



Office of the
Auditor General
of Canada

Bureau du
vérificateur général
du Canada

29 November 2024

International Public Sector Accounting Standards Board

International Federation of Accountants
277 Wellington Street West
Toronto, ON M5V 3H2

Re: Exposure Draft 90 – Amendments to IPSAS as a Result of the Application of IPSAS 46, *Measurement*

Thank you for the opportunity to comment on the above Exposure Draft. I am responding on behalf of the Office of the Auditor General of Canada.

We are pleased to submit to the Board our response below to the specific questions posed in the Exposure Draft.

Sincerely,

Heather Miller, CPA, CMA

Assistant Auditor General
Office of the Auditor General of Canada

Specific Matter for Comment 1

Do you agree that current operational value (COV) is an applicable current value measurement basis for assets in the scope of IPSAS 12, *Inventories*, and IPSAS 31, *Intangible Assets*, as proposed in Part 1 of this ED?

If you do not agree please explain your reasoning.

Note: The ED includes an Alternative View on adding COV as an additional measurement basis to the current value model in IPSAS 31.

Yes, we agree that COV is an applicable measurement basis for assets in scope of IPSAS 12 and IPSAS 31. However, as explained further below, we think the IPSASB should address the inconsistency noted in the Alternative View in its IPSAS 31 Basis for Conclusions (BfC), explaining why it makes sense from a conceptual perspective to be able to use COV without the related requirement for an active market, and add further guidance to IPSAS 31 on how to apply the cost technique to determine COV.

Inconsistency noted in the Alternative View:

We acknowledge that using COV to measure intangible assets under the current value model results in what would appear to be an inconsistent outcome when there is no active market, as noted in the Alternative View. This is because the use of COV (a current value measurement basis) for intangible assets held for their operational capacity, does not require the existence of an active market if using a cost technique, whereas the use of fair value (FV) (also a current value measurement basis) for intangible assets held for their financial capacity is only allowed in IPSAS 31 when an active market exists. This distinction seems to be based solely on the purpose for which the intangible asset is being held.

Conceptually, an asset held for its financial capacity is likely being held for a shorter term and therefore an active market would need to exist in order to reliably measure the asset. In contrast, an asset held for its operational capacity is likely being held for a longer term and therefore the requirement for an active market may be less relevant. In our view, the discrepancy noted should not result in an inability to use COV for intangible assets held for their operational capacity as explained above. However, we think that the IPSASB should address this inconsistency in its BfC.

Guidance on determining COV:

While a market technique could theoretically be used to determine COV, it also requires the existence of an active market as per IPSAS 46.B32. We think the existing guidance in IPSAS 31.77 would be equally applicable to considerations of an active market under COV. Without the existence of an active market, COV would need to be determined using a cost technique. Currently there is little guidance on how that would be applied to an intangible asset, which would need to consider the existing location of the asset per IPSAS 46.B2. Therefore, we think it may be equally difficult to determine COV using a cost technique resulting in most intangible assets needing to be measured at cost. Despite these perceived measurement difficulties, we see no conceptual reason to exclude COV as a possible current value measurement basis for intangible assets. However, we think it would be helpful if the IPSASB added further guidance around determining COV for an intangible asset using a cost technique.

Specific Matter for Comment 2:

Part 1 of this ED proposes that COV is an applicable subsequent current value measurement basis for right-of-use assets (i.e., assets in scope of IPSAS 43, *Leases*).

- (a) Do you agree that COV can be applied to the subsequent measurement of right-of-use assets? If you do not agree, please explain your reasoning.

(b) If you agree with (a), do you agree that COV can be applied using the current guidance in IPSAS 46 (without the income approach as one of its measurement techniques)? If you do not agree please explain your reasoning.

- (a) Yes, we agree that COV can be applied to the subsequent measurement of right-of-use assets.
- (b) Yes, we agree that COV can be applied using the current guidance in IPSAS 46 (without the income approach as one of its measurement techniques). In our view this would be consistent with IPSAS 45, *Property, Plant, and Equipment*. However, we find that one of the amendments made to the BfC may cause confusion. In particular we note the proposal to amend BC60 and add the following sentence to clarify that “the exclusion of the income approach as a measurement technique to estimate current operational value does not preclude the use of the present value technique in the market approach or the cost approach when the time value of money is material.” This is in contrast to the existing BC60 which states (emphasis added) that “...the income approach would not be applied in conjunction with another measurement technique because discounting future cash flows is not necessary.” By definition, a present value is determined by discounting future cash flows and therefore the addition of the clarification creates a conflict. To help alleviate any confusion, we propose IPSASB amend BC60 to remove the inconsistency, so it does not conflict with the new wording added that allows the use of the present value technique in the market or cost approach.

Specific Matter for Comment 3:

Do you agree with the replacement of value in use (VIU) of a non-cash-generating asset by COV in the definition of recoverable service amount in IPSAS 21, *Impairment of Non-Cash Generating Assets*, as proposed in Part 2 of this ED? Recoverable service amount is the higher of a non-cash generating asset’s fair value (FV) less costs to sell and its COV.

If you do not agree please explain your reasoning.

Yes, we agree with the replacement of VIU of a non-cash-generating asset by COV in the definition of recoverable service amount in IPSAS 21, as proposed in Part 2 of this ED.

Other considerations:

In addition to the Specific Matters for Comment, we identified the following additional comments for consideration:

Reference	Comment
IPSAS 3.40	Now that the IPSASB is proposing to clarify that it is a change in the measurement model (i.e. current value versus historical cost) that is a change in accounting policy, rather than a change in the measurement basis (i.e. FV versus COV versus historical cost), we think it would be helpful to also mention what a change in the measurement basis represents.
IPSAS 12.1	Seeing that inventory is either written down to net realizable value (NRV) or COV, consider whether the amendment in this paragraph should instead read: “net realizable value <u>and or</u> current operational value”.
IPSAS 12.31	The last sentence of this paragraph directs preparers to paragraph 16 which discusses deemed cost. Consider whether the reference to “cost of inventory” in that sentence should be changed to “ <u>deemed</u> cost of inventory.” To align with the context of paragraph 16.

IPSAS 12.50A (a), 50C	The proposed amendments have added COV to the disclosures, where previously only FV was included. These disclosures seem to be only discussing measurement after recognition. Inventory is only measured at COV after initial recognition when it is written down to COV. There are no similar disclosure requirements for inventory that is written down to NRV. It therefore seems inconsistent to require disclosures for write-downs to COV and not also require any disclosures for write-downs to NRV. Consider whether the disclosure requirements should be consistent and, if not, consider explaining why in the BfC.
IPSAS 12.50C	Consider clarifying what is meant by “measurements based on fair value within the scope of IPSAS 46” in this paragraph. If this is meant to include “net realizable value” which is specifically scoped out of IPSAS 46, it would be clearer to explicitly state that or provide it as an example.
IPSAS 12.50C (b), IPSAS 31.123C (b)	This paragraph adds disclosure for COV measurements using observable or unobservable inputs but does not specify whether you are meant to categorize this measurement in its entirety into one of these categories (like you are required to do for FV measurements by categorizing these measurements in their entirety into Level 1, 2 or 3) or whether you are needing to disclose each input and whether it is observable or unobservable. Consider clarifying so there is a consistent understanding.
IPSAS 12.50C (c)	The concept of COV is replacing the concept of current replacement cost in IPSAS 12.17. There were no disclosures required previously when inventory was written down to current replacement cost, although one might assume there were also unobservable inputs in determining the current replacement cost of inventory that is not held for sale. Although we agree that these additional disclosures will provide relevant information to users of the FS, we observe an inconsistency with the previous requirement. Consider including an explanation in the BfC as to why this disclosure has been added for COV but was not required for current replacement cost.
IPSAS 12.50D	Paragraph (b) mentions only FV measurements and yet the explanatory paragraphs mention both FV and COV. Consider whether paragraph (b) should also refer to COV.
IPSAS 12.50E	It is unclear when COV would ever need to be disclosed for a class of inventories that is not measured at COV. It seems that inventory is either subsequently measured at COV or it is not. There were no similar disclosure requirements for current replacement cost, therefore, these amendments do not seem necessary.
IPSAS 31.123C (a)	There appears to be a misplaced word in the amended paragraph that should be removed as shown: “The current operational value or fair value of measurement at the end of the reporting period;”
IPSAS 46.BC94(b)	This paragraph mentions that COV is an applicable measurement basis at <u>subsequent measurement</u> for inventories held for their operational capacity. However, IPSAS 12 requires that inventories be measured at cost (or deemed cost if acquired in a non-exchange transaction) and only subsequently written down to NRV or COV, as applicable. This paragraph seems to imply that inventories are always subsequently measured at COV when held for their operational capacity, regardless of whether the inventory has been written down or not. Consider clarifying for consistency with the amendments to IPSAS 12.
IPSAS 46.BC97 (a)	This paragraph notes that consistency in the subsequent measurement methodology “is a sensible conclusion”. This wording is unusual and seems to express an opinion; consider removing it as it is not necessary to make the point that the IPSASB is trying to make in that paragraph (i.e. that consistency in subsequent measurement will increase comparability).

IPSAS 21.BC45-BC47, IE32	These paragraphs seem to suggest that if an entity has selected the current value model for subsequent measurement, the asset would never actually be impaired because you are already valuing your asset at COV, and you would be comparing the asset's COV and FV to determine impairment. If FV is higher than COV, there is no impairment, if COV is higher than FV, it seems there is also no impairment because your carrying value should be equal to COV. It would be helpful if the BfC also explained why this makes sense from a conceptual perspective.
IPSAS 21.IE37	In reading this example, it is not clear what you would write the bridge back up to if it is able to be restored to a condition where it can be reopened, specifically whether the asset would be written up to \$10,000 at that point or whether the costs of the restoration work would simply be capitalized, or both. Consider making that clarification within the example.
IPSAS 16.89C (a)	It is noted that "the reasons for the measurement" have been deleted from the disclosure required due to the deletion of the concept of non-recurring FV measurements. However, we think that the reason for the measurement may still be necessary if the asset being measured is not normally carried at FV. Consider whether this disclosure principle should be retained.
IPSAS 16.89C, BC13; IPSAS 27.46C, BC19; IPSAS 30.30C, BC14; IPSAS 34.23C, BC11; IPSAS 38.57C, BC15	It is noted that amendments are being proposed to remove the concept of 'recurring and non-recurring' FV from these standards. This seems to have the effect of requiring more onerous disclosures for non-recurring FV measurements even though such disclosure is not required under the equivalent IFRS. The BfC mentions that the reason the terms 'recurring and non-recurring' were removed was to enhance the consistency of disclosure terminology. This change, however, seems to impact more than just terminology. If the IPSAS decides to require disclosures that are not required under the equivalent IFRS, we think the BfC should explain why this is warranted in the public sector.