



ACT
Government

Chief Minister, Treasury and
Economic Development

Mr John Stanford
Deputy Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street
Toronto, Ontario, M5V 3H2
CANADA

Dear Mr Stanford

Exposure Draft 56 *The Applicability of IPSASs*

The Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC) welcomes the opportunity to provide comments to the International Public Sector Accounting Standards Board (IPSASB) on *IPSASB Exposure Draft (ED) 56 – The Applicability of IPSASs*.

HoTARAC is an intergovernmental committee that advises Australian Heads of Treasuries on accounting and reporting issues. The Committee comprises the senior accounting policy representatives from all Australian States, Territories and the Australian Government.

Australia adopts a transaction-neutral approach in developing accounting standards. Australian equivalents to International Financial Reporting Standards (IFRSs) apply across all sectors and IPSASs are not adopted. That said, IPSASs inform future standard and policy setting and are sometimes used as guidance by public sector financial statements preparers in the absence of specific IFRS equivalent requirements. It is increasingly common for the Australian Accounting Standard Board (AASB) to use IPSASs as guidance when developing accounting standards. The recent Australian Exposure Draft 261 *Service Concession Arrangements: Grantor* and Australian Exposure Draft 270 *Reporting Service Performance Information* are based on IPSAS 32 *Service Concession Arrangements: Grantor* and IPSASB *Recommended Practice Guideline 3 Reporting Service Performance Information* respectively.

HoTARAC commends the IPSASB's ongoing efforts in developing specific requirements and guidance for the public sector. The attachment to this letter sets out HoTARAC's comments on the Specific Matter for Comment.

If you have any queries regarding these comments, please contact Kaveh Daemi from New South Wales Treasury on +61 2 9228 3019 or by email to kaveh.daemi@treasury.nsw.gov.au.

Yours sincerely

David Nicol

Chair

Heads of Treasuries Accounting and Reporting Advisory Committee

25 November 2015

Specific Matters for Comment

HoTARAC has commented on the following proposals:

- **Deleting the Government Business Enterprise (GBE) definition in International Public Sector Accounting Standard IPSAS 1 *Presentation of Financial Statements***

HoTARAC supported removal of the GBE definition in our submission on the Consultation Paper, *The Applicability of IPSASs to Government Business Enterprises and Other Public Sector Entities*. HoTARAC continues to support this view.

- **Amending the scope section of each IPSAS and Recommended Practice Guideline (RPG) by removing the paragraph that states GBEs do not apply IPSASs**

HoTARAC supports removal of references to GBEs in the scope section of each IPSAS and RPG.

- **Replacing the current paragraph 10 in the *Preface to IPSASs (Preface)* with a revised paragraph providing the characteristics of public sector entities for which IPSASs are intended.**

HoTARAC supports replacing paragraph 10 in the *Preface* with a revised paragraph. Please see below for further comments on each specific criterion in the proposed paragraph 10.

Paragraph 10(a)

HoTARAC agrees with IPSASB's view that the description at paragraph 10(a): "*are responsible for the delivery of services to benefit the public*", is intended to capture public sector entities that hold assets for service potential rather than generating cash flows. IPSASB's intention is made clear in IPSAS 1 at the Basis for Conclusions (BC) paragraphs BC24(d) and BC28. However, the BC accompanies, but is not part of the standard. HoTARAC recommends clarifying in the *Preface* that holding assets for service potential will be in the scope of IPSASs or include a reference to BC28 of IPSAS 1.

Paragraph 10(b)

There are two components in the proposed paragraph 10(b): (1) "*mainly finance their activities, directly or indirectly, by means of taxes and/or transfers from other levels of government, social contributions, debt or fees*"; and (2) "*do not have capital providers that are seeking a return on their investment or a return of their investment*".

HoTARAC is of the view that the first component (1) of paragraph 10(b) is not a distinctive characteristic of an entity for which IPSASs are intended. It is too broad and captures both commercial and non-commercial public sector entities. For example, commercial entities are likely to finance their activities through fees from rendering services and debt.

HoTARAC agrees with IPSASB that entities that have investors that seek a financial return on equity should not be in scope of IPSASs, as noted in BC27 of IPSAS 1. This latter component (2) of paragraph 10(b) is not dependent on the first component and is a differentiating characteristic that determines whether an entity is in scope. HoTARAC recommends IPSASB separate the two components in paragraph 10(b) and treat them as two separate criteria.

Attachment: HoTARAC comments to ED 56

When government provides an equity contribution to a public sector entity, there is usually an expectation that the funding will be used to achieve the government's objectives. That is, there is an expectation of a non-financial return from service delivery. HoTARAC recommends IPSASB clarifies that 'seeking a return' in the proposed paragraph 10(b) refers to 'financial returns' to avoid excluding public sector entities that provide non-financial returns to the government.

HoTARAC also recommends IPSASB clarify that 'capital' mentioned in the proposed paragraph 10(b) refers to equity and not debt to avoid confusion.

Paragraph 10(c)

HoTARAC agrees with IPSASB that not having a primary objective to make profits is a distinctive characteristic that determines whether an entity is in scope of IPSASs.

