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**Conceptual Framework for General Purpose Financial Reporting  
By the Public Sector  
Due 6-15- 2011**

**Comments by: Dr. Joseph S. Maresca CPA, CISA**

Colleagues,

I thank you for the opportunity to critique this framework on financial reporting. The details follow:

Background:

General Purpose Financial Statements focus on the various aspects including the financial portrayal of past events. The objective of financial reporting is to provide useful information to a variety of stakeholders including:

- o entities for the use of resources economically
- o cost accumulation
- o taxes to meet services and provider needs

Assets point to the right to receive benefits or an intangible resource. The issuance asks the question as to whether or not an asset exists if no cash is generated per se. Assets can remain within the earth for centuries although no cash is generated. The relevant event is discovery, the existence of provable reserves and investors to provide capital for the extensive exploratory and extraction costs.

Is there an asset when economic benefits are received via unconditional rights? How should unconditional risk be dealt with ?

Is the reporting entity asset under control of the government or other entity? What are the risks, access to rights, ability to deny access and claims enforcement?

Customarily , rights are accessed as a result of a statute with rule structures, qualification guidelines and funding sources like employer/employee deductions, self-employment taxes and other inflows to pay for the services. Sometimes " sin taxes" are another source of funding for unhealthy dietary choices.

Does an asset arise from a past transaction or event? If so, is the mandate funded ?

This is one of the most contentious areas of social benefits. The national government may promulgate various mandates for services that the States must provide for without the requisite funding in place.

Are taxes an inherent right of the government? Without taxes, there could be no paid for public service except through voluntarism like voluntary fire departments in rural communities.

Liabilities are in the nature of an economic obligation, unconditional obligation with performance requirements and payment settlement dates.

The Statement addresses the issue of financial performance through the prism of net changes in economic resources or obligations like the Asset/Liability approach or the revenue/expense outflow approach.

The Statement discusses broadening the asset/liability elements to include deferrals. i.e. Deferred inflows/ outflows are treated as separate elements. The disclosure is necessary to preclude delaying the recordation of critical accounting events indefinitely or using "catch all" accounts to obscure a more complete financial picture from emerging.

### Critique

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The IPSASB/ IFAC has identified very key elements of financial disclosure for readers of the financial statements pertinent to a plethora of constituencies in the private sector and government.

Comment 1- An asset relates to service potential , net cash inflows/ outflows, rights to receive resources or economic benefits. I agree.

Also, public infrastructure like roads, tunnels , bridges etc. have a clearly definable connection to economic well being because without these public assets- economic activity could never commence in any meaningful form.

Comment 2- Assets of an entity are related to control, risk, access to rights and claims enforcement mechanisms. I agree.

Comment 3- " " past events or present resources are part of the definition. I agree.

Comment 4, 5 - There is a concomitant power to tax or levy with regard to maintaining the asset or the rights to the same. I agree.

Comment 6- There are obligations to transfer benefits in classic liabilities at a settlement date which is known or easily determinable. I agree.

The benefit qualifications are creatures of statute. Benefits are or may be matched against contributions by employers, employees or even small business owners.

Comment 7- 11 A defining characteristic of the liability is its unavailability. Generally, I concur. Fiscal responsibility would require that funds earmarked for the general public are not spent in other discretionary areas like defense.

Social welfare agencies of the government do possess the power to tax activities or behaviors that detract substantially from the public health and cause unnecessary/avoidable health encounters for the poor in particular. This comes under the umbrella of "sin taxes" or taxes on luxury items which may or may not impair health.  
i.e. cigarettes, marijuana ( in some jurisdictions), alcohol, junk food, high content sugar food, inorganic chemistry food or food made substantially in a lab

Comment 12 Residual interest may be separately disclosed from revenues and expenses to define more clearly a residual benefit and stakeholders

for the same.

Comment 14, 15- Deferred inflows and outflows should be disaggregated to provide more complete financial disclosure. This helps to clarify the rights, duties, obligations and recourse to particular stakeholders of an entity. 1)

Comment 17- The relevant threshold is asset/liability materiality.

Comment 18- Where there is recognition-there should be derecognition.

Comment 19- Recognition is integral to the definition of an element.

References:

1) GASB- Financial Reporting of Deferred Outflows/Inflows  
[http://www.tkw.com/App\\_Content/files/Summary%20of%20E%20D%20-%20Deferred%20outflows.pdf](http://www.tkw.com/App_Content/files/Summary%20of%20E%20D%20-%20Deferred%20outflows.pdf)