

IPSASB
277 Wellington Street West
Toronto,
ON M5V 3H2
Canada

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Exposure Draft (ED) 91, Limited-scope Updates to First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)

The Financial Audit and Accounting Subcommittee (FAAS) of INTOSAI’s Professional Standards Committee (PSC) welcomes the opportunity to respond to this Exposure Draft. FAAS is a group of public sector financial auditing and accounting specialists that work together to help improve the quality of financial auditing and accounting that is performed in governments. FAAS members represent the national audit offices of various countries from most of the regions of the world. FAAS annual meetings are observed by international organizations that are interested in the subject matter discussed by FAAS. FAAS also oversee the preparation of guidance on financial audit in GUID 2900, providing guidance to support public sector application of the International Auditing Standards adopted as International Standards of Supreme Audit Institutions.

The FAAS has reviewed the exposure draft and offer our collective thoughts and recommendations on the proposed changes in the following appendix.

Regards,

James Osborne
Director of Audit Quality, UK National Audit Office
FAAS Chair

Ulrika Meyer
Head of Development and Administration Unit, Financial Audit, Swedish National Audit Office
FAAS Vice-Chair

APPENDIX

IPSAS 33 Draft Comments				
No	Paragraph <i>(insert the reference of the paragraph as follows: Page Number/Paragraph number. Where possible insert complete paragraph wording)</i>	Type of Feedback <i>(e.g. Editorial, Structural, Technical)</i>	Feedback & Recommendation <i>(issues/areas to be clarified and any alternative proposals to be considered)</i>	Justification <i>(provide rationale to support recommendations)</i>
1.	<p>Objective</p> <ol style="list-style-type: none"> 1. The objective of this Standard is to ensure that an entity IPSAS FS contains high quality information that: <ol style="list-style-type: none"> a) Is transparent for accountability and decision-making purposes. b) Provides a suitable starting point for accounting in accordance with accrual basis IPSAS; and c) Provides benefits that are expected to exceed the costs. 	Technical	<p>The “first time adopter” is mentioned thrice in the old IPSAS 33, the new version use an indirect allusion in the b) “suitable starting point”.</p> <p>The first paragraph should more clearly state that the concerned entities are those that do not already have chosen to apply IPSAS.</p>	<p>One might wonder why the mention of first-time use of IPSAS has not been maintained as it is the main purpose of this IPSAS. The reference in AG1 might not be deemed sufficient.</p>

CONTEXT:

FAAS have noted that the changes proposed to IPSAS 33 remove the reference to the “first time adopter” and suggest to more accurately and clearly set out what IPSASB mean in the standard rather than using the allusions of “suitable starting point”.

IPSAS 33 Draft Comments

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2.	<p>Page 7, § 8: <u>Deemed cost</u> is an amount used as a surrogate for transaction price at the measurement date.</p>	<p>Editorial</p>	<p>The word ‘surrogate’ needs to be replaced with a simple word that is easy to understand and translate.</p> <p>Deemed cost is an amount used as a substitute/proxy for transaction price at the measurement date.</p>	<p>As a reader of the standard, we feel more comfortable to use the word ‘substitute’ and it is straightforward and easy to understand what it means.</p>

CONTEXT:

FAAS have identified that the use of the word surrogate is not easily understood nor translated. It is therefore proposed that IPSASB identify a suitable replacement term. It is noted that the term suggested here, “**substitute**”, is itself not a precise alternative but has been suggested for illustrative purposes. The word “**Proxy**” is also a possible option.

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3.	<p>Page 7, § 8: <u>First IPSAS financial statements</u> are the first financial statements that fairly present transactions and balances for the reporting period in compliance with the accrual basis IPSAS, and for which an entity can make an explicit and unreserved statement of compliance with those IPSAS.</p>	Editorial	<p>Suggest for enhancing the definition to differentiate between transactions for the reporting period and account balances as at the reporting period end, as they are quite different in nature in terms of presentation and reporting. The definition should also include the word ‘events’ after the transactions and reporting on related disclosures in the financial statements on transactions and events and account balances.</p> <p><u>First IPSAS financial statements</u> are the first financial statements that fairly present Transactions, events and related disclosures for the reporting period, and account balances and related disclosures at the reporting period end in compliance with the accrual basis IPSAS, and for which an entity can make an explicit and unreserved statement of compliance with those IPSAS.</p>	The enhanced definition provides clarity and understanding to the user of the standard and that the financial statements include the related disclosures for transactions and events for the period and related disclosures for account balance at the year end.

CONTEXT:

FAAS have identified that the explanation within the IPSAS 33 standard requires enhancement and have provided a proposed amendment.

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4.	Accounting policies Page 8, § 12. On the date of adoption of IPSAS, a first-time adopter shall apply all requirements of IPSAS retrospectively except if otherwise required or permitted in this standard.	Technical	As § AG 18 is clearly linked to this paragraph, it should be quoted. Moreover, the links between retrospective application of requirements and comparative information could be explained.	This requirement stems from the retrospective application stated on IPSAS 3 § 7. Logically, the retrospective application to the FS published for periods prior to IPSASs adoption are exclusively concerned by this requirement.

CONTEXT:

FAAS consider that AG 18 is linked to § 12 and to the requirements in IPSAS 3 and IPSAS 7. It would be appropriate for IPSASB to ensure that these are cross referenced within IPSAS 33. Additional explanation may also be useful.

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5.	Page 8, § 15. A first time adopter shall apply the versions of accrual basis IPSAS effective at the date of adoption of IPSAS. A first-time adopter may apply a new IPSAS that is not yet mandatory if that IPSAS permits early application. Any new IPSAS that becomes effective during the transition shall be applied by the first-time adopter from the date it becomes effective.	Technical	Specify whether a change to an IPSAS or part of an IPSAS that falls within the scope of exemptions is suspended at the end of the exemption itself.	The last sentence of the paragraph does not deal with amendments to an already existing IPSAS which becomes effective during the transition period although, this amended requirement is within the scope of exemption.

CONTEXT:

FAAS have noted that § 15 currently only refers to **new** standards which arise during the period of implementation and does not specifically reference **amended** standards. As such, it is not clear whether an entity transitioning through the application of IPSAS 33 is obliged to apply amendments to standards which take place during the transition phase. It is also not clear whether these changes would fall within the scope of an existing exemption.

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6.	Page 8, §18 - Estimates	Technical	<p>Estimate made for the same date in accordance with the previous basis of accounting.</p> <p>How is this paragraph relevant if the basis previously was cash basis, for example assets were not capitalized hence no depreciation, how do we then say it must be consistent with previous basis of accounting whereas in the majority of cases there may not have been an estimate?</p>	<p>Consider the fact that in the public sector context most central government are on cash basis or modified cash basis and therefore estimates would not be relevant in their basis of accounting, maybe there is a need to clarify §18.</p>

CONTEXT:

FAAS have noted that the current wording in this paragraph implies that the user is already preparing the accounts on an accruals basis prior to adopting IPSAS 33.

FAAS request that the wording be modified to allow the application in instances where a user has been preparing accounts on a cash or a modified cash basis under which there may not have been an estimate and is attempting to move directly to an accrual's basis. IPSAS 33 does include other references to first time adoption of IPSAS 33 from Cash accounting.

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7.	Page 10, § 27	Technical	Insert a mirroring paragraph dealing with combinations.	§27 deals with consolidation and refers to AG 41 to 44. There is no such a provision to combination although AG46 to AG48.

CONTEXT:

FAAS noted that in § 27 the standard refers to consolidations and provides a reference to AG 41-44. However, there is no reference to combinations despite there being the opportunity to reference AG 46-48.

FAAS would request that for the sake of clarity, IPSASB add an additional paragraph which refers to combinations and points to the guidance that is already present in AG46-48

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8.	Page 11, § 35 – Transition period shall not be longer than 3 years . Implementation guidance B.2	Technical	We are aware of examples where countries were in the transition period when covid hit, which sort of delayed the process. Other nations can face other unexpected challenges. Currently as written, there is no grace period for these unforeseen circumstances if the period is fixed to three years. There is also no guidance on this or for that matter on how to deal with such instances?	

CONTEXT:

FAAS have considered that as currently written the requirements that a transition period be no longer than three years does not sufficiently consider the realities when adopting accruals for the first time. There are also challenges which may unavoidably occur such as global pandemics, natural disasters and conflict. FAAS is aware of examples from countries that have had significant delays in the process of adopting the existing standard. The standard also does not set out the implication if the transition period of three years is not met.

Whilst we support the need for the standard to set out that a best practice transition takes no longer than three years, IPSASB should provide guidance on how an entity should act if there are delays in transition. This may include guidance on how to disclose an extended transition and in what exceptional circumstances it might be acceptable to trigger this. The standard should set a very clear direction to those adopting the standard to commence adoption of IPSAS 33 only when sufficient planning and preparation has taken place. At present this is only present in implementation guidance B2 and should be more made more prominent.

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9.	<p>Page 4, Specific Matter for comment 1: (e) To add non-authoritative guidance on the pre-adoption planning and preparation phase of the transition to accrual basis IPSAS.</p>	<p>Technical</p>	<p>While it is stated as guidance, page 70, § F.4 provides factors to consider in preparing and planning for transition to accrual basis IPSAS. A step-by-step process of preparing and planning may be more helpful for the reporting entity. It is also important to recognize the long-term sustainability of reporting under IPSAS accrual especially those jurisdictions faced with resource constraints.</p>	<p>The guidance may also include the need for engaging with key stakeholders (both internal and external stakeholders) to ensure successful adoption and implementation of accrual IPSAS.</p>

CONTEXT

FAAS noted that the current exposure draft provides only a note of factors to consider for those preparing to transition to accruals in ‘Section F Planning and Preparation Phase of IPSAS transition’. In addition, whilst application guidance B2 specifically references that ‘Various sources of external guidance may assist a first-time adopter with planning the conversion to accrual basis IPSAS’ it does not provide any reference to this guidance.

FAAS consider that there is an opportunity here for the standard to include non-authoritative guidance on the pre-adoption planning and preparation phase of the transition to the accruals basis to assist those transitioning. Alternatively, the standard should clearly reference the specific guidance available to support the preparation for adoption.