



Office of the
Auditor General
of Canada

Bureau du
vérificateur général
du Canada

31 May 2022

International Public Sector Accounting Standards Board

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

Re: Exposure Draft 81, *Conceptual Framework Update: Chapter 3, Qualitative Characteristics and Chapter 5, Elements in Financial Statements*

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,

Lissa Lamarche, CPA, CA

Assistant Auditor General

Specific questions posed by IPSASB:

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 BC3.17ABC3.17E explain the reasons for this guidance. Do you agree with this approach?

If not, why not? How would you modify these paragraphs?

Yes, we agree with the IPSASB approach to provide guidance on the role of prudence in supporting neutrality, in the context of the qualitative characteristic of faithful representation.

Specific Matter for Comment 2: Obscuring Information as a Factor Relevant to Materiality Judgments

In discussing materiality in paragraph 3.32 the IPSASB has added obscuring information to misstating or omitting information as factors relevant to materiality judgments. 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 judgments? If not, why not?

Yes, we agree with the addition of obscuring information to factors relevant to materiality judgments.

While updating the definition of materiality aligns the IPSASB's definition of materiality with that of the International Accounting Standards Board (IASB), we think that more work is still required at the Standards-level. We note that as part of the IASB's project on [Better Communication in Financial Reporting](#), the IASB is also addressing the broader disclosure problem at the Standards-level. In our response to the IASB's 2021 exposure draft on Disclosure Requirements in IFRS Standards – A Pilot Approach (Proposed amendments to IFRS 13 and IAS 19), we supported the IASB's proposals of having overall disclosure objectives within IFRS standards. However, we mentioned that one issue we presently are dealing with by having general, overarching objectives, as is currently the case with IAS 1 Presentation of Financial Statements (and more specifically IAS 1.9), without also having individual Standards-level disclosure objectives, is that there is not currently a strong basis to support the exclusion of less important disclosures that are specifically required by an IFRS standard. We think this same issue exists in IPSAS and thus simply changing the definition of materiality will not be sufficient to lead to any meaningful change without also addressing this matter at the Standards-level. On that basis, we would encourage the IPSASB to articulate its plan to address similar disclosure issues under IPSAS standards.

Specific Matter for Comment 3: Rights-Based Approach to a Resource

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

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

While we agree with the proposed changes in paragraphs 5.7A-5.7G to reflect a rights-based approach to the description of resources in the context of an asset, we think the organization of the current paragraphs may lead to confusion. While we acknowledge that the proposed changes are largely in line with the IASB's Conceptual Framework (CF), we think there are areas that could be improved to more clearly articulate how rights, resources and assets link together.

We note that ED 81.5.6 currently defines an asset as “*A resource presently controlled by the entity as a result of past events*” and then includes the following subheadings:

- A Resource;
- Rights;
- Service Potential and Economic Benefits; and
- Presently Controlled by the Entity as a Result of Past Events.

Since not all of the concepts discussed in the subheadings are part of the definition of an asset in ED 81.5.6, we think the proposed organization of this section may lead to confusion. We note that in the IASB CF, Chapter 4, the Definition of an asset section in 4.3 and 4.4 includes the definition of both an asset and an economic resource. Paragraph 4.5 then introduces the subsections below these definitions which discuss different aspects that align with the elements and terminology used in these definitions. We think this approach is more understandable and easier to follow and we recommend that the IPSASB consider more closely aligning its assets section in a similar manner as that of the IASB.

In addition, we note that while the discussion on rights does touch on how a resource is a set of rights and not the physical object in paragraph 5.7F, we think it would be clearer to explicitly state that the concept of rights can lead to both tangible or intangible assets and that physical form is not a necessary condition of a resource, similar to existing paragraph 5.7, which is currently proposed to be removed, which states that “Physical form is not a necessary condition of a resource.” Furthermore, we think the discussion around rights in the context of control in paragraph 5.7D might be better placed in the separate section that discusses control. This approach would result in each concept in the definition being discussed separately which may be easier to understand.

As a final observation, we note that Canadian public sector accounting has a standard on contractual rights which are defined in PS 3380.03 as “rights to economic resources arising from contracts or agreements that will result in both an asset and revenue in the future.” PS 3380.06 specifies that contractual rights “are distinct from assets because there has been no past transaction or event giving rise to an asset at the financial statement date” and that “once the entity has received the asset, it no longer has a contractual right.” We do not think this concept has been considered or reflected in the ED (i.e. a right can give rise to a future asset rather than being considered a present asset). For example, a contractual right would not be an asset until the right is exercised because it is only at that point that all the elements of the definition of an asset are met. We think this aspect could be more explicitly addressed in the section that discusses present control by the entity as a result of past events.

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 reasons for the revised definition are in paragraphs 5.18A-5.18H.

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

Yes, we agree with the revised definition.

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 this guidance? If not, how would you modify it?

Yes, we agree with the guidance on the transfer of resources in paragraphs 5.16A-5.16F of the section on Liabilities.

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

In addition to including guidance on the transfer of resources, the IPSASB has restructured the guidance on liabilities so that it aligns better with the revised definition of a liability. This guidance is in paragraphs 5.14A-5.17D. Paragraph BC5.18H explains the reasons for this restructuring.

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

Yes, we agree with the restructuring of guidance on liabilities which aligns better with the revised definition of a liability.

Specific Matter for Comment 7: Unit of Account

The IPSASB has added a section of 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?

Yes, we agree with the addition of a section on Unit of Account and its content, with the exception of the language used in paragraph 5.26G-5.26H.

As mentioned in our analysis to the Specific Matter for Comment 8 below, we do not think it is necessary for the IPSASB to remove the commonly known term “executory contracts” in paragraphs 5.26G-5.26H and refer instead to only a “binding arrangement that is equally unperformed”. While we can appreciate the problem with using the term “contract” in some jurisdictions, we think there are better ways to address this issue than what is currently proposed in these paragraphs. We think that the IPSASB could call them “executory contracts (or equivalent)” and retain the wording used currently in the IASB CF. We think this would be more understandable and also would better align the current terminology used in IPSAS 19, Provisions, Contingent Liabilities and Contingent Assets (IPSAS 19).

Specific Matter for Comment 8: Accounting Principles for Binding Arrangements that are Equally Unperformed

The IPSASB took the view that guidance on accounting principles for binding arrangements that are equally unperformed should be included in the Conceptual Framework, but that a separate section on accounting principles for such binding arrangements is unnecessary. These principles are included in paragraphs 5.26G-5.26H of the section on Unit of Account. The explanation is at paragraphs BC5.36D-BC5.36F.

Do you agree that:

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

If you do not agree, please give your reasons.

- (a) While we agree that guidance on principles for binding arrangements that are equally unperformed is necessary, we do not think that these agreements should be described as anything other than executory contracts.

Executory contracts is an established legal term that we believe is well understood; it is currently used in IPSAS 19 in the context of onerous contracts. Therefore, we do not see a need to describe executory contracts as something different. BC5.36F notes that the term 'contract' has been problematic in some jurisdictions and consequently that term has not been widely used in the CF. While this may be true, we think that a better alternative would be to retain the widely understood term 'executory contract' with the addition of '(or equivalent)'. We think this approach is more understandable and would be consistent with the terminology currently used in IPSAS 19.

- (b) No, we do not agree that the guidance should be included in the Unit of Account section since the two terms represent different, unrelated concepts. By including the concept of executory contracts within the Unit of Account section, there is a risk that neither concept will be well understood. Therefore, we think that executory contracts should be discussed separately from unit of account, similar to the approach adopted by the IASB.