

TECHNICAL REVIEW AND COMMENTARIES TO IPSASB–(E D 76 -79)

AN EXPOSURE DRAFT REVIEW AND COMMENTARY POSITION PAPER PERTAINING THE PERTINENT AMENDMENTS FOR IMPLEMENTATION OF SPECIFIC IPSASs (POST IMPLEMENTATION REVIEW OF ISSUE OF USE OF IPSAS ON EQUITY–COMMON WEALTH FUND, OTHER LIABILITIES AND SOME SPECIAL ASSETS ACCOUNTING IN PUBLIC SECTOR REPORTING (PRACTICAL RESOLUTIONS)

BY ALOZIE, CHRISTOPHER E. [Ph.D (Econs), Ph.D Accountancy, M.Sc., B.Sc, RSV. FCA)

The latest IPSASB conceptual framework and its exposure drafts ED-76, ED-77 (measurements; ED78 – PPE; and ED-79, noncurrent assets seek to introduce amendments and modifications to the existing standards. The overall aims and objectives of proposed improvements in the contemporary public sector accounting standards are designed to render reliable, transparent and user-friendly sets of accounts and presentation of financial position of government entities worldwide. In actual fact, the improvements in the private sector's commercial businesses and public entities are considered in this context of this research as determined efforts of the accounting profession in harmonisation or amalgamation of accounting standards and practices in the private and public sectors' entities. Thus, the IFRS and IPSASs professional pronouncements and development of accounting in our contemporary era have been designed to ensure probity, transparency, symmetric financial reporting and sound corporate governance. Flowing from the above premises, the present proposed study on public entities accounting and financial reporting system focuses on effective rendition of public equity capital fund, reserve fund, public debt fund and other liabilities fund account items with faithful representativeness of all liabilities in government balance sheet in one angle. Alozie's (2020) paper on fund accounting has demonstrated that fund accounting is apparently defective. In related accounting arrangements, the capture, faithful and reliable representativeness of all items of asset accounting head items should be reflected on the asset side of the assets side of government's balance sheet / financial position (Seiferling, 2013; . Specifically, the presentation of treasury account balances should be captured and rendered in two under two sub-headings, namely: the single treasury account and MDA's Subsidiary or Imprest Bank Account balances periodically. The carrying balance(s) held in the single treasury account(s) should tally with either the primary fiscal balance or overall treasury surplus or deficit balance and duly reconciled and in agreement with the figures being reported by the Budget of Office (Ball & Plfugrath, 2012). The carrying balances held (retained) in MDA's bank accounts by end of every accounting period. The second view point relates to the requirement for inclusion of the government's official portion of a nation's international reserves which hitherto, conspicuously omitted in the financial reports of sovereign entities. Thirdly, is the need for capturing and reflecting heritage assets (Artefacts, Museums, Monuments, Bridges, Highways, Power Stations, and Military Weapons at their fair values in the financial reports. Lastly, there is need for the disclosure of mineral deposits and other forms of natural resources at their scientifically established volumes and estimates financial values by notes in view of the magnitude of misuses and resource misappropriations in several climes. At the end, where realistic accounting practices are implemented, aggregate value of assets will equal aggregate of liabilities and also net positions according to James Chan (1998; 2003). Materials for analyses and rendering of financial reporting architecture will be gleaned from published accounts and financial statements and natural resources valuations of purposively selected sovereign government entities and used statistical testing. Analytical techniques include numerical analysis, descriptive statistics, and moving average system. Results will be developed from the intended analyses and presented thereon as illustration.

SYNTHESIS OF KEY ACCOUNTING SYSTEM AND POLICY REVIEW FOR RECONSTRUCTION:

- There is urgent need to amend the Financial Reporting Architecture for the Comprehensive Data Capturing and Faithful Representation of Treasury Account Balances of Sovereign National Entities, Sub-national Government Entities (Regional or State Entities and Lesser Government Entities) across Economic Systems and Continents. The notable treasury accounts are:

 - (i) Single Treasury Account (previously referred to as Consolidated Revenue Fund (CRF) which hitherto has been serially incorrectly balanced and represented in the Financial Statements and Financial Position of many government entities in some countries particularly in the developing nations.
 - (ii) The Official or Government Portion of International Reserve commonly called Foreign Exchange (Fund Account Balance) which has been consistently ignored or omitted and often unrepresented in the Financial Statements and Financial Position of many government entities in some countries particularly in the developing nations. It has been repeatedly left for the Central Banks and frequently recorded as Foreign Reserve Position of the Government Bank – practical evidence will always attest to the fact that some portion of foreign reserve fund balances belongs to the State.
 - (iii) There are Banks' current account, savings accounts, deposit fund accounts and even project accounts of the Ministries, Departments, Agencies, and Extra-ministerial units that cannot be recalled and mopped up by the end of every periodic accounting period and annually. (To do this will effectively disrupt government activities of sorts). In order to overcome this challenge, it is ideal for suitable accounting sub-head to be provided in the public sector accounting standards and financial reporting system to take care of the supplementary Treasury Account Balance across all government accounting and accountable entities.
- Similarly, there is urgent need to amend the Financial Reporting Architecture for the Comprehensive Data Capturing and Faithful Representation of the Real Public Equity Capital Fund or Commonwealth capital fund. This perception or observation arises from the fact that the Capital Development Fund (CDF) that was adopted and used in the old cash basis government accounting framework and even in the extant IPSAS modified Cash Basis method failed to rectify in glamorous anormally in that aspect of government accounting. Capital Development Fund (CDF) perhaps was designed and applied merely for the purposes of classifying (segregation) government expenditure disbursements between recurrent and capital expenditures; public debt payment including interest and overdraft balances (budget deficit balance which occurs when the CRF and now TSA is overdrawn – which is also tantamount or represented in the form of Overall Fiscal Defici Balance in government treasury accounting.

The proof of the foregoing is that the Capital Development Fund (CDF) that were previously recorded and presented in government financial statements were not represented by fixed capita assets in the old cash basis method and even in the IPSAS modified cash basis method.

The other liabilities fund accounts of government entities need to be strengthened and streamlined to bringing the accounting and financial reporting of the government sector in the same standard and levels with the organised private sector's commercial accounting.

To test proof the above hypothesis and submission is that once the single treasury accounts captures all the revenue collections and expenditure disbursement of government entities; the capital expenditure or capital development payments are transferred to the CDF or FIXED CAPITAL ASSET Account from the Treasury Cash / Payment Accounts and General Ledger and serially recorded in the Fixed Asset Register. With this approach there nothing and there will be nothing like Capital Development Fund Account anywhere and any more.

The undersigned and reviewer is available anytime and anywhere to provide statistical data and illustration of the above age-long and serial wrong accounting practices in different parts of the world, it has been used.

Thank you.

Dr. C E Alozie (FCA)

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Two-Time Country Reviewer of the IPSASs for Nigeria
A Chartered Accountant in Public Practice with over 30 years practical experience
(NB This Reviewer would to be connected with the International Valuations Standard Committee)

REFERENCES:

1. *Alozie. C. E. (2020).* Fund accounting and government-wide financial reporting during the Pre-IPSAS implementation era from a Nigerian experience. JPBFM.
2. Ball, I. and Pflugrath, G. (2012), “Government accounting: making Enron look good”, World Economics, Vol. 13, No. 1, pp. 1-18. Chan, J.L. (1998), “Bases of accounting for budgeting and financial reporting”.
3. Seiferling, M. (2013), Stock-flow Adjustments, Government’s Integrated Balance Sheet and Fiscal Transparency, IMF Research Paper No. WP/13/63, International Monetary Fund, Washington, DC.

RESEARCHER’S PROFILE:

DR ALOZIE IS National Coordinator of Programmes (NCP) with Centre for Community Development & Research (CCDR) - A Research Oriented Non-Governmental Organisation) and doubles Founding Partner & Chief Executive, Allens, Alozie & Co. (Chartered Accountants). Lagos–Nigeria

RESPONSES TO QUESTIONAIRES - RE: REQUEST FOR COMMENTS BY

DR. CHRISTOPHER E. ALOZIE

This Exposure Draft, Conceptual Framework Update: Chapter 7, *Measurement of Assets and Liabilities in Financial Statements*, was developed and approved by the International Public Sector Accounting Standards Board® (IPSASB®).

The Specific Matters for Comment for the ED-76 are provided below.

Specific Matter for Comment 1:

ED 76 proposes a measurement hierarchy. Do you agree with the three-tier hierarchy? If not, why not? How would you modify it?

RESPONSE: YES

Specific Matter for Comment 2:

Do you agree with the proposed inclusion of fair value as a measurement basis for assets and liabilities with the same definition as in IFRS 13, *Fair Value Measurement*, in the Conceptual Framework?

If not, why not?

RESPONSE: YES

Specific Matter for Comment 3:

Do you agree with the proposed inclusion of current operational value as a measurement basis for assets in the Conceptual Framework?

If not, why not?

The Exposure Draft includes an Alternative View on current operational value.

RESPONSE: YES

Specific Matter for Comment 4:

It is proposed to substitute a general description of value in use (VIU) in both cash-generating and non-cash-generating contexts, for the previous broader discussion of VIU. This is because the applicability of VIU is limited to impairments. Do you agree with this proposed change?

If not, why not? How would you approach VIU instead and why?

RESPONSE: NO This principle need to be applied on a case-to-case basis

Specific Matter for Comment 5:

Noting that ED 77, *Measurement*, proposes the use of the cost approach and the market approach as measurement techniques, do you agree with the proposed deletion of the following measurement bases from the Conceptual Framework:

- Market value—for assets and liabilities; and
- Replacement cost—for assets?

RESPONSE: YES (Except for the situations where the replacement cost values cannot be ascertained.)

If not, which would you retain and why?

Specific Matter for Comment 6:

The IPSASB considers that the retention of certain measurement bases that were in the 2014 Conceptual Framework is unnecessary. Do you agree with the proposed deletion of the following measurement bases from the Conceptual Framework?

- Net selling price—for assets
- Cost of release—for liabilities
- Assumption price—for liabilities

If not, which would you retain and why?

RESPONSE: YES

Specific Matter for Comment 7:

Are there any other issues relating to Chapter 7: Measurement of Asset and Liabilities in Financial Statements of the Conceptual Framework that you would like to highlight?

RESPONSE: YES

However, Sovereign government and other government entities are not yet providing and rendering reliable public equity capital Fund or Commonwealth Fund. Many government entities are capturing and reporting equity capital haphazardly and in this respondent's opinion, there is need for a clear cut pronouncement on this fund accounting and standard format to be followed for its presentation in the government's financial statements. Only very few countries have streamline this particular fund account.

RESPONSES TO QUESTIONAIRES - PROPOSED INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD ®

EXPOSURE DRAFT - ED 77: MEASUREMENT

The Specific Matters for Comment for the ED are provided below.

Specific Matter for Comment 1—(paragraphs 7-16):

Do you agree an item that qualifies for recognition shall be initially measured at its transaction price, unless:

- That transaction price does not faithfully present relevant information of the entity in a manner that is useful in holding the entity to account, and for decision-making purposes; or
- Otherwise required or permitted by another IPSAS?

If not, please provide your reasons, stating clearly what principles are more appropriate, and why.

RESPONSE: YES EXPOSURE DRAFT 77, MEASUREMENT

Specific Matter for Comment 2—(paragraph 17):

Do you agree after initial measurement, unless otherwise required by the relevant IPSAS, an accounting policy choice is made to measure the item at historical cost or at its current value? This accounting policy choice is reflected through the selection of the measurement model.

If not, please provide your reasons, stating clearly what principles are more appropriate, and why.

RESPONSE: YES

Specific Matter for Comment 3—Appendix A (paragraphs A1-A6):

In response to constituents' comment letters on the Consultation Paper, *Measurement*, guidance on historical cost has been developed that is generic in nature (Appendix A: Historical Cost). Do you agree the guidance is appropriate for application by public sector entities?

If not, please provide your reasons, stating what guidance should be added or removed, and why.

NO RESPONSE (UNCERTAIN)

Specific Matter for Comment 4—Appendix A (paragraphs A1-A6):

Do you agree no measurement techniques are required when applying the historical cost measurement basis in subsequent measurement?

If not, please provide your reasons, stating which measurement techniques are applicable to the subsequent measurement of an asset or liability measured at historical cost, and why.

NO RESPONSE (UNCERTAIN) This require further clarifications

Specific Matter for Comment 5—(paragraph 6):

Do you agree current operational value is the value of an asset used to achieve the entity's service delivery objectives at the measurement date?

If not, please provide your reasons, stating clearly what principles more appropriate for the public sector, and why.

RESPONSE: YES

The Exposure Draft includes an Alternative View on current operational value.

Specific Matter for Comment 6—Appendix B (paragraphs B1-B41):

Do you agree the proposed definition of current operational value and the accompanying guidance is appropriate for public sector entities (Appendix B: Current Operational Value)?

If not, please provide your reasons, stating clearly what definition and guidance is more appropriate, and why.

RESPONSE: YES

Specific Matter for Comment 7—Appendix B (paragraphs B6-B7):

Do you agree the asset's current operational value should assume that the notional replacement will be situated in the same location as the existing asset is situated or used?

If not, please provide your reasons, stating clearly why the asset should be measured at a different value.

Specific Matter for Comment 8—(paragraphs B38-B39):

Do you agree the income approach is applicable to estimate the value of an asset measured using the current operational value measurement basis?

If not, please provide your reasons, stating clearly why the income approach is not applicable for measuring current operational value.

RESPONSE: YES

The Exposure Draft includes an Alternative View on current operational value.

Specific Matter for Comment 9—Appendix C (paragraphs C1-C89):

In response to constituents' comment letters on the Consultation Paper, *Measurement*, guidance on fair value has been aligned with IFRS 13, *Fair Value Measurement* (Appendix C: Fair Value). Do you agree the guidance is appropriate for application by public sector entities?

If not, please provide your reasons, stating what guidance should be added or removed, and why.

RESPONSE: YES

Specific Matter for Comment 10—Appendix D (paragraphs D1-D48):

In response to constituents' comment letters on the Consultation Paper, *Measurement*, guidance on cost of fulfillment has been aligned with existing principles in the Conceptual Framework and throughout IPSAS (Appendix D: Cost of Fulfillment). Do you agree the guidance is appropriate for application by public sector entities?

If not, please provide your reasons, stating what guidance should be added or removed, and why.

RESPONSE: YES

Specific Matter for Comment 11:

Do you agree measurement disclosure requirements should be included in the IPSAS to which the asset or liability pertains and not in ED 77?

If not, please provide your reasons, stating clearly where the measurement disclosure requirements should be included, and why.

NO RESPONSE (UNDECIDED)

Specific Matter for Comment 12:

Are there any measurement disclosure requirements that apply across IPSAS that should be included in ED 77, *Measurement*?

If yes, please provide your reasons, stating clearly what the disclosures are, and why.

NO RESPONSE (UNCERTAIN)

Specific Matter for Comment 13:

Do you agree current value model disclosure requirements should be applied consistently across IPSAS? For example, the same disclosure requirements should apply to inventory and property, plant, and equipment when measured at fair value.

If not, please provide your reasons, stating clearly which IPSAS require more or fewer measurement disclosures, and why.

RESPONSE: YES

Specific Matter for Comment 14:

Do you agree with the proposal disclosure requirements for items remeasured under the current value model at each reporting date should be more detailed as compared to disclosure requirements for items measured using the current value model at acquisition as proposed in Appendix E: Amendments to Other IPSAS.

If not, please provide your reasons, stating clearly why disclosure requirements should be consistent for recurring items and non-recurring items measured using the current value model.

RESPONSE: YES

Specific Matter for Comment 15:

Do you agree fair value disclosure requirements should include requirements to disclose inputs to the fair value hierarchy?

If not, please provide your reasons, stating clearly why disclosure requirements for inputs in the fair value hierarchy are unnecessary.

RESPONSE: YES

The Specific Matters for Comment requested for ED 76, *Conceptual Framework Update: Chapter 7, Measurement of Assets and Liabilities in Financial Statements* are

provided below. They are included to provide constituents with a complete list of SMCs related to measurement. Please review and consider ED 76, *Conceptual Framework Update: Chapter 7, Measurement of Assets and Liabilities in Financial Statements* when responding to those SMCs.

Specific Matter for Comment 1:

ED 76 proposes a measurement hierarchy. Do you agree with the three-tier hierarchy? If not, why not? How would you modify it?

RESPONSE: YES

Specific Matter for Comment 2:

Do you agree with the proposed inclusion of fair value as a measurement basis for assets and liabilities with the same definition as in IFRS 13, *Fair Value Measurement*, in the Conceptual Framework?

If not, why not?

RESPONSE: YES

Specific Matter for Comment 3:

Do you agree with the proposed inclusion of current operational value as a measurement basis for assets in the Conceptual Framework?

If not, why not?

The Exposure Draft includes an Alternative View on current operational value.

RESPONSE: YES

Specific Matter for Comment 4:

It is proposed to substitute a general description of value in use (VIU) in both cash-generating and non-cash-generating contexts, for the previous broader discussion of VIU. This is because the applicability of VIU is limited to impairments. Do you agree with this proposed change?

If not, why not? How would you approach VIU instead and why?

RESPONSE: YES

Specific Matter for Comment 5:

Noting that ED 77, *Measurement*, proposes the use of the cost approach and the market approach as measurement techniques, do you agree with the proposed deletion of the following measurement bases from the Conceptual Framework:

- Market value for assets and liabilities; and
- Replacement cost for assets?

If not, which would you retain and why?

RESPONSE: YES

Specific Matter for Comment 6:

The IPSASB considers that the retention of certain measurement bases that were in the 2014 Conceptual Framework is unnecessary. Do you agree with the proposed deletion of the following measurement bases from the Conceptual Framework?

- Net selling price—for assets
- Cost of release—for liabilities
- Assumption price—for liabilities

If not, which would you retain and why?

RESPONSE: YES

Specific Matter for Comment 7:

Are there any other issues relating to Chapter 7: Measurement of Asset and Liabilities in Financial Statements of the Conceptual Framework that you would like to highlight?

RESPONSE: YES

THE SPECIFIC MATTER FOR COMMENT REQUESTED FOR THE EXPOSURE DRAFT - ED 78 *PROPERTY, PLANT, AND EQUIPMENT*, WAS DEVELOPED AND APPROVED BY THE INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS BOARD® (IPSASB®) IS PROVIDED BELOW.

Specific Matter for Comment 1:

[Draft] IPSAS [X] (ED 78), *Property, Plant, and Equipment* proposes improvements to the existing requirements in IPSAS 17, *Property, Plant, and Equipment* by relocating generic measurement guidance to [draft] IPSAS [X] (ED 77), *Measurement*; relocating guidance that supports the core principles in this Exposure Draft to the application guidance; and adding guidance for accounting for heritage assets and infrastructure assets that are within the scope of the Exposure Draft.

Do you agree with the proposed restructuring of IPSAS 17 within [draft] IPSAS [X] (ED 78)? If not, what changes do you consider to be necessary and why?

RESPONSE: YES

Specific Matter for Comment 2—(paragraphs 29-30):

Do you agree that when an entity chooses the current value model as its accounting policy for a class of property, plant, and equipment, it should have the option of measuring that class of assets either at current operational value or fair value?

If not, please provide your reasons, stating clearly which current value measurement basis would best address the needs of the users of the financial information, and why.

RESPONSE: YES

Specific Matter for Comment 3—(paragraph AG3):

Are there any additional characteristics of heritage assets (other than those noted in paragraph AG3) that present complexities when applying the principles of [draft] IPSAS [X] (ED 78) in practice?

Please provide your reasons, stating clearly what further characteristics present complexities when accounting for heritage assets, and why.

RESPONSE: YES

Specific Matter for Comment 4—(paragraph AG5):

Are there any additional characteristics of infrastructure assets (other than those noted in paragraph AG5) that present complexities when applying the principles of [draft] IPSAS [X] (ED 78) in practice?

Please provide your reasons, stating clearly what further characteristics present complexities when accounting for infrastructure assets, and why.

RESPONSE: YES (Mineral Deposit Reserves)

Specific Matter for Comment 5—(paragraphs 80-81 and AG44-AG45):

This Exposure Draft proposes to require disclosures in respect of heritage property, plant, and equipment that is not recognized in the financial statements because, at initial measurement, its cost or current value cannot be measured reliably.

Do you agree that such disclosure should be limited to heritage items?

If not, please provide your reasons, stating clearly the most appropriate scope for the disclosure, and why.

RESPONSE: YES

Specific Matter for Comment 6—(paragraphs IG1-IG40):

Do you agree with the Implementation Guidance developed as part of this Exposure Draft for heritage assets?

If not, please provide your reasons, stating clearly what changes to the Implementation Guidance on heritage assets are required, and why.

RESPONSE: YES

Specific Matter for Comment 7—(paragraphs IG1-IG40):

Do you agree with the Implementation Guidance developed as part of this Exposure Draft for infrastructure assets?

If not, please provide your reasons, stating clearly what changes to the Implementation Guidance on infrastructure assets are required, and why

RESPONSE: YES

THE SPECIFIC MATTER FOR COMMENT REQUESTED FOR THE EXPOSURE DRAFT IS PROVIDED BELOW.

SPECIFIC MATTER FOR COMMENT - NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

The IPSASB decided that there was no public sector specific reason to depart from the measurement requirements of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. However, the IPSASB considers that, where materially different, disclosures of the fair value of non-current assets classified as held for sale measured at a lower carrying amount would provide useful information to users of financial statements for accountability purposes.

The additional proposed disclosure is shown at paragraph 52 of this ED.

Do you agree with this disclosure proposal? If not, why not?

RESPONSE: YES

Signed By Dr. Christopher Enyioma Alozie (FCA) 10th October, 2021