



Australian Government
Australian Accounting Standards Board

Memorandum

To:	AASB Members	Date:	18 August 2015
From:	Joanna Spencer	Agenda Item:	8.1 (M147)
Subject:	IPSASB ED 56 <i>The Applicability of IPSAS</i>	Project Priority	n/a
Project Status:	Drafting – Comment Letter	Decision-Making:	Medium

Action for this meeting

To decide the comments to be made in a submission to the International Public Sector Accounting Standards Board (IPSASB) on Exposure Draft (ED) 56 *The Applicability of IPSASs*.

Background

IPSASB ED 56 is the outcome of Consultation Paper (CP) *The Applicability of IPSASs to Government Business Enterprises and Other Public Sector Entities*, issued by the IPSASB in August 2014 that sought comments on the applicability of International Public Sector Accounting Standards (IPSASs) to government business enterprises (GBEs) and other public sector entities. Further detail on this CP is provided in the attached Appendix.

Attachments

Agenda Paper 8.2 – Draft comment letter to the IPSASB re ED 56 *The Applicability of IPSASs*

Agenda Paper 8.3 – IPSASB ‘At a Glance’ document – IPSASB ED 56 *The Applicability of IPSASs*

Agenda Paper 8.4 – IPSASB ED 56 *The Applicability of IPSASs*

Overview of agenda papers

Agenda Paper 8.2 is a draft comment letter to the IPSASB in response to ED 56. Comments to ED 56 are requested by 30 November 2015.

The objective of ED 56 is to remove the Government Business Enterprise (GBE) definition in IPSAS 1 *Presentation of Financial Statements*, and propose consequential amendments in International Public Sector Accounting Standards (IPSASs) and Recommended Practice Guidelines (RPGs).

ED 56 asks the following Specific Matter for Comment (SMC):

The IPSASB proposes deleting the defined term “Government Business Enterprise” and removing all references to the term from the IPSASB’s pronouncements, so that the *Preface to International Public Sector Accounting Standards* will provide guidance on the applicability of IPSASs and RPGs.

In order to facilitate comments, a positive description of the characteristics of public sector entities for which IPSASs are intended is included in the *Executive Summary* of the ED. This description will be part of the *Preface to International Public Sector Accounting Standards*.

Do you agree with the changes to IPSASs and RPGs proposed in the ED? If not, please provide your reasons.

AASB staff have reviewed these amendments and generally agree with the proposals. Issues identified by AASB staff are addressed in Agenda Paper 8.2 via a comment box.

Agenda Papers 8.3 and 8.4 are the consultation documents issued by the IPSASB.

Questions to the Board

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Q1 Does the Board agree with the issues raised in the [draft] comment letter?

Q2 Are there any other issues the Board would like to raise in the comment letter?

Next Steps

AASB staff recommend the draft comment letter (Agenda Paper 8.2) be finalised via the Chair out-of-session.

Question to the Board

Q3 Does the Board agree to finalise the comment letter via the Chair out-of-session?

Background to IPSASB Consultation Paper *The Applicability of IPSASs to Government Business Enterprises and Other Public Sector Entities*

The key issue addressed in the CP was that government business enterprises (GBEs) are excluded from the scope of IPSASs on the assumption that GBEs use International Financial Reporting Standards (IFRSs). This assumption is currently stated in the *Preface to International Public Sector Accounting Standards (Preface)* as well as the majority of IPSASs. Concern arose regarding this assumption because it is not within the IPSASB's authority to state that GBEs apply IFRSs, as this is a decision for the regulator in the relevant jurisdiction. Further, there was diversity with the application of the definition of a GBE (included as paragraph 7 of IPSAS 1 *Presentation of Financial Statements*) that resulted in some entities being classified as a GBE that did not meet all the criteria identified in the definition. This may have resulted in those entities not applying IPSASs.

Respondents to the CP (AASB included) supported an approach whereby the IPSASB would rely on a set of high-level characteristics to communicate the types of entities for which it develops IPSASs and Recommended Practice Guidelines (RPGs), rather than retaining and improving the definition of a GBE.

To implement this approach, at the June 2015 IPSASB meeting, the IPSASB decided to amend the *Preface* to include a set of high-level characteristics of the types of entities for which IPSASs are developed. Amending the *Preface* does not require consultation with constituents. The changes to the *Preface* that were approved at the June 2015 IPSASB meeting are as follows:

Changes made to the *Preface to International Public Sector Accounting Standards*

Paragraphs 3, 7 and 10 are amended (new text is underlined and deleted text is struck through).

3. The IPSASB serves the public interest by developing and issuing, under its own authority, accounting standards and other publications for use by public sector entities ~~other than Government Business Enterprises (GBEs) as described in paragraph 10.~~
7. In fulfilling its objective, the IPSASB develops and issues the following publications:
 - IPSASs as the standards to be applied in the preparation of general purpose financial reports of public sector entities ~~other than GBEs as described in paragraph 10.~~
 - ...
10. The IPSASs are designed to apply to ~~the general purpose financial reports of all public sector entities other than GBEs. Public sector entities include national governments, regional (e.g., state, provincial, territorial) governments, local (e.g., city, town) governments and related governmental entities (e.g., agencies, boards, commissions and enterprises), unless otherwise stated. International organizations also apply IPSASs. The IPSASs do not apply to GBEs. GBEs apply International Financial Reporting Standards (IFRSs) which are issued by the International Accounting Standards Board (IASB). IPSASs include a definition of GBEs.~~ public sector entities¹ that:

- (a) Are responsible for the delivery of services² to benefit the public and/or to redistribute income and wealth;
- (b) Mainly finance their activities, directly or indirectly, by means of taxes and/or transfers from other levels of government, social contributions, debt or fees and do not have capital providers that are seeking a return on their investment or a return of their investment; and,
- (c) Do not have a primary objective to make profits.

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- 1 Paragraph 1.8 of *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* identifies a wide range of public sector entities for which IPSASs are designed.
 - 2 Services encompasses goods, services and policy advice.