

## **COMMENTS ON THE IPSASB'S EXPOSURE DRAFT 56: THE APPLICABILITY OF IPSASs**

We are pleased to provide you with the following comments with the aim of improving IPSASs application and decision usefulness for Public sector in preparation of financial statements.

NBAA agrees with the IPSASB proposals as follows;

- To delete the GBE definition in IPSAS 1, Presentation of Financial statements.
- To amend the scope section of each IPSAS and RPG by removing the paragraph that states that GBEs do not apply IPSASs
- To replace the current paragraph 10 in the preface to IPSASs with a revised paragraph providing the characteristics of public sector entities for which IPSASs are intended.

This is due to some deficiencies we observed in the definition of Government Business Enterprises as per IPSAS 1, presentation of financial statements. They include;

- Sells goods and services in the normal course of its business to other entities at a profit or full cost recovery, hence to many entities it is difficult to determine the full cost since most of fixed costs are difficult to be determined and allocated separately to the service provided. Also to recover cost does not guarantee making profit.
- It not reliant on continuing government fund to be a going concern(other than purchases of outputs at arm's length), also there are some entities which are reliant on government fund to be a going concern but still describe themselves as GBEs. Therefore it was very difficult to determine at what percentage (%) of funding an entity was said to be or not to be reliant to government funding.

Also in our pinion we see that there is a problem of comparability with the current definition of GBE due to the fact that there are some entities in public sector which report using IFRS while they could use IPSAS. Therefore during consolidation process in public sector it becomes difficult to do the process due to application of different standards in reporting.

The definition of GBE was not clear and so contradicted those who interpreted it for decision making, but the current definition of a public sector is clearer and provides more explanations.

However we have highlighted some areas on characteristics of public sector entities which need more clarifications/explanation for easy of understanding them, and application on the following characteristic of Public sector entity;

1. IPSASs are designed to apply to public sector entities that do not have a primary objective to make profits, there are some entities which do not have primary objective to make profits but they have some projects which generates income to them and that income is included in their financial statements. Also there is a case of pension funds which do not aim to make profits but they have invested in investment properties which generates a lot of income to them but on the other hand they are not mainly finance their activities by means of taxes or transfers from government. Therefore we consider this as one of the scenario which can cause confusion on whether such entity to use IPSAS or IFRS.

While NBAA agrees on the IPSASB proposal on the applicability of IPSASs, we also acknowledges that the need for clarifications referred to in our comments might assist the board in making final decision.