



International Public Sector Accounting Standards Board
Ms Stephanie Fox
IPSASB Technical Director
277 Wellington Street West
Toronto, Ontario M5V 3H2
Canada

E-mail: stepheniefox@ipsasb.org

23 December 2014

Dear Ms Fox,

Consultation on the Applicability of IPSASs to Government Business Enterprises and Other Public Entities

We are pleased to respond to the invitation from the International Public Sector Accounting Board (IPSASB) to comment on the Consultation on the Applicability of IPSASs to Government Business Enterprises and Other Public Entities (the Consultation Paper) on behalf of PricewaterhouseCoopers. Following consultation with members of the PricewaterhouseCoopers network of firms, this response summarises the views of those firms that commented on the Consultation Paper. “PricewaterhouseCoopers” or ‘PwC’ refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

We support the work the IPSASB undertakes to develop high-quality accounting standards for use by governments and other public sector entities around the world with the aim of enhancing the quality, consistency, and transparency of public sector financial reporting worldwide.

The Consultation Paper on the Applicability of IPSASs to Government Business Enterprises and Other Public Entities (GBEs) is important as it addresses the specific characteristics of entities that should prepare the financial statements in accordance with IPSAS.

PricewaterhouseCoopers International Limited
1 Embankment Place
London WC2N 6RH
T: +44 (0)20 7583 5000 / F: +44 (0)20 7822 4652

PricewaterhouseCoopers International Limited is registered in England number 3590073.
Registered Office: 1 Embankment Place, London WC2N 6RH.



We agree that Option (1a) proposed by the IPSASB, which describes the characteristics of public sector entities for which IPSASs are intended, without giving a definition of GBEs, is the best approach. We do however raise some recommendations in order to enhance consistency in application of the principles described under Option (1a).

If you would like to discuss any of these points in more detail, please contact Jan Stureson ((+46) 10 212 99 39), Jean-Louis Rouvet ((+33) 1 56 57 85 78), Patrice Schumesch ((+32) 2 710 40 28), or Tony de Bell ((+44) 20 7213 5336).

Yours sincerely,

A handwritten signature in black ink, which appears to read 'PricewaterhouseCoopers'.

PricewaterhouseCoopers

Background and IPSASB preliminary view

The IPSASB has considered two main approaches to its policy on public sector entities for which it is developing accounting standards and on GBEs:

1. Describing the characteristics of public sector entities for which IPSASs are intended. Under this approach, GBEs would not be defined. There are two options within this approach:
 - (1a) Using IPSASB's current and developing terminology; or
 - (1b) Using Government Finance Statistics (GFS) reporting guidelines and explanatory guidance;or
2. Modifying the current definition of a GBE in IPSAS 1, in order to resolve problems in its application. This could be done in two ways:
 - (2a) Clarifying the current definition of a GBE; and/or
 - (2b) Narrowing the existing definition of a GBE.

The IPSASB has expressed a unanimous preliminary view (PV) that Approach (1) is the best way forward. A majority of IPSASB members expressed a PV on support for Option (1a).

1. Do you agree with the IPSASB's preliminary view? If so, do you prefer Option 1a or Option 1b? Please give the reasons for your view.

We agree with the overall discussion set out in the Consultation Paper.

We acknowledge the role of regulators and other relevant authorities in each jurisdiction in determining which entities should be required to prepare general purpose financial statements and the suite of accounting standards to be applied.

Requirements for the application of accounting standards in the public sector vary from country to country. Some regulators and other relevant authorities prefer to specifically define which organisations should prepare general purpose financial statements. Others prefer to leave space for judgement on the classification of entities and the applicability of rules for preparing general purpose financial statements.

We believe, however, that regulators and other relevant authorities should - in making their determination - follow a unique framework which clarifies the scope of IPSAS. We therefore consider that the high-level description of organisations to which IPSASs are applicable would better fit this objective and therefore agree that Approach (1) is the best way forward. This option suggests describing the characteristics of public sector entities for which IPSASs are intended. Under this approach GBEs would not be defined.

Within Approach 1, we agree with the IPSASB's view and support Option (1a), which relies on the current and developing IPSASB literature, including the Conceptual Framework, to provide high-level characteristics of public sector entities.

We generally support aligning accounting standards with GFS where relevant and to the extent the overarching objective of developing high-quality accounting standards is still met. Notwithstanding this general support, in order to reduce unnecessary inconsistencies and avoid the burden of dual reporting by governments, we do not believe that importing GFS reporting guidelines and explanatory guidance in the IPSAS literature for this specific purpose is desirable.

We also suggest the following amendments, which in our view would enhance consistency in the way the definition of the scope of entities which need to adopt IPSASs would be applied:

- 1) The general description of the characteristics of the organisations to which IPSASs should apply should be accompanied by illustrative examples, which would clarify those circumstances in which application of IPSASs would be appropriate along the spectrum discussed in paragraphs 2.1 and 2.2 of the Consultation Paper. Application of the principles requires judgment but illustrative examples should in our view at least aim at eliminating inconsistencies in application for entities that are far from each other along the spectrum. The discussion in paragraphs 2.1 and 2.2 is useful in that regard and a more elaborated discussion should form part of the final illustrative guidance.
- 2) Paragraph 6.8 of the Consultation Paper suggests a text describing the characteristics of the public sector entities following Option (1a) as proposed by the IPSASB. Paragraphs 6.9 to 6.11 provide additional guidance.

We draw your attention to the last part of the text included under paragraph 6.8 (b): "IPSASs are designed to apply to entities that... (b) ... do not have capital providers that are seeking a return on their investment or a return of the investment." Characteristic (b) indicates how activities are funded and addresses the objective of the resource providers. We agree that the primary objective of the entity should be to provide a public service (as described under paragraph 6.8 (a)), but there may be instances where resource providers

also give to the entity the secondary objective to make its best efforts to make some (minimal) profit, without putting into question the fact that any losses would continue to be compensated/funded by the resource providers. We therefore suggest that it be clarified that not seeking a return on investment is not contradictory to having an objective to make the best possible results, as any profit may be used by the entity to meet its service delivery objective. The key factor to consider is that capital providers do not seek a pay-out in the form of a dividend or in any other form on the capital they have provided.

This could in our view prevent incorrect determination of the IPSAS scope by excluding those entities which satisfy all the characteristics described in paragraph 6.8 but whose capital providers might also seek some (minimal) profit-making as a secondary objective for part of their activities.

- 3) In our comment letter to the questions raised in the IPSASB Exposure Draft 49 on Consolidated Financial Statements, we discussed the case of those entities that prepare their own financial statements using an accounting framework other than IPSAS (e.g. IFRS) and that are controlled by public sector entities preparing their financial statements under IPSAS (so called 'mixed groups').

As we noted earlier, the principle that requires entities to apply "uniform accounting policies for like transactions and events in similar circumstances" would require those entities to make adjustments for IPSAS consolidation purposes only in those circumstances where their characteristics or transactions are not dissimilar. Where they are dissimilar, a different treatment (e.g. following IFRS) could be applied in the entity financial statements that are included in IPSAS consolidated financial statements at a higher level.

Since the Consultation Paper is about the applicability of IPSASs to GBEs and other public sector entities, we believe a link should be made to the guidance that could eventually be included in the Consolidation standard on 'mixed groups'.

2. If you do not agree with the IPSASB's preliminary view, please indicate whether you support Option 2a or Option 2b in Approach 2 or identify an alternative approach. Please give the reasons for your view.

We refer to our comments to Question 1 of the Consultation Paper.