

***IPSASB ED Key Characteristics of the Public Sector with Potential
Implications for Financial Reporting***

Staff Issues Paper

Introduction

- 1 The abovenamed ED was issued by the IPSASB in April 2011 for comment by 31 August 2011. It was developed as part of the IPSASB's Conceptual Framework project.
- 2 The ED highlights certain characteristics of the public sector (i.e., not-for-profit public sector entities) that may have implications for the development of the IPSASB Conceptual Framework and, in turn, for the development of IPSASs. The IPSASB has yet to decide the most appropriate location for the ED's content, once it is finalised.
- 3 Key public sector characteristics discussed in the ED include:
 - (a) the volume and financial significance of non-exchange transactions;
 - (b) the importance of the budget and reporting of outcomes compared with budget;
 - (c) the holding of property, plant and equipment primarily to provide goods and services, rather than to generate net cash inflows;
 - (d) the responsibility to protect and preserve the national and local heritage;
 - (e) the longevity of public sector entities and the very long time horizons for their service delivery programmes;
 - (f) the regulatory role of government;
 - (g) the power of governments to grant rights to natural resources and licences to act in a certain manner; and
 - (h) similarities between financial reporting and the statistical basis of reporting.
- 4 The characteristics referred to in paragraph 3(c), (e), (f) and (g) above are discussed in the IPSASB Conceptual Framework consultation documents currently on issue. For

other characteristics, the Framework implications are not identified, which suggests that the IPSASB had yet to reach a consensus on the significance of those characteristics when it issued those other Conceptual Framework consultation documents.

- 5 The purpose of this staff paper is to suggest key issues for the Board to raise in its submission on the IPSASB ED. This paper does not evaluate in detail the ED or comment on drafting aspects of the ED.

Main Concerns Identified by Staff

- 6 The Conceptual Framework implications of the key characteristics of the public sector generally are not drawn out in detail or explicitly linked in this ED to other IPSASB Conceptual Framework consultation documents. Specific proposed concepts that address these key characteristics are not spelled out.
- 7 An example of the concern in paragraph 6 is that whilst a significant proportion of transactions of not-for-profit public sector entities are ‘non-exchange transactions’, it does not necessarily follow that different accounting principles should apply to exchange and non-exchange transactions. Therefore, noting the extent of non-exchange transactions is not particularly informative.
- 8 AASB staff are concerned there is a risk that, because it is not integrated with other Conceptual Framework documents, the Key Characteristics guidance may become alternative concepts that would be used, implicitly or explicitly, as a basis for developing IPSASs.
- 9 In Specific Matter for Comment 2, the IPSASB asks whether the document should form part of IPSASB literature and, if so, where it should be located. Staff think the more important issue is the role that this discussion of the key characteristics of the public sector should play.
- 10 Staff propose that the Board’s submission on the ED:
- (a) expresses concern about the issues noted in paragraphs 6 – 8 above;

- (b) recommends that the IPSASB integrates its discussion of these key characteristics (and their implications for financial reporting) with the other components of its draft Conceptual Framework; and
- (c) reiterates its comment from its submissions on the other IPSASB Conceptual Framework consultation documents that it is important that the IPSASB and IASB Conceptual Frameworks are complementary, where differences exist only to the extent warranted by differences in circumstances. Therefore, it would be important to explain why any of the key characteristics warrants a difference between the Frameworks.

Specific Matters for Comment

- 11 In respect of the IPSASB's Specific Matters for Comment on the ED (reproduced below), staff has the following suggested main comments.

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? If not, please indicate how you would modify the document.

- 12 Subject to the concern noted above about the lack of an articulated context for the key characteristics, staff recommends agreeing that the ED provides some useful background on the key characteristics and their potential implications.
- 13 Staff recommends noting that some of the key characteristics identified are not specific to not-for-profit public sector entities. For example, most of the information needs itemised in paragraph 2.3 of the ED are similar or equivalent to information needs of users of financial reports of for-profit entities (only item (d) in paragraph 2.3 has no private sector [for-profit] equivalent).

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 – please specify?

14 As noted in paragraph 10 above, staff proposes that the AASB submission recommends that the IPSASB integrates its discussion of the key characteristics (and their implications for financial reporting) with the other components of its draft Conceptual Framework. Staff thinks that if the IPSASB achieved this, it would not be particularly important whether, and if so where, the Key Characteristics were repeated elsewhere within IPSASB literature (e.g., as a compendium or other educational material).

Questions for Board members

Q1 Do you agree with the key issues with the IPSASB ED identified above and the proposed main comments on the Specific Matters for Comment?

Q2 Are there any other key issues that should be raised in the submission on the IPSASB ED?

Q3 Do you think the draft submission reflecting the Board's decisions on this paper should be reviewed by the Board's Conceptual Framework Subcommittee, or only reviewed by the Chairman?