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Date 30 April 2013
Our ref 0430.mju.IPSASB
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Submitted electronically

Dear Stephenie Fox
IPSASB Exposure Draft CF-ED2

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

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

The Auditor General, and the auditors he appoints, are responsible for audits of the Welsh devolved public sector, which includes:

- The Welsh Government;
- Welsh Government sponsored and other related bodies;
- Local government bodies in Wales;
- Local health bodies in Wales; and
- Certain publicly owned companies.

We are fully supportive of the development by IPSASB of a conceptual framework to underpin the development of a comprehensive and high quality suite of financial reporting standards for the public sector.

We welcome the next stage of the development of the conceptual framework including the statement in Paragraph 1.1 that the Exposure Draft proposes definitions of elements to be used only for general purpose financial statements. We consider that IPSASB should focus initially on financial statements before addressing the other aspects of financial

reporting (such as prospective financial information) that are covered by the conceptual framework.

While we support the vast majority of proposals in the ED we do not agree with the proposal that deferred inflows and deferred outflows should be included in the list of elements. We would prefer an approach where deferrals are recognised only where they meet the definition of an asset or liability, and are treated as assets or liabilities as appropriate.

We set out in Appendix 1 our response to the specific matters for comment.

I hope that you find our submission appended to this letter useful. If you have any queries regarding our response, please contact my colleague Iolo Llewelyn (e-mail: iolo.llewelyn@wao.gov.uk or telephone: 07766 505189).

Yours sincerely,



Mike Usher
Group Director – Technical

Appendix 1: Response to Consultation Questions

Question	Response
1. Do you agree with the definition of an asset? If not, how would you modify it?	We agree with the definition of an asset as set out in the Exposure Draft.
2(a). Do you agree with the definition of a liability? If not, how would you modify it? (b). Do you agree with the description of non-legal binding obligations? If not, how would you modify it?	(a) We agree with the definition of a liability as set out in the Exposure Draft. (b) We recognise the difficulties that the IPSASB has identified with the use of the term 'constructive' in the public sector and therefore agree with the description of non-legal binding obligations
3. Do you agree with the definition of revenue? If not, how would you modify it?	We agree with the definition of revenue. However see our comments on question 5(a) where we have some concerns about defining deferred inflows as separate elements.
4. Do you agree with the definition of expenses? If not, how would you modify it?	We agree with the definition of expenses. However see our comments on question 5(a) where we have some concerns about defining deferred outflows as separate elements.
5(a) Do you agree with the decision to define deferred inflows and deferred outflows as elements? If not, why not? (b) If you agree with the decision to define deferred inflows and deferred outflows as elements, do you agree with the: (i) Decision to restrict those definitions to non-exchange transactions? If not, why not? (ii) Definitions of deferred inflows and deferred outflows? If not, how would you modify them?	(a) In our response to the IPSASB Consultation Paper <i>Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Elements and Recognition in Financial Statements</i> (December 2010) we stated that we did not support the proposal to define deferred inflows and outflows as separate elements and prefer an asset and liability model: our position remains unchanged. Our preference is for an asset and liability model. If, as a consequence, material income and expenditure is recognised in respect of amounts to be

Question	Response
	<p>applied in future years, this could be disclosed by analysis of the net financial position on the face of the statement of financial position or by means of a note (any requirement for these options should be specified in a future IPSAS).</p> <p>(b) As stated above, our preference would be to use an asset and liability model and not separately define deferred inflows and outflows. However, if the proposed definitions are adopted, we agree with the definitions and the decision to restrict the use of these to non-exchange transactions to minimise the risk of inappropriate use of deferred inflows/outflows to manipulate the financial position of entities.</p>
<p>6(a) Do you agree with the terms net assets and net financial position and the definitions? If not, how would you modify the terms and/or the definitions?</p> <p>(b) Do you agree with the decision to define ownership contributions and ownership distributions as elements? If not, why not?</p> <p>(c) If you agree with the decision to define ownership contributions and ownership distributions as elements, do you agree with the definitions of ownership contributions and ownership distributions? If not, how would you modify them?</p> <p>(d) Ownership interests have not been defined in this Conceptual Framework. Do you think they should be?</p>	<p>(a) We agree with the definition of net assets and, as the ED stands, the definition of net financial position. However, if deferred inflows and outflows were not separately defined (i.e. if these transactions were considered to be assets or liabilities), it appears to us that net assets and net financial position would be the same.</p> <p>(b) We agree that ownership contributions and distributions should be defined as elements.</p> <p>(c) We agree with the definitions of ownership contributions and distributions and agree that that it is important that transactions with 'owners' such as non-exchange funding transactions should be distinguished from contribution transactions such as resource injections to remove deficits where entities have statutory requirements not to exceed the resources allocated to it.</p>

Question	Response
	(d) It would be useful to provide an overall definition of what an 'ownership interest' is, since in the public sector particularly, this may not be an equity instrument.
7. Do you agree with the discussion on recognition? If not, how would you modify it?	<p>We agree that recognition can be defined as incorporating items meeting the definition of elements into the financial statements. We also agree that there are two elements to this, what value to recognise items at (measurement uncertainty) and when to recognise them (existence uncertainty).</p> <p>'What value' is covered by paragraph 7.5 and we agree that it is necessary to be able to attach a monetary value to items and where this cannot be achieved, no item should be recognised.</p> <p>'When' is covered by paragraphs 7.3 and 7.4 'Existence Uncertainty'. We consider that a threshold approach would provide more clarity and a suitable threshold for recognition would be 'probable' i.e. 'all available facts and circumstances should be taken into account to determine if it is probable that the element exists (i.e. the definition of the element has been met) at the reporting date.</p>