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The International Public Sector Accounting Standards Board

277 Wellington St. West
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Submission via website

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Dear Ross

COMMENT ON STRATEGY AND WORK PROGRAM 2024–2028 CONSULTATION

We thank you for the opportunity to provide comment on the Strategy and Work Program 2024-2028 Consultation.

We issued the consultation concurrently for comment in our jurisdiction. We held three roundtable discussions to solicit views from preparers, auditors, technical advisors, academics, consultants, professional bodies, government officials, users and other interested parties. We received one written comment letter. The verbal and written comment received were used to develop our response.

The views in this comment letter are those of the Secretariat of the Accounting Standards Board (ASB) and not the Board.

Our stakeholders support the proposed IPSASB strategy and work program 2024-2028. Our detailed responses to the specific matters for comment are outlined in Annexure A.

Should you have any questions regarding the comment outlined in our letter, please feel free to contact me.

Your sincerely

Elizna van der Westhuizen

Head of Technical

Board Members: Ms P Moalusi (Chair), Mr A van der Burgh (Deputy Chair), Mr C Braxton, Ms W de Jager,
Mr D Dlamini, Mr S Khan, Ms A Muller, Ms N Themba
Chief Executive Officer: Ms J Poggiolini

SPECIFIC MATTERS FOR COMMENT

Specific Matter for Comment 1

The IPSASB proposes to update its strategic objective to reflect the shift in the balance of the 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.

We support the proposed strategic objective and the two main activities through which the objective will be delivered. In particular, we support the shift towards the maintenance of IPSAS rather than development.

However, we are concerned about the focus on developing sustainability reporting standards and the potential implications this may have on the IPSASB's work on financial reporting.

A stable set of standards that remain unchanged for a period of time makes adoption and implementation of IPSAS easier and allows stakeholders a period to establish and embed their policies. This is important and necessary in our jurisdiction. This approach is aligned to the ASB strategy for 2024 to 2026, which has the theme of "taking stock".

Our concern arises from the following:

Adoption and implementation of accrual standards

Adoption of accrual accounting standards is still in its infancy globally. Significant IPSASB resources would need to be allocated to support adoption and implementation, should the projected 70%+ of jurisdictions that apply accrual accounting by 2030 come to fruition. In our jurisdiction, we hope to see national and provincial departments transition from a modified cash basis of accounting to an accrual basis in future. There is no definitive timeframe for the transition.

We support the IPSASB's current project to enhance IPSAS 33 on *First-time Adoption of Accrual Basis IPSASs*. Our stakeholders noted there is more that the IPSASB can do during this strategy period on accrual adoption:

- Although many resources are available to support accrual adoption and implementation, these are spread across various platforms and many entities may be unaware of them. The benefits of accrual accounting is well researched and published. Our stakeholders particularly noted that the potential to reduce corruption and increase access to funding can restore hope and positivity for our citizens. However, some stakeholders in our jurisdiction are not convinced. We recommend that the IPSASB develops a resource hub that could include, for example, communication on the benefits of accrual accounting,

reference to Pathways to Accrual, IPSAS 33, and a portal where queries can be submitted (potentially linked to the application panel).

- We recommend the IPSASB researches the causes of slow accrual adoption, focusing on regions where the decision has been made. This research can identify if there are particular issues with IPSAS that impact adoption. If so, the IPSASB should address the issues.
- A key component of successful adoption and implementation of accrual accounting is having the right skills, capacity and knowledge within the accounting profession. In our jurisdiction, formal education, training and development of chartered accountants have been private sector focused. We recommend the IPSASB considers strategic partnerships to reduce the gap in public sector skills, knowledge and capacity, for example, with the International Panel on Accountancy Education, Pan African Federation of Accountants and the African Professionalisation Initiative. Actions could range from influencing the formal education curriculum so that more public sector and public financial management content is included, to continuous professional development.

Producing quality financial statements

As much as our stakeholders agree on the need for, and importance of sustainability reporting, they cautioned against the IPSASB moving its primary focus away from financial reporting.

In our jurisdiction, and potentially other developing countries, there is a need to “get the basic accounting principles right”. Many stakeholders think that only once entities are able to report quality financial information would they be able to consider sustainability reporting. Sufficient IPSASB resources should be available to support jurisdictions in applying existing IPSAS.

We also note the large volume of recently approved IPSAS that are not yet effective. Jurisdictions would need support to implement these standards during this strategy period.

Developing sustainability reporting standards as a financial reporting standard setter

Some stakeholders questioned the IPSASB’s decision to develop sustainability reporting standards within the same Board that develops financial reporting standards. They noted the private sector’s need to establish the International Sustainability Standards Board (ISSB) separate from the International Accounting Standards Board (IASB). This separate structure ensures the right focus and allocation of resources to each of the reporting areas, in a manner that complements and does not compete.

We recommend that the IPSASB carefully considers the governance structures and resource allocation for financial and sustainability reporting respectively.

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.

We support the proposal to add maintenance activities to the Work Program.

We recommend that the IPSASB considers the following as part of maintenance activities.

Implementation / transition resource groups

There is a need for implementation / transition resource groups to consider the impact of recently approved standards that are not yet effective, i.e. IPSAS 43 on *Leases* to IPSAS 48 on *Transfer Expenses*. Many of these Standards are complex and require not only accounting policy changes, but also system changes. Such groups are tried and tested in the private sector (financial instruments, revenue and insurance contracts) and have assisted with the implementation of complex Standards. These groups have also been established for sustainability reporting standards and would be equally important for the International Public Sector Sustainability Reporting Standards once approved by the Board.

Should the IPSASB not establish separate implementation groups for these Standards, we recommend that the IPSASB considers how the application panel (below) could be used as a platform to deal with initial issues and questions.

Application panel

We are looking forward to the establishment of the IPSASB's application panel, and believe this will provide a platform for stakeholders to successfully apply IPSAS.

We have the following suggestions for the application panel:

- In setting up the panel, the IPSASB should consider broadening the workstreams to and from the panel. We recommend that the IPSASB actively seeks feedback from stakeholders on issues they experience with applying IPSAS. This would mean that the panel not only considers formal submissions made to it, but also other issues that staff or the Board becomes aware of, for example through outreach events.
- The panel should have a mandate broad enough to consider practical application issues, and not only technical issues related to the Standards. In our experience, this is where most challenges exist. The panel should have a mechanism to communicate issues outside their mandate to other relevant stakeholders that may be able to address the issues.

Post-implementation reviews

We support undertaking post-implementation reviews on IPSAS where practice is established.

The ASB undertakes desktop reviews as another form of review. The purpose of a desktop review is to assess compliance with a particular Standard or topic reported in the financial statements and to identify transversal issues. The reviews are primarily performed by reviewing publicly available information, such as financial statements, with limited stakeholder engagement. Desktop reviews are less resource intensive than post-implementation reviews, can be completed in a relatively short period of time and have been especially effective with the review of disclosure-related standards or topics.

You can access more information on the types of reviews in the ASB's Due Process Handbook – section 9 on post-implementation reviews and section 10 on desktop reviews: <https://www.asb.co.za/due-process-handbook/>.

While the nature of desktop reviews may mean that they are not feasible for a global standard-setter, they can (and may already) be undertaken by national standard-setters. We recommend that the IPSASB considers using national standard-setters to assist with research and identifying practice issues within jurisdictions, as an efficient way of leveraging resources in each jurisdiction.

Documented policies and procedures

The introduction of maintenance activities to the IPSASB's work means that there are various activities that form part of and support the IPSASB's standard-setting process.

We recommend that the IPSASB considers developing a due process handbook. We believe this is best practice and adds transparency and credibility to the standard-setting process.

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.

In principle, our stakeholders support maintaining close alignment with IFRS Accounting Standards. We believe a key piece of guidance that is missing from the IPSAS literature is guidance on materiality.

We note that the strategy consultation does not include potentially developing guidance similar to the IASB's *IFRS Practice Statement 2: Making Materiality Judgements*. In our experience, guidance on materiality is key to resolving many issues preparers face with financial reporting. These include developing appropriate accounting policies and providing relevant information to users in the financial statements. The correct application of materiality also assists entities with capacity and skill constraints by being able to scale the Standards, and reduces disagreements between preparers and auditors. We note that materiality is also a key concept in sustainability reporting.

Given the IPSASB's strategic objective to increase adoption and implementation and develop sustainability reporting standards, we recommend that the IPSASB develops public sector guidance on materiality based on IFRS Practice Statement 2.

Potential future financial reporting projects

- **IPSAS taxonomy:** Some stakeholders view the digitisation of IPSAS as an important mechanism to support adoption and implementation of IPSAS. We recommend that the IPSASB considers dedicating resources to develop an IPSAS taxonomy.
- **IFRS 17 Insurance Contracts:** We do not support the IPSASB potentially dedicating resources to an insurance project during this strategy period. Given the specialised nature of insurance activities and that they are sector-neutral, we do not foresee public sector reasons to develop different guidance to IFRS 17. We therefore propose that IFRS 17 provides sufficient guidance for public sector insurers.

- Accounting for tax expenditures: There may be a link between this project and (fiscal) sustainability information. The project could also be linked to the ongoing work of the International Monetary Fund on fiscal transparency. We recommend that the project be considered in this light.

Post-implementation review topics

Refer to our comment on post-implementation reviews in response to SMC 2 above.

A key area of concern raised by our stakeholders is accounting for infrastructure assets, including impairment of these assets. In most jurisdictions, a significant proportion of government spending is earmarked for infrastructure development and maintenance. This spending should be properly accounted for. Furthermore, see link with sustainability reporting below.

We note that the timing of post-implementation reviews is critical to their success. Practice should be established so that the feedback from the review has substance. For this reason, we recommend that the IPSASB dedicates resources to support the adoption of IPSAS 45 *Property, Plant and Equipment* and IPSAS 46 *Measurement* (also see response to SMC 2 above).

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).

We recommend that the IPSASB consults on the next sustainability reporting standard projects closer to finalising the three pre-committed projects. This is because of the fast pace at which the sustainability reporting landscape is changing.

In principle, we recommend that the IPSASB considers the following when developing International Public Sector Sustainability Reporting Standards:

- As with financial reporting standards, public sector information is usually well received in the market when aligned with the private sector, as far as appropriate. It would be important for the IPSASB to keep alignment with the ISSB Standards.
- Nevertheless, it is important to consider the role of the public sector and how it differs from the private sector. Separate guidance may be needed for different levels of government, as well as guidance on reporting whole-of-government information.
- Sustainability reporting experts and those in practice are often not accountants. This means that they do not necessarily understand the conceptual principles in an accounting framework. The International Public Sector Sustainability Reporting Standards should be written with this in mind.

We recommend the IPSASB considers the following in determining the next topics to undertake after the pre-committed projects:

- An important starting point for identifying the next sustainability reporting standard projects may be understanding what types of reporting jurisdictions currently do that falls, or may

fall, under a sustainability umbrella. In our jurisdiction, sustainability reporting is not formalised, standardised or structured. However, many entities report on their achievement of sustainable development objectives assigned to them in legislation or through other binding agreements. Some report this in performance reports alongside their financial statements.

- Governments have made various sustainable development commitments through, for example, member bodies or multilateral agreements. There is a need for standardised reporting on governments' progress towards achieving these commitments. Guidance on how to measure and report on these commitments is needed. It may be necessary to consult on what these transversal commitments are, and engage the relevant bodies to whom these commitments were made.
- Citizens require information on government's plans to ensure their future wellbeing, to hold governments accountable. In our jurisdiction, the following two areas are particularly relevant:
 - Maintenance of infrastructure assets and planning for future infrastructure asset needs are key to ensuring governments can continue providing basic human services and to sustain economic growth. This includes infrastructure related to clean water, electricity, education and transportation.
 - Citizens want to understand the impact of government liabilities, including loans, commitments, guarantees and social benefit obligations on economic growth and the provision of basic services.