

14 May 2018

Mr John Stanford
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International Public Sector Accounting Standards Board
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CANADA
Submitted to: www.ifac.org

Dear John

Proposed Strategy and Work Plan 2019–2023

Thank you for the opportunity to comment on *Proposed Strategy and Work Plan 2019–2023* (the Consultation Document). The Consultation Document was exposed for comment in New Zealand and some New Zealand constituents may comment directly to you.

As you are aware, we have a keen interest in the IPSASB's strategy and work programme, given that the accounting standards which New Zealand public sector entities and not-for-profit entities apply are based on IPSAS Standards.

We broadly support the specific proposals in the Consultation Document, as indicated in our responses to the specific questions, which are set out in the Appendix to this letter.

The IPSASB has a number of significant projects to be completed over the next couple of years, most of which are addressing public sector specific issues. In order for the IPSASB to achieve its objective of developing high-quality IPSAS Standards and financial reporting guidance, we wish to stress the importance of taking the time to get things right, rather than placing undue emphasis on the speedy completion of projects. We understand that there may be criticisms about the perceived slow speed of the standard-setting process. However, often those criticisms overlook the reasons why developing high-quality standards takes time and why quality is important. There is a risk that not all the key issues are considered and adequately worked through when the focus is on speed over quality. A project could end up taking longer for a number of reasons. To achieve quality, a sufficient comment period for due process documents is also required. In order to provide high-quality comments to the IPSASB, respondents need adequate time to read and understand the due process

documents, identify any issues, conduct outreach and to provide well-considered feedback and recommendations on appropriate solutions. We understand that there will be times where the IPSASB feels there is a need to complete a project within a certain timeframe. However, the pressures to complete projects should not be at the cost of quality. In this situation, we suggest that the IPSASB reprioritises its work plan and allocates more resources to that particular project.

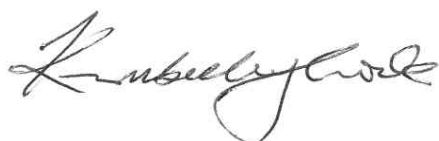
We recommend that the IPSASB adds a project on communication effectiveness to the Work Plan 2019–2023 as an alternative to some of the other proposed projects. We are of the view that this project is of interest to a wider range of constituents and would deliver more benefits to users of general purpose financial reports than some of the other proposed projects in the Consultation Document. We are living in an environment where information is readily available from many sources and the usefulness of information provided in financial reports is being increasingly challenged. Information in financial reports needs to be relevant and presented in a clear and concise manner to assist readers to understand it and use it for accountability and decision-making purposes.

We are very pleased that maintaining IFRS convergence is included as a separate theme in the Consultation Document. When transactions are the same for the public and private sectors it is important that convergence with IFRS® Standards is maintained. Maintaining convergence with IFRS Standards ensure the IPSAS Standards incorporate the latest thinking of the International Accounting Standards Board (IASB), to the extent appropriate for the public sector. This process ultimately contributes to the IPSASB developing and maintaining high-quality IPSAS Standards and financial reporting guidance.

Although we are broadly supportive of the specific proposals in the Consultation Document, we have a number of comments and recommendations in our response to the Specific Matters for Comment (SMC), which are set out in the Appendix to this letter.

If you have any questions or require clarification of any matters in this submission, please contact Aimy Luu Huynh (aimy.luuhuynh@xrb.govt.nz) or me.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Kimberley Crook', written in a cursive style.

Kimberley Crook
Chair – New Zealand Accounting Standards Board

APPENDIX Response to Specific Matters for Comment

Specific Matter for Comment 1

Do you agree with the IPSASB's proposed Strategic Objective 2019–2023? If you agree please provide any additional reasoning not already discussed in the document. If you do not agree please explain your reasoning and your proposed alternative.

We broadly agree with the IPSASB's proposed overarching Strategic Objective 2019–2023. We recommend that the first area of activity be enhanced by rewording it to include the words "maintaining" and "principle-based". We acknowledge that some might be of the view that the term "high-quality" infers that standards would be principle-based, but we would prefer the term "principle-based" is included (because some could argue that it is possible to develop high-quality standards that are rules-based). The proposed change would make it explicit that the IPSASB develops and maintains principle-based standards and guidance. It would also make it clear that the IPSASB not only develops new standards and guidance, but also enhances and updates existing standards and guidance. The proposed change is marked-up below.

Delivered through two main areas of activity, both of which have a public interest focus:

- Developing and maintaining high-quality, principle-based IPSAS and other high-quality financial reporting guidance for the public sector;...

We also wish to emphasize our support for the explicit reference to "high-quality" IPSAS and other financial reporting guidance. This should be a key factor when the IPSASB sets its work programme to achieve its Strategic Objective. We understand the IPSASB's desire to be regarded as a standard-setting body that addresses difficult public sector specific issues in a timely manner and makes efficient use of resources. However, the desire to complete projects in a timely manner must also be weighed up against the need to consider issues carefully, both conceptually and practically, and to develop operational standards. Given the difficult topics that are currently being considered by the IPSASB, we think it is imperative that the IPSASB takes the time to carefully consider the problem it is seeking to resolve, the available options for addressing that problem, and to develop workable solutions. With large and complex projects, it is also important to allow sufficient time for drafting and review of the resulting standards.

We understand that standard setters are often criticised for the perceived slow speed of the standard-setting process. However, often those criticisms overlook the reasons why developing high-quality standards takes time and why quality is important. If there is insufficient time devoted to standards' development, there is a significant risk that the resulting standards do not generate the expected benefits to users of public sector financial reports and/or impose excessive costs on public sector entities in preparing their financial statements. It also would likely result in the need for subsequent amendments or improvements, which in turn adds extra time to standard setting and additional implementation costs for preparers. There is also a risk that a project could end up taking longer than it should (for example, there could be more than one due process document required if respondents identified significant problems with the IPSASB's initial proposals). A focus on speed over quality could also pose a reputation risk for the IPSASB which, in turn, could impact on the strategic objective of increasing the adoption of accrual-based IPSAS. We understand that there will be times where the IPSASB feels there is a need to complete projects within a certain timeframe.

However, the pressures to complete projects should not be at the cost of quality. In this situation, we suggest that the IPSASB reprioritises its work plan and allocates more resources to that particular project.

One factor in achieving quality is to have a sufficient comment period for due process documents. The complexity of a topic should be a main driver in determining the length of the comment period, rather than meeting milestones. In order to provide high-quality comments to the IPSASB, respondents need adequate time to read and understand the due process documents, identify any issues, conduct outreach and to develop well-considered feedback and recommendations on possible solutions. This includes time for translation for respondents for whom English is not their first language.

We wish to emphasise the importance of this point, especially for Theme A projects, where there are no equivalent IFRS Standards to use as the starting point. Consequently, these projects require more time and resources to complete.

Specific Matter for Comment 2

Do you agree with the IPSASB's five proposed Strategic Themes for the 2019–2023 period? If you agree please provide any additional reasoning not already discussed in the document. If you do not agree please explain your reasoning, including any proposed alternatives.

We generally agree with the five proposed Strategic Themes for 2019–2023. The themes are consistent with the proposed overarching strategic objective. We are particularly pleased that maintaining IFRS convergence has been given more weighting with its own theme in the Consultation Document, whereas in the *IPSASB Strategy Document* of 2014 IFRS convergence was only a factor for project prioritisation.

In addition to the rationale provided in the Consultation Document for Theme B, we also support Theme B for the following reasons.

- When transactions are the same for the public and private sectors and convergence with IFRS Standards is maintained, the IPSAS Standards are keeping up to date with the latest thinking.
- There are public sector entities that issue debt securities on international debt markets. If such public sector entities prepare financial statements in accordance with IPSAS Standards, rather than IFRS Standards, they are often required to explain differences from IFRS Standards to investors. Generally, investors tend to have a better understanding of IFRS Standards. If investors don't understand the financial statements prepared in accordance with IPSAS Standards, and the reasons why they are different from IFRS Standards, then this may impact on their investment decisions.
- The pool of accounting resources and skills is greater if the differences between IPSAS Standards and IFRS Standards are minimised. This larger pool can be drawn from to assist with IPSAS Standards adoption.

- The adoption of IPSAS Standards would be more attractive for jurisdictions that currently apply IFRS Standards for public sector entities. In these jurisdictions, the transition to IPSAS Standards would be easier if the IPSAS Standards are aligned with the IFRS Standards.

We acknowledge the IPSASB will have challenges in prioritising the right balance of projects and activities among the five themes, in particular, the projects in Themes A and B. Some ways to overcome this challenge is for projects to have a clearly defined scope, and ensure that preliminary research is carried out. There are some projects where there could be an overlap between Theme A and Theme B such as communication effectiveness. We discuss this further in SMC 4 below.

Specific Matter for Comment 3

Do you agree with the criteria the IPSASB has used in deciding the proposed issues to add to its Work Plan 2019–2023? If you agree please provide any additional reasoning not already discussed in the document. If you do not agree please explain why, including any proposed alternatives.

We generally agree with the criteria for project prioritisation; there is a good mix of factors to consider. However, it is not clear in the Consultation Document if all four proposed criteria, or only some, are required in order for a project to be added to the work plan. We recommend that this matter is clarified.

To assist the IPSASB with selecting a project under the prevalence and consequences criteria, it may consider conducting research on the extent of potential issues before adding a project to the work plan.

Specific Matter for Comment 4

Do you agree with the projects that the IPSASB proposes to prioritize for addition to the Work Plan 2019–2023 on Theme A: Setting standards on public sector specific issues (*Natural Resources, Discount Rates, Differential Reporting and Conceptual Framework limited-scope Review*)? If not please explain your reasoning, and any proposed alternatives.

We agree with adding discount rates and a limited-scope review of *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (the Conceptual Framework) to the Work Plan 2019–2023.

We recommend the IPSASB replaces the projects on natural resources and differential reporting with a project on communication effectiveness. We are of the view that a project on communication effectiveness would address more pervasive issues and hence would be of more interest to a wider range of constituents and would deliver more benefits to users of general purpose financial reports than natural resources and differential reporting. The project on communication effectiveness should encompass the following components.

1. Evaluation of IPSAS literature against the presentation chapter in the Conceptual Framework.
2. Update to IPSAS 1 *Presentation of Financial Statements* for the revised version of IAS 1 *Presentation of Financial Statements* issued in September 2007. This component should include consideration of a new presentation of revenue and expenses that are reported outside of surplus/deficit (known as “other comprehensive income” (OCI) in IFRS literature).

We note that the IPSASB did not include the presentation of OCI in its Conceptual Framework because of concerns about the lack of a conceptual basis for that form of presentation. However, we note that the Conceptual Framework does not restrict the recognition of elements to any particular financial statement. Exploring this form of presentation could assist with the projects on revenue and non-exchange expenses, in which we have suggested presentation solutions, including an OCI option.¹ Other benefits include greater transparency in the reporting of revenue and expenses that are currently reported outside of surplus/deficit.

3. Disclosures. This component would take into account work done by the IASB in its Principles of Disclosure project and on improving guidance on materiality, and the NZASB's work on materiality.²
4. Primary financial statements. Once the IASB® project on Primary Financial Statements is further advanced, the IPSASB should consider aspects that are relevant, such as work on the aggregation and disaggregation of line items in the primary financial statements.

This project would have the benefit of being in both Theme A and Theme B. If the information in financial reports is not relevant and not presented in a clear and concise manner, it would be difficult for readers to understand and use this for accountability and decision-making purposes. Improving guidance on materiality and disclosures could help reduce the cost of compliance. We note that the public consultation by Eurostat on the *Assessment of the Suitability of the International Public Sector Accounting Standards for the Member States* has criticised IPSAS Standards for the heaviness of the disclosure requirements.³

The IPSASB could begin by working on the first two components, especially the update to IPSAS 1, which, as explained above, could also assist with some current projects.

We question the usefulness of a project on natural resources from a New Zealand perspective, given our understanding of the issue and the limited recognition of such resources, even in jurisdictions where this topic has been considered.⁴ We understand the importance of natural resources to many jurisdictions, but question whether a project is likely to result in significant change to the current IPSAS literature and therefore will generate the extent of improvement in public sector financial reporting as other, more pervasive, topics. Therefore, we don't consider this to be a high-priority project that warrants addition to the work plan at this point in time.

We envisage a number of challenges in implementing differential reporting at an international level. One challenge is to set requirements that is not in conflict with jurisdictional legislation. The IPSASB

¹ Our suggestions were in response to the IPSASB Consultation Paper *Accounting for Revenue and Non-Exchange Expenses*.

² We have developed an Explanatory Guide A7: *Materiality for Public Benefit Entities*² (EG A7). EG A7 provides guidance to public benefit entities in applying materiality to presentation and disclosure when preparing general purpose financial reports. The IPSASB may want to refer to EG A7 if it intends to update its guidance on materiality.

³ Eurostat Public consultation – *Assessment of the suitability of the International Public Sector Accounting Standards for the Member States*, Summary of Responses, December 2012.

⁴ For example, the South African Accounting Standards Board GRAP 110 *Living and Non-living Resources* which explains that a living resource is recognised as an asset if it meets the definition of an asset, whereas non-living resources other than land are not recognised as assets. Control of the living resource is a key factor in assessing whether it is an asset.

would need to establish a framework which identifies what small and medium sized public sector entities should be reporting. For example, will the concessions be for recognition, measurement and disclosures, or for disclosures alone? Whilst the IPSASB could develop an IPSAS Differential Reporting model (“the what” should be reported), it should be up to each jurisdiction to determine which entities will apply these requirements (“the who” should report).

As an alternative to adding full projects on natural resources and differential reporting to its work plan, the IPSASB could first conduct further research on these potential future projects. We encourage the IPSASB to work with academics and national standard setters with an interest in these topics and from jurisdictions where the topic is more pervasive. This approach would not be resource intensive for the IPSASB and would allow for a better understanding of the key issues and the options available before the IPSASB commits to a formal standard-setting project.

Specific Matter for Comment 5

Do you agree with the project that the IPSASB proposes to prioritise for addition to the Work Plan 2019–2023 on Theme B: Maintaining IFRS convergence (IPSAS 18 *Segment Reporting*)? If not please explain your reasoning, and any proposed alternatives.

Our preference is for the IPSASB to replace the project to update IPSAS 18 *Segment Reporting*⁵ with a project on communication effectiveness. We are of the view that better communication in financial reporting is of interest to a wider range of constituents and would deliver more benefits to users of general purpose financial reports than the update to IPSAS 18. Our reasons for supporting this project are noted in our response to SMC 4.

We fully support projects to maintain convergence with the IASB’s narrow scope amendments. In our response to SMC 2, we have provided our reasons for supporting maintaining convergence with IFRS Standards.

Specific Matter for Comment 6

Are there any projects in Appendix A that you believe should be added to the Work Plan 2019–2023 in place of a currently proposed project? If you believe that any Appendix A projects should be added, please explain your views on why the project should be included, which proposed project should not then be started and why.

We recommend the IPSASB adds to the Work Plan 2019–2023 a project on communication effectiveness. This project is discussed in our responses to SMC 4 and SMC 5.

We support the IPSASB carrying out a mid-term work plan consultation in 2020. This would allow the IPSASB to reassess how the current projects are going and the projected timing for starting new projects. It also provides an opportunity to do an environmental check on emerging issues.

Also refer to our responses to SMC 4 and SMC 5 for other projects to be added and removed from the Work Plan 2019–2023.

⁵ In New Zealand, we have not picked up IPSAS 18. Legislation specifies that certain public sector entities present service performance information. Given the relevance of service performance information and the additional costs that would have been associated with the presentation of segment information IPSAS 18 was not included in PBE Standards.

We considered whether to suggest that the IPSASB undertakes a project on extended external reporting (EER).⁶ However, the IPSASB has a number of current and pending high-priority projects so, on balance, we are not recommending that the IPSASB adds EER to the Work Plan 2019–2023.

Specific Matter for Comment 7

The IPSASB views building relationships with those working in the PFM space and engaging in their work as critical to furthering the use of IPSAS in PFM reform projects. Therefore, under Themes D and E, the IPSASB will actively monitor the work of others and look for appropriate opportunities to engage and support that work.

- Do you agree with the IPSASB’s proposed approach under these Themes? If so, are you aware of any ongoing initiatives which the IPSASB should monitor and look to engage with (please provide details).
- If you do not agree, please explain your reasoning along with any proposed alternatives, and how those might be resourced.

We agree with the IPSASB’s proposed approach under Themes D and E. The IPSASB has limited resources so cannot do everything. In order for the IPSASB to meet its strategic objective, more jurisdictions need to adopt accrual-based IPSAS. This would result in more constituent input and would eventually lead to higher quality IPSAS Standards and financial reporting guidance.

We agree with the IPSASB continuing to support the implementation of new IPSAS Standards in the form of the *At a Glance* publications and webinars. This has been helpful to encourage submissions on due process documents and to promote awareness of new standards and guidance issued by the IPSASB. We support the IPSASB continuing to develop examples in standards and other guidance to promote consistent application of new IPSAS literature.

We recommend that the IPSASB provides more support when new standards are issued. The support could lead to more consistent application of IPSAS Standards. This is particularly important for public sector specific standards where there is no IFRS Standard for reference. An example is the accounting for amalgamations in IPSAS 40 *Public Sector Combinations*.⁷ The IASB is providing a wide range of support materials for new IFRS Standards, including articles, podcasts, and the ability to submit implementation issues to the Transition Resource Groups. The IPSASB may want to consider providing similar types of support for significant new standards which are expected to become effective over the 2019–2023 period.

As more jurisdictions adopt IPSAS Standards, there is likely to be an increased demand for interpretation support; we therefore encourage the IPSASB to consider introducing an interpretative function in the future, which fulfils a similar role to the IFRS Interpretations Committee.

⁶ EER generally includes all information above and beyond what an entity is required to provide under legislation. EER can include information on an entity’s outcomes, governance, business model, risks, prospects, strategies and its economic, environmental, social and cultural impacts.

⁷ We acknowledge the IPSASB has recently developed a webinar on IPSAS 40 *Public Sector Combinations* Presentation of Amalgamations.