

Consultation Paper: Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Elements and Recognition in Financial Statements

Specific Matter for Comment 1:

(a) Should the definition of an asset cover all of the following types of benefits—those in the form of:

- (i) Service potential;
- (ii) Net cash inflows; and
- (iii) Unconditional rights to receive resources?

NAO is of the opinion that the definition of an asset should cover all of the above benefits – those in the form of service potential, net cash inflows and unconditional rights to receive resources. This is due to the fact that ownership of the asset will lead to the provision of goods and services of a particular volume (service potential) and the generation of future economic benefits such as net cash inflows and unconditional rights to receive resources.

(b) What term should be used in the definition of an asset:

- (i) Economic benefits and service potential; or
- (ii) Economic benefits?

NAO opines that the term used to describe the definition of an asset should be economic benefits and service potential since many government assets are employed to provide services and not derive an economic benefit. Since the provision of services is important to government, service potential should be distinguished separately.

Specific Matter for Comment 2

(a) Which approach do you believe should be used to associate an asset with a specific entity:

- (i) Control;
- (ii) Risks and rewards; or
- (iii) Access to rights, including the right to restrict or deny others' access to rights?

NAO is of the opinion that the access to rights approach, including the right to restrict or deny others' access to rights, is to be used to associate an asset with a specific entity. If such right of access exists, the entity can determine how to use the benefits embodied in the resource.

(b) Does an entity's enforceable claim to benefits or ability to deny, restrict, or otherwise regulate others' access link a resource to a specific entity?

Yes, NAO believes that an entity's enforceable claim to benefits or the ability to deny, restrict, or otherwise regulate others' access link a resource to a specific entity. Where the entity has enforceable claim to benefits, this is an indicator that the asset belongs to

that entity. Where access to others is restricted or denied, this is another factor that might indicate that the entity owns the asset.

(c) Are there additional requirements necessary to establish a link between the entity and an asset?

A further requirement necessary to establish a link between the entity and an asset would be that the entity owns rights (such as copyright, patent and trademarks) to the asset. The entity would also be able to convert that asset into cash.

Specific Matter for Comment 3

Is it sufficient to state that an asset is a “present” resource, or must there be a past event that occurs?

NAO opines that it is preferable for there to be also a past event that occurs in order to recognise an asset. The occurrence of a past event provides further evidence of the existence of a present resource. However, in the absence of a past event, one is to evaluate whether the availability of a “present” resource on its own represents an asset.

Specific Matter for Comment 4

Recognition and measurement criteria aside, are public sector entity rights and powers, such as those associated with the power to tax and levy fees, inherent assets of a public sector entity, are they assets only when those powers are exercised, or is there an intermediate event that is more appropriate?

NAO is of the opinion that public sector entity rights and powers, such as those associated with the power to tax and levy fees, are assets only when those powers are exercised. The benefits associated with the power to tax, even if measurable, do not constitute an asset if that power is not exercised.

Specific Matter for Comment 5

(a) Are there any additional characteristics that have not been identified that you believe are essential to the development of an asset definition?

NAO believes that there are no additional characteristics that have not been identified and that are essential to the development of an asset definition.

(b) Are there other relevant issues, and particularly unique public sector considerations, that the IPSASB needs to consider in determining the concept of assets?

The IPSASB is to consider how certain assets such as heritage assets are to be valued and the calculation of their estimated useful lives.

Specific Matter for Comment 6

(a) Should the definition of a liability cover all of the following types of obligations?

- (i) Obligations to transfer benefits, defined as cash and other assets, and the provision of goods and services in the future.
- (ii) Unconditional obligations, including unconditional obligations to stand ready to insure against loss (risk protection).
- (iii) Performance obligations.
- (iv) Obligations to provide access to or forego future resources.

NAO is of the opinion that the definition of liability covers all the types of obligations except for the obligations to provide access to or forego future resources. Obligations to provide access in many cases would lead to the derecognition of assets rather than the incurrence of an obligation (liability) to supply those rights to another party.

(b) Is the requirement for a settlement date an essential characteristic of a liability?

Yes, NAO is of the opinion that a settlement date is an essential characteristic of a liability since it denotes that the liability is really due.

Specific Matter for Comment 7

(a) Should the ability to identify a specific party(ies) outside the reporting entity to whom the entity is obligated be considered an essential characteristic in defining a liability, or be part of the supplementary discussion?

NAO believes that the ability to identify a specific party (parties) outside the reporting entity to whom the entity is obligated is to be considered an essential definition of a liability. This is due to the fact that a liability can only materialize as long as the identity of the other party is known.

(b) Do you agree that the absence of a realistic alternative to avoid the obligation is an essential characteristic of a liability?

Yes, NAO agrees that the absence of a realistic alternative to avoid the obligation is an essential characteristic of a liability. Otherwise, it would not be recognised as a liability.

(c) Which of the three approaches identified in paragraph 3.28 do you support in determining whether an entity has or has not a realistic alternative to avoid the obligation?

NAO supports the second approach in determining whether an entity has or has not a realistic alternative to avoid the obligation since it includes all enforceable contractual, constructive and equitable obligations and other constructive and equitable obligations associated with exchange transactions. In all these cases, the obligations are binding on government. In the case of non exchange transactions, such as the announcement of new programmes, although the announcement would be binding on government, it should be recognised as a liability when the amounts to recipients actually become due.

Specific Matter for Comment 8

Is it sufficient to state that a liability is a “present” obligation, or must there be a past event that occurs?

It is not sufficient to state that a liability is a “present” obligation, but there must also be a past event that occurs to place emphasis on the fact that the event giving rise to the entity’s present obligation has already occurred.

Specific Matter for Comment 9

(a) Recognition and measurement criteria aside, are public sector entity obligations such as those associated with its duties and responsibilities as a government, perpetual obligations, obligations only when they are enforceable claims, or is there an appropriate intermediate event that is more appropriate?

NAO is of the opinion that obligations such as those associated with its duties and responsibilities as government are such when they become enforceable claims.

(b) Is the enforceability of an obligation an essential characteristic of a liability?

NAO believes that the enforceability of an obligation is an essential characteristic of a liability because it ensures that the liability is really due.

(c) Should the definition of a liability include an assumption about the role that sovereign power plays, such as by reference to the legal position at the reporting date?

NAO believes that the definition of a liability should include an assumption about the role that sovereign power plays, such as by reference to the legal position at the reporting date. Such a fact is to be stated in the GPFRs to provide more information to users.

Specific Matter for Comment 10

(a) Are there any additional characteristics that have not been identified that you believe are essential to the development of a liability definition?

NAO is of the opinion that there are no additional characteristics that have not been identified that you believe are essential to the development of a liability definition.

(b) Are there other relevant issues, and particularly unique public sector considerations, that the IPSASB needs to consider in determining the concept of liabilities?

None.

Specific Matter for Comment 11

(a) Should revenues and expenses be determined by identifying which inflows and outflows are “applicable to” the current period (derived from a revenue and expense-led approach), or by changes in net assets, defined as resources and obligations, “during” the current period (derived from an asset and liability-led approach)?

NAO opines that revenues and expenses are to be determined by identifying which inflows and outflows are “applicable to” the current period (derived from a revenue and expense-led approach).

(b) What arguments do you consider most important in coming to your decision on the preferred approach?

NAO opines that this approach supports the concept that revenue and expenses are recognised during the period to which they relate. This is not to be considered as a smoothing of revenue and expenditure over a number of periods, but matching the revenue received relating to a particular period with the expenditure for that period.

NAO is also of the opinion that the revenue and expense-led approach results in a more accurate measure of inflows and outflows of the public sector entity and represents a more faithful representation of the results of the entity.

NAO believes that the Asset and Liability Approach results in more volatility in measuring performance.

Specific Matter for Comment 12

(a) Should transactions with residual/equity interests be excluded from revenues and expenses?

NAO opines that they should be excluded from revenues and expenses so that the real results of each Government Department will be able to be assessed.

(b) Should the definitions of revenue and expense be limited to specific types of activities associated with operations, however described?

NAO believes that the definitions of revenue and expenses should not be limited to specific types of activities associated with operations but should include also gains and losses. This will provide a more faithful representation of Departmental performance.

Specific Matter for Comment 13

(a) Are there any additional characteristics that have not been identified that you believe are essential to the development of definitions of revenues and expenses?

None.

(b) Are there other relevant issues, and particularly unique public sector considerations, that the IPSASB needs to consider in determining the definitions of revenues and expenses?

None.

Specific Matter for Comment 14

(a) Do deferrals need to be identified on the statement of financial position in some way?

Yes, NAO is of the opinion that deferred outflows and deferred inflow are to be identified on the statement of financial position.

(b) If yes, which approach do you consider the most appropriate? Deferred outflows and deferred inflows should be:

- (i) Defined as separate elements;
- (ii) Included as sub-components of assets and liabilities; or
- (iii) Included as sub-components of net assets/net liabilities.

Deferred outflows and deferred inflows are to be included as sub-components of assets and liabilities. NAO believes that this reflects the true nature of deferred outflows and inflows, reduces the number of key elements making up financial statements and thus will make it easier for users of financial statements to understand.

(c) If defined as separate elements, are the definitions of a deferred outflow and deferred inflow as set out in paragraph 5.8 appropriate and complete?

Not applicable.

Specific Matter for Comment 15

(a) Do you consider net assets/net liabilities to be a residual amount, a residual interest, or an ownership interest?

NAO considers net assets/net liabilities to be an ownership interest since ownership exists in government both at the whole of government level and at entity level.

(b) Should the concept of ownership interests, such as those that relate to minority or non-controlling interests in a GBE, be incorporated in the element definition?

The concept of ownership interests, such as those that relate to minority or non-controlling interests in a GBE, should be incorporated in the element definition.

(c) Are there other relevant issues, and particularly unique public sector considerations, that the IPSASB needs to consider in determining the concept of net assets/net liabilities?

None.

Specific Matter for Comment 16

(a) Should transactions with residual/equity interests be defined as separate elements?

NAO believes that transactions with residual/equity interests are to be defined as separate elements.

(b) If defined as separate elements, what characteristics would you consider essential to their definition?

NAO considers the characteristics mentioned in Section 5.34 as all relevant to the definition. It would however like to distinguish between the residual/equity attributable to the entity and the residual/equity attributable to non-controlling interests. NAO would also like to include changes in accounting policies.

Specific Matter for Comment 17

(a) Should recognition criteria address evidence uncertainty by requiring evidence thresholds; or by requiring a neutral judgement whether an element exists at the reporting date based on an assessment of all available evidence; or by basing the approach on the measurement attribute?

NAO believes that recognition criteria address evidence uncertainty by requiring a neutral judgement whether an element exists at the reporting date based on an assessment of all available evidence. This will help the reporting entity better determine whether a transaction meets the definition of an asset or liability.

(b) If you support the threshold approach or its use in a situational approach, do you agree that there should be a uniform threshold for both assets and liabilities? If so, what should it be? If not, what threshold is reasonable for asset recognition and for liability recognition?

Not applicable.

Specific Matter for Comment 18

Do you support the use of the same criteria for derecognition as for initial recognition? Yes, NAO supports the use of the same criteria for derecognition as for initial recognition. This would ensure consistency in the approach to recognising and derecognizing elements in the financial statements.

Specific Matter for Comment 19

Should the recognition criteria be an integral part of the element definitions, or separate and distinct requirements?

NAO is of the opinion that the recognition criteria have separate and distinct requirements from element definition. This helps to better distinguish between definition and recognition criteria.