



**The Institute of
Chartered Accountants
of Pakistan**

HEAD OFFICE

Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street West, 6th Floor
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**Subject: COMMENTS ON CONCEPTUAL FRAMEWORK FOR GENERAL PURPOSE
FINANCIAL REPORTING BY PUBLIC SECTOR ENTITIES: ELEMENTS AND
RECOGNITION IN FINANCIAL STATEMENTS**

Dear Sir,

The Institute of Chartered Accountants of Pakistan welcomes the opportunity to offer comments on the above mentioned exposure draft.

Please find enclosed the comments of the relevant Committee of the Institute for your perusal.

If you require any further clarification, please do not hesitate to contact us.

Yours faithfully,

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COMMENTS ON 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?**

Comments

The definition of an asset should cover service potential and net cash inflows; however, it should not include unconditional rights to receive resources as it is not in their own control - the entity from whom such rights are to be claimed may not be in a position to provide these due to several reasons including financial.

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

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

Comments

Term “Economic benefit and Service potential” should be preferred because use of term “The Economic Benefit” may create some ambiguity.

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?**

Comments

The Risk and Rewards approach is more appropriate to associate an asset with a specific entity.

(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?

Comments

We believe that the global scope ability to deny, restrict or regulate access may not be a proper criterion for linking an asset to a specific entity.

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

Comments

By including the additional requirements the framework may narrow the scope of the linkage so the Risk and Reward approach stands simple and appropriate.

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?

Comments

For initial recognition of assets, it should be a present resource.

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?

Comments

In many under developed countries political systems are volatile and uncertain, so it is more appropriate to identify asset if the powers are exercised because at this point risks and rewards are materialised.

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?

Comments

None

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

Comments

None

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.**

Comments

To make the definition more comprehensive and wide all the above type of obligations may be included.

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

Comments

No the requirement of settlement date should not be an essential characteristic of a liability.

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?

Comments

The ability to identify specific party outside the reporting entity should be considered an essential characteristic in defining a liability. if this is not the case the these can be reported as contingent liability.

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

Comments

Yes we agree that that the absence of a realistic alternative to avoid the obligation is an essential characteristic of 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?

Comments

In the under developed regions having fragile political systems the only realistic approach is (a) "Enforceable contractual, constructive, and equitable obligations".

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?

Comments

In our opinion it is sufficient to state that liability is a present obligation.

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?

Comments

Enforceability of an obligation is an essential characteristic of a liability else it may be reported as contingent liability.

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

Comments

Yes, enforceability is an essential characteristic.

(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?

Comments

In Pakistan, this assumption should not be considered in defining the liability.

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?

Comments

None

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

Comments

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)?

Comments

In our opinion the most appropriate basis for determining revenue and expense is by identifying inflows and outflows related to the current period. Revenue and Expense led approach is the one which effectively meets the objects of GPFRs set for its users.

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

Comments

Argument in 4.21 is the most significant one.

Specific Matter for Comment 12

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

Comments

Depending upon the nature of the transaction with the residual/ equity interest, it should be made part of revenue and expense because the identification of equity interest holder may be ambiguous.

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

Comments

Limiting the definitions of revenue and expense type of activities associated with operations will more effectively serve the information needs of primary users of GPFRs

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?

Comments

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?

Comments

None

Specific Matter for Comment 14

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

Comments

Yes the identification of deferrals on the statement of financial position will increase the understandability of GPFRs.

(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.

Comments

Most appropriate approach is (a) Defined as separate elements

(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?

Comments

Yes, the definition is given at paragraph 5.8 is suitable.

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?

Comments

In our opinion the net assets/net liabilities should be considered as residual amount.

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

Comments

It will be more appropriate if the concept of ownership interest is treated as subclassification of net assets.

(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?

Comments

None

Specific Matter for Comment 16

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

Comments

The transactions should be included as subclassification of net assets.

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

Comments

NA (Not Applicable)

Specific Matter for Comment 17

(a) Should recognition criteria address evidence uncertainty by requiring evidence thresholds; or by requiring a neutral judgment 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?

Comments

In our opinion the recognition criteria should require a neutral judgment based on assessment of all available evidence.

(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?

Comments

NA

Specific Matter for Comment 18

Do you support the use of the same criteria for derecognition as for initial recognition?

Comments

It is appropriate to use same approach for derecognition as for initial recognition

Specific Matter for Comment 19

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

Comments

We incline towards the view that recognition criteria should be a included as separate and distinct requirements