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# PROPOSED UPDATE TO CONCEPTUAL FRAMEWORK

ED 81 CONSULTATION RESPONSE



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Manj has almost 30 years' experience working in public sector, focusing on implementation of accrual accounting across UK central Govt departments and the Whole of Government Accounts consolidation. She has advised several jurisdictions on implementing accrual accounting.

Manj has particular interest in supporting governments to address the practicalities of implementing IPSASs.



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Dear IPSASB secretariat

### **Propose Update to Conceptual Framework**

I am delighted to share my comments on the limited scope update to the Conceptual Framework; specifically:

- Chapter 3: Qualitative Characteristics
- Chapter 5: Elements of Financial Statements

The limited scope update of the Conceptual Framework is timely given the updates since the original publication in 2014. Since then, several IPSAS have been developed and it is a good opportunity to reflect on the framework given international developments in thinking and practical application of the standards.

In addition, the proposed changes to the IPSASB Conceptual Framework brings this into alignment with IASB's Conceptual Framework (2018). Greater alignment helps reduce reconciliation issues between IFRS and IPSAS on consolidation at a whole of government level.

### **Chapter 3: Qualitative Characteristics**

#### **Prudence**

It was a welcome return to read about the role of prudence and how this fits in the existing six qualitative characteristics: relevance, faithful representation, understandability, timeliness, comparability, and verifiability. To some of a certain vintage prudence remains a core accounting principle, and it is helpful to see how this is covered in the respective characteristics. I agree with the proposal to include it as part of the existing six qualitative characteristics by providing additional guidance on exercising caution, neutrality, avoiding under/overstatement and distinguishing the systematic need to provide more evidence. Although the concept of asymmetry is a little unclear and would benefit from greater explanation in the application guidance notes.



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## **Materiality**

The definition of materiality previously included reference to omissions and misstatements. Adding the concept of 'obscuring' information is very helpful and ensures the user remains crucial in determining disclosures in the financial statements. This approach is consistent with the IASB's Conceptual Framework recognising that too much information can obscure and potentially mislead the users of the information presented in the financial statements.

It also draws on the IPSASB staff note on materiality (2017). Preparers are encouraged to move away from a checklist approach and consider what information is provided and how this is presented. The new approach will help meet the objectives of financial statements.

## **Chapter 5: Elements of Financial Statements**

The update to the elements of the financial statements is also timely given the developments in the accounting standards and the recognition of rights to use an asset, as is the case for IPSAS 44: leases.

Overall, the changes are well considered although there is a potential inconsistency in the definition of an asset and liability: the definition of an asset refers to past events and yet the definition of a liability refers to an present obligation ... arising from one or more past events. This could lead to confusion.

The specific matters for consideration all provide a logical flow and streamline the conceptual framework.

Detailed responses to the specific matters for comment are provided in the Annex.

Finally, thank you for the opportunity to comment. Once again, thank you to the team at IPSASB in preparing the webinar to support the ED. This is very helpful. If there are any questions, please do not hesitate to contact me.

Yours sincerely,

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Principal consultant



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## **Annex 1: Detailed comments**

### **Chapter 3: Qualitative Characteristics**

#### **Specific Matter for Comment 1: Prudence**

In paragraphs 3.14A and 3.14B, the IPSASB has provided guidance on the role of prudence in supporting neutrality. In the context of the qualitative characteristic of faithful representation. Paragraphs BC3.17A- BC3.17E explain the reason for this guidance. Do you agree with this approach? If not, why not? How would you modify it?

I agree with the approach. This provides clarity on the concept of prudence and the decision not to require it as a qualitative characteristic in its own right but is part of faithful representation.

This is in alignment with IASB's decision to not include prudence as a qualitative characteristic. The discussion remains live in the development of EPSAS hence clarity on the criteria to assess prudence is helpful. The only issue is 'asymmetry' – it would be helpful to provide additional guidance on what this means in this context.

#### **Specific Matter for Comment 2: Obscuring information as a factor relevant to materiality judgements**

In discussing materiality in paragraph 3.32 the IPSASB have added obscuring information to misstating or omitting information as factors relevant to materiality judgements. The reasons for this addition are in paragraphs BC3.32A and BC3.32B

Do you agree with the addition of obscuring information to factors relevant to materiality judgements?? If not, why not?

I agree with the proposal.

Given complexities in public sector financial management it is not a surprise that the accounting is complicated too. Recent changes have necessitated many new disclosures to ensure the financial statements provide transparency and accountability to users. However, this has also led to a proliferation of the information provided in the financial statements which could lead to information overload and resulting in greater confusion to the user. The unintended consequence is that instead of greater transparency important insights are lost in the fog of other information. A new requirement to assess whether the information is obscuring will encourage preparers to think about the information provided to users and whether it should be included or not and the impact on the user.



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This is consistent with the IASBs definition of materiality issued 2018 and the IPSASB staff note on materiality issued in 2017, after the IPSAS Conceptual Framework.

### **Specific Matter for Comment 3: Rights based approach to a resource**

Paragraphs 5.7A-5.7 G reflect a rights-based approach to the description of resource in the context of an asset. The reasons for this approach are in paragraphs BC5.3A-BC5.3F.

Do you agree with the proposed change? If not, why not?

I agree with this approach. A right based approach reflects recent thinking and developments in assessing what should be included as an asset such as leased assets.

The inclusion of paragraph 5.7C is unclear and it would be helpful to understand the purpose for this. Does the fact that the service potential or economic benefits produced are so brief as to not warrant recognition as a right to use an asset? BC5.3F provides some guidance but it is not clear. This may just be my misunderstanding, but I would recommend reviewing the wording.

### **Specific Matter for Comment 4: Definition of a liability**

The revised definition of a liability is in paragraph 5.14:

*A present obligation of the entity to transfer resources as a result of past events*

The reason for the revised definition are in paragraphs BC5.18A-5.18H.

Do you agree with the revised definition? If you do not agree with the definition, what definition would you support and why?

I agree with the revised definition of a liability. It is consistent with the revisions to the definition of an asset (i.e., events) and aligns to IASB's definition of a liability. This is helpful to jurisdictions consolidating different entities at the whole of government level.

Note the there is a potential inconsistency with the three criteria for a liability. The third criteria states:... *is a present obligation arising from one or more past events*. For consistency I would recommend deleting 'one or more' and leave it as 'past events'.



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### **Specific Matter for Comment 5: Guidance on the Transfer of Resources**

The IPSASB has included guidance on the transfer of resources in paragraphs 5.16A-5.16F of the section on liabilities. The reasons for including this guidance are in paragraphs BC5.19A – BC5.19D

Do you agree with the guidance? If not, how would you modify it?

I agree with the guidance. It is helpful to include clear guidance on what is meant by the term transfer of resources and to have a distinction between the agent principal arrangement.

### **Specific Matter for Comment 6: Revised Structure of Guidance on Liabilities**

In addition to including guidance on the transfer of resources, the IPSASB restructured guidance on liabilities so that it aligns better with the revised definition of a liability. This guidance is in paragraphs 5.14A-5.14D. Paragraph BC5.18H explain the reasons for this restructuring.

Do you agree with this restructuring? If not, how would you modify it?

I agree with this restructuring as it is logical as it follows the flow in the definition.

### **Specific Matter for Comment 7: Unit of Account**

The IPSASB has added a section on Unit of Account in paragraphs 5.26A-5,26J. The reasons for proposing this section are in paragraphs BC5.36A-BC5.36C.

Do you agree with the addition of a section on Unit of Account and its content? If not, how would you modify it and why?

I understand the addition of the section on unit of account addresses a gap in the 2014 IPSAS Conceptual Framework and draws on 2018 IASB Conceptual Framework. It is right to include this here as it is a standards level issue. It was only clearer when reading the basis for conclusions as it why it had been included.

### **Specific Matter for Comment 8: Accounting for binding arrangements tga are equally underperformed**

The IPSASB took the view that guidance on accounting principles for binding arrangements that are equally underperformed should be included in the conceptual framework, but that a separate section on accounting principles for such binding



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arrangements is unnecessary. These principles are included in paragraphs 5.26G-H of the section on unit of account. The explanation is at paragraphs BC5.36D- BC5.26F

Do you agree that:

- (a) Guidance on principles for binding arrangements that are equally underperformed is necessary; and if so
- (b) Such guidance should be included in the unit of accounts section, rather than a separate section?

If you do not agree, please give your reasons.

I agree that that guidance for the principles for binding arrangements that are equally underperformed is necessary.

Binding arrangements are important in the public sector context and recognise the fact that some jurisdictions may not have powers to enter into a contract. IASB included a definition on an executory contract and so it is important to consider the same for the IPSAS Conceptual Framework as binding arrangements that are equally underperformed.

However, the logic to include these as part of the unit of account is unclear. I would recommend that either the case to include these in this section is made more robustly in the basis for conclusion or to have it in a separate section. To leave as is, is rather odd.





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## **Annex 2: Other amendments**

There were some other formatting / numbering issues that need to be addressed in the final version:

### Chapter 3: Qualitative characteristics

- Paragraph 3.19 is a repeat of paragraph 3.18
- Paragraph 3.19 should be redrafted otherwise paragraph 3.20 seems rather odd
- Paragraph 3.22 is exactly the same as paragraph 3.23.

### Chapter 5: Elements in the financial statements

- Review the numbering as paragraphs 5.18 to 5.26 have been deleted hence the proposed unit of account section starting with paragraph 5.26A-J onwards.
- Please review the numbering in the basis for conclusion as BC5.5-5.6 are proposed to be deleted, starting BC5.7 onwards.