in some fundamental differences on how and what is reported' (*Government Finance Statistics Manual 2014*, section A6.12). We think it would be useful for the Board to develop a document that explains the objective of transparent financial reporting and how and why that objective differs from a statistical accounting approach.

With respect to convergence with IFRSs, we think that the differences between IPSAS and IFRS should be kept to a minimum by maintaining its current policy of only deviating from IFRS for public-sector specific reasons. These deviations should be transparent and discussed in the Basis for Conclusions. We think that the general presumption should be that if convergence between IPSASs and IFRSs means that alignment with GFS is not possible, convergence with IFRSs (subject to sector-specific considerations) should be the normative action. Transparency about differences between an IPSAS and GFS can be provided by identifying and explaining any such differences in the basis for conclusions, which would allow users to assess the effect of such differences.

The relationship between financial information provided under IPSASs and GFS can be explained through a reconciliation or similar supplementary disclosure, which would assist users in understanding the relationship between the two sets of financial information.

These suggestions are consistent with the Board's proposed strategic objective, which is focused on delivering 'credible and transparent financial reporting' in the public interest (Consultation, p. 10). IPSASs are oriented to evaluating financial performance and position, the stewardship and accountability of government and government entities, and reporting to public capital and debt

markets. The interests of the users of financial information prepared in accordance with IPSASs should have priority over national and regional statistical information.

We support the on-going effort of the IPSASB to ascertain the nature and extent of differences between IPSASs and the statistical bases. In particular, evidence arising from this analysis will inform any decisions about whether there is scope to reduce or harmonise differences identified between IPSASs and the statistical bases.

Considering existing commitments

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?*

Ideally, governments should report on an accruals basis, but we acknowledge that the Board's Cash Basis IPSAS is a helpful first step for governments seeking to adopt accrual-based IPSASs. On that basis, we support maintaining the Cash Basis IPSAS as a transitional measure. In our view, the Cash Basis IPSAS should include a clear statement (*'health warning'*) indicating that the IPSASB considers compliance with the Cash Basis IPSAS just an intermediate step towards the implementation of the accrual-based IPSASs.

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.*

Consistently with our response to Question 6, the considerable number of governments currently implementing the Cash Basis IPSAS warrants retaining this standard as a transitional measure. However, we encourage the Board to consider whether a 'sunset provision' is required for this Standard. In addition, we encourage the Board to consider developing a programme to encourage governments to move from Cash Basis IPSASs to full accrual-based IPSAS.

Given the active usage of the Cash Basis IPSAS, were the Board to withdraw the standard now, it might discourage governments from adopting accrual basis IPSASs. We note that the Cash Basis IPSAS contains valuable public sector-specific guidance on the reporting of cash flows which might ultimately be integrated into IPSAS 2 Cash flow statements making IPSAS 2 a more public sector-specific than at present.

The multilateral and bilateral donor community might be approached to fund a review and possible amendment of the Cash Basis IPSAS. Using a Task Force, following directions from the Board, could reduce the time commitment of the Board.

Potential new projects

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.*

In our view, the IPSASB should prioritise the following accounting issues relating to aligning IPSASs with the relevant IFRSs:

- *Social benefits.* Although public sector expenditure on social benefits is often significant, the IPSASB has not been able to issue guidance on how to account for them and what disclosure to include in IPSAS-compliant financial statements.
 - The significance of social benefits to many governments and related agencies suggests strongly that accounting guidance is necessary. The impending completion of the IPSAS Conceptual Framework should provide a suitable trigger for adding this topic to the Board's technical agenda with suitable priority.
 - Any IPSAS on social benefits should explicitly include national social security pension schemes. Such a standard is necessary and consistent with the Board's proposed strategic objective. A majority of citizens contribute to these schemes, and it is incumbent on governments to demonstrate accountability for the contributions they have received from their citizens and the pension promises they have made to them.
- *Completion of the revision to IPSASs 6-8.* We encourage the Board to complete the revision of IPSASs 6-8 and their efforts to align these standards as far as possible with the equivalent IFRSs 10-12. Departures from the principles in the IFRSs should be public sector-specific, transparent and discussed thoroughly in the Basis for Conclusions. In our view, without robust consolidation standards in place, it is not possible to achieve a fair presentation of public sector finances.
- *Public sector combinations.* We encourage the Board to continue the project to develop standards on accounting and reporting public sector combinations, and to build upon the experience of jurisdictions that have IFRS-based public sector reporting standards that address such combinations in place.
- *Emission Trading Schemes.* We encourage the IPSASB to consider cooperating with the IASB on this topic, so that a standard (or standards) can be issued for both private and public sectors. Many of the issues facing the two Boards (particularly with respect to preparer/ participants) will be the same and the Boards would benefit from shared insights and perspectives.

In addition, the IPSASB should prioritise the following accounting issues relating to 'non-exchange transactions.' Non-exchange transactions are important for public sector entities, both in number and in amounts.

- *Expenses from grants.* Public sector entities transfer large amounts of money and other assets to other parties (including lower levels of government) and report these transfers in different ways because of a lack of guidance from IPSASB. The nature and extent of these transfers and the accountability of both grantors and recipients would be enhanced were the IPSASB to develop guidance. This would not only improve transparency and comparability, it would also respond to the suggestions from significant constituents of IPSASB to address the issue.
- *Revenue from non-exchange transactions (IPSAS 23).* The recently issued IFRS 15 on revenue provides a suitable trigger for the IPSASB to consider revisiting this controversial

standard. The Board should, in particular, consider whether there is any justification for differences between IFRS 15 and IPSASs in this area.

Finally, we support a project on *Sovereign powers and their impact on financial reporting*. The Consultation notes that governments have a number of sovereign powers (including the power to raise taxes and issue permits, concessions and licences). We encourage the Board to consider developing guidance on how these powers impact financial reporting and how these might be disclosed in government financial statements. At this time, we see a disclosure standard as the optimal way to improve financial information and believe this approach to be more feasible at present than attempting to measure the effects of such powers on the financial statements.

Other matters: XBRL

We encourage the Board to develop an explicit approach to XBRL, such that ultimately there is a framework for the consistent adoption and implementation of IPSASs with a high-quality IPSASB XBRL Taxonomy, preferably developed by the IPSASB (or another credible body). Capital market participants are increasingly expected to submit their market filings in XBRL, and it is likely that public-sector issuers will be in this situation soon. An explicit and disciplined approach would enable the IPSASB to demonstrate how IPSAS-compliant information may be disclosed electronically and assist governments to meet digital reporting requirements that are already in place (e.g., in the United States) or that are likely to be put in place. It would also be consistent with the structured approach to integrating XBRL into standard-setting that has already been adopted by the US FASB, the IASB and the GRI, among others.