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Australia
15 February 2024

Ian Carruthers
Chair
International Public Sector Accounting Standards Board
277 Wellington Street West
Toronto, ON M5V 3H2
Canada

Submission via web

Dear Mr. Carruthers

IPSASB Strategy and Work Program 2024-2028 – Consultation

I am pleased to make this submission on IPSASB *Strategy and Work Program 2024-2028* – Consultation.

I have over 30 years of experience in accounting advisory functions of large accounting and auditing firms across a wide range of clients, industries and issues in the for-profit, not-for-profit, private, and public sectors. My clients across the business and government environments have included listed companies, unlisted and private companies, charitable and not-for-profit organisations, commonwealth, state and local government departments and agencies in the public sector, and government owned corporations (government business enterprises).

My current position is at the Queensland Audit Office where we audit Queensland state government entities, universities and local governments.

I include my detailed responses below. My responses are also in the context of not-for-profit private sector entities that apply IPSASB's or equivalents.

Yours sincerely,

David Hardidge
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Specific Matter for Comment 1

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.

a) Do you agree with the strategic objective?

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.

I agree with the proposed strategic objective.

While I agree with the two main activities, I do not think that the description of the two main activities picks up the intended activities for interpretation (such as the Application Panel).

> Delivering Global Standards – Developing and maintaining public sector financial and sustainability reporting standards.
>
> Inspiring Implementation – Raising awareness of the IPSASB Standards and the benefits of their implementation.

Specific Matter for Comment 2

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.

I agree with the proposal not to add any new major financial reporting standard setting updates, given the intended focus on sustainability reporting. I expect sustainability reporting will take an enormous share of the IPSASB's resources.

I agree with the proposal not to add an insurance project for an equivalent of IFRS 17, given the significant resources that would be required.

However, there will be IPSASB reporters that need to account for insurance contracts. Some of those reporters may decide to adopt IFRS 17 given the lack of a specific IPSAS standard. I believe that those reporters could learn from the Australian Accounting Standards Board's work on AASB 17 which adapted IFRS 17 for the public sector. There are some specific changes to IFRS 17, including provisions that relate to groups of contracts rather than individual contracts, given the nature of many public sector insurance arrangements that are to the public at large. These changes, and guidance, for public sector entities –are included in AASB 2022-9 *Amendments to Australian Accounting Standards – Insurance Contracts in the Public Sector.*

Specific Matter for Comment 3

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?
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.

Maintenance program

In relation to the maintenance program, I believe that the IPSASB should incorporate in IPSAS 1 some of the amendments to IAS 1 introduced by the IASB in December 2014 – Disclosure Initiative (Amendments to IAS 1).

The IASB Disclosure Initiative amendments addressed some feedback that was variously described as addressing disclosure overload, and "allowing" cutting the clutter, streamlining financial reporting, focused financial reporting, and effective financial reporting.

I include below in Appendix A further details, which is a copy of what I included in my submission to the IPASB for *Exposure Draft 80 Improvements to IPSAS, 2021* (with the only change being an updated link to the example financial statements).

I believe that this change should proceed now, and not wait for the IFRS 18 project, as these changes relate to the financial statements as a whole.

PIR process

I agree with the proposal to include a PIR process. My preference would be to start (in a few years) with the recent standards IPSAS 47 *Revenue and* IPSAS 48 *Transfer Expenses.*

Application Panel

While I agree broadly with the proposal to introduce an Applications Panel, I have some issues and concerns given my experience with the IFRS Interpretations Committee.

My issues and concerns include:

Compliance with IPSAS.

The IASB some years ago specifically introduced provisions that if you claim compliance with IFRS, that means compliance with IFRS as issued by the IASB. If a jurisdiction makes modifications to the equivalent of IFRS, then they cannot claim compliance with IFRS as issued by the IASB. For example, the modifications introduced by the European Union means companies there state compliance with IFRS as issued by the European Union.

In the public sector an example is New Zealand. Compliance with NZ equivalents of IPSASs will not mean compliance with IPSASs issued by the IPSASB, given the modifications made in New Zealand.

This issue is important, as if there are any application questions, the questions have to be for IPSASs as issued by the ISASB.

Mandatory Application

The IASB had to deal whether the Agenda Decisions issued by the IFRS Interpretations Committee were voluntary or mandatory.

In the end, the IFRIC Agenda Decisions were made mandatory (when they are applicable). However, the provisions to make the decisions mandatory is "hidden" in the IFRS Due Process Handbook – a document hardly any day-to-account knows exists, let alone has read.

There are also some practical issues with ensuring compliance with a few hundred Agenda Decisions (and the former Rejection Decisions).

Also, the Agenda Decisions (and the former Rejection Decisions) are not kept up-to-date – for example, with changes to standards.

Transition

There are practical issues with making the IFRIC Agenda Decisions mandatory. First, the IFRIC Agenda Decisions interpret the IFRSs, and do not change the provisions of IFRSs. Consequently, there are no transitional provisions – because the standards have not changed.

As IFRIC issues Agenda Decisions throughout the year, there is a problem in reporters changing practices and meeting reporting deadlines. The IFRS Trustees allow reporters "sufficient time" to apply the Agenda Decisions.

Nature of issues taken to the Applications Panel

I find that some of the issues taken to the IFRS Interpretation Committee can be very detailed and / or very specific. While IFRIC can issue Agenda Decisions to say the issue is too narrow, this takes time and effort of committee members.

Due process

While there is a due process, involvement and submissions seem to be less than standards.

Recently, the IASB has been given a veto power over the issue of IFRS Agenda Decisions.

Forcing a decision

Despite the due process, and IASB veto, there have been objections to the decisions issued by the IFRS Interpretations Committee, including:

> Accounting for crypto-currencies being under the intangible standard, given the residual definition of what an intangible asset is – despite crypto-currencies being vastly different to intangibles such as patents, brandnames etc.

Accounting for SAAS costs, with the Agenda Decision focusing on the software code, and not the rights under the contract for (say) a general ledger system, fixed asset register system etc.

Specific Matter for Comment 4

> 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).

I believe that after the three sustainability projects are completed, or if there are expected to be significant delays, while the projects are being undertaken, that the IPASB should commence a project similar to the IASB's Climate-related and Other Uncertainties in the Financial Statements project:

https://www.ifrs.org/projects/work-plan/climate-related-risks-in-the-financial-statements/

Part of this project is to deal with criticisms of a disconnect between (particularly in the private sector) of the "world is doomed – it is about to end" in the sustainability reports, and the lack of liabilities (for "net zero" commitments) or impairment of assets.

Appendix A - IASB Disclosure Initiative for IPSASB standards

I believe that some of the amendments to IAS 1 introduced by the IASB in December 2014 – Disclosure Initiative (Amendments to IAS 1) should be made to IPSAS 1.

The IASB Disclosure Initiative amendments addressed some feedback that was variously described as addressing disclosure overload, and "allowing" cutting the clutter, streamlining financial reporting, focused financial reporting, and effective financial reporting.

I have included "allowing" in quotes, as it seemed to be an interpretation of what was required, and had become a behavioural issue – such that amendments were required to change behaviour rather than a statement about applying materiality.

There were also amendments to "allow" companies to reorganise the financial report, to group related items, rather than have financial statement notes in numerical order following the format of the profit or loss statement and balance sheet.

An example set of streamlined example financial statement for a state government are the Queensland Treasury Sunshine Department Illustrative Financial Statements at:

> https://www.treasury.qld.gov.au/resource/financial-reporting-requirements-queensland-government-agencies/
> https://s3.treasury.qld.gov.au/files/FRR-6A-2022-23-Sunshine-Department-Illustrative-Financial-Statements.pdf

Checklist mentality

One of the amendments made to IAS 1, was to emphasis that even though some of the IFRS standards are written such as to imply a checklist mentality (must disclose, shall disclose), such 'mandatory' disclosures are still subject to materiality.

I believe that these Disclosure Initiative amendments would be of benefit to public sector financial reporting and IPSAS 1.

IAS 1 (using the Australian equivalent AASB 101 wording) paragraph 31 was changed from:

> 31. An entity need not provide a specific disclosure required by an Australian Accounting Standard if the information is not material.

to:

> 31 <u>Some Australian Accounting Standards specify information that is required to be included in the financial statements, which include the notes.</u> An entity need not provide a specific disclosure required by an Australian Accounting Standard if the information <u>resulting from that disclosure</u> is not material. <u>This is the case even if the Australian Accounting Standard contains a list of specific requirements or describes them as minimum requirements. An entity shall also consider whether to provide additional disclosures when compliance with the specific requirements in Australian Accounting Standards is insufficient to enable users of financial statements to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.</u>

N.B. The pre-2007 version of AASB 101 paragraph 31 was:

> 31. Applying the concept of materiality means that a specific disclosure requirement in an Australian Accounting Standard need not be satisfied if the information is not material.

This compares to the current IPSAS 1:

47. Applying the concept of materiality means that a specific disclosure requirement in an IPSAS need not be satisfied if the information is not material.

Other disclosure overload changes

The 2014 Disclosure Initiative amendments also included adding:

30A When applying this and other Australian Accounting Standards an entity shall decide, taking into consideration all relevant facts and circumstances, how it aggregates information in the financial statements, which include the notes. An entity shall not reduce the understandability of its financial statements by obscuring material information with immaterial information or by aggregating material items that have different natures or functions.

The following were included relating to grouping and ordering (again using the Australian equivalent AASB 101 wording):

113 An entity shall, as far as practicable, present notes in a systematic manner. In determining a systematic manner, the entity shall consider the effect on the understandability and comparability of its financial statements. An entity shall cross-reference each item in the statements of financial position and in the statement(s) of profit or loss and other comprehensive income, and in the statements of changes in equity and of cash flows to any related information in the notes.

114 ~~An entity normally presents notes in the following order, to assist users to understand the financial statements and to compare them with financial statements of other entities:~~ Examples of systematic ordering or grouping of the notes include:

(a) giving prominence to the areas of its activities that the entity considers to be most relevant to an understanding of its financial performance and financial position, such as grouping together information about particular operating activities;

(b) grouping together information about items measured similarly such as assets measured at fair value; or

(c) following the order of the line items in the statement(s) of profit or loss and other comprehensive income and the statement of financial position, such as:

~~(a)~~(i) statement of compliance with ~~Australian Accounting Standards~~ IFRSs (see paragraph 16);

~~(b)~~(ii) ~~summary of~~ significant accounting policies applied (see paragraph 117);

~~(c)~~(iii) supporting information for items presented in the statements of financial position and in the statement(s) of profit or loss and other comprehensive income, and in the statements of changes in equity and of cash flows, in the order in which each statement and each line item is presented; and

~~(d)~~(iv) other disclosures, including:

~~(i)~~(1) contingent liabilities (see AASB 137) and unrecognised contractual commitments; and

~~(ii)~~(2) non-financial disclosures, eg e.g. the entity's financial risk management objectives and policies (see AASB 7).

115. ~~In some circumstances, it may be necessary or desirable to vary the order of specific items within the notes. For example, an entity may combine information on changes in fair value recognised in profit or loss with information on maturities of financial instruments, although the former disclosures relate to the statement of comprehensive income or separate income statement (if presented) and the latter relate to the statement of financial position. Nevertheless, an entity retains a systematic structure for the notes as far as practicable.~~ [Deleted by the IASB]

These paragraphs are equivalent to IPSAS 1 paragraphs 128 – 130:

128. **Notes shall, as far as practicable, be presented in a systematic manner. Each item on the face of the statement of financial position, statement of financial performance, statement of changes in net assets/equity, and cash flow statement shall be cross-referenced to any related information in the notes.**

129. Notes are normally presented in the following order, which assists users in understanding the financial statements and comparing them with financial statements of other entities:

(a) A statement of compliance with IPSASs (see paragraph 28);

(b) A summary of significant accounting policies applied (see paragraph 132);

(c) Supporting information for items presented on the face of the statement of financial position, statement of financial performance, statement of changes in net assets/equity, or cash flow statement, in the order in which each statement and each line item is presented; and

(d) Other disclosures, including:

(i) Contingent liabilities (see IPSAS 19), and unrecognized contractual commitments; and

(ii) Non-financial disclosures, e.g., the entity's financial risk management objectives and policies (see IPSAS 30).

130. In some circumstances, it may be necessary or desirable to vary the ordering of specific items within the notes. For example, information on changes in fair value recognized in surplus or deficit may be combined with information on maturities of financial instruments, although the former disclosures relate to the statement of financial performance and the latter relate to the statement of financial position. Nevertheless, a systematic structure for the notes is retained as far as practicable.