



Mr Andreas Bergmann
Chairman
IPSASB
IFAC

E-mail: EDComments@ifac.org,

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Dear Chairman,

Re: FEE comments on the IPSASB Strategy Consultation

FEE (the Federation of European Accountants, www.fee.be) is pleased to provide you below with its comments in relation to the Strategy Consultation issued by the IPSASB on 31 March 2014.

FEE have been long-term supporters of the IPSASB's objectives of create high quality international public sector accounting standards and promoting their worldwide use in furtherance of accountability, transparency, improved clarity and comparability in public sector accounting.

Consequently, we welcome the publication of this Consultation and the chance to make a contribution to the future development of IPSASs.

From FEE's perspective, the time period covered by the strategy consultation and work plan presents a unique opportunity for IPSASB to address the factors cited as reasons for IPSASs not yet being fully suitable for application in the EU. FEE acknowledges the IPSASB's contribution to the improvement and harmonisation of public sector accounting within Europe. In particular, improvements to IPSASB governance resulting from the recent consultation thereon will, we hope, serve to further legitimise IPSASB as an international standard setter and thus address one of the concerns that led to the suggestion that EPSASs be developed in the EU rather than IPSASs being adopted directly. Acknowledging the current debate in the EU, FEE strongly supports the involvement of the IPSASB with the EPSAS project, which can have a positive impact on the discussion. The IPSASB also has the opportunity to address gaps in the existing suite of standards and to improve some existing standards, and work on this may serve to further demonstrate that IPSASB is continuing to be responsive to the needs of public sector stakeholders.

FEE believes all of the strategic objectives identified by the IPSASB (developing high quality financial reporting standards, developing other publications for the public sector and raising awareness of the IPSASs and the benefits of their adoption) are important and also agrees with the outcomes and outputs identified as arising out of these objectives. However, FEE recognises the IPSASB's concerns it could be difficult fully realise all of these objectives with its current level of resources.

Consequently, FEE believes that, at the current time, if it is necessary for the IPSASB to concentrate on only one of the strategic objectives identified in the Consultation, the greatest long term benefit would be derived from concentrating on the development of high-quality financial reporting standards, particularly to fill the gaps relating to public-sector specifics perceived as being critical by Member States within the EU.

We believe that there is a need for the IPSASs and, indeed, the use of accruals based accounting, to be actively promoted to governments. Other international standard setters like the IASB and the IAASB are promoting their standards. The IPSASB should also engage in such outreach activities, provided that sufficient resources are available and that the perception of independence is not prejudiced. Additionally, it is important that individual IPSASB members continue to contribute to roundtables and other public outreach activities that they are already undertaking that contribute to the promotion of IPSAS.

We believe that of the key factors in initiating projects outlined in this Consultation, the most important are the significance of the projects to the public sector and addressing gaps in existing suite of standards.

With reference to addressing gaps, the IPSASB should continue to use standards already adopted by governments as a reference point, as more and more countries are developing public sector accounting standards. The IPSASB should continue to review what is considered to be best practice elsewhere, test this against the requirements of governments and then refine the output based on the results of this testing. We believe that this should not only expedite the process of filling gaps in the standards but also give the resulting standards greater credibility with their potential users.

The question of priorities also drives our response to the question of further development of the Cash Basis IPSAS. Whilst we feel that further development of this standard might be useful for those countries that still use cash based accounting, we believe that the IPSASB should concentrate its resources, first and foremost, on the far more pressing task of developing accruals based standards for the period addressed in the Consultation.

Finally, FEE believes that apart from gaps in the suite of standards, other important contributory factors to the resistance of some jurisdictions in Europe to adopting IPSASs include the lack of a public sector conceptual framework for reporting and the question of IPSASB governance.

Consequently, we are looking forward to the publication of the Conceptual Framework during 2014. Furthermore, FEE believes that the matter of governance is of crucial importance in establishing the legitimacy of IPSASs in the public sector. Based on the outcome of the governance consultation, we encourage all relevant parties to determine a course of action to resolve this issue as a matter of urgency. FEE's response to the consultation can be found at http://www.fee.be/images/publications/public_sector/IPSASB_governance_consultation_FEE_response_final.pdf.

FEE's views on the specific questions on which the IPSASB would particularly value comments are set out in the Appendix.

For further information on this letter, please contact Paul Gisby, Project Manager, at the FEE Team on +32 2 285 40 70 or via e-mail at paul.gisby@fee.be.

Yours sincerely,

A blue ink signature of André Killesse, featuring a large, stylized 'A' and 'K'.

André Killesse
President

A blue ink signature of Olivier Boutellis-Taft, featuring a large, stylized 'B' and 'T'.

Olivier Boutellis-Taft
Chief Executive

Encl.

Question 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?**

- (1) FEE agrees in principle with the IPSASB's tentative view on its strategic objective for the period from 2015 onward of strengthening public financial management and knowledge globally through increasing adoption of accrual-based IPSASs. We note this strategic objective is to be pursued through: developing high quality financial reporting standards; developing other publications for the public sector and raising awareness of the IPSASs and the benefits of their adoption. It might, however, be challenging for the IPSASB to address all aspects of the strategic objective in the limited time span from 2015 to 2019 of the suggested work programme.
- (2) We believe that for the period under review the IPSASB should concentrate on developing high-quality accruals based financial reporting standards. In particular, it should concentrate on developing standards to cover the most important gaps currently perceived as existing in the suite of standards and also revise those current standards that are considered to be defective in some key respect. We believe this to be especially important as gaps in the standards are frequently cited in the EU as being one of the main reasons that the standards as a whole are not yet suitable for adoption.
- (3) We believe that there is a need for the IPSASs and, indeed, the use of accruals based accounting to be actively promoted to governments. Other international standard setters like the IASB and the IAASB are promoting their standards. The IPSASB should also engage in such outreach activities, provided that sufficient resources are available and that the perception of independence is not prejudiced. Additionally, it is important that individual IPSASB members continue to contribute to roundtables and other public outreach activities that they are already undertaking that contribute to the promotion of IPSAS.
- (4) We certainly regard the development of other publications for the public sector and raising awareness of IPSASs, and the benefits that derive from their adoption, as valid goals, but we believe that they are subsidiary to that of the development of standards. We can see the benefit of IPSASB developing other publications specifically for the public sector. However, we do believe that, for the foreseeable future, diverting resources away from the development of a full set of standards towards such projects is somewhat premature.

Question 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?

- (5) FEE agrees with the two outcomes (the improved ability of public sector entities to reflect the economic reality of their finances and increased awareness of IPSASs and their public sector finance management benefits) identified in the Consultation. As with Question 1, however, we believe that IPSASB's current focus should be on the development of standards.
- (6) We are convinced that accounting standards, if well researched and developed, can assist public sector entities to "reflect the full economic reality of their finances", and they can certainly assist in providing a framework for improved transparency and comparability in the public sector.
- (7) As mentioned under Question 1, we believe that the IPSASB should also engage in promoting IPSAS, provided that sufficient resources are available and that the perception of independence is not impeded.

Question 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?

- (8) We agree that the outputs identified (of developing high-quality financial reporting standards and other publications and undertaking further outreach activities so as to engage with stakeholders) will assist in achieving the outcomes to a certain extent in that the suite of standards as a whole will gain more credibility as and when more standards are published dealing with public sector specific issues. The public sector does differ in certain aspects from the private sector and the perception that perhaps IPSASs are IFRSs with different terminology is one factor that could have an impact on their perceived relevance.
- (9) As mentioned above, we believe that there is probably further work to be done in convincing Member States which have not yet switched to accruals accounting of the practical benefits of accruals accounting in general, in particular highlighting the practical benefits that arise in delivering cost-effective public services. This would probably include research to evaluate and quantify the benefits that have arisen to jurisdictions that have moved from cash basis accounting to accruals accounting. However, we appreciate that the IPSASB may not have the resources available to fund such studies. We believe that there is also a role for national governments that have adopted high-quality accruals-based public sector accounting standards to highlight the practical benefits that they have obtained from adopting such an approach.

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

- (10) As we mentioned in Question 3, we do believe that there is a need to further engage the preparers and users at the level of national government in the process of developing the accounting standards which they must implement. We believe that this strategy consultation and ongoing review of IPSASB governance is part of this process. We hope that the outcome of the Strategy Consultation will help the IPSASB focus on those areas of critical concern for the public sector and the successful completion of the governance review will give additional credibility to the resultant standards.
- (11) One feedback mechanism that could help in the standard setting development process is a commitment for a post implementation review of standards after a few years of practical experience in use. The IASB reviews new or substantially revised IFRSs after 2 years of implementation. We consider that these post implementation reviews are a powerful weapon in a standard setter's armoury when producing high quality and useable financial reporting standards, an approach which might be useful for IPSAS as well.
- (12) FEE is cognisant of the fact that post implementation reviews will put further calls on the IPSASB's resources. However, we believe that there could be some merit in the concept of releasing standards quicker, and then revising them in light of practical experience, rather than having an extended development period with the objective of having a "perfect standard". By spending less time on the initial consultation and development it may then be possible to divert resources to post implementation reviews to consider both the practical issues that hinder their adoption and also reflect changes. However, this suggestion does not mean releasing standards without due process or consultations, which will need to be maintained, but fashioned appropriately to this end.

Question 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?**

- (13) FEE agrees with the five key factors (significance for the public sector; urgency of the issue; gaps in standards; IFRS convergence and alignment with government financial statistics) identified in the Consultation and has not identified any others that we believe that the IPSASB should consider.
- (14) We realise that the numbering used in the Consultation may not be indicative of the relative importance assigned to these factors by the IPSASB but believe that certain of the factors do carry more weight than others. The "significance for the public sector" (factor 1) and "addressing gaps in the standards" (factor 3) are considered to be of particular importance.

- (15) The perception of “urgency” (factor 2) depends on the interaction of the topic under consideration and the prevailing conditions in the wider economic and political environment at a particular point in time. Consequently, we do not consider it to be a primary concern in the normal development process for accounting standards. The experience of private sector standard setting seems to indicate that, if a comprehensive set of standards are available, urgent issues mainly result in clarifications of specific technical points within standards rather than requiring a completely new standard or substantial revisions to existing ones.
- (16) FEE believes that “IFRS convergence” (factor 4) is an important consideration in setting IPSASs and that they should align where possible. FEE considers that such alignment is important because many services provided by the public sector have direct private sector competition. Alignment facilitates assessment of the performance of the public sector providers if their financial results are directly comparable to their private sector competitors. Private sector providers of finance would also take comfort in the public sector using accounting standards as close as possible to IFRS as they are familiar with these standards and used to interpreting financial information arising from their use.
- (17) However, where there is a compelling public sector case for divergence, convergence with IFRSs should not take precedence over significance in developing standards. Differences exist between the public and private sector so IPSASs should primarily be based around the needs of public sector stakeholders even if this does mean unavoidable divergence from the equivalent IFRS. Nevertheless, the reasons for any divergence from IFRS need to be clearly explained and justified either in terms of public sector specific characteristics (such as “non-exchange transactions” or “service delivery” being included as recognition criteria) or to eliminate certain private sector specific concepts (such as share-based payments). The IPSASB has specifically addressed this issue in its publication “Process for Reviewing and Modifying IASB Documents” and FEE believes that it is important that the IPSASB continues to specifically state and explain the reasons behind any decision to diverge from IFRSs.
- (18) IPSASB is undoubtedly aware of the current debate within the European Union regarding the harmonisation of accruals based accounting standards for the public sector. Certain issues have been raised by Member States regarding IPSASs that, in their view, does not make them suitable for adoption per se by the EU. However, we note the observation in the Eurostat Report of 6 March 2013 (page 8) that “the IPSAS standards represent an indisputable reference for potential EU harmonised public sector accounts.” It would, therefore, be useful for the IPSASB to continue its current active involvement in the EPSAS task force (such as its current work in assisting with an EPSAS conceptual framework) and thereby continue to be advised as to what national governments perceive to be required from public sector accounting standards and, particularly where the specific needs of the public sector require divergence from IFRSs.
- (19) In Europe, alignment with the ESA 95 (soon to be the ESA 2010) is considered desirable where possible and where it does not contradict the specific accounting requirements of the public sector. However, it should be accepted that accounting requirements for statistical purposes do not always align with those for financial reporting purposes and that some degree of differentiation between the two is inevitable.

- (20) Whilst we have not specifically been asked to comment on IPSASB's existing commitments, we believe that it would be useful for the Board to be informed as to those projects that FEE believes to be of the greatest importance for 2015 to 2017.
- (21) In our opinion, the completion of the standard relating to social benefits and the projects relating to public sector financial instruments and the revisions to IPSASs 28-30 (covering the presentation, recognition and measurement and the disclosure of financial instruments) are of paramount importance. We suggest that early completion of these would be of benefit to stakeholders and could also increase the perceived usefulness of IPSASs as a whole.

Question 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?

- (22) FEE has been a long term supporter of accruals accounting for public sector entities and believes that it facilitates better planning, management and decision making as well as providing a means with which to assess financial resilience. It can also assist better performance measurement and therefore performance management. We believe that it brings these benefits irrespective of the development level of the jurisdiction involved or the size of the public entity in question.
- (23) However, we accept that the switch to accruals accounting requires a considerable outlay in time and resources, particularly with regard to implementing systems and training staff at all levels. We also accept that there is a political element to consider in introducing stakeholders to the concepts involved and in explaining the inevitable changes in financial performance and position that arise from the switch to accruals accounting. Consequently, the Cash Basis IPSAS may continue to be relevant for some time.
- (24) Therefore, we do believe that the Cash Basis IPSAS can be a valuable source in strengthening public finance management and can help lay the foundations for a subsequent move towards full accruals accounting.

Question 7

Of the three options identified in relation to the Cash Basis IPSAS, which would you recommend the IPSASB select?

- (25) If the IPSASB had unlimited resources we would support option (a), to retain the Cash Basis IPSAS and complete the review process, for the reasons stated above.
- (26) However, we believe that it would be of longer lasting benefit to divert, first and foremost, all resources into completing the suite of accruals based standards. We believe that this would assist in their more widespread adoption across the world. The review process could then be resumed when resources became available.

- (27) Consequently, FEE supports option (b) as we believe that there is no compelling reason why the Cash Basis IPSAS should be withdrawn and that IPSASB should not dilute its efforts in completing the accruals based standards.

Question 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.

- (28) FEE believes that all the projects listed have merit as future projects for IPSASB.
- (29) Regarding “Public Sector Specific Issues”, we believe that “non-exchange expenses” is the most urgent subject for the IPSASB to deal with, primarily because guidance on this matter cannot be derived from existing public or private sector standards. Additionally, we have identified “measurement – public sector specific”, “role of government as owner rather than government” and “sovereign powers and their impact on financial reporting” as important projects for IPSASB due to the current lack of internationally accepted accounting standards dealing with these topics.
- (30) FEE also believes that “infrastructure assets” and “military assets” are useful projects because, although other IPSASs and IFRSs can be adapted to deal with these issues, there is currently considerable divergence between jurisdictions as to how these are accounted for.
- (31) To re-iterate that point that we made above under Question 5, in Europe the completion by the IPSASB of the standard on “social benefits” and the projects relating to public sector financial instruments and the revisions to IPSASs 28-30 are seen as highly important as it would address the largest perceived gaps in the existing suite of standards. We would encourage IPSASB to complete work on these standards as a matter of priority.
- (32) Regarding “Projects to Maintain Existing IPSASs”, FEE considers that “IPSAS 25 Employee Benefits” and “improvements to IPSAS 23 Non-exchange Revenues” are of particular importance. Additionally, “IPSAS 22 Disclosure of Financial Information about the Central Government Sector” is considered to be an issue to which priority should be given by the IPSASB.
- (33) An additional topic that the IPSASB should consider in the future was identified. A standard relating to insurance, particularly dealing with the distinction between self- and externally-sourced insurance, is considered to be a project of considerable utility.