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The International Public Sector Accounting Standards Board

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Submission via website

13 December 2024

Dear Ross

COMMENT ON EXPOSURE DRAFT ON *LIMITED-SCOPE UPDATES TO FIRST-TIME ADOPTION OF ACCRUAL BASIS INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS (IPSAS) (AMENDMENTS TO IPSAS 33) (ED 91)*

We thank you for the opportunity to comment on ED 91.

We acknowledge the objective of the limited-scope project to improve the effectiveness and user-friendliness of IPSAS 33. We are, however, unsure how the IPSASB will measure whether the proposed changes achieved the objectives outlined in the project brief.

We note the limited scope of the project. In our view, the amendments do not address substantive issues raised by stakeholders during the IPSASB's 2021 Mid-period Work Programme Consultation. These issues include whether IPSAS 33 should continue to allow a three-year exemption to recognise and/or measure assets and liabilities and the need for more guidance on the planning and preparation required for the adoption of accrual accounting. Although we note the amendments include guidance on the pre-adoption planning and preparation phase, we question:

- its sufficiency – particularly relating to executing the planning phase and tools to assist entities with the transition; and
- its placement. This guidance is better suited for material outside IPSAS 33. IPSAS 33 should only establish principles to record, measure and report financial information.

Our responses to the specific matters for comment are outlined in Annexure A. Annexure B includes general matters for the IPSASB's consideration.

Board Members: Mr A van der Burgh (Chair), Ms A Carstens, Mr A Hardien, Ms W de Jager,
Mr D Dlamini, Mr S Gcwabe, Mr S Khan, Ms A Muller, Prof R Small
Chief Executive Officer: Mrs J Poggiolini

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

Yours sincerely

A handwritten signature in black ink, appearing to read 'Elizna van der Westhuizen'.

Elizna van der Westhuizen

Head of Technical

APPENDIX A

SPECIFIC MATTERS FOR COMMENT

Specific matter for comment 1

The IPSASB agreed to undertake this limited scope project to address stakeholder concerns in the application of IPSAS 33, to improve its effectiveness and user-friendliness. In response, the IPSASB propose to amend IPSAS 33 as follows:

- (a) To revise authoritative text and Basis for Conclusions by rearranging the guidance by topic;
- (b) To revise guidance to improve understandability and reduce duplication;
- (c) To revise relevant guidance to encourage the first-time adopter to apply IPSAS incrementally and as soon as possible by emphasizing the choice to elect to apply or not apply the available exemptions;
- (d) To add non-authoritative guidance (particularly under implementation guidance) to support the understanding and application of IPSAS 33; and
- (e) To add non-authoritative guidance on the pre-adoption and preparation of the transition to accrual basis IPSAS.

Do you agree with the proposed amendments? If not, please explain your response.

We do not agree that the revisions improve the effectiveness and user-friendliness of IPSAS 33. We also do not support the inclusion of guidance on the pre-adoption and preparation phase in IPSAS 33.

The response to the IPSASB's 2021 Mid-period Work Programme Consultation noted inconsistencies with the application of IPSAS 33 and challenges for first-time adopters, and users of the transitional financial statements. The revisions to IPSAS 33 do not address substantive issues raised during the Mid-period Work Programme Consultation. Also refer to our response to comment 1 in Appendix B.

- (a) We are unsure whether re-arranging the authoritative text and Basis for Conclusions by topic improves the effectiveness and user-friendliness of IPSAS 33.
- (b) We agree that the revised guidance reduces the duplication in IPSAS 33, but we are unsure whether the revisions improve the understandability of the IPSAS.
- (c) In our experience, entities generally wait until the adoption of a Standard is compulsory to implement it, rather than planning in advance for the adoption and incrementally transitioning onto the new requirements or adopting the Standard earlier than the effective date. IPSAS 33 currently encourages first-time adopters to comply in full with all the requirements of the applicable IPSAS as soon as possible (e.g. paragraphs 34 and 152). Despite this encouragement, the behaviour of first-time adopters is generally not to comply with IPSAS prior to the expiry of the exemptions provided in IPSAS 33. We are therefore of the view that the inclusion of the encouragement may not necessarily change the behaviour of first-time adopters.
- (d) We agree that the non-authoritative guidance may be useful to stakeholders in supporting the understanding and application of IPSAS 33.

- (e) We do not support the inclusion of non-authoritative guidance on the pre-adoption planning and preparation phases of the transition to accrual basis IPSAS in IPSAS 33. IPSAS 33 should only set out the principles for the recognition, measurement, presentation and disclosure of financial information during the transition to the adoption of accrual basis IPSAS. We also do not support references to outside literature in the guidance, such as Pathways to Accrual published by the International Federation of Accountants.

We agree that there is a need for more practical guidance to explain the thought process in deciding whether accrual-basis IPSAS should be adopted, and if the decision is taken to adopt accrual-basis IPSAS, how the adoption should be planned and executed. In our view, this guidance is better suited for guidance outside IPSAS 33, such as a staff paper, Frequently Asked Questions or as material integrated with other existing resources (e.g. Pathways to Accrual).

Specific matter for comment 2

The definition of “deemed cost” was previously deleted from the IPSAS 33 as a consequential amendment through IPSAS 46, *Measurement*. The IPSASB agreed that the definition of “deemed cost” is important for the understanding of the exemptions in the Standard relating to the use of deemed costs, and therefore propose to include a copy of the IPSAS 46 definition of deemed cost in IPSAS 33.

Do you agree with the inclusion of the definition of “deemed cost”? If not, please explain your response.

We do not support the inclusion of the definition of “deemed cost” in IPSAS 33 as we consider it unnecessary.

To determine a deemed cost where the acquisition cost of an asset and/or liability is not available, a first-time adopter will consider the guidance in IPSAS 46 on *Measurement*. A first-time adopter will also need to understand other measurement concepts from IPSAS 46, for example, current operational value. Paragraph 8 of ED 91 states “*Terms defined in other IPSAS are used in this Standard with the same meaning as in those Standards and are reproduced in the Glossary of Defined Terms published separately.*” We therefore consider the inclusion unnecessary.

APPENDIX B

GENERAL MATTERS FOR COMMENT

1. Exemption to recognise and/or measure assets and/or liabilities

IPSAS 33 states that where a first-time adopter has not recognised assets and/or liabilities under its previous basis of accounting, it is not required to recognise and/or measure assets and liabilities for reporting periods beginning on a date within three years following the date of adoption of IPSAS. Respondents to the IPSASB's 2021 Mid-period Work Programme Consultation noted several challenges with these exemptions. For example, increases or decreases in assets and/or liabilities during the period of transition create confusion about the equity/net asset position and question the credibility of the financial information presented.

Allowing a three-year exemption period may give the impression to first-time adopters that they only need three years to adopt accrual-basis IPSAS. This may result in first-time adopters not being able to identify and measure all the assets and/or liabilities to assert compliance with accrual basis IPSAS within the three-year transition period. As noted in our response to specific matter for comment 1(c), in our experience, entities generally wait until the adoption of a Standard is compulsory to implement it.

As requested by respondents to the IPSASB's 2021 Mid-period Work Programme Consultation, we recommend that the IPSASB assesses whether the three-year exemption should be permitted.

2. Presenting comparative information in the first transitional IPSAS financial statements or first IPSAS financial statements

IPSAS 33 paragraph 11 explains that a first-time adopter should prepare and present an opening statement of financial position at the date IPSAS is adopted. A first-time adopter can elect under paragraph AG11, to present comparative information in its first transitional IPSAS financial statements or its first IPSAS financial statements. Paragraph AG12 explains that where a first-time adopter elects to present comparative information, its first transitional IPSAS financial statements or its first IPSAS financial statements will include *“one statement of financial position with comparative information for the preceding period, and an opening statement of financial position as at the beginning of the reporting period prior to the date of adoption of IPSAS.”*

As the basis of preparation of the comparative information differs from the basis of preparation on the date of IPSAS adoption, we question the usefulness of presenting comparative information in the first transitional IPSAS financial statements or first IPSAS financial statements, even when read with the required reconciliations, as the information is not comparable. We recommend that the option to present comparative information in a first-time adopter's first transitional IPSAS financial statements or first IPSAS financial statements be reconsidered.

Furthermore, the requirement in paragraph AG12(a) *“at the beginning of the reporting period prior to the date of adoption of IPSAS”* is confusing. For example, if the date of adoption is 1 January X2, we read this to require a statement of financial position as at 1 January X1. We recommend that the wording in paragraph AG12(a) be amended as follows.

AG12(a) “... and an opening statement of financial position as at the ~~beginning of the reporting period prior to the~~ date of adoption of IPSAS.”

3. Adoption of new IPSAS that become effective during the transition period

IPSAS 33 paragraph 15 explains “A first-time adopter shall apply the versions of accrual basis IPSAS effective at the date of adoption. 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 period shall be applied by the first-time adopter from the date it becomes effective.”

The second sentence allows a first-time adopter to early adopt a new IPSAS if early application is permitted. The last sentence requires a first-time adopter to apply a new IPSAS from the date that it becomes effective. These sentences may seem contradictory. To avoid any confusion about the adoption of a new IPSAS, we propose that the last sentence be clarified to apply when an entity does not early apply a new IPSAS.