ACCOUNTANCY EUROPE.

Ian Carruthers
Chair
IPSASB

Submitted online

Brussels, 30 November 2021

Subject: Strategy and Work Program 2019-2023 - Mid-Period Work Program Consultation

Dear Mr Carruthers,

We have pleasure in enclosing our response to the public consultation on the IPSASB's Mid-Period Work Program.

We commend the IPSASB on offering stakeholders a more frequent opportunity to provide feedback on the IPSASB's strategy and work plan. We believe that this provides more credibility to the standard setting process and makes the IPSASB more responsive to emerging concerns and developments – such as sustainability issues, for example.

We broadly support the Board's choice of 'major' and 'minor projects' proposed in the *Mid-Period Consultation*. Whilst we have some other topics that we would like to see the IPSASB address, none of these are sufficiently urgent to displace the projects proposed in the consultation.

However, there are two aspects of the public consultation that have made our deliberations on the priority of IPSASB projects more difficult, namely:

1. The published version of the document does not contain details of other projects considered by the Board but rejected for recommendation in the *Mid-Period Consultation* (including the Board's rationale for rejecting them). We believe that inclusion of such projects would have made the Board's decision-making process more transparent and would have provided stakeholders with an overview of all the key projects and their priority for the Board.

2. Understandably, consideration of internal resources appears to be a key aspect in determining which projects the IPSASB denotes as 'major' and 'minor' and which projects have been selected to appear in the consultation. However, this criterion is an internal one for the IPSASB.

   It is not easy for external stakeholders to determine the resources required to fulfil a project, whether this would make it 'major' or 'minor' projects, and whether the IPSASB has the resources available. Consequently, it is difficult for stakeholders to know whether any alternatives they propose would be classified as 'major' or as 'minor' projects.

> We would ask that the Board considers whether the distinction between 'major' and 'minor' projects is a relevant consideration for external stakeholders, and, if so, how it could be made easier for external stakeholders to judge which category proposed projects would fall into.

We ask that the IPSASB consider making the relevant changes to deal with the two issues raised above for all future Strategy and Work Programme consultations.

SUSTAINABILITY ISSUES

In respect of Theme C, *Developing Guidance to Meet Users' Broader Financial Reporting Needs*, we believe that the public sector has an enormous, yet still underdeveloped, role in sustainability issues.

The public sector has a multi-faceted role, and, indeed, responsibility in respect of sustainability. It has the powers to regulate and, through subsidies and incentives, to encourage private sector businesses and individual citizens to change their behaviour and to decarbonise.

It is also a major source of CO2 emissions, particularly as it is frequently directly involved in carbon intensive activities, such as power generation, transport, and construction. The public sector has a responsibility to ensure that its operations are undertaken in the most sustainable way and to report on the environmental impacts of its operations.

Since this consultation was issued COP 26 has taken place, cementing climate change as one of the most critical challenges facing governments and citizens. At COP 26, the International Sustainability Standards Board (ISSB) was formed. The ISSB will develop a comprehensive global baseline of high-quality sustainability disclosure standards to meet investors' information needs.

The public sector will play a vital role in transitioning to zero carbon emissions and needs to invest in this transition. This investment will undoubtedly have financial reporting repercussions that will probably require the IPSASB to consider some of their existing financial reporting standards. Greening finance is a fast-moving topic, but IPSASB should ensure that their suite of literature provides the necessary disclosures to enable users of the financial statements to hold to account those making investments for sustainability purposes. This publication by the Ministry of Finance in the UK provides such disclosures and how they link to TCFD requirements.

The proposed EU Corporate Sustainability Reporting Directive (CSRD) will require many more private sector businesses operating in the EU to report on sustainability matters. We believe that the public sector must also be far more active in sustainability issues (and reporting) if the economy is to be decarbonised and if nations are to fulfil their targets under Sustainable Development Goals.

We also support the increasing linkage of financial and non-financial information to provide a holistic view of an entity's operations and of its externalities.

Consequently, although the IPSASB is a financial reporting standard setter, we believe that it is inevitable that the IPSASB will soon have to devote more resources to sustainability reporting and its links to financial information. For example, part of the current *Natural Resources* project focuses on the financial reporting aspects of the exploitation of sub-soil resources, yet this has clear impacts on sustainability reporting given the stored CO2 and methane in petroleum and natural gas reserves. This aspect is being completely ignored, which is perhaps not what readers of the financial statements now expect and certainly not future generations.

We applaud the focus in the *Mid-Period Consultation* on involving the public sector in the development of unified international sustainability reporting guidance, to take into account the needs and specificities of the public sector entities. We also welcome the IPSASB's statement of 3 November stating its commitment to work with the ISSB on public sector sustainability reporting guidance. We welcome the formation of the ISSB and think that it is important that the IPSASB work with the ISSB to develop guidance that, while dealing with the specificities of the public sector, is consistent in guidance and disclosures with the private sector.

However, we believe that the IPSASB and IFAC will need to be clearer on the role that the IPSASB can play in sustainability reporting for public sector entities. Involvement with existing non-financial reporting organisations to put forward the public sector viewpoint is a very important activity. However, waiting solely for the varied private sector organisations, who are naturally focused on the development of private sector specific, investor-focused standards, to develop unified international guidance or standards suitable for public sector entities, risks too much delay in dealing with a vital matter.

We therefore call on the IPSASB to identify the major sustainability issues affecting the public sector and work on a timeline on when these will be addressed.

We also recommend that the IPSASB considers the impact of digital tagging on both financial and non-financial reporting, as well as on the standard-setting process. The CSRD explicitly proposes the mandatory digital tagging of sustainability information as part of the (already tagged) annual financial report of companies that are subject to the European Single Electronic Format. We expect this trend to extend to the public sector sooner rather than later.

DIGITAL REPORTING AND STANDARD SETTING

Digital reporting is rapidly becoming the norm for private-sector reporting in the EU and digital tagging is a key component. As mentioned above, digital reporting can greatly assist with the integration of financial and non-financial reporting. However, digitalisation has other significant benefits, and we believe that this is a topic that the IPSASB should consider when resources permit.

Digitalisation of financial reporting helps improve timeliness, accuracy, and consistency of financial management - so this would be consistent with one of the IPSASB's two strategic considerations, namely improving public financial management. We see scope for this being added in the future under either *Theme C: Developing guidance to meet users' broader financial reporting needs* or under *Theme D: Promoting IPSAS adoption and implementation.*

Digital reporting can assist in the standard-setting process, improving and embedding both quality and efficiency. A prime example of this is the IASB, where the IFRS taxonomy is an integral part of the IFRS standard-setting process.

We have pleasure in providing below our detailed responses to the specific questions contained in the consultation.

Question 1 – Major projects

1. *Do you agree with the major projects proposed by the IPSASB?*
   If not, which major project(s) would you substitute for those proposed, and why?

We agree with the Board's selection of *Presentation of Financial Statements* and *Differential Reporting* of the two next major projects to schedule. Some constituents felt that the IPSASB had an opportunity to take the lead among standard setters and develop modern principles in respect of *Discount Rates*, but, on balance, we do not believe that this project should take precedence over the two proposed in the *Mid-Period Consultation*.

PRESENTATION OF FINANCIAL STATEMENTS

There was a consensus amongst our constituents that it was important that IPSAS 1 be updated to reflect all the changes arising from the Conceptual Framework and to consider the public sector impact of changes to IAS 1.

We also agree that this is a good opportunity to see how communication through the financial statements can be improved to all public sector stakeholders and is also a chance to obtain feedback from stakeholders as to their informational needs.

In terms of reviewing minimum requirements for the content of financial statements and their disclosure, there are some synergies with the proposed project *Differential Reporting*.

Indeed, we believe that there are several cross-cutting themes between *Presentation of Financial Statements*, *Differential Reporting* and the proposed minor project *Practice Statement: Making Materiality Judgements* that make concurrent work on the three projects desirable.

DIFFERENTIAL REPORTING

We agree that this is an urgent matter for the IPSASB to focus on, for the following reasons:

- from a European perspective, EU Member States have often requested the development of simplified accounting standards for 'small and less risky' public sector entities when providing input into the working group developing European Public Sector Accounting Standards (EPSAS). Should IPSASB complete this project, it would further strengthen the rationale for using IPSAS as a basis for EPSAS.

- our constituents have reported direct requests from less complex public sector entities for the development of a simplified standard(s) in response to the perceived complexity of the full IPSAS.

- we believe that the perceived complexity of full IPSAS is a factor in slowing adoption of accrual accounting and using IPSAS. Although the standards can be applied to less complex entities, the process requires a level of skill in interpreting the standards that many less complex public sector entities may not have easy access to.

- we believe that the public sector specificities may make the development of a less complex standard more relevant than for the private sector. In the private sector size is often analogous to complexity. Thus, smaller entities in the private sector are less likely to require simplified standards as, using IFRS as an example, there may simply be several entire IFRS that do not apply to smaller and less complex entities.

  In the public sector, however, a smaller entity (e.g., a municipality) may still have a range of transactions that is comparable to larger entities (merely fewer of them) and that require application of many of the IPSASs. This places a greater burden on the preparers of financial statements for smaller public sector entities as they may require knowledge of more applicable standards than would be the case for a similarly sized private sector entity. Simplified reporting requirements would potentially reduce the burden for such preparers.

However, we do not believe that it will be an easy matter for the IPSASB to decide the best route for differential reporting as all the options have their own issues, for example:

- a single simplified standard encompassing all IPSASs (like, for example, the IFRS for SMEs) would probably be the preferred option for most preparers and national governments. However, setting the scope for such a standard would be very difficult – indeed, it is arguable that the slow uptake of IFRS for SMEs is partly due to issues with the scope of the standard and the type of entities to which it is directed. There would be considerable initial work in condensing existing IPSAS into a single standard (which may be assisted by existing national examples) and then an ongoing work to incorporate new or amended IPSASs as they were developed.

- simplified individual standards, ideally usable by all entities regardless of complexity, would provide the greatest flexibility but would probably still be a daunting prospect for new adopters. This route would involve a complex consultation process and is likely to be drawn out over a very long period, given the large number of standards now issued. It could also cause convergence issues with IFRS where standards are currently converged.

- simplified disclosure requirements would deal with one oft-stated cause of burden and difficulty for preparers. However, as this would also require work on individual standards (again resulting in a long, drawn out process) and would not address the issues that less complex entities may have in applying difficult concepts and guidelines.

- guidance explaining how less-complex entities can make cost-effective use of existing standards would be relatively less resource intensive than other options. However, is unlikely to satisfy the requirements of preparers, or national governments, looking for a simplified 'one-stop shop' for their financial reporting requirements for less complex public sector entities. However, it may help in the short-term, allowing the IPSASB to consider the issue more comprehensively.

Given the complexity inherent in all the approaches outlined above, we agree with the Board's emphasis that the initial stage of the project will concentrate heavily on identifying the characteristics of "less complex public sector entities.

Indeed, looking again at the private sector example of IFRS for SMEs, many believe that another reason for the slow uptake of this standard is down to its complexity. It has been suggested that the IASB was too attached to its full IFRS recognition and measurement principles.

Consequently, we believe that it is vital that the IPSASB engages in outreach with preparers to ascertain the issues that they have with current IPSAS. It is also important to obtain input from the many different users of the financial reports of less complex public sector entities to ensure that transparency and public accountability are not sacrificed.

Question 2 – Minor projects

> 2. *Do you agree with the minor projects proposed by the IPSASB?*
>
> *If not, which minor project(s) would you substitute for those proposed, and why?*

Broadly we agree with the Board's selection proposal to undertake limited scope projects:

- to address the consistency of value in use guidance within IPSAS 21, *Impairment of Non-Cash Generating Assets* as part of the *Measurement* project

- to reflect in IPSAS 31, *Intangible Assets* measurement principles developed as part of ED 77, *Measurement*, heritage principles developed as part of ED 78, *Property, Plant, and Equipment* and changes to principles resulting from the ongoing *Natural Resources* project

- to identify and address specific challenges in applying IPSAS 33, *First Time Adoption of Accrual Basis IPSASs* to facilitate the adoption of IPSAS, and

- to provide materiality guidance aligned with IFRS *Practice Statement: Making Materiality Judgements*.

As mentioned, we believe that the materiality guidance is important and feeds into the considerations raised by both the major projects proposed in the *Mid-Period Consultation*.

Of the other three proposed minor projects, we have some doubts as to the usefulness of revising IPSAS 33. In our experience, IPSAS 33 is of limited usefulness to many governments when managing the transition to accruals accounting as they develop their own country specific detailed roadmaps, and implementation and transition plans, to facilitate the conversion to accruals accounting. The IPSASB may consider whether the resources that would be devoted to this project could be more beneficially deployed on one or more of the other major or minor projects.

We do think that IPSAS 20, *Related Party Disclosures* could be updated to introduce more public sector specificities and guidance but do not regard this as an urgent project.

Sincerely,

Myles Thompson	Olivier Boutellis-Taft
President	Chief Executive

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