

The Technical Director  
International Public Sector Accounting Standards Board  
International Federation of Accountants  
277 Wellington Street West  
Toronto, Ontario M5V 3H2 CANADA

Dear Stephanie,

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

The Accounting and Auditing Standards Desk of the Abu Dhabi Accountability Authority (ADAA) is pleased to provide a response to the International Public Sector Accounting Standards Board (IPSASB) request for comments on its Exposure Draft (ED). We are wholly supportive of the IPSASB's objectives to enhance the quality and consistency of financial reporting of Public Sector Entities (PSEs) and improve the transparency and accountability of government reporting.

**General Comment**

One of the most significant issues we find is inconsistent interpretation of accounting standards by the accounting community. We therefore encourage all accounting standard setters to use, wherever possible, consistent language in determining accounting definitions. This should ensure that assets and liabilities are consistently identified and reported.

Our comments on the specific questions asked by the IPSASB are as follows:

**Specific Matters for Comment 1**

**a) Do you agree with the definition of an asset? If not, how would you modify it?**

IPSASBs current proposal is: *"An asset is a resource, with the ability to provide an inflow of service potential or economic benefits that an entity presently controls, and which arises from a past event."*

IPSAS 1 describes an asset as *"embodying service potential."* We do not believe that an asset necessarily delivers an inflow of service potential to the entity that holds it. We consider that an asset is used by the entity to deliver an outflow of services to the Public.

The IASB defines an asset as: *"An asset is a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity."*

We suggest that IPSAS mirrors more closely the IASB definition and suggest the following definition: An asset is a resource controlled by the entity as a result of past events, from which future economic benefits are expected to flow to the entity, or from which service potential is expected to be extracted by the entity in the future.

**Specific matter for Comment 2**

**b) Do you agree with the definition of a liability? If not how would you modify it?**

We disagree with the definition of a liability because it introduces a recognition threshold that we believe is very high and is potentially inconsistent with IFRS. *“Little or no realistic alternative”* can be interpreted as a much higher threshold test than the threshold test of *“expected”* used by the IASB in IAS 37. The IASB uses a *“virtually certain”* threshold test to recognise contingent assets. *“Little or no realistic alternative”* can be interpreted as being closer to *“virtually certain”* than *“expected.”*

We suggest the definition is amended to mirror more closely the IAS 37 definition as follows: A liability is a present obligation of the entity arising from past events the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits, or service potential, or both.

We suggest the definition of a present obligation is also amended in line with our suggestion for a liability.

**c) Do you agree with the description of non-legal binding obligations? If not, how would you modify it?**

We consider that in principle it matters not whether an obligation is legal or non-legal. The legality of an obligation provides auditable documentation of the enforcement rights to the recipient of the economic benefits or service potential, it does not necessarily crystallise recognition of the obligation. However, we agree that non-legal obligations can be difficult for entities to recognise and therefore the attributes set out in paragraph 3.10 are important features for the standard to provide.

We do not consider paragraph 3.10c) to be necessary because it is covered in the definition of a present obligation in paragraph 3.2. We consider the rest of 3.10, 3.11 and 3.12 to be appropriate.

**Specific matter for Comment 3**

**Do you agree with the definition of revenue? If not how would you modify it?**

We dislike the use of the term ‘revenue’ with regard to public sector entities because it is widely applied by profit orientated entities in describing income from operating activities. A public sector entity typically receives income from government to cover the cost of the service it is required to provide. A public sector entity may also charge (in whole or in part) for certain services such as licenses. We are uncomfortable with describing these incomes as revenue and would prefer to label them ‘income.’ It may be that reporters may wish to label certain incomes as ‘operational income’ and other incomes as ‘other’ or ‘non-operational’ however, we would not be prescriptive on such an approach.

We consider ‘inflows’ does not sufficiently describe income and suggest starting 4.1 a) and b) with: Inflows of economic benefits and/or assets embodying service potential during the current...

**Specific matter from Comment 4**

**Do you agree with the definition of expenses? If not how would you modify it?**

We consider ‘Outflows’ does not sufficiently describe expenses and suggest starting 4.2 a) and b) with: Outflows of economic benefits and/or assets embodying service potential during the current...

**Specific matter for Comment 5**

**a) Do you agree with the decision to define deferred inflows and deferred outflows as elements?**

We do not agree that it is necessary to define deferred inflows and deferred outflows separately or to limit them to non-exchange transactions. Paragraphs 5.1 and 5.2 state it is provided to use in a future period. If this is the case then there is a limitation attached to the service potential or economic benefits which mean that it cannot be used or accessed. If it is not the case then in a non-exchange transaction it should be recognised immediately.

**Specific matter for Comment 6**

- a) Do you agree with the terms net assets and net financial position and the definitions?
- b) Do you agree with the decision to define ownership contributions and distributions as elements?
- c) If you agree do you agree with the definitions?
- d) Ownership interests have not been defined do you think they should be?

Yes we agree with the terms.

No we do not agree because we do not agree with describing deferred inflows and outflows as separate elements.

No we do not.

Yours faithfully

Steven Ralls BA, FCA  
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Financial Audit and Examination, Abu Dhabi Accountability Authority