



Accounting Standards Board

P O Box 7001  
Halfway House  
Midrand  
1685  
Tel. 011 697 0660  
Fax. 011 697 0666  
www.asb.co.za

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

25 April 2019

Per electronic submission

Dear John,

**COMMENT ON EXPOSURE DRAFT 67 ON COLLECTIVE AND INDIVIDUAL SERVICES AND EMERGENCY RELIEF (AMENDMENTS TO IPSAS 19)**

We welcome the opportunity to provide comment on Exposure Draft (ED) 67 on *Collective and Individual Services and Emergency Relief (Amendments to IPSAS 19)*.

The views expressed in this letter are those of the Secretariat and not the Accounting Standards Board. In formulating its comments, the Secretariat consulted with a range of stakeholders, including auditors, preparers, consultants, professional bodies, users (including those responsible for reporting government statistics), and other interested parties.

We recommend that the IPSASB reconsider whether there is a need to provide specific guidance on collective and individual services and emergency relief (see Other comment 1). Aiming to categorise all types of non-exchange expenses and provide specific guidance for each type may overly complicate the application of the IPSAS with no benefit to the users of the financial statements. Those stakeholders unfamiliar with the full history of the social benefits and non-exchange expenses projects may be unclear about the problem that the guidance aims to solve. We also question the placement of the guidance in the IPSAS on *Provisions, Contingent Assets and Contingent Liabilities (IPSAS 19)*.

We propose that an explanation of the issue and the IPSASB's conclusions on whether liabilities exist for collective and individual services should be included in the basis for conclusions of the IPSAS on *Social Benefits (IPSAS 42)*. The discussion in the basis for

Board Members: Mr V Ndzimande (chair), Ms F Abba, Ms L Bodewig, Mr C Braxton, Mr K Hoosain, Ms I Lubbe,  
Mr K Makwetu, Ms P Moalusi, Ms Z Mxunyelwa, Ms N Themba,  
Alternate: Ms M Sedikela  
Chief Executive Officer: Ms E Swart, Technical Director: Ms J Poggiolini

conclusions in IPSAS 42 should be based on whether the definition of a liability and the recognition criteria are met in the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (Conceptual Framework). The basis for conclusions could also indicate that judgement should be applied, and that IPSAS 19 may be relevant in certain instances.

If the IPSASB decides to continue providing the specific guidance included in this ED, we propose that the current distinction drawn between transactions be reconsidered (see Specific Matters for Comment 1 and 4 and Other comment 2). We also propose that the consistency of accounting guidance provided among types of non-exchange expenses be assessed and aligned where appropriate (see Other comment 3).

Our responses to the specific matters for comment are included as Annexure A, while other comments are included as Annexure B to this letter.

Please do not hesitate to contact me should you wish to discuss our comment further.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Poggiolini', written in a cursive style.

Jeanine Poggiolini

Technical Director

## Responses to specific matters for comment

### Specific Matter for Comment 1:

*Do you agree with the definitions of collective services and individual services that are included in this Exposure Draft?*

*If not, what changes would you make to the definitions?*

We are of the view that there is no need to include separate definitions for collective and individual services, because the accounting guidance proposed in the ED is the same and there are no specific presentation or disclosure requirements that would require such a distinction.

We were also unable to identify a reason in Government Finance Statistics (GFS) to differentiate between collective and individual services in the financial statements. The GFS Manual includes “collective service” and “individual consumption good or service” to assist with the functional classification of expenditure. We noted that the System of National Accounts uses information on individual services for a “*redistribution of income in-kind account*”. The terms have, however, no relevance in determining whether a provision should be raised by government and is therefore unnecessary for the guidance provided in this ED. For statistical purposes, stakeholders indicated that an important distinction is whether a transaction is current or capital in nature, and confirmed that they are able to obtain all required information based on the existing financial reporting requirements.

We considered the role that eligibility criteria may play in the guidance on whether a provision should be raised (see Specific matter for comment 3). For this reason, it may be appropriate to distinguish social benefits (cash) from in-kind social benefits (some of which could be included in individual services) and all other non-exchange expenses, instead of the distinctions proposed in this ED.

If the IPSASB decides to finalise this ED with the two definitions, the following should be considered:

- The concept of “*addressing the needs of society as a whole*” could be difficult to interpret. Individual services are provided to an individual or household. Although we understand the need for the distinction between social benefits and insurance contracts, we do not think this distinction is necessary for collective and individual services. Another term for “society” may also be more appropriate as collective and individual services do not necessarily benefit everyone equally.
- It could be difficult to distinguish between collective and individual services from looking at the definitions, application guidance and examples proposed in this ED. For example, free water and electricity provided to an indigent community could be classified as either collective or individual services; and police or defence services could be provided to a specific community in response to specific situations, in which case it would rather meet the definition of individual services and not collective services. We propose that the meaning of explicit or active participation for individual services be better described, as well as the distinction between providing something to all members of the community versus providing it to individuals and/or households.

- The definitions alone are not specific. It could help to clarify that it relates to social risks. This may be implied through the phrase “*addressing the needs of society as a whole*” but is unclear. For example, if government holds a cultural festival with free access given to a community it could be seen to meet the definition of collective services. It is our understanding that it was not the IPSASB’s intention to include these types of expenses in the scope of the definitions.
- Collective services are provided “*simultaneously to all members of the community*”. In some jurisdictions, this may cause difficulty in applying the definitions where government provides free services to certain communities / community members but not to others. For example, free services could be provided exclusively to indigenous people or communities and not to expatriates.
- The definition for individual services includes provision of goods, but this is not captured in the terminology used. We suggest adding an explicit reference to goods.

**Specific Matter for Comment 2:**

*Do you agree that no provision should be recognised for collective services?*

*If not, under what circumstances do you think a provision would arise?*

If the IPSASB decides that it remains necessary to provide explicit guidance on collective services, we generally support the proposed accounting treatment of collective services. However, please note our response to Specific Matters for Comment 1 where we question the need for the distinction between collective and individual services and note difficulties that would exist in practice to classify transactions.

**Specific Matter for Comment 3:**

*Do you agree that no provision should be recognised for individual services?*

*If not, under what circumstances do you think a provision would arise?*

If the IPSASB decides it remains necessary to provide explicit guidance on individual services, the following should be considered.

Although a minority of stakeholders agreed with the proposed guidance, we are of the view that there could be a different accounting treatment necessary for certain transactions within the scope of individual services.

The principles of when a present obligation exists should be the same irrespective of whether an entity is providing cash, or in-kind goods or services, and whether it provides these to individuals, households or communities. The social benefits ED initially included in-kind goods and services in the social benefits definition. There may be a category of in-kind goods and services (meeting the definition of individual services) where specific eligibility criteria need to be met that would otherwise meet the definition of a social benefit, except that it is provided in-kind and not in cash. These transactions should be accounted for consistently with social benefits, i.e. government has a present obligation to provide these goods or services. For example, where government provides free higher education to individuals who meet specific eligibility criteria, upon meeting those criteria government likely has a present obligation to provide free higher education to those individuals for as long as they meet the criteria. Where a narrower view is taken that the extent of government’s obligation is only for one academic year, a liability may still be required where the reporting period and academic year are not aligned.

The IPSASB should test the guidance provided against the principles of the Conceptual Framework and the definition and recognition criteria in IPSAS 19.

The accounting guidance proposed in the ED focuses on how government extinguishes its commitments to citizens (through ongoing activities of government). The guidance may be more useful if it focuses on whether government has a present obligation for those commitments in the first place, and what would constitute an obligating event. For example, an approved budget does not in itself mean an entity has an obligation to provide certain goods or services, neither would a general “promise” to provide goods and services in the future be an obligating event.

#### **Specific Matter for Comment 4:**

*Do you agree with the proposed accounting for emergency relief?*

*If not, how do you think emergency relief should be accounted for?*

Although some stakeholders supported providing explicit guidance on emergency relief where a specific event occurs, we question the need for it. As the principles of when an entity has a present obligation and provision are clear in the Conceptual Framework and IPSAS 19, it is unclear why explicit guidance is necessary on specific types of transactions. If needed, we propose that an example could be included on disaster/emergency relief in the Implementation Guidance, instead of authoritative Application Guidance.

#### Description of emergency relief

If the IPSASB decides to continue providing explicit guidance on emergency relief, the following comment is provided on the description of “emergency relief”.

The term “emergency relief” could have a different meaning in different jurisdictions which may result in variations in the types of transactions considered to be “emergency relief”. For example, “disasters” have a broader meaning than “emergencies” in the South African context and may be more aligned to the description in the ED. Disasters can trigger a response from all levels of government and aid organisations, while an emergency tends to trigger a local response. There are two types of funding available for disasters. Firstly, funding for immediate relief following a disaster is allocated through provincial and local grants. Clauses in legislation allow for the rapid release of these funds to provide immediate relief such as the provision of food, clean water and shelter for those affected by disasters, and emergency repairs and temporary infrastructure (e.g. temporary bridges or roads where permanent structures have been damaged). The second is longer-term funding for the repair of infrastructure damaged by disasters. These funds are allocated following an assessment of the damage and the cost of repairs. We suggest that a more neutral term be considered.

We find the distinction between social benefits and emergency relief provided in cash unclear as it could be difficult to assess whether the relief addresses social risk and the needs of society as a whole. There could be a clear link to social risk when emergency relief is provided in cash, for example, a living allowance, relief for temporary unemployment or temporary inability to work due to ill health, or the non-exchange component of a concessionary loan to rebuild houses, etc. In the same way as “addressing the needs of society as a whole” is indirect with social benefits, it could also apply to emergency relief.

It is unclear what “economic failure” as an example of emergency relief would include. The term could be interpreted broadly. For example, unemployment benefits may be provided by

government as a result of economic failure and be seen as in the scope of this ED, or it could be in the scope of IPSAS 42.

Emergency relief also includes relief provided by international organisations. This raises questions about whether emergency relief only relates to goods and services provided directly to individuals or households, or whether it includes goods and services provided to individuals or households through other organisations.

We suggest that the IPSASB provides guidance on the order in which transactions should be assessed against the scope of each Standard. As noted in the examples above, it could be unclear whether a transaction is within the scope of IPSAS 42, this ED, or the guidance still to be developed on grants, transfers and other contributions. A flow chart or similar may assist users of IPSASs to understand which IPSASs apply to transactions.

#### Distinction based on how government provides emergency relief

We question the need to distinguish between how government provides emergency relief as we are of the view that the accounting guidance should be the same and should refer to the principles in IPSAS. It should focus on whether or not government has a present obligation, irrespective of how it will be settled. It may also be difficult to distinguish when government acts in response to specific emergencies and when it is an ongoing activity of government, as different levels of government come together, some of which may result from an explicit policy decision while others may be part of the ongoing activities of government. For example, in an emergency/disaster, some funding may only be accessible after a presidential declaration of an emergency/disaster, while other funding is allocated to various levels of government to spend as part of their ongoing activities, such as firefighting services, ambulance services, distribution of food parcels, etc. This is also the case within entities. For example:

- We have an entity in South Africa, the National Disaster Management Centre, that deals with specific disaster responses, while also running ongoing activities focused on planning for, and prevention of, disasters.
- Part of a municipality's mandate is to respond to emergencies/disasters on an ongoing basis, but specific responses may be determined by council resolutions or other levels of government. These could be funded through additional funding in an adjustment budget or by absorbing the costs as part of the municipality's normal operations, e.g. either by using existing inventories and services such as blankets, fire response units and clinics, or by using an existing budget.

It is likely that each jurisdiction will have a different way in which it responds to emergencies, and likely most governments have a combination of ways in which they respond. Providing explicit guidance in this ED on different scenarios could lead to uncertainty about how to account for the transactions, and who should account for it where different levels of government work together. For example, a national entity may plan a disaster response and disseminate funds to provincial and local government, who execute the plan and deliver the relief to the affected communities. The distinction between the ways in which government provides disaster/emergency relief can detract from the issue of whether or not government has a present obligation.

### Accounting for emergency relief

If the guidance is retained as drafted, we propose that the following be considered regarding the guidance on assessing whether or not a present obligation exists, and a provision should be recognised (or contingent liability disclosed):

- It may be necessary to explain what is considered an “explicit policy decision” that gives rise to a provision. We are of the view it could be difficult to provide guidance that will be appropriate in all instances. In some jurisdictions, an explicit policy decision may not give rise to a present obligation according to the definition of IPSAS 19, for example, where decisions are taken and announced by a ruling government before elections, but subsequently reversed. In other jurisdictions, a constructive present obligation may exist without any explicit policy decisions, for example, where government has an established past practice of delivering on early announcements.
- The guidance proposed in the ED may not always align with the requirements of IPSAS 19, e.g. where government committed to provide cross-border emergency relief through an explicit policy decision, but the terms and conditions of the agreement is not specific and results in there being no present obligation in accordance with IPSAS 19.

**Other comment****1. Need for and placement of guidance**

As no new requirements have been introduced in the additional guidance proposed in this ED, we question the need for guidance. Without knowing the full project history, it would also be unclear to stakeholders why the guidance was added.

We further question the placement of the guidance. The current guidance proposed in this ED describes how government settles its “commitments” to provide goods and services in future (through exchange transactions). It does not focus on whether government has a present obligation to provide those goods or services, which is in the scope of IPSAS 19 (see Specific Matter for Comment 3 where we contemplate if certain individual services could meet the definition of a present obligation).

Instead of authoritative text and Application Guidance provided as part of IPSAS 19, we propose that the IPSASB considers including a discussion in the basis for conclusions of IPSAS 42 that explains the project history, the issue of whether liabilities exist for collective and individual services, and the IPSASB’s conclusions. The discussion should be based on whether the definition of a liability and the recognition criteria are met in the Conceptual Framework and could also indicate that judgement should be applied, and that IPSAS 19 may be relevant in certain instances. If needed, an illustrative example on e.g. a provision related to disaster/emergency relief could be included in the Implementation Guidance of IPSAS 19 (see Specific Matter for Comment 4).

**2. Scope****2.1 Scope of transactions included in the guidance**

We note the following for IPSASB’s consideration regarding the current scope of transactions included in this ED:

- The scope could be misleading (with reference to figure 1 of the “at a glance” document). This is because the guidance in this ED explains that there are no non-exchange transactions accounted for in providing collective and individual services. Only the exchange transactions are accounted for in accordance with other IPSASs or IFRS. It is therefore unclear why collective and individual services are separate to “other IPSASs or IFRS” in figure 1.
- It is our understanding that the IPSASB wishes to provide guidance on all non-exchange expenses and has therefore proposed the guidance in this ED in addition to IPSAS 42, and plans to conclude the project with guidance on grants, transfers and other contributions. There may, however, still be a category of non-exchange expenses where no guidance will be provided, which is goods or services exchanged between government entities in a non-exchange transaction. E.g. where one government entity provides printing services, laboratory services, etc. to another government entity at no or a subsidised charge.

To ensure principle-based accounting guidance is provided without introducing rules, and covering all transactions, the IPSASB could consider only distinguishing between social benefits and all other non-exchange expense transactions for guidance on whether a present obligation exists. The guidance for all transactions outside the scope of IPSAS 42 could simply



be to assess whether the definition and recognition criteria in IPSAS 19 are met, irrespective of the type of transaction.

## 2.2 Scope amendment to IPSAS 19 as a consequence of IPSAS 42

As a consequential amendment to the scope of IPSAS 19 resulting from IPSAS 42, IPSAS 19 paragraph .12 was amended as follows:

*~~“12. This Standard does not apply to executory contracts unless they are onerous. Contracts to provide social benefits entered into with the expectation that the entity will not receive consideration that is approximately equal to the value of goods and services provided, directly in return from the recipients of those benefits, are excluded from the scope of this Standard.”~~*

If the guidance proposed in this ED is retained, IPSASB should consider the potential impact of this amendment when stakeholders apply IPSAS 19 to non-exchange transactions, including “contracts” to provide social benefits. The following questions may arise for the IPSASB to consider:

- Does the removal of the text mean that contracts to provide social benefits are included in “onerous contracts”? We do not think this is appropriate as all non-exchange transactions could be interpreted as onerous given their nature. However, stakeholders may incorrectly come to this conclusion when applying IPSAS 19 with the amendment made.
- Would “contract” in the context of “onerous contract” be narrow as in IPSAS 41 *Financial Instruments*, or is it wider and includes e.g. other binding arrangements? If the wider view is held, stakeholders may further conclude that non-exchange transactions could be treated as onerous.

Given the amendments to the International Accounting Standard on *Provisions, Contingent Liabilities and Contingent Assets* (IAS<sup>®</sup> 37) that the International Accounting Standards Board (IASB<sup>®</sup>) has proposed, stakeholders may think they will be required to determine the costs directly related to “contracts” for non-exchange expense transactions upfront in line with accounting for onerous contracts.

We propose that guidance is included to explain the interaction between non-exchange transactions and onerous contracts.

A communication from the IPSASB may be useful once the IPSASB has finalised developing guidance on all non-exchange expense projects, to clarify to stakeholders the scope of each IPSAS and the transactions that fall in the scope of that IPSAS. The communication could explain the scope with which each project started, ended, and the reasons why.

## 3. Accounting guidance

We note inconsistencies in the principles applied by the IPSASB when providing guidance on non-exchange expenses:

- In IPSAS 42, a short-term liability is recognised for social benefits in cash where specific eligibility criteria have been met, even though government may have a long-term obligation to provide the benefits.
- Government may have a similar present obligation to provide individual services where specific eligibility criteria have been met by individuals or households to receive goods or services in future. The only difference from social benefits may be that government

provides goods or services in-kind instead of in cash. However, no provision is proposed for individual services.

- A provision for emergency relief where it meets the definition of a provision in IPSAS 19 is proposed in this ED, for the full extent of relief that will be provided. However, in IPSAS 42, the provision is limited to the individual meeting the eligibility criteria to receive the next benefit only, i.e. an accrual equal to the next payment. A much larger and longer-term provision could therefore be recognised for emergency relief than for social benefits.

We propose that alignment be sought among the accounting guidance provided, which should be based on the Conceptual Framework and existing IPSAS.

#### **4. Presentation and disclosure**

We question the benefit of providing the accounting guidance in this ED if no additional information is required to be presented or disclosed to the users as an outcome of the guidance. We are of the view that no additional information is required to be presented or disclosed, and rather question the necessity of all the guidance in this ED in general.

If the IPSASB decides to continue providing this guidance, the following should be considered:

- The placement of the presentation and disclosure guidance in IPSAS 19 relating to provisions, contingent assets and contingent liabilities may not be appropriate as it mostly relates to presenting an analysis of expenses by nature or function, which is relevant to IPSAS 1 and relates to expenses.
- Information on individual and collective services may be presented in a performance report, although this is not necessarily linked to the financial statements.
- Depending on the circumstances, the IPSAS on *Events After the Reporting Date* may also be relevant for disaster/emergency relief.
- A concern was raised about insufficient information being available on the goods and services government provides to individuals, households and communities where they make use of a non-government organisation to provide it on their behalf. In this case, the only information available is that government has paid a grant/transfer. This may be relevant to consider in the grants, transfers and other contributions project.