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The Technical Director

International Public Sector Accounting Standards Board

International Federation of Accountants

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Dear Stephenie,

COMMENTS ON KEY CHARACTERISTICS OF THE PUBLIC SECTOR WITH POTENTIAL IMPLICATIONS FOR FINANCIAL REPORTING

We welcome the opportunity to provide comments on the Paper on *Key Characteristics of the Public Sector with Potential Implications for Financial Reporting*. Overall, we are supportive of the Paper and believe that it is an extremely useful tool which can be used by readers with both a financial and non-financial background, to familiarise themselves with the main issues affecting financial reporting in the public sector. We have outlined comment on the detail of the document in the Annexure to this letter.

In response to the specific question raised in the Invitation to Comment regarding the placement of this document, we are of the view that:

- The document should not necessarily form part of the introduction to, or text of, the conceptual framework. This document has links to the conceptual underpinnings of the pronouncements issued by the IPSASB and it has very clear implications for the standard-setting agenda and standard-setting activities of the IPSASB.
- As a result, we believe that this document could enhance certain aspects of the existing Preface. In particular, it could be used to enhance paragraph 18 of the Preface which outlines the process followed by the IPSASB in identifying projects and how it sets specific standards. By using the Paper to enhance the Preface, credibility would also be given to the pronouncements issued by the IPSASB's as a clear outline would be provided of the key issues the Board considers in developing its Standards.
- Regardless of the placement of the document, the scope of the Paper could be expanded to highlight the fact that, while there are many public sector issues that may result in different reporting to the private sector, there are certain transactions that are sector neutral, e.g. leases and certain financial instruments. In these instances, there may be little or no difference between the issues faced by the private and public sector.

Board Members: Ms K Bromfield, Mr R Cottrell (Chairperson), Mr V Jack, Ms CJ Kujenga, Mr K Kumar,
Mr T Makwetu, Mr F Nomvalo, Mr G Paul, Mr I Sehoole, Mr V Smith
Chief Executive Officer: Ms E Swart

- If this Paper supplements the Preface, the conceptual framework should state that these are the key issues that were considered in formulating the concepts underlying the IPSASB's pronouncements.

The comments outlined in this letter have been prepared by the Secretariat and not the ASB Board. In formulating these comments, the Secretariat undertook a limited consultation with preparers, auditors and other interested parties in South Africa.

Please feel free to contact me should you require clarification on any of our comments.

Yours sincerely

A handwritten signature in cursive script that reads "Erna Swart". The signature is written in dark ink and is positioned above the printed name and title.

Erna Swart

Chief Executive Officer

Annexure – Detailed comments on *Key Characteristics of the Public Sector with Potential Implications for Financial Reporting*

Our specific comments on the content of the Paper are outlined in the table below:

Ref	Comment
2.3	<p>This paragraph focuses on the performance of an entity in the context of its service delivery objectives, and has been included under the heading of “The Volume and Significance of Non-exchange Transactions”.</p> <p>An entity’s performance in terms of its service delivery objectives is critical to all services provided by an entity, some of which may result from exchange transactions. As a result of the importance of performance reporting and, the fact that this has been identified as a key information area by the IPSASB, it warrants greater prominence in this Paper.</p> <p>Part (a) of this paragraph refers to whether an entity has provided services in an efficient and effective manner. It might be useful to add to the beginning of the sentence “<u>The quantum of services provided and, whether the entity</u> has provided its services in an efficient and effective manner.”</p>
2.8	<p>Paragraph notes that “Economic theory suggests that governments have a major role in providing public goods (also called social goods).” This paragraph then goes on to explain that (a) consumption of the goods by one individual does not reduce their availability for consumption by others and (b) individuals cannot be effectively excluded from consuming the goods.</p> <p>We contend that there is in fact a difference between public goods and social goods, although the opening sentence of this paragraph suggests that they are one and the same thing. While the consumption of public goods by one person does not reduce their availability of others (e.g. parks, defence and policing), the availability of social goods can be reduced as they are consumed by others, e.g. healthcare and education.</p> <p>As a result, we suggest deleting the wording “also called social goods” in the opening sentence.</p>
5.2	<p>The last sentence of paragraph 5.2 states that: “There are issues concerning whether such items meet the definitions of an asset, the recognition criteria for assets and, if so, the appropriate measurement basis.”</p> <p>We would suggest amending the sentence as follows as it is clear that some heritage items do meet the definition of an asset, e.g. a painting acquired by a public sector entity: “There are issues concerning whether <u>all</u> such items meet the definitions of an asset, the recognition criteria for assets and, if so, the appropriate measurement basis.”</p>
6.1	<p>In order to strengthen the argument for the continued existence of governments, we would suggest adding a sentence between the last and penultimate sentence in the paragraph indicating that, it is usually the political landscape that threatens the existence of governments (and entities) rather than their financial viability.</p>
6.2	<p>We question the reference to ‘sub-national’ in the opening sentence. In our experience, mergers and amalgamations may occur at any level of government and not just sub-national government.</p>