

AFRICAN UNION

الاتحاد الأفريقي



UNION AFRICAINE

UNIÃO AFRICANA

Addis Ababa, Ethiopia, P.O. Box: 3243 Tel.: (251-11) 5513 822 Fax: (251-11) 5519 321

Ref.: DFIN/DIR/197/10.20

Date: 30 October 2020

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

Dear Sir,

Subject: COMMENTS ON EXPOSURE DRAFT 72, TRANSFER EXPENSES

The African Union welcome the opportunity to comment on the Exposure Draft 72, Transfer Expenses. We are in support of IPSASB's effort to develop Transfer Expenses standard which currently has no specific accounting guidance.

Our comments on specific matters are set out in appendix to this letter.

We hope that you find our comments helpful.

Yours Faithfully,

Biodun Adeyemo (Mr.)
Acting Director of Finance
African Union Commission





Number	Specific Matter	Comments
1	<p>The scope of this [draft] Standard is limited to transfer expenses, as defined in paragraph 8. The rationale for this decision is set out in paragraphs BC4–BC15.</p> <p>Do you agree that the scope of this [draft] Standard is clear? If not, what changes to the scope or definition of transfer expense would you make?</p>	<p>We agree that the scope of the standard is clear.</p> <p>However, it is worth noting that the most common assets the African Union provide to transfer recipients are cash rather than goods or services. We therefore suggest that the IPSASB consider making reference to this when providing guidance on ‘other asset’ element of the definition of transfer expenses.</p>
2	<p>Do you agree with the proposals in this [draft] Standard to distinguish between transfer expenses with performance obligations and transfer expenses without performance obligations, mirroring the distinction for revenue transactions proposed in ED 70, Revenue with Performance Obligations, and ED 71, Revenue without Performance Obligations?</p> <p>If not, what distinction, if any, would you make?</p>	<p>We agree with the proposal.</p>
3	<p>Do you agree with the proposal in this [draft] Standard that, unless a transfer provider monitors the satisfaction of the transfer recipient’s performance obligations throughout the duration of the binding arrangement, the transaction should be accounted for as a transfer expense without performance obligations?</p>	<p>We partly agree with this proposal.</p> <p>We understand that not monitoring the satisfaction of the performance obligations is an indicator of lack of control. However, it does not necessarily mean that transfer provider will loss control of the asset.</p> <p>We have instances where the African Union does not monitor the satisfaction of the transfer recipient’s performance obligations throughout the duration of the binding arrangement yet we reserve the right in accordance with the grant agreements to accept eligible expenses and reject ineligible expenses whenever retirement is made by the transfer recipient. Though we may not monitor throughout, we mostly retain control of the asset.</p>



Number	Specific Matter	Comments
		<p>We suggest that monitoring throughout should not be a pre-condition for accounting for transfers so far as the transfer provider retain control. Also, there should be a clear guidance on what monitoring throughout means to ensure consistency in the application of the standard.</p>
4	<p>This [draft] Standard proposes the following recognition and measurement requirements for transfer expenses with performance obligations:</p> <ol style="list-style-type: none"> a. A transfer provider should initially recognize an asset for the right to have a transfer recipient transfer goods and services to third-party beneficiaries; and b. A transfer provider should subsequently recognize and measure the expense as the transfer recipient transfers goods and services to third-party beneficiaries, using the public sector performance obligation approach. <p>The rationale for this decision is set out in paragraphs BC16–BC34.</p> <p>Do you agree with the recognition and measurement requirements for transfer expenses with performance obligations? If not, how would you recognize and measure transfer expenses with performance obligations?</p>	<p>We agree with the proposal.</p> <p>In addition, it is to be noted that the African Union has several transfers with present obligations where it retains control of assets transferred. IPSASB is encouraged to consider similar accounting treatment for such transactions.</p>



Number	Specific Matter	Comments
5	<p>If you consider that there will be practical difficulties with applying the recognition and measurement requirements for transfer expenses with performance obligations, please provide details of any anticipated difficulties, and any suggestions you have for addressing these difficulties.</p>	<p>We anticipate practical difficulties in the application of recognition and measurement requirements for transfer expenses with performance obligations</p> <p>In the public sector, identifying and splitting between present and performance obligations may require significant judgment. As the subject-matter is complex, we strongly recommend that IPSASB provide sufficient practical guidance and illustrative examples in order to ensure consistency in the application.</p>
6	<p>This [draft] Standard proposes the following recognition and measurement requirements for transfer expenses without performance obligations:</p> <p>a. A transfer provider should recognize transfer expenses without performance obligations at the earlier of the point at which the transfer provider has a present obligation to provide resources, or has lost control of those resources (this proposal is based on the IPSASB's view that any future benefits expected by the transfer provider as a result of the transaction do not meet the definition of an asset); and</p> <p>b. A transfer provider should measure transfer expenses without performance obligations at the carrying amount of the resources given up?</p> <p>Do you agree with the recognition and measurement requirements for transfer expenses without performance obligations?</p> <p>If not, how would you recognize and measure transfer expenses without performance obligations?</p>	<p>a. We partly agree with this proposal.</p> <p>We are concern that the exposure draft does not include binding arrangements without performance obligations where control of the asset is retained by transfer provider. We suggest that such transactions should be accounted for in the same way as transfer expenses with performance obligation. The asset component will represent the right to accept eligible expenses and reject ineligible expenses.</p> <p>The challenge in most developing countries is that the control environments are not effective as preferred. This recognition proposal (direct recognition of expenses) may provide opportunity for fraudulent accounting practices, where grant agreements may be written without performance obligation in order to recognized them directly as expenses. The IPSASB is therefore encouraged to ensure that there is a clear guidance and requirement for strict compliance with this proposal.</p> <p>b. We agree with the proposal.</p>



Number	Specific Matter	Comments
7	<p>As explained in SMC 6, this [draft] Standard proposes that a transfer provider should recognize transfer expenses without performance obligations at the earlier of the point at which the transfer provider has a present obligation to provide resources, or has lost control of those resources. ED 71, <i>Revenue without Performance Obligations</i>, proposes that where a transfer recipient has present obligations that are not performance obligations, it should recognize revenue as it satisfies those present obligations. Consequently, a transfer provider may recognize an expense earlier than a transfer recipient recognizes revenue.</p> <p>Do you agree that this lack of symmetry is appropriate? If not, why not?</p>	We agree with the proposal.
8	<p>This [draft] Standard proposes that, when a binding arrangement is subject to appropriations, the transfer provider needs to consider whether it has a present obligation to transfer resources, and should therefore recognize a liability, prior to the appropriation being authorized. Do you agree with this proposal?</p> <p>If not, why not? What alternative treatment would you propose?</p>	We agree with the proposal.
9	<p>This [draft] Standard proposes disclosure requirements that mirror the requirements in ED 70, <i>Revenue with Performance Obligations</i>, and ED 71, <i>Revenue without Performance Obligations</i>, to the extent that these are appropriate.</p> <p>Do you agree the disclosure requirements in this [draft] Standard are appropriate to provide users with sufficient, reliable and relevant information about transfer expenses? In particular,</p> <ol style="list-style-type: none"> a. Do you think there are any additional disclosure requirements that should be included? b. Are any of the proposed disclosure requirements unnecessary? 	We agree with the proposal.