



International  
Federation  
of Accountants

# International Public Sector Accounting Standards Board

Agenda Item 2A

Key Characteristics of the Public  
Sector with Potential Implications for  
Financial Reporting – Discuss  
Responses to Exposure Draft

## Objectives of Session

- To **agree** on whether and how to further develop the material in the April 2011 ED, *Key Characteristics of the Public Sector with Potential Implications for Financial Reporting*, based on consideration of:
  - The responses to the ED
  - Whether staff has identified the main issues
  - The appropriateness of the staff proposals to address respondents' comments on the ED

# Purpose of the ED

- The document had a limited educational scope
  - Provide an overview of the public sector
  - Highlight some of the main characteristics of the public sector that distinguish it from the for-profit private sector and have potential financial reporting implications
  - Provide some public sector background for those with an interest in concepts, but limited knowledge of the public sector
- Its purpose is not to reach conclusions
  - That is the role of the Framework phases and other IPSASB projects
- Its purpose is not to simply list public sector characteristics
  - Focus on those with potential implications for financial reporting
  - Comparisons with the private sector are made to highlight significance of the issues to the public sector (issue may exist to a lesser extent in the private sector)

# Overview of Responses

- 38 responses were received
- Agenda Paper 2A analyzes the key issues raised by respondents
  - Staff proposes that these be dealt with in their entirety at this meeting
- Agenda Paper 2A.1 analyzes the other issues staff does not consider to be main issues as well as some editorial, drafting, and clarification type issues
  - Staff proposes these be dealt with on an exception basis – i.e., if there is disagreement with staff's views or proposals
  - Many respondents reiterated concerns they had expressed previously in comments on Framework documents (CF—ED1, CF—CP2, CF—CP3) – these are noted but not the subject of this project
- Agenda Paper 2A.2 contains analyses of respondents by region, function, and language

# Comments on Sections of the ED – Specific Matter for Comment 1

- **Specific Matter for Comment 1:**
  - *Do you agree that this document provides useful background information on the key characteristics of the public sector and identifies some potential implications of those key characteristics for financial reporting?*
  - Large majority (26) of respondents are in favor of continuing to develop the material

## Staff Proposal

- Staff recommends this work be done in conjunction with further development of the Conceptual Framework

# Comments on Sections of the ED – Specific Matter for Comment 2

- **Specific Matter for Comment 2:**

- *Do you agree that this document should be included as part of the IPSASB's literature? If you agree, where do you think the material in this document should be located:(a) As part of the Conceptual Framework;(b) As a separate section of the Handbook of International Public Sector Accounting Pronouncements; or (c) Elsewhere with some other status?*
- Large majority (28) of respondents supported including the material as part of the Conceptual Framework
- Several respondents indicated the material should be published elsewhere with some other status, either in addition to the Framework or alone
- There was no support for including the material as a separate section of the IPSASB Handbook

## Staff Proposal

- Staff recommends (subject to specific comments) the material be developed with a view to being published with the Framework and integrating some parts into Basis for Conclusions sections

## Comments on Sections of the ED – Section 1

- The Introduction provides a definition of “public sector”
- Many respondents commented on various aspects of the definition, including whether GBEs are included
- Staff considers GBEs to be part of the public sector, regardless of which financial reporting standards they follow
- In addition, respondents suggested consideration of other types of entities

### **Staff Proposal**

- Staff recommends the definition of “public sector” be amended

## Definition of “Public Sector”

- The proposed revised definition of “public sector” is as follows (based on existing IPSASB Handbook Preface)

The term “the public sector” includes the following entities: national governments; supranational governments (e.g., the European Union); sub-national or regional governments (e.g., state, provincial, territorial); local governments (e.g., municipality, city, town) and their component entities (e.g., departments, agencies, boards, commissions, government business enterprises); single purpose entities (e.g. school boards or regional health authorities); regulatory bodies; and international organizations (e.g., the United Nations). The public sector does not include the private not-for-profit sector, although this sector shares many of the characteristics of the public sector.



## Comments on Sections of the ED – Section 2

### Volume and Significance of Non-Exchange Transactions

- A number of respondents commented on para. 2.3 which outlines some user information needs
- A number also commented on the prevalence of non-exchange transactions in the public sector
- A few respondents commented on the appropriateness of the term “public good”

### Staff Proposal

- Staff proposes to:
  - Review the final list in para. 2.3 for consistency with the Framework
  - Amend the discussion of non-exchange transactions
  - Consider the use of “public good”

## Comments on Sections of the ED – Section 3

### The Importance of the Budget

- Features of the Budget
  - It is publicly available
  - It is necessary for accountability purposes
- Respondents questioned whether:
  - This feature is unique to the public sector
  - It is a qualitative characteristic (QC) – Staff does not consider this to be a QC

### Staff Proposal

- Staff proposes to:
  - Amend paragraph 3.2 to remove comparison of the prominence of the budget with the financial statements
  - Redraft paragraph 3.3 to clarify the significance of the budget in the public sector

## Comments on Sections of the ED – Section 4 Nature of Property, Plant, and Equipment

- The ED notes the primary purpose of PP&E in the public sector is to provide goods and services not to generate cash
- Some respondents pointed out that this characteristic is not specific to not-for-profit public sector entities and that the title is misleading – it is not the nature of the asset but the purpose to which it is put that is important
- Several respondents asked for more detail on measurement, which is outside the scope of this paper

### Staff Proposal

- Staff proposes to change the title of the section to “Nature and Purpose of Assets in the Public Sector”

## Comments on Sections of the ED – Section 5 Responsibility for National and Local Heritage

- Section 5 addressed the responsibility for national and local heritage
- Respondents noted a number of different issues:
  - This is not a key characteristic – staff disagrees as they have different attributes from PP&E (IPSAS 17) and other intangible assets (IPSAS 31)
  - Other public sector entities besides those specified, and private sector entities may also have responsibility for heritage
  - Staff considers private sector responsibilities to be of a different scale and nature to those of public sector entities
  - Staff agrees with respondents who saw the discussion in the ED as biased to national governments

### Staff Proposal

- Staff proposes to:
  - Broaden the discussion and change the heading of this section to “Responsibility for Heritage”
  - Provide additional characteristics of heritage assets in para. 5.1
  - Amend para. 5.2

# Comments on Sections of the ED – Section 6

## Longevity of the Public Sector

- There were divergent views on whether the going concern assumption applies in the public sector
  - Some respondents suggested that because of tax-raising powers, it is not given sufficient attention
  - Others suggested a discussion is needed on how it applies in the public sector
- Staff considers there is overall support for this section but that clarification is required

### Staff Proposal

- Staff proposes to:
  - Revise the section to clarify the reasons why the going concern assumption is important in the public sector
  - Change para. 6.1 to indicate it is usually external factors and not financial viability that affects a public sector entity's existence

# Comments on Sections of the ED – Section 7

## The Regulatory Role of Government

- The intent of para. 7.2 was questioned in relation to the reporting entity
- The difference between the regulatory role and the ability to tax was questioned
- The impact of the regulatory role of government on the control of an asset and control of an entity was noted

### Staff Proposal

- Staff proposes to:
  - Augment the discussion of the impact on control without overlapping on Phases 1 and 3 of the Framework
  - Amend para. 7.1 to provide examples
  - Remove inconsistent use of terminology in paras. 7.1 and 7.2
  - State financial reporting implications more clearly

# Comments on Sections of the ED – Section 8

## Ownership or Control of Rights to Natural Resources and Phenomena

- Some respondents stated the view that such rights are assets – however, staff considers this to be outside the scope of the ED
- Some questioned the distinction between this section and the regulatory role of government

### Staff Proposal

- Staff does not propose changes to this section because:
  - The issues in sections 7 and 8 are different – section 7 relates mainly to the scope of financial reporting, determining the reporting entity, and the definition of an asset while section 8 relates to whether the rights might be an asset

# Comments on Sections of the ED – Section 9

## Statistical Bases of Accounting

- There were differing views on whether this is a key characteristic
  - While some respondents agreed it was a key characteristic, it was noted by others statistical data is also compiled for private sector and that reporting on statistical basis mainly applies at the whole-of-government level/general government sector and not to individual entities
  - Additional detail was requested on the requirements of statistical accounting
- Staff considers there is overall support for this section but that clarification is required

### Staff Proposal

- Staff proposes to clarify the discussion and redraft paras. 9.1 and 9.2 to clarify the purpose of statistical accounting and briefly describe the relevant statistical bases of accounting