JANUARY 15, 2018

IPSASB CONSULTATION PAPER: REVENUE & NON EXCHANGE EXPENSES

CONSULTATION RESPONSE

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Manj has over 20 years' experience working in public sector, focusing on implementation of accrual accounting across UK central Govt departments and the Whole of Government Accounts consolidation. She has advised a number of jurisdictions on implementing accrual accounting.

Manj has particular interest in supporting governments to address the practicalities of implementing IPSASs.

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Submitted electronically

January 2018

Dear IPSASB secretariat

Revenue & Non exchange expenses Consultation Paper

I am delighted to share my comments on this comprehensive consultation paper on revenue and non-exchange expenses.

Revenue

The paper reviews the three existing IPSASs for revenue in light of IFRS 15 that is now applicable. The paper offers practical options that maintain convergence with IFRS (as far as possible) and will ensure gaps in the current suite of IPSASs for revenue are addressed (e.g. capital grants.)

Non Exchange Expenses

This is an area that has not previously been addressed in the suite of IPSASs. The proposed approach is consistent with IPSASB's conceptual framework and is practical, delivering understandable information to the user of the financial statements.

Specific responses to the IPSASB's preliminary views and specific matters for comment are included in Annex A.

Overall it is a comprehensive paper with various considered options. The focus on practicalities in implementing the standards as well as understanding for the user of the financial statements is particularly welcome.

Thank you for the opportunity to comment on the IPSASB's. If there are any questions, please do not hesitate to contact me.

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Yours sincerely,

Manj Kalar

Principal consultant

Annex: Detailed response to the Consultation paper

Preliminary View 1
IPSAS 9 and IPSAS 11 should be withdrawn and replaced by a new IPSAS drawn primarily from IFRS 15

I support this proposal.

Both IPSAS 9 Revenue and Non exchange expenses and IPSAS 11 Construction contracts were originally based on the IASs (IAS 18 and IAS 11 respectively) as there are exchange transactions of equal value. Following the issue of IFRS 15 both IPSAS 9 and 11 are no longer converged with IFRS. Ensuring convergence is achieved is one of the key aims of the strategy as it is a big issue in jurisdictions where there is mixed reporting (i.e. both IPSASs and IFRSs.)

Preliminary View 2
Because Category A transactions do not contain any performance obligations or stipulations the IPSASB consider these transactions should be accounted for under an updated IPSAS 23

I support this proposal.

Specific matter for comment 1
Please provide details that you have encountered in applying IPSAS 23 together with an indication of the additional guidance you believe is needed in an updated IPSAS 23 for: (a) Social contributions (b) Taxes with long collection periods

It would be very helpful if updated IPSAS 23 provides guidance on taxes with long collection periods. This is a common issue due to the nature of certain tax regimes e.g. Corporation Tax. IPSASB guidance should provide advice on estimation policies. This would ensure best practice and some consistency in approach.

Preliminary View 3
Category B transactions should be accounted under a Public Sector Performance Obligation Approach

I support this proposal.

Specific matter for comment 2
The IPSASB has proposed broadening the scope of IFRS 15 five step approach to facilitate applying a performance obligation approach to category B transactions to the public sector. Do you agree with this approach?

I support this proposal. It is a logical and pragmatic approach that will ensure, as far as is reasonable and practicable, convergence between IFRS and IPSASs is maintained.

Specific matter for comment 3
If the IPSASB were to implement Approach 1 and update IPSAS 23 for category B transactions, which option would you favour for modifying IPSAS 23 for transactions with time requirements (but no other stipulations): (a) Option (b) – require enhanced display/disclosure (b) Option (c) – classify time requirements as a condition (c) Option (d) – classify time requirements as other obligations (d) Option (e) – recognise transfers with time requirements in the net assets/equity and recycle through the statement of financial performance

Transactions with time requirements often present an issue in maintaining transparency for the user of the accounts to understand the funds flow to and between government bodies.

Of the 4 options the most transparent disclosure would be option (e) - recognise transfer with time requirements in the net assets/equity and recycle through the statement of financial performance. This most accurately reflects the current position re use of resource and matching these to the period to which the funds relate.

This will require careful monitoring and some may consider this to be too onerous. If this is the general consensus, then the second option which is considered to be the most practical solution would be option (b) – require enhanced display/disclosure.

The main consideration for the financial statements should be to provide information to the users. If option (e) is not favoured, then option (b) delivers transparency.

Specific matter for comment 4
Do you consider that the option that you have identified in SMC3 should be used in conjunction with Approach 1 option (a) – provide additional guidance on the exchange/non-exchange distinction. (a) Yes (b) No

(a) Yes.

Additional guidance is always welcomed.

However, the reality is that it is not possible to cover all scenarios and some judgement may be needed. There could, as a result, lead to different application across different jurisdictions. This would fail to address the issue.

Therefore, it is best to follow something that is more principles based.

Preliminary View 4
The IPSASB considers that the accounting for capital grants should be explicitly addressed within IPSASs.

I support this proposal.

Specific matter for comment 5
(a) Has the IPSASB identified the main issues with capital grants? If you think that there are other issues, please identify these? (b) Do you have any proposals for accounting for capital grants that the IPSASB should consider?

There are many practical issues with recording capital grants. In addition to the scenarios outlined in para 5.4, one area where additional clarity would help is where the grantor records this as revenue and the grantee records the same as capital. This may be an issue where appropriations (grants) are separated into capital and revenue, as is the case in the UK. Identifying and completing these for intra-group eliminations for the government's consolidated account presented many issues.

Any guidance to address this would be very helpful to preparers of the financial statements.

Specific matter for comment 6
Do you consider the IPSASB should: (a) retain the existing requirements for services in kind which permit but do not require recognition for services in kind (b) modify requirements to require services in kind to meet the definition of an asset to be recognised in the financial statements provided that they can be measured in a way that achieves quantitative characteristics and takes account of the constraints on information or (c) an alternative approach Please explain your reasons

The IPSASB should follow option (b) insofar as it is practicable and possible. This will address a gap in the information users' need to understand the entity's operations

Preliminary View 5
Non-exchange transactions related to universally accessible services and collective services have no performance obligations. Therefore, these non-exchange transactions should be accounted for under the Extended Obligating Event Approach

I agree with this approach for the reasons stated in the preliminary view.

Preliminary View 6
Because there is no obligating event related to non-exchange transactions for universally accessible services and collective services, resources applied for these types of non-exchange transactions should be expensed as services are delivered.

I agree with this approach for the reasons stated in the preliminary view.

Preliminary View 7
Grants, contributions and other transfers that contain performance obligations or stipulations should be accounted for under the Public Sector Performance Obligation Approach

I agree with the IPSASB's preliminary view

Preliminary View 8
Initial measurement of non-contractual receivables should be at the face value (legislated amount) of the transaction with any amount expected to be uncollectible identified as an impairment

I agree with the IPSASB's preliminary view.

It is always best to measure at fair values (and impair as is necessary.) This is consistent with other IPSASs and ensure convergence with the IFRSs.

Specific matter for comment 7
For subsequent measurement of non-contractual payables do you support: (a) cash or fulfilment approach (b) amortised cost approach (c) hybrid approach or (d) IPSAS 19 requirements Please explain your reasons

I support option (a) cash or fulfilment approach for the reasons stated in the consultation paper – this approach is relatively straightforward to apply and produces understandable information. These are important considerations for jurisdictions applying the standards.

Thank you for the opportunity to comment.