ICGFM Technical Committee

The ICGFM has fairly recently established a Technical Committee and we have included below the comments this committee has issued to the IPSAS Board on their exposure drafts. If you would like to know more about the work of our Committee, please contact the Chair, Jesse Hughes <jhughes@odu.edu>

ICGFM Reponse (July 2012) to ED 47 – Financial Statement Discussion and Analysis:

1. Our response to each of the specified comments is as follows:
   a. In response to Comment 1 (Do you agree that the material presented in this Exposure Draft should be developed as an IPSAS, with the same level of authority as the accrual based IPSASs, which applies to all entities that prepare financial statements in accordance with IPSASs?), we agree that an IPSAS should be issued. However, we have some reservations as to whether a FSD&A should be required or whether it should only be encouraged. ED 47 is a very general statement and covers a wide range of objectives. The key problem is with the objectives of financial statements. We would suggest that financial statements for sovereign entities and sub-national public sector entities fulfill three primary objectives:
      1) Information on solvency - for existing and potential creditors, citizens and other persons/organizations with an interest in the entity.

      2) Information on the performance of management - accountability to the citizens and other stakeholders.

      3) Information that can be used to enhance forecasting and hence as the basis of decisions.

      Achievement of the above objectives will be enhanced by the narrative FSD&A statements and hence we support such statements but consider they should be encouraged rather than mandatory. Their content should achieve a balance between the above information requirements.

   b. In response to Comment 2 (Do you agree that IPSAS 1 should be amended to clearly indicate that financial statement discussion and analysis is not a component of the financial statements?), we agree.
   c. In response to Comment 3 (Is the scope of financial statement discussion and analysis clearly defined so as to distinguish it from other issues being addressed by the IPSASB (e.g., financial statements, service performance reporting, reporting on the long-term sustainability of public finances)?, we agree.
   d. In response to Comment 4 (Is the required content for financial statement discussion and

analysis appropriate?), we agree but would like to have seen the following included: an overview of the entity's structure, the organizational scope of the Accounting Officer's responsibilities, the geographic location of significant offices and service delivery points, and staffing levels in significant branches. In addition, we would like the following to be considered:

1) A FSD&A should describe the significant events and activities that have affected the implementation of the entity's budget. An analysis should be provided of at least the last five financial years indicating the key changes to the entity's budget, actual financial results and any significant trends. In contrast, ED 47 only states (paragraph C.IG6, page 30): "Trend analysis may cover several prior years if the information is available and can be presented in a consistent manner."
2) More information should be provided to explain and account for all significant variances between the actual and the budgeted revenue and expenditure. Guidance should be provided on the level of detail to be provided which is necessary to ensure the Accounting Officer is actually held accountable to the governing body and the public for their management of the entity's budget. The only guidance contained in the current ED is: "26. To the extent such information is not included in the financial statements, financial statement discussion and analysis should include information about significant positive and negative variances between: (a) Actual results and the budget; and (b) The prior year and current year financial statements, by explaining significant changes and highlighting trends." In contrast, far more detail is provided in ED 47 on the information which is to be provided on the risks and uncertainties the entity faces. There should be a balance between accounting for past actions and results, and providing indications of the future financial performance of the entity.
3) Full details and explanations are required where any budgeted amounts or appropriations have been exceeded or expenses incurred without appropriate authority from the governing body. This should include details of what expenditure was found to be necessary, what steps were taken to obtain appropriate authority for the expenditure and how information about this expenditure was reported to senior officials and governing body at the earliest possible date. Details and explanations are also required to account for significant under-spending of budgeted amounts.
4) An explanation should be provided of the following sentence from paragraph 14 of IPSAS 24 (and also paragraph 1.9.8 of the Cash Basis IPSAS): "The comparison of budget and actual amounts shall present separately for each level of legislative oversight."
5) There should be encouragement that narrative reports are concise and avoid either platitudes or becoming condescending to users. However, we recognize that it is difficult to be prescriptive in relation to such matters.

e. In response to Comment 5 (Do you agree with the transitional provisions?), we agree.
f. In response to Comment 6 (Is the Implementation Guidance useful to understanding the requirements of the proposed IPSAS?), we agree.
g. In response to Comment 7 (Is the Illustrative Example a useful way of illustrating the

requirements of the proposed IPSAS?), we agree but would like to have seen a trend line for tax rates. In addition, the illustrative example included with ED 47 includes more information about the country's economy rather than the government's financial transactions and results. It also provides some information on trends in the level of revenue and expenditure over time, but not examples of explanations to account for significant differences between the budget and actual results.

2. We recognize that there are some philosophical differences between the Cash Reporting IPSAS and the accrual IPSAS since the former emphasizes "fiscal discipline" and the latter emphasizes both "fiscal discipline and fiscal sustainability". However, we would like to have seen some reference in the Conclusions to why a FSD&A for the Cash IPSAS was not included in the proposed IPSAS for the following reasons:
   a. As a minimum, we believe that a FSD&A should be encouraged in the Cash IPSAS similar to what was done in developing the standards for "Budget/Actual Comparative Statements (1.9)" and "Recipients of External Assistance (1.10)" and that such an IPSAS should be issued for comment at the same time as this ED 47. It is as important for preparers of the required financial statements under the Cash IPSAS to explain the financial data in their statements as it is for those preparing financial statements under the accrual IPSAS.
   b. The cash basis (or the modified cash basis) is the approach traditionally adopted in the public sector for accounting officers of individual ministries, departments and agencies to account to governing body for their financial management of the entity for which they are responsible. With the accrual basis, actual cash receipts are replaced by estimates of revenue due for the year in question and estimates of expenditure (based on guesses on the useful life of buildings and other assets and the cost of funding future pensions).

<u>ICGFM Response (Sep. 2012) to Consultation Paper on IPSASB Work Plan for 2012-2014:</u>

1. Our thoughts as we read the Consultative Paper are as follows:
   a. (pg. 5) We support the emphasis on the sovereign debt crisis but it needs to be balanced against the need for good cash reporting in order to maintain fiscal discipline.
   b. In our view there needs to be a clear objective for the future role of IPSAS compliant general purpose financial statements in relationship to statistical reports on sovereign governments. At present reliance is placed on statistical reporting for assessing sovereign risk. Is this to be changed, or are the GPFS to supplement statistical reporting? If the latter what are the respective roles of the two reporting systems?
   c. (pg. 6) We acknowledge the increase in adoption of the accrual IPSAS but we must not lose focus on the Cash IPSAS since most countries around the world are not yet ready to adopt the accrual IPSAS.
   d. (pg. 7) The adoption of the Cash IPSAS is the first step that many developing countries and countries in transition must take in order to be in a position to adopt the accrual IPSAS. Yet there is no mention of the Cash IPSAS in this section of this CP. We feel that the Cash IPSAS must be addressed in this section as a critical project. Otherwise, many

of us will keep spinning our wheels as we try to help countries implement better accounting reporting systems. We support the development of a conceptual framework as a backdrop to the standards. However, work must continue on the critical projects (especially the Cash IPSAS)!

e. (pg. 7) Some of our members have been appointed to the existing CAG but (to the best of our knowledge) have never been called upon to address any issues. Hopefully, this can be corrected in the future.
f. (pg. 10) We would like to see the Social Benefits project added to the 2013-14 work program. We think the various social security schemes should be recognized as a liability especially as it impacts the long-term sustainability of any country.
g. We do not consider the issue of the entity concept at the level of sovereign governments has been adequately addressed. This is included in our comments below on the Cash Basis IPSAS, but also applies to accrual IPSAS. The sovereign entity as a reporting entity is a unique concept and is different to all other reporting entities in law and in substance. By definition the sovereign entity is "sovereign" and controls everything within its sovereignty. This control is exercised by government subject to the constitution of a particular entity. Hence the concept of control as a basis for entity definition of sovereign governments is not appropriate. The analogy of a multi layered onion may be more appropriate, with different layers appropriate for different reporting purposes.
h. Related to the above, there is at present no guidance on the definition of sub-national entities that should publish GPFS. Should these be legal entities, public interest entities, or some other definition. Some guidance would be helpful for many countries embarking for the first time on publishing financial statements for their public sector entities.

2. Relative to our thoughts above, our priorities for the 2013-2014 work program and the reasons are as follows:

    1. **Review of Cash Basis IPSAS**—To the best of our knowledge, all of the developing countries and some countries in transition (as well as some of the more industrialized countries) follow cash reporting practices. This is primarily due to the cash budgeting systems in place. Many are trying to implement Part 1 (required) of the Cash Basis IPSAS but have difficulty with the consolidation provision. It is our belief that this IPSAS should include a section to require the controlling entity to break their controlled entities into the following categories: budgetary entities, GBEs, and all other entities. The preparation of a consolidated whole of government report should be included in Part 2 (optional). This change would simplify the process and help many countries move toward compliance of the Cash Basis IPSAS for cash reporting (especially if this change was undertaken with others to simplify the mandatory requirements of this standard and ensure that it better reflects existing good practice). Once they are in compliance with this revised Part 1, they can then work on the optional provisions in Part 2. After they have implemented these optional provisions, they are then in a position to implement the

accrual IPSASs. It is our belief that this review should be of the highest priority for the future work program to first ensure that cash is properly reported before the IPSASB exerts much more effort on improving the accrual IPSAS for the relative few countries that are in a position to implement the accrual IPSAS.

2. **Revision of IPSASs 6-8**—As we mentioned earlier, we think there should be a section in Part 1 of the Cash Basis IPSAS to require categorization of public sector entities and the present requirement for a consolidated whole of government report should be moved to Part 2 and made optional. In addition, IPSAS 6 should clarify the classification of quasi-government entities (i.e. central banks, etc.) to ensure that these are handled consistently throughout the world.

3. **Reporting on the Long-Term Sustainability of Public Finances**—We agree that this area should be of high priority for the IPSASB. However, it should be expanded to include some provisions in the Cash Basis IPSAS on how to achieve long-term sustainability for those countries that are not in a position to implement the accrual IPSAS. This could be achieved by reflecting the debt to GDP ratio as a footnote in the Statement of Cash Receipts and Cash Payments. In addition, each public sector entity should be encouraged to include a Medium Term Fiscal Framework (3-5 years).

4. **Social Benefits—**We know this is a controversial area but we think it is an important issue that the IPSASB should address as soon as they can get it back on their work program. The issue applies to both the Cash Basis IPSAS (optional) and the accrual IPSASs (required). As a minimum, financial reporting of social security schemes in the financial statements is extremely important since many countries provide benefits whenever their constituents reach retirement age (or otherwise qualify to draw government benefits). When we reach age 65, many of us become eligible for social security and will draw on those benefits until we die. We believe that sounds like a liability (just like any other pension plan) and should be reflected in the financial statements. Even though it is controversial, we believe the IPSASB should include it in their work program during the next two years. Again, we do not think that we can keep kicking this can down the road and hope that our children/grandchildren will be able to pay for our wellbeing during our retirement years.

5. **Public Sector Conceptual Framework**—We also agree that this should be a high priority. Care must be taken to ensure that the conceptual framework is broad enough to provide an interim framework for those countries that are only able to implement cash reporting under the Cash Basis IPSAS.

6. **Financial Statement Discussion and Analysis**—This also should be a high priority since many decision-makers in the public sector do not have the financial background to fully utilize the information contained in required financial statements. Thus, a plain language narrative (with charts) is necessary to assist them in this regard.

7. **IPSASs and Government Finance Statistics Reporting Guidelines**—It is our understanding that a future GFSM will include a suggested Chart of Accounts. If so, it needs to be closely coordinated with the IPSASB to ensure that the Chart of Accounts is sufficient to meet the needs of an accrual accounting system. The present GFSM does not do this since it was only anticipated that the GFSM be a statistical reporting system that extracts the necessary data from the accounting system and is then reported to the IMF for their analytical purposes.

8. **Report Service Performance**—Service performance data is most beneficial in an accrual system since full costs are necessary for comparability purposes. But we need to get cash reporting fully implemented throughout the world (to the maximum extent possible) before we worry about service performance.

9. **First Time Adoption of Accrual IPSASs**—This is not a high priority since IFRS 1 addresses this adequately at the present time. It can be more fully addressed at a later date.

10. **Government Business Enterprises**—We also do not consider this a high priority since the existing IAS/IFRS adequately address these issues at the present time. It can be more fully addressed at a later date.

11. **Improvements (biennial)—**Agree with this biennial review but would not divert resources away from the first seven priorities identified above.

12. **Public Sector Financial Instruments**—Not a high priority for most countries around the world since they do not have sophisticated financial instruments.

13. **Public Sector Combinations**—Not a high priority from our perspective.

14. **Amendments to IPSASs 28-30**—Not a high priority from our perspective.

ICGFM Accounting Standards Committee

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