

Comment to IPSASB's Consultation Paper on the Applicability of IPSASs to GBEs and Other Public Sector Entities

A. Preface

In August 2014, the International Public Sector Accounting Standards Board (IPSASB) released for comment a Consultation Paper (CP), *The Applicability of IPSASs to Government Business Enterprises and Other Public Sector Entities*. The IPSASB has developed two approaches to communicate its view of the entities to which IPSASs apply. Under the first approach, the IPSASB would describe the characteristics of public sector entities for which IPSASs are intended and there would no longer be a definition of GBE in the IPSASB literature. Under the second approach, the definition of a GBE would retain, the IPSASB would clarify the GBE definition and would possibly narrow it to entities with a profit-seeking objective.

B. Our Comment on the Consultation Paper:

We agree with the IPSASB's Approach 1 and prefer option 1a, about IPSASB's policy on public sector entities for which it is developing accounting standard and on GBEs. According to opinion 1a the description of the characteristics of public sector entities which IPSASs are intended for, based on using IPSASB's current and developing terminology.

C. The basis for our comment and reasons for our view

First we describe the following 3 main principles that guided us examining the two approaches. Based on those principles we explain why in our view opinion 1a is the preferred approach.

1. The 3 main principles guiding:

- 1.1 It is the role of national regulators and other relevant authorities in each jurisdiction to determine which entities should be required to prepare general purpose financial statements (GPFSSs) and the suite of accounting standards to be applied.

Hence, we think the accounting standards should include a precise and explicit definition of the particular type of entity within the scope of the standards.

Israeli Government Accounting Standards that are based on IPSAS's, are designed specifically for national government sector. Other entities, although not business or profit oriented, and although some are controlled by the government, are not subject to these Standards. The decision of the kind of accounting standards to apply in different sectors depends on various economical, political and practical national factors of each country.

1.2 Inappropriate classification of a public sector entity may have unfortunate reporting consequences of not providing the users of the financial statements with relevant information. The objectives of financial reporting and the primary users of financial reports differ for entities that have primarily a service delivery objective and for those that are primarily profit-oriented. The objectives of public sector entities are reflected at the concepts in the IPSASB Conceptual Framework.

On our opinion, it is important to focus on and clarify the definition of the term that describes the characteristics of public sector entities for which current and developing standards (IPSAS's) are to be applied.

In making the decision whether to adopt IPSAS's for governments and entities that are in the process of considering what accounting standards to adopt and for what entities to apply them, it would be more appropriate and useful, if a straightforward scoping definition was included, describing the kinds of entities these Standards were developed for, instead of the kinds of entities that are excluded from the scope of these Standards.

1.3 As the definition of a GBE can be interpreted differently, there may be a wide range of entities being described as GBEs, while possibly not being the entities the IPSASB had in mind while preparing the GBE definition.

We are of the opinion that a definition of an entity which is within or outside the scope of a standard, should be made using descriptions that are easy to understand and can be checked. The definition should also delimit the essential details relating to the essence of the term defined. Also, we think it is very important that a definition should not be one that would constitute a source of controversy about its meaning, and should not be subject to different interpretations.

However, it should be said, that a definition should not be excluded, solely because it is subject to professional judgment and interpretations, as many of accounting definitions are.

2. Examining approaches based on the main principles mentioned above

2.1. In its role as the international standard setter for the public sector, the IPSASB considers that it has a responsibility to be transparent about the types of public sector entities that it considers when developing IPSASs.

In our opinion, in order for IPSASB to fulfill its responsibility, Approach 1 is the most appropriate because it focuses on the characteristics of public sector entities for which IPSASs are intended for. Describing the entities for which IPSASs are developed for, rather than defining GBEs that are out of scope, would better inform users and regulators as to IPSASB's views regarding the entities for which it is developing IPSASs. It would acknowledge that regulators have the power to determine which entities should apply particular standards in their jurisdictions.

However, keeping some form of general guidelines as to the characteristics of GBEs would also be useful for the local regulators in deciding what entities are of a more business nature, and therefore it wouldn't be appropriate for them to use these standards.

2.2. Both options in Approach 1 are intended to give a clear indication of the types of entities that the IPSASB considers when developing IPSASs. However we agree that Option 1a gives a high level description of public

sector entities which the IPSASB considers while developing IPSASs, using terminology drawn from IPSASB's current and developing literature, in particular the Conceptual Framework.

We believe that Option 1a describes in a more appropriate way the definition and clarify the characteristics of a public sector entity. Moreover the use of IPSAS developing terminology enables to reflect in the definition the primary objective of public sector entity to deliver services, explain the economic substance of its activities and would meet the qualitative characteristics of relevance and faithful representation.

In our view Option 1a is preferable on Opinion 1b.

Using terminology from a different methodology set, however converged it may be, may cause questions and problems in applying IPSASs for countries and entities that are not familiar with GFS. Furthermore, Opinion 1b reliance on concepts used in statistical guidelines may potentially mean that a number of terms and explanations would need to be introduced into the IPSASB's literature. We are of the opinion that examination of the characteristics of public sector entities using GFS reporting guidelines and explanatory guidance requires considerable judgment and thus may lead to diversity in the application.

2.3. The objectives of financial reporting by public sector entities are to provide information about the entity that is useful to users of general purpose financial reporting (GPRFs) for accountability purposes and for decision-making purposes. An inadequate classification of a public sector entity can undermine these financial reporting objectives. In addition, inconsistent application of the GBE definition may significantly undermine comparisons between entities.

Approach 2 intended to overcome the above implementation difficulties and problems in the definition of a GBE in IPSAS 1 and the diversity in the application of the GBEs definition in some jurisdictions. Approach 2 would seek to clarify and narrow the current definition of GBEs, so that it is applied

more consistently and would clarify some issues with the current definition of a GBE.

However, in light of the complexity of the issues, we agree that this approach would not eliminate possible inconsistencies in applying the definition, and therefore its impact might be limited and would only partially resolve problems and ambiguities in the definition of a GBE.

D. In conclusion

After reviewing the two approaches, our opinion is that from the proposed approaches, 1a is the preferred one, consistent with two main aspects, as follows: (a) the role of the regulators and other relevant authorities in each jurisdiction to determine which entities should be required to prepare general purpose financial statements and the suite of accounting standards to be applied; and (b) achieving the objectives of financial reporting by public sector entities, and being of high quality and reliable financial reporting.

We also considered that such opinion will reflect the concepts and descriptions in the IPSASB Conceptual Framework.

When examining the second approach, we reached the conclusion that despite the intentions to overcome the implementation difficulties and problems in the definition of a GBE, it is impossible to eliminate all the potential problems and ambiguities in the definition of a GBE. This can impair the quality of the financial information for users and, therefore, undermine the ability of the information to meet the objectives of financial reporting.

However, GBEs may play a significant role for many governments that choose to manage some of their activities and achieve some of their service providing goals and objectives through the channels of special business oriented entities.

Therefore, in our opinion, a third option may be introduced. An option that would include both – description of public sector entities as described in option 1a and having some kind of definition for GBEs. That definition can be revised and used in cases where a specific GBE reference is needed. In order

to avoid possible issues with interpretations of the GBE definition, it is possible to include a description of a GBE that includes main characteristics, but that leaves room for professional judgment and local reporting requirements and regulations.

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