

19 December 2014

Ms Stephenie Fox
Technical Director
International Public Sector Accounting Standards Board
529 Fifth Avenue
6th Floor
New York
NY 10017 USA

Dear Ms Fox,

**IPSASB Consultation Paper – The Applicability of IPSASs to Government
Business Enterprises and Other Public Sector Entities**

Please find enclosed the Australasian Council of Auditors-General (ACAG) response to the above Consultation Paper. The views expressed in this submission represent those of all ACAG members within Australia, New Zealand, Papua New Guinea and Fiji.

ACAG supports the endeavours of the International Public Sector Accounting Standards Board (IPSASB) to enhance guidance and clarify the application of International Public Sector Accounting Standards (IPSASs) to public sector entities. Overall ACAG agrees with the IPSASB's preliminary view that Approach 1 is the best way forward. This approach removes the need to define Government Business Enterprises (GBEs) in IPSASs.

In particular, ACAG is of the view that Option 1(a) is most appropriate having regard to the IPSASB's ultimate objective of consistent application of IPSASs to the public sector entities for which they are intended.

However, ACAG proposes modifications to the characteristics of public sector entities for which IPSASs are intended as outlined in paragraph 6.8 of the Consultation Paper. The proposed modifications would provide a wider scope for intended public sector entities that can apply IPSASs. ACAG believes that the scope of IPSASs should not only capture entities that are within the General Government Sector (GGS), but also potentially other entities outside the GGS that have a primary objective of service delivery rather than profit generation.

The opportunity to comment is appreciated and I trust you will find the attached comments useful.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Simon O'Neill', with a stylized flourish at the end.

Simon O'Neill

Chairman
ACAG Financial Reporting and Auditing Committee

CC AASB

Specific matters for comment

Specific Matters for Comment 1 - *Do you agree with the IPSASB's preliminary view? If so, do you prefer Option 1a or Option 1b? Please give the reasons for your view.*

ACAG agrees with the IPSASB's preliminary view that Approach 1, and more specifically Option 1a, is the most appropriate way forward.

Option 1

Describing the characteristics of public sector entities for which IPSASs are intended. Under this approach, GBEs would not be defined.

There are two options within this approach:

(a) Using IPSASB's current and developing terminology; or

ACAG agrees with the IPSASB's majority view that the most appropriate option is to use IPSASB's current and developing terminology to better describe the characteristics of public sector entities for which IPSASs are intended.

Describing the characteristics of public sector entities for which IPSASs are intended

Firstly, Option 1(a) would clarify the characteristics of public sector entities to which IPSASs are intended to apply. This option is particularly relevant given that the term "public sector entities" is currently not described in the Handbook of International Public Sector Accounting Pronouncements, 2014 Edition (the Handbook).

Having said that, it is noted that paragraph 4.1 of Chapter 4 Reporting Entity of the Handbook provides that:

"A public sector reporting entity is a government or other public sector organisation, program or identifiable area of activity (hereafter referred to as an entity or public sector entity) that prepares GPFRs."

Chapter 4 further explains the key characteristics of public sector reporting entities that should prepare GPFRs given the reliance and expectation of relevant constituents/service recipients/resource providers on such financial information for accountability and decision making purposes.

While Chapter 4 of the Handbook is useful in providing guidance on the purpose of GPFRs in the context of public sector reporting entities, Chapter 4 (or any other section of the Handbook) does not describe the characteristics of a public sector entity. The concept of a public sector entity is therefore left open for interpretation based on a common understanding of the nature of a public sector entity.

Secondly, Option 1(a) is in keeping with the approach of the International Accounting Standards Board (IASB) of describing the characteristics of, but not defining, "profit-oriented entities" in International Financial Reporting Standards (IFRSs), in the *Preface to International Financial Reporting Standards* or in other supporting documents. Aligning the approaches used by the IPSASB and IASB could potentially benefit regulators and other relevant authorities in determining which reporting framework should be applied for borderline cases.

Finally, ACAG agrees with the IPSASB's comments in paragraphs 6.5-6.7 of the Consultation Paper in that using Option 1(a) will reflect the concepts and descriptions in the *Conceptual Framework*. It makes sense for the IPSASB to be consistent in its approach in all its publications, including the *Conceptual Framework*, the IPSASs and the Recommended Practice Guidelines.

However, ACAG proposes that paragraph 6.8 is modified - with the view of not overly restricting the scope of public sector entities that can apply IPSASs.

Modification to Paragraph 6.8(a)

To reiterate, the characteristics of public sector entities are outlined in Paragraph 6.8 of the Consultation Paper as:

“IPSASs are designed to apply to entities that:

- (a) Are responsible for the delivery of services to the public with assets held primarily for their service potential and/or to make transfer payments to redistribute income and wealth;
- (b) Finance their activities, directly or indirectly, by means of taxes and/or transfers from other levels of government, social contributions, debt or fees and do not have capital providers that are seeking a return on their investment or a return of the investment.”

ACAG proposes that paragraph (b) is removed from the definition, with paragraph (a) amended as follows:

“IPSASs are designed to apply to entities whose principal objective is not the generation of profit and that are responsible for the delivery of services to the public with assets held primarily for their service potential and/or to make transfer payments to redistribute income and wealth.”

The current wording in paragraph 6.8, by including part (b), appears to exclude self-financing entities and to be designed to capture only entities within the GGS (as stated to be the IPSASB's intention in paragraph 6.15) in the scope of IPSASs. ACAG does not support this view, but believes that the scope of IPSASs should not only capture entities that are within the GGS but also potentially other entities outside the GGS that have a primary objective of service delivery rather than profit generation.

ACAG believes that the principles for applying IPSASs should focus on the nature of the entity's activities, rather than its sources of funding which the IPSASB has acknowledged has caused issues with interpretation. Therefore, ACAG believes that only part (a) of paragraph 6.8 is necessary. This is supported by paragraph 6.7 that acknowledges that the draft Preface to the IPSASB Conceptual Framework indicates that “the primary objective of most public sector entities is to deliver services to the public, rather than to make profits and generate a rate of return to investors” (i.e. no reference is made to sources of funding).

In addition, ACAG proposes the inclusion of the characteristic that the entity's principal objective is not the generation of profit. This addition has the benefits of:

- incorporating the main clarification from Approach 2; and
- establishing a direct point of comparison with the scope of IFRSs.

(b) Using Government Finance Statistics (GFS) reporting guidelines and explanatory guidance

ACAG does not support Approach 1(b).

ACAG understands that it is the IPSASB’s policy to reduce unnecessary differences between IPSASs and GFS reporting guidelines. Overall, ACAG agrees that the IPSAS’s framework should be consistent with GFS reporting principles on a holistic basis. However, ACAG does not agree that GFS reporting guidelines and explanatory guidance should be adopted to form part of the IPSASB literature.

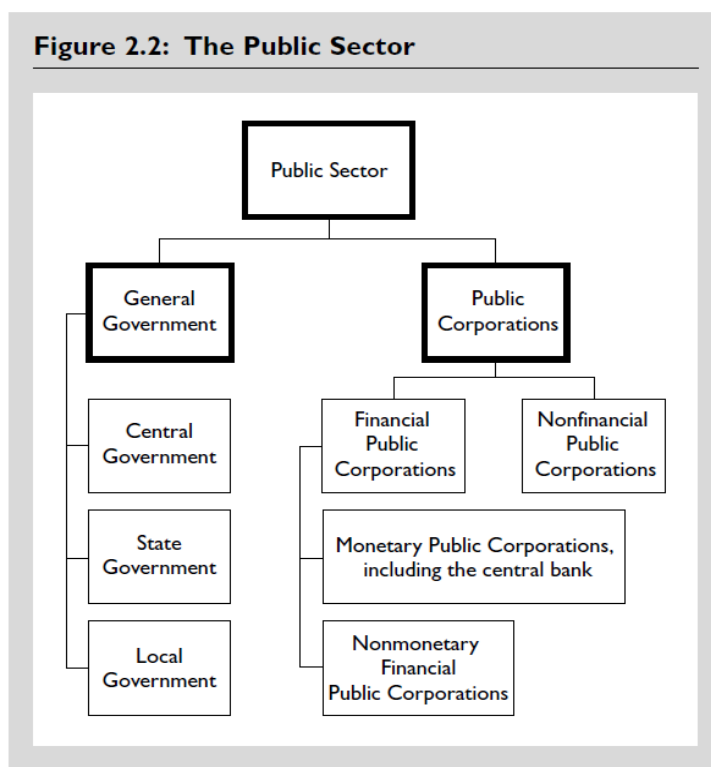
ACAG is of the view that GFS reporting is in substance more economics than accounting principles based. This is reflected in the phrases used in the GFS reporting guidelines such as “economically significant prices”, “market producers”, “non-market producers”, etc.

While it is the IPSASB’s intention to clarify the meaning and use of these phrases as part of this consultation process, ACAG is of the view that doing so is introducing non-accounting terms into accounting literature which may not necessarily provide clarification but potentially add another layer of complication in interpretation.

Public sector entities and Public Sector – definitions and scope

Further, in accordance to GFS reporting guidelines, the Public Sector consists of the General Government Sector (GGS) and the government-controlled entities, known as public corporations. The latter are comprised of Financial Public Corporations and Non-financial Public Corporations whose primary activity is to engage in commercial activities (refer to extract “Figure 2.2: The Public Sector” flow chart below).

Coverage of the GFS System



Source: Para 2.62 Government Finance Statistics Manual 2001

The Public Sector concept under GFS reporting contrasts with the concept of public sector entities as envisaged by the IPSASB, even though it is the IPSASB’s intention that only the description of GGS be adopted (Note that ACAG does not support this overly restrictive scope of IPSASs as explained above).

The meaning of public sector entities is outlined in paragraph 6.13 of the Consultation Paper as:

“IPSASs are designed to apply to entities that:

- (a) Are responsible for the delivery of goods services to the community or to individual households on a non-market basis and make transfer payments to redistribute income and wealth;*
- (b) Finance their activities, directly or indirectly, mainly by means of taxes, contributions and/or transfer from other levels of government.”*

The definition above is more in line with the meaning of GGS rather than of a public sector entity under GFS reporting guidelines. In fact, the characteristics of a government are closely aligned with the definition above as stated in Paragraph 2.1 of the GFS Manual 2001:

“...The principal economic functions of a government are (1) to assume responsibility for the provision of goods and services to the community on a nonmarket basis, either for collective or individual consumption, and (2) to redistribute income and wealth by means of transfer payments. An additional characteristic of government is that these activities must be financed primarily by taxation or other compulsory transfers....”

Therefore, the public sector entities definition as proposed by the IPSASB is at odds with the composition of the Public Sector under the GFS System. It could be argued that this may create confusion on the concept of public sector entities and public sector between the two different reporting frameworks.

Borderline cases

Specific guidance for borderline cases such as quasi-corporations, restructuring agencies, special purpose entities and joint ventures are explained in the System of National Accounts 2008 instead of in the GFS Manual 2001. While arguably the guidance can be helpful to differentiate a GBE from a public sector entity, the extended guidance is prescriptive and therefore not in line with the IPSASB's principles-based philosophy. Further, such a prescriptive approach tends to provide 'bright lines' on structuring opportunities for entities to tailor to their reporting environment.

It is therefore difficult to see the benefits of adopting the GFS reporting guidelines to further enhance and clarify the IPSASB's reporting framework.

Specific Matters for Comment 2 - *If you do not agree with the IPSASB's preliminary view, please indicate whether you support Option 2a or Option 2b in Approach 2 or identify an alternative approach. Please give reasons for your view.*

Option 2 Modifying the current definition of a GBE in IPSAS 1, in order to resolve problems in its application.

This could be done in two ways:

- (a) Clarifying the current definition of a GBE; and/or**
- (b) Narrowing the existing definition of a GBE**

ACAG agrees with the IPSASB's preliminary view of Approach 1. Therefore, ACAG has no further comments on Specific Matter for Comment 2.

Other comments

Consultation paper Reference	Original Text	ACAG comments
Para 5.13	...” <i>they are centers of decision-making for all aspects of economic behaviour.</i>	This sentence is missing the end quotation.
Para 5.13	<i>But if the institutional unit is a restructuring unit, whatever its legal status, acts as a direct agent of the government, is not a market producer and its main function is to redistribute national income and wealth, channeling funds from one unit to the other, then it should be classified in the GGS.</i>	This sentence is difficult to read. ACAG suggests the following: But if the institutional unit is a restructuring unit (whatever its legal status), acts as a direct agent of the government, is not a market producer and its main function is to redistribute national income and wealth (channeling funds from one unit to the other), then it should be classified in the GGS.
Para 6.4	<i>The current approach may assist...</i>	The expression “current approach” in this context is confusing. It could mean the current approach adopted by IPSASB before any changes are made as a result of the Consultation Paper; alternatively it could be interpreted as the current approach being discussed in the section of the Consultation Paper. ACAG suggests replacing “current approach” with “Approach 1”.
Para 6.23(b)	<i>Delivers good and services, in the normal course of its business, to individuals and nongovernment organizations as well as other public sector entities with a profit-oriented objective;</i>	The position of “with a profit-oriented objective” at the end is confusing as it could be interpreted that the “other public sector entities” to which the GBE delivers goods and services must have a profit-oriented objective. ACAG suggests the following: Has a profit-oriented objective in delivering goods and services, in the normal course of its business, to individuals and nongovernment organizations as well as other public sector entities.