

Mr. Ian Carruthers
Chairman
International Public Sector Accounting
Standards Board (IPSASB)

submitted via IPSASB website

February 14, 2024
523/617

**Re.: Consultation
IPSASB Strategy and Work Program 2024-2028**

Dear Mr. Carruthers,

The IDW would like to thank the IPSASB for the opportunity to submit our comments on the proposed Strategy and Work Program 2024-2028.

We support the IPSASB's work to provide high-quality standards for governments and other public sector entities with the objective of strengthening Public Financial Management (PFM) and sustainable development globally through increasing adoption and implementation of accrual International Public Sector Accounting Standards (IPSAS) and International Public Sector Sustainability Reporting Standards.

We agree that the set of IPSAS standards has achieved a high level of maturity and that key gaps have been filled during the last Strategy & Workplan period 2019-2023. The major objection which was raised by IPSAS critics in the EPSAS discussion, namely that IPSAS do not yet cover all public sector specific aspects, is therefore no longer valid.

Given the maturity of the IPSAS suite of standards for governmental financial reporting and the high percentage of jurisdictions worldwide that apply accrual accounting in the public sector, it is only consequent to redirect the Board's resources to maintenance of existing financial reporting standards. We support the proposal to add maintenance activities to the IPSASB's work program, including the introduction of Post Implementation Reviews (PIR)).

Institut der Wirtschaftsprüfer
in Deutschland e. V.

Wirtschaftsprüferhaus
Tersteegenstraße 14
40474 Düsseldorf
Postfach 32 05 80
40420 Düsseldorf

TELEFONZENTRALE:
+49 (0) 211 / 45 61 - 0

FAX GESCHÄFTSLEITUNG:
+49 (0) 211 / 4 54 10 97

INTERNET:
www.idw.de

E-MAIL:
info@idw.de

BANKVERBINDUNG:
Deutsche Bank AG Düsseldorf
IBAN: DE53 3007 0010 0748 0213 00
BIC: DEUTDEDDXXX
USt-ID Nummer: DE119353203

GESCHÄFTSFÜHRENDER VORSTAND:
Melanie Sack, WP StB, Sprecherin
des Vorstands;
Dr. Torsten Moser, WP;
Dr. Daniel P. Siegel, WP StB

Amtsgericht Düsseldorf
Vereinsregister VR 3850

Page 2 of 8 to the CL to the IPSASB Strategy and Work Program 2024-2028 dated 14 February 2024

However, there is huge disappointment that the IPSASB has decided to stop Differential Reporting as a standard-setting project. The alternative plan of seeking a strategic partner who develops practical support material may not be a sufficient solution for smaller entities that lack resources, because additional lengthy implementation guidance may not be seen as a relief. As extensive disclosures are often cited as being particularly resource-intensive for smaller entities, we ask the IPSASB to consider whether the proposed project Better Communication in Financial Reporting (disclosure project) could include discussions on how disclosure requirements could be simplified and made more relevant for smaller public sector entities.

In addition, we strongly advocate for the inclusion of IPSAS 42 on Social Benefits in the Post Implementation Review already in the maintenance program 2024-2028, i.e. at an earlier stage than announced in the Basis of Conclusion of that standard.

As written in our previous Comment Letter, we support IPSASB's engagement in setting standards for sustainability reporting in the public sector. Based on that, we support IPSASB's view, that the maturity of the IPSAS suite of standards for governmental financial reporting allows the Board to allocate resources to that new working area.

Following the completion of the sustainability reporting projects in the current pipeline, it will be important for the IPSASB to focus its resources on those areas where it can add unique value. There is already a significant amount of private sector sustainability reporting standards that could (and will) be adapted for public sector entities. We therefore acknowledge that the IPSASB has chosen the strategy of leveraging resources by building on existing guidance prepared by other standard setters in order to be resource efficient.

We respond to each of the Specific Matters for Comment as follows.

Specific Matter for Comment 1 – Proposed Strategy

The IPSASB proposes to update its strategic objective to reflect the shift in the balance of public sector financial reporting needs towards the maintenance of IPSAS and the development of International Public Sector Sustainability Reporting Standards.

Page 3 of 8 to the CL to the IPSASB Strategy and Work Program 2024-2028 dated 14 February 2024

- a) *Do you agree with the strategic objective [which is “Strengthening Public Financial Management and sustainable development globally through increasing adoption and implementation of accrual IPSAS and International Public Sector Sustainability Reporting Standards”]?*
- b) *Do you agree with the IPSASB's proposal to deliver its Strategic Objective through two main activities (Delivering Global Standards and Inspiring Implementation)?*

If you do not agree, please explain your reasoning and your proposed alternatives.

We agree with both.

We understand the amendment is intended to emphasize that International Public Sector Sustainability Reporting Standards do not only serve the purpose of strengthening Public Finance Management but have their own merit. The shift in the objective by explicitly mentioning sustainable development illustrates the broad spectrum of stakeholders and users. This might help to increase the overall acceptance of the standards.

In our comment letter to the IPSASB Consultation on Advancing Public Sector Sustainability Reporting in 2022, the IDW supported that the IPSASB should address sustainability reporting in the public sector. The IPSASB does not need to start from scratch but can rather build on existing standards. We had pointed out that the IPSASB should indeed take the International Sustainability Standards Board's (ISSB) pronouncements as a basis; but amendments and further guidance to public sector specific aspects will be needed.

Therefore, we welcome the IPSASB's approach of using the principles already developed in the IFRS Sustainability Standards (IFRS S), European Sustainability Reporting Standards (ESRS) and the Sustainability Reporting Standards of the Global Reporting Initiative (GRI) and of focusing on amendments that are particularly necessary for the public sector rather than reinventing the wheel. This approach has already proven its worth in the development of accrual IPSAS.

Specific Matter for Comment 2 – Public Sector Financial Reporting Standards

The IPSASB proposes to add maintenance activities to its Work Program, including a process to assess IPSAS application challenges and to undertake post implementation reviews. Therefore, at this time, the IPSASB is not proposing to add new major financial reporting standard setting projects.

Do you agree with the proposal to add maintenance activities? If you do not agree, please explain why, including any proposed alternatives.

We agree that the set of IPSAS standards has reached a high level of maturity and that key gaps have been filled. Currently, we see no urgent need to develop new public sector financial reporting standards. Consequently, it is appropriate to redirect resources to maintenance activities as suggested.

We assume that those activities include

- assessing who is or is not applying the IPSASB standards and why, what changes are commonly made for national implementation and the reasons for these with the aim of identifying the implementation issues in practice regarding general principles of the respective standards, and
- the issuing of guidance and the interpretation of rules that are not commonly understood or
- even improving standards if necessary.

Such activities will supposedly promote the acceptance of the standards and support harmonized implementation globally. We therefore support the IPSASB's proposal, including the proposed structure.

Specific Matter for Comment 3 – Potential Future Financial Reporting Projects

The IPSASB's Potential Future Financial Reporting Projects, see Appendix A, include projects for the development of new IPSAS and the maintenance of existing IPSAS.

1. *Are there other major financial reporting projects the IPSASB should consider adding to its Potential Future Financial Reporting Standard Setting Projects list?*

Page 5 of 8 to the CL to the IPSASB Strategy and Work Program 2024-2028 dated 14 February 2024

2. *Are there other IPSAS that the IPSASB should consider as a potential project for its maintenance program?*
3. *If the IPSASB's proposal to implement a PIR process is supported, what IPSAS are of the highest priority in your jurisdiction?*

For each potential financial reporting project identified, please explain why you believe this has international relevance that requires a standard setting solution such that the IPSASB should consider it, and elaborate on the nature of the issue you think should be explored.

Regarding No. 1) Major new IPSAS Projects:

We have not identified any new reporting projects that the IPSASB should consider adding to its list of potential future reporting standard setting projects.

However, we are disappointed that the IPSASB has decided to abandon Differential Reporting as a standard-setting project. Differential reporting is seen as an appropriate approach to address accounting challenges faced by smaller and less-risky public sector entities. With the growing number of standards, the requirements for the accrual IPSAS have increased significantly. Smaller entities, especially in the area of local governments, often do not have the necessary capacities and skills to cope with the requirements of the full suite of IPSAS. The EPSAS issues paper on relief for smaller and less risky entities published by Eurostat therefore establishes the need that future accounting requirements must take into account the limited administrative capacities and capabilities of smaller entities. The solution does not necessarily have to be a separate set of accounting rules, but rather a clarification on how to apply the requirements for entities of all sizes with specific considerations of materiality aspects.

In the IPSASB's Feedback Statement published on January 17, 2024, the rationale given for discontinuing the Differential Reporting Project comprises that the project is not conceptually achievable, not practically feasible and that it does not address the public need.

We concede that there will be difficulties to define smaller or less complex or less risky public entities. But in our view there is definitely a public need, e.g. for municipalities with a few hundred citizens and few employees that are overwhelmed by the sheer volume of IPSAS standards. In such cases, additional lengthy practical and implementation guidance is unlikely to alleviate

Page 6 of 8 to the CL to the IPSASB Strategy and Work Program 2024-2028 dated 14 February 2024

the burden or to promote acceptance of IPSAS, but rather discourage a move to IPSAS from the outset. The IPSASB's communicated plan to engage a strategic partner to develop practical support material will not be seen by stakeholders as an acceptable solution in many cases.

As extensive disclosures are often cited as being particularly resource-intensive for smaller entities with a lack of resources, we wonder whether it is possible to include the consideration of necessary disclosures for smaller entities in the proposed project Better Communication in Financial Reporting (Disclosure Project) included in Appendix A. We would consider this as providing more value to constituents than a project on IAS 34, Interim Financial Reporting, or on specialized areas like Insurance Contracts or Rate-Regulated Activities.

In general, priority should be given to those projects with greater benefits for a broad range of constituents, i.e. in our view, the IPSASB should focus primarily on the two disclosure projects on the list of potential future financial reporting standard setting projects in Appendix A. Specialized areas could be addressed later. In particular, with regard to Rate-Regulated Activities it seems reasonable to wait until the IASB has completed its long-lasting and ongoing redeliberations.

Regarding No. 2) Potential Maintenance Projects:

We have no objections against the future maintenance projects listed in Appendix A. We realize that the focus is on the more dated standards. We further observe that IPSAS 18 (Segment Reporting), IPSAS 20 (Related Party Transactions) and IPSAS 22 (Disclosure of Financial Information about the General Government Sector) are not widely used. It might therefore be useful to examine the reasons for this in more detail, but there is no urgent need for action.

However, we request that IPSAS 42 on Social Benefits should be included in the Post Implementation Review in any case. It is a standard which is – despite of the importance of the transactions or the accounting area – still not widely applied, even by jurisdictions that have enthusiastically adopted other IPSAS. The Basis of Conclusion of IPSAS 42 (BC103.) states that a post-implementation review of IPSAS 42 “would be appropriate at some point in the future”, but if adoption of the standard remains patchy, it could be worth exploring the overarching reasons for this at an earlier stage than originally

Page 7 of 8 to the CL to the IPSASB Strategy and Work Program 2024-2028 dated 14 February 2024

planned – for example, whether or not the conceptual basis of the standard is satisfactory.

Regarding No. 3) National Priorities:

Much to our regret, this question is not (yet) relevant in our jurisdiction, as Germany has not yet adopted IPSAS, let alone accrual accounting at the federal government level.

Specific Matter for Comment 4 – Public Sector Sustainability Reporting Projects

Upon completion of the three pre-committed sustainability reporting standard projects, what are the key public sector sustainability reporting issues the IPSASB should consider adding to its Work Program?

When answering please provide your rationale as to why the IPSASB should undertake such a project(s).

Completing the ongoing project climate-related reporting is obviously a top priority.

ESG (Environment – Social – Governance) comprises three key areas of sustainability. As the IPSASB has started with a focus on environmental topics, it may consider addressing social and governance issues next in order to achieve broader acceptance, especially in emerging countries where in their view social issues might be more prevalent compared to environmental issues.

As a rule, it will be beneficial to consider the work program of ISSB, GRI and EF-RAG when defining the public sector sustainability work program in order to maximize synergy effects.

Page 8 of 8 to the CL to the IPSASB Strategy and Work Program 2024-2028 dated 14 February 2024

We would be pleased to answer any questions that you may have or discuss any aspect of this letter.

Yours truly,

Daniel Siegel
Executive Director

Viola Eulner
Technical Principal Public Sector