

## Comments and suggestions on the IPSASB's **STRATEGY AND WORK PROGRAM 2024-2028**

### **Task force IRSPM PSAAG, CIGAR Network, EGPA PSG XII**

*February 8, 2024*

#### **Preliminary remarks**

The IPSASB has requested comments and answers to specific questions regarding its *strategy and work program 2024-2028*. We welcome the opportunity to comment on these important policies and plans.

The following document comprises a **general remark and core assumptions**, which accompanies our responses to the Specific Matters open for Comment (SMC). This document was prepared by the Task Force IRSPM PSAAG, CIGAR Network and EGPA PSG XII.

The **IRSPM PSAAG, CIGAR Network and EGPA PSG XII** are three research networks that focus on Public Sector Accounting. The Task Force is made up of 16 researchers from these networks. The views expressed in this document represent those of the members of the Task Force and not of the whole research community represented by the networks, and neither of the institutions/ universities with which they are affiliated.

#### **General remark on the Strategy-Work-Program-Consultation**

In the past, the IPSASB has developed a comprehensive and basically complete capital-market-oriented IPSAS suite. Recently, it decided and started to complement its work by engaging in standard setting in the field of so-called non-financial or sustainability information. Consequently, there is a need to adequately emphasise the interaction (connectivity) and relative importance of these two fields of work of the IPSASB in the future and to achieve a relative balance between these two as soon as possible.

We appreciate the efforts by the IPSASB, also as a result of the consultation process related to ED 83 – Reporting Sustainability Program Information. We believe momentum is building to encourage and support public sector entities in providing sustainability reporting, taking a leadership role in the achievement of sustainable development and the UN Agenda 2030. It would be desirable to develop a separate framework for sustainability standards, which, although aligned with the existing framework for general purpose financial reporting (GPFR), would, however, emphasise that the IPSASB encourages the application of its sustainability standards regardless of which accounting standards are used for the preparation of GPFR. This procedure would be in line with the objective of the IPSASB to also become a global standard setter for sustainability reporting of public sector entities.

#### **Core assumptions**

We are of the opinion that Public Financial Management (PFM), in its broadest sense, is the system by which public financial resources are planned, managed and controlled. Furthermore, the PFM system is the foundation on which the accountability of public sector entities, both external and internal, is built, in order to enable and control the efficient and effective delivery of public service outcomes, and to discharge accountability towards citizens and their representatives. In our view, PFM is paramount for accountability, which should be prioritized over stewardship and decision-usefulness functions.

We recognise the **pivotal role of the IPSASB** in developing high-quality international public sector accounting standards to support high quality **financial reporting** as well as to enhance **non-financial disclosure** by public sector entities, especially related to sustainability programs and actions, to increase citizens' trust and assume accountability to multiple stakeholders. In fact, we believe that governments need to take the initiative and lead the development of high quality, reliable and comparable information as key to being able to achieve Sustainable Development Goals (**SDGs**) as set by the United Nations (UN). Thus, we applaud the initiative to prepare guidance for global public sector sustainability reporting.

**Public sector entities/governments play a pivotal role** in the achievement of actual sustainable

development and their involvement in **sustainability** practices challenge reporting duties, extending the perspective from financial/economic to social and environmental areas. There is a need for a common approach by public sector entities in preparing sustainability reporting, assessing their contribution to sustainable development. **Sustainability reporting for the public sector is too crucial not to be provided with the necessary resources** for informed guidance.

We are of the opinion that, in general, public-sector entities require **public sector specific principles and standards** that properly address and accommodate public sector specificities. As such, when public sector transactions and public sector user needs resemble those taking place in the private sector, principles and standards may be kept as aligned as possible. However, for public-sector-specific transactions and activities, we are in favour of principles and standards that are **not adapted artificially from private sector accounting and reporting**. We think there is a need to seek options that best fit the public sector – **especially in the field of sustainability reporting** where the differences between private and public sector are more obvious.

### Specific Matter for Comment (SMC) 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.**

### General comment to SMC 1:

*We appreciate the clear message from the Chair of the IPSASB, emphasising the relative importance of International Public Sector Sustainability Reporting Standards (IPS-SRS) and IPS-AS and we trust that this willingness will be reflected in a respective suite of standards. This implies a clear focus on IPS-SRS to achieve this strategic objective.*

### Specific comment to SMC 1:

***Overall, we agree with the strategic objective and the way forward. Especially, the pause in the issuance of new financial standards that is mentioned later on in the consultation (SMC 2). Such a temporary break is very much needed. The continuous updating/revisions/release of new standards may prove to be a deterrent to actual implementation of IPSAS. The constant changes may dishearten government practitioners to just consider IPSAS requirements (let alone to keep track of them) – bearing in mind the already strained capacity. The barrage of new pronouncements and revisions to the standards is actually stretching capacity, making IPSAS unreachable.***

*We also welcome the idea of “reducing unnecessary differences with Government Finance Statistics (GFS)” (page 7) but recommend no exceptions for this reason during the pause, especially with regards to consolidation and Whole of Government Accounts.*

*Summarizing, we agree with **the pause for new major projects, and plead for a frozen zone without exceptions for keeping track with IFRS and for reducing unnecessary differences with GFS.***

*An **application panel and post implementation reviews (PIRs)** are appropriate means for monitoring the maturity of the existing IPSAS suite as well as the potential diversity in practice due to too sophisticated rules, perhaps due to exhaustive use of options. Both future tools could be useful to support appropriate adoption of IPSAS and the need for adjustment, when practitioners identify potential or perceived accounting gaps. Although the idea of the application panel is not explained in detail, it might have tasks similar to an “Interpretation Committee”. We agree, with the implementation of both instruments (application panel & implementation reviews) and assume that they have synergies.*

## 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.

## Specific comment to SMC 2:

*Basically, we agree, as indicated in our answer to SMC 1: a pause is very welcome and PIRs are a very good initiative (page 8), but amendments should be kept to a minimum and not become immediately effective.*

*Therefore, we do have **reservations about***

- ***maintaining alignment with IFRSs** as part of international collaboration (Page 7). We appreciate the attempt of the IPSASB to reduce the unnecessary differences with IFRSs in instances when they can also be applied in the public sector context, however, there are some points that need to be addressed. Firstly, IFRSs are continually changing, meaning that IPSAS would require constant revisions. Secondly, IPSAS should not be interpreted as a specific application of a more general IFRS approach: their logics are not always similar since a government faces many non-exchange transactions (e.g. subsidies, donations), which do not exist in IFRSs; and governments produce social benefits that are hardly measurable in financial accounting terms. Thirdly, the language used by IFRSs is very difficult and technical. Even private sector practitioners find IFRS hard to understand. Aligning IPSAS with IFRSs would result in the same language problem, aggravated by the lack of accounting expertise in the public sector compared to the private sector. The lack of understandability increases the cost of IPSAS adoption as technical experts and consultants are heavily needed in any accounting reform attempt. In this realm, we propose the conduction of a pilot project where a selected IPSAS would be rewritten in a more easily comprehensible language with the help of academics, practitioners, national standard setters and other interested stakeholders. The IPSASB could set up a voluntary international team for this purpose. The output of the team would be then assessed by IPSASB for consistency with the original text. This pilot could provide some suggestions to be followed for the drafting of future IPSAS. This proposal is consistent with IPSASB's seeking support for the development of IPSAS. In the same line of thinking, we strongly support the importance of PIRs, prepared by taking into account feedback from constituents. To this end, we suggest the IPSASB to strengthen its collaboration with national standard setters for the public sector;*
- ***mentioning the cost of preparing consolidated financial statements (CFS)** as a reason to align with IFRS (Page 7). We understand that there might be a reason for alignment where a public sector entity controls private sector entities, which apply private sector national/international financial reporting standards. In this case, the proposed alignment with IFRS aims to minimise the cost of preparing CFS. Nonetheless, it should be taken into account that the preparation of CFS can be difficult for government practitioners who are still struggling with implementing the basic accrual concepts. Furthermore, the scope of any consolidation exercise in the public sector may need to be established first, because this may be quite different from IFRS/IPSAS related to consolidation. As a matter of fact, CFS of governments are not meant for stakeholders interested in stock exchange or in price-earnings ratios as is often the case in groups of enterprises, but should provide comprehensive information regarding service efforts and accomplishments for constituents, economic actors, etc.  
*Perhaps this is an area where **alignment with GFS** would be more appreciated by government practitioners. In fact, reducing unnecessary differences with GFS (Page 7) could be of more added value for the IPSASB's work than alignment with IFRS.**

### 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.

### Specific comment to SMC 3:

We have **concerns** with respect to (new) potential **financial reporting projects** in the near future.

The list of IPSASB's potential future financial reporting projects is quite exhaustive and should not be enlarged but assigned a lower priority. As explained above, the development of a suite of IPS-SRS warrants maximum resources. The Board should focus its resources on their development.

We are also **concerned** about the IPSASB's reference to addressing constituents' needs in the development of IPS-SRS. Page 9 refers to the **IPSASB's Conceptual Framework** as the basis to address public sector issues, and connectivity with IPSAS financial reporting. This approach bears the inherent risk to limit the use of IPS-SRS to public sector entities that apply IPSAS. Perhaps the IPSASB could increase collaboration with national standard setters, to incorporate more flexibility in the development of IPS-SRS and promote their widespread use. These collaborations might be fruitful and needed also with respect to **Governance issues** in sustainability reporting (as mentioned later in our response to SMC4).

With reference to Figure 2 on Page 10, we propose the following changes:

- (a) The IPSASB could also tick "Practical Guidance" and "Continuing Professional Development". Having designed the standards, the IPSASB's contribution could also be fruitful in these two areas. This suggestion is also linked with the (three) key actions that the IPSASB proposes for itself on Page 11.
- (b) Consultants/Contractors could also tick "Technical Guidance" and "Continuing Professional Development (CPD)". Their position exposes them to practical implementation issues. Such practical experience gained would enable them to contribute towards implementation by providing technical guidance and designing CPD courses in a fruitful way.
- (c) Auditors could also tick "Capacity development" and "Continuing Professional Development", especially in relation to audit issues.

Related to the responses in SMC 1 and SMC 2, **we agree that a temporary break in new financial standard setting** activities is required to "better help(ing) public sector entities navigate, understand, and apply IPSAS" (page 4).

Specifically referring to the questions in SMC 3, and with reference to SMC 3-2, we are of the opinion that **IPSAS 1 should be jointly "maintained" with IPSAS 2, 22 and 24**. The presentation of financial statements is very important due to system requirements. Systems are quite expensive to change; and the planning of the report format is fundamental. This issue is particularly important for jurisdictions that are still in the process of implementing accruals and are establishing the requirements of any system to be acquired. Better communicating financial information should not be limited to the scope of the corresponding IASB's project. Diverging from the private sector, it is a public sector specific characteristic that deemed users for GPFs do not use them – at least sufficiently. Inter alia, this is due to information overload, technical language and a more or less bureaucratic (uninspired) presentation. Thus, the IPSASB should also **engage in** the field of so-

called alternative reporting formats<sup>1</sup> as **Popular Financial Reports** (or *Popular Integrated Reports*) which would support citizens in better understanding how public sector entities are managed, where their money goes, and how entities deal with public value creation. This idea seems to be in line with the project “Better Communication in Financial Reporting”. In the same line of thinking we share the view that updates to Recommended Practice Guidelines (RPGs) should go hand in hand with the preparation of IPS-SRS.

Also, **we applaud the continuation of collaboration with the academic community** through the Academic Advisory Group.

With reference to SMC 3-3, as a matter of principle, each IPSAS should be subject to a PIR process – e.g. three years after effective date of new or substantially modified standards. In our opinion, the prioritisation of older IPSAS for PIR processes should follow requests from national standard setters and academic research – revealing evidence for a diversity in practice and the weight of “complaints” from preparers and users of IPSAS (e.g. PIR processes were necessary for IPSAS 23 as a basis for IPSAS 47).

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<sup>1</sup> See, for example, Manes Rossi et al. (2023) [https://doi.org/10.14195/978-989-26-2464-8\\_14](https://doi.org/10.14195/978-989-26-2464-8_14).

#### 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).

#### Specific comment to SMC 4:

*Upon completion of the three pre-committed sustainability reporting standard project, the IPSASB should take the time to develop a **conceptual sustainability reporting framework**, that primarily serves as a conceptual basis for coherent and consistent standard setting, and also supports the future application of its standards by non-IPSAS adopters.*

*Furthermore, all approaches to reporting on and managing sustainability are conceptually based on a common foundation, which can, however, take different forms: the identification of material opportunities and risks for the reporting entity and/or material impacts of the reporting entity's activities, irrespective of individual sustainability aspects and issues. It would therefore be desirable if the IPSASB were to adopt **materiality analysis** as the linchpin of sustainability reporting and management.*

*In our opinion, the IPSASB should just focus on the environment and sustainability areas, as proposed (Page 16). In particular, we recommend that **gender equality and the fight against discrimination** be given the importance they deserve. The standard setter should **steer clear from governance** issues. This is a sensitive national matter, and not a matter to be dealt with by an external body (albeit international) that has no legal back-up. We believe that attempting to standardise the reporting of governance issues for public sector entities (and governments) may generate antagonism towards the IPSASB itself and further hamper the consideration of IPSAS and their implementation for public sector financial reporting.*

**Signed on behalf of the persons listed below:**

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