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Stephenie Fox
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Our ref

Dear Ms Fox,

IPSASB ED43 Service Concession Arrangements: Grantor

The Auditor General for Wales welcomes the opportunity to comment on the proposals in this Exposure Draft. This response has been prepared on behalf of the Auditor General by the Wales Audit Office.

Service Concession Arrangements are an important means by which public services are provided in many countries. Although IFRIC12 provides guidance on accounting by operators of public to private service concessions, there is a need for guidance for the public sector grantors.

Specific matters for comment

This Exposure Draft addresses service concession arrangements from the grantor's perspective. It mirrors the principles set out in IFRIC 12 for accounting by the operator.

Do you agree with this approach?

We consider that it is helpful for the public sector to adopt an approach that mirrors that of IFRIC 12, as this will facilitate consistent and complementary accounting treatments with their private sector counterparties.

IPSASB's proposals reflect the approach already adopted in the United Kingdom, where HM Treasury, the Chartered Institute of Public Finance and Accountancy, and the Local

Authority (Scotland) Accounts Advisory Committee, have all adopted a similar ‘mirror image’ approach when applying the principles of IFRIC 12 to the public sector.

In our view, the proposed approach provides a practical approach to accounting for Service Concession Arrangements.

The provisions of ED43 support the alignment of IPSAS and IFRS and are consistent with the accounting practices now in use in the United Kingdom. On this basis, and subject to the comments below, we agree with the approach proposed in ED43.

However we consider that public sector accounting standards should be based on the needs of the users of public sector accounts, rather than driven simply by the desire to conform with a standard that is designed solely for the private sector. What is appropriate accounting treatment in the private sector may not necessarily be appropriate in the public sector. We therefore consider that when the IPSAS conceptual framework is finalized, this standard should be subject to early review within the context of the new framework.

Other comments

Scope

Paragraph 8 (c) and (d) provide a slightly wider definition of relevant assets than IFRIC12 to include:

- (c) Existing assets of the grantor which the operator upgrades for the purpose of the SCA. Only the cost of the upgrade is recognised under the standard; and

- (d) Existing assets of the grantor to which the grantor gives access to the operator for the purpose of the SCA and of which, the grantor retains control. These assets are to be reclassified as service concession assets.

We consider that this extension in the definition of relevant assets will be useful for concessions where existing assets are used to provide the services linked to the concession.

Recognition and measurement of a Service Concession Asset – existing assets

The ED requires recognition of an asset based on control over service provision and residual interest. These criteria are not consistent with the criteria specified in IPSAS1 Presentation of financial statements. IPSAS 1 defines assets as resources controlled by an entity as a result of past events, and from which future economic benefits or service potential are expected to flow to the entity.

Paragraph 12 refers to the reclassification of an existing asset of the grantor as a service concession asset. The paragraph states:

> *"Where an existing asset of the grantor specified in paragraph 8(d) meets the conditions specified in paragraph 10 (or paragraph 11 for a whole-of-life asset), the grantor shall not recognize the asset as a service concession asset in accordance with this Standard. The grantor shall reclassify the existing asset as a service concession asset for reporting purposes and disclose the reclassification in accordance with paragraph 27. The reclassified service concession asset shall continue to be accounted for in accordance with IPSAS 17, —Property, Plant and Equipment or IPSAS 31, —Intangible Assets, as appropriate."*

The phrasing of the requirement appears to be overcomplicated. The accounting treatment for all assets recognised as service concession assets is the same. That is, they are accounted for under IPSAS 17 or IPSAS 31. We would therefore suggest the following simplified wording for paragraph 12:

> *"Where an existing asset of the grantor specified in paragraph 8(d) meets the conditions specified in paragraph 10 (or paragraph 11 for a whole-of-life asset), the grantor shall reclassify the existing asset as a service concession asset for reporting purposes and disclose the reclassification in accordance with paragraph 27. The reclassified service concession asset shall continue to be accounted for in accordance with IPSAS 17, (Property, Plant and Equipment) or IPSAS 31 (Intangible Assets), as appropriate."*

Recognition and measurement of a Service Concession Asset – existing asset upgrades

Where an existing asset of the grantor is upgraded, the upgrade is recognised as a service concession asset at fair value (paragraph 8(c)). The original asset may be valued on a different basis. To ensure consistency of valuation for the existing and upgraded elements, we consider that the whole asset should be revalued and disclosed as a service concession asset.

Recognition and measurement of liabilities – performance obligation

Paragraph 19 requires that when recognising a service concession, a grantor must also recognise a liability and under paragraph 20, this liability shall initially be measured at the same amount as the asset recognised.

Paragraph 22 states that when the grantor compensates the operator by granting the operator the right to collect fees from users of the service concession asset or by granting the operator access to another revenue-generating asset for its use, the liability recognised is a performance obligation. The grantor shall subsequently account for the performance obligation in accordance with IPSAS 19.

The ED contains no explanation as to what is meant by 'a performance obligation' or how it meets the definition of a provision as defined in IPSAS 19 (Provisions, Contingent Liabilities and Contingent Assets).

Our understanding is that the liability reflects the grantor's obligation to allow the operator to provide the service concession. This should be made explicit in the standard.

Transition arrangements

Paragraph 30 notes that where an entity has not previously recognised service concession assets and uses the accruals method of accounting, the standard must be applied prospectively. "However, retrospective application is permitted." Paragraph 29 states that where the assets have been previously recognised, retrospective application is required. Therefore, if previously treated as off-balance sheet, full restatement to the start of the contract would not be required.

Further clarification of this point would be useful to ensure that the requirements of the standard are clearly understood.

I hope that you find the comments helpful. If you require further information, please contact my colleague Iolo Llewelyn (iolo.llewelyn@wao.gov.uk).

Yours sincerely,

Mike Usher

Partner