

The Applicability of IPSASs to Government Business Enterprises
and Other Public Sector Entities

response to consultation paper

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Dear Stephenie Fox

The Applicability of IPSASs to Government Business Enterprises and Other Public Sector Entities

CIPFA is pleased to present its comments on this Consultation Paper, which have been reviewed by CIPFA's Accounting and Auditing Standards Panel.

General comment

In successive responses, CIPFA has strongly supported IPSASB's development of high quality standards for public sector financial reporting, whether through the Board's project to develop and maintain IFRS converged IPSASs or through wholly public sector specific IPSASs.

In line with the above, in recent years CIPFA has also supported the development of a public sector Conceptual Framework, to provide a rigorous underpinning for the development of future IPSASs, and to inform stakeholder understanding and interpretation of the existing body of standards. Against this background CIPFA was very pleased when IPSASB announced in October that it had completed and published the Framework.

The topic of *applicability* of the framework itself is, appropriately, addressed in the framework document. Paragraph 1.8 of Chapter 1 states that:

The Conceptual Framework applies to financial reporting by public sector entities that apply IPSASs. Therefore, it applies to GPFRs of national, state/provincial and local governments. It also applies to a wide range of other public sector entities including:

- *Government ministries, departments, programs, boards, commissions, agencies;*
- *Public sector social security funds, trusts, and statutory authorities; and*
- *International governmental organizations.*

This drafting seems fairly natural. The framework applies to reporting by entities which are using IPSASs, and some examples of the types of entities which might apply IPSASs are provided. The framework does not specify whether particular entities should or should not apply IPSAS – this is not something on which IPSAS has any regulatory or other power to enforce. Thus the framework gives an indication of the types of entity for which it is designed and might reasonably be hoped to provide a good basis for financial reporting.

In contrast, the Preface to the Handbook of extant IPSASs contains more specific material on the applicability of IPSASs, suggesting that they should be not be applied to Government Business Enterprises (GBEs), and that for these entities IFRS should be

applied. A definition of GBEs is provided in IPSAS 1, and the instruction on the inapplicability of IPSAS to GBEs and the applicability of IFRS is repeated in the introductory material to each of the individual IPSASs.

Providing very specific guidance on applicability may have seemed very natural from the perspective of IPSASB's previous formulation as the IFAC Public Sector Committee, which was starting with a clean sheet. However, on reflection we concur with IPSASB in thinking that this is not the most helpful approach, given that IPSASB has no power to specify or regulate the standards frameworks applied by public sector entities of whatever type. The variety of interpretations which can be placed on Government Business Enterprise further reinforces our view that this is not the most helpful approach.

We are therefore more inclined to support a framing in which IPSASB explains the target for its standard setting activity, and leaves detailed questions of which standards to adopt for different entity types to the relevant decision making authorities.

Specific Matters for Comment 1

In line with our comments above, CIPFA strongly supports the view of the IPSASB that Approach 1 is the best way forward.

CIPFA also agrees with the view of the majority of IPSASB members in support of Option 1a. While we can see some advantages in using the terminology of Government Finance Statistics, on balance we consider that it would be more helpful for the generality of IPSAS pronouncements to be framed using a single consistent and coherent terminology.

However, we recognise that many governments have examined the structure of their national entities using the GFS taxonomy and others may do so in future. In this context it might be helpful to have bridging guidance which can help governments consider how to use the results of GFS analysis to come to a view on the applicability of IPSAS to categories of entities in their jurisdiction.

Specific Matters for Comment 2

Given that CIPFA agrees with the Board in respect of SMC1, we have no comments to make on SMC2.

Additional comment on the implications of 'IFRS converged IPSAS'

We would note that the IPSASB standard setting process is not designed to directly converge with IFRS, but instead to minimise inessential differences and to rigorously and transparently justify any divergence deemed necessary, having regard to differences in the public sector financial reporting context which may include differences in economic substance, operating model, regulatory and budgetary frameworks, and differing stakeholder needs.

Having said this, the effect of the convergence review is that, in general, financial reporting for profit-oriented activities is relatively similar, whether reported using IPSAS or IFRS. Similarly, for public sector entities that are primarily engaged in profit-oriented activities, the overall financial reporting should be quite similar whether it is developed using IPSAS or IFRS. In our view this is a good thing and may be particularly beneficial in jurisdictions where IPSAS are used in the public sector and IFRS or similar standards are used for other financial reporting. It means that the treatment of transactions and balances with similar economic substance should be similar regardless of sector. It would also mean that, where there is uncertainty over classification, there is less likelihood that the difference between applying IFRS or IPSAS will be a cause for concern or a motivation for favouring a particular classification.

I hope this is a helpful contribution to the Board's planning process. If you have any questions about this response, please contact Steven Cain (e: steven.cain@cipfa.org, t: +44(0)20 7543 5794).

Yours sincerely

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