
Vincenzo Cordaro

accountant in local public authority

6 october 2020

Mr. John Stanford

Technical Director

International Public Sector Accounting Standards Board

International Federation of Accountants

277 Wellington Street West

Toronto, Ontario, Canada M5V 3H2

Dear Mr. Stanford,

in response to the request for comment on the drafts of accounting policies No.70 and 71, and with the pleasure of wishing to make a contribution to the enactment of accounting policies for the public sector, I would like to provide my comments and considerations.

The following considerations are based, in particular, on the reading of point 4 of the "purpose" section of draft accounting policy N.71, precisely where it is stated that "[...] *most of the revenue of governments and other public sector entities is generally derived from transactions without performance obligations* [...].

In the writer's opinion, one of the relevant points that should be addressed with regard to *a accrual* based accounting applied to public companies is not just the distinction between:

- revenues with performance obligations and;
- revenues without performance obligations;

but also and above all the distinction between direct and indirect changes in the company's assets:

- **Direct changes:** these directly affect the company's assets and are not recognised in the statement of income for the year.

- Indirect changes: these act in a "mediated" manner on the company's assets and are recorded in the statement of income for the year.

The following examples are given below for easier exposure:

1. Let us consider a revenue from a Government tax, on which the public body collecting the revenue has no power with regard to:
 - determination of the tax assumption,
 - determination of the tax base,
 - identification of taxable persons,
 - or for which it is not possible to identify a specific correlation with the expenses related to the services provided.

These types of revenue, although attributable to the management activity of the public body, should be regarded as direct changes in assets. They should not be recognised in the statement of economic flows for the financial year, where, on the other hand, indirect changes relating to the management activity of the employer are recognised. This revenue should not, as a general rule, give rise to operating revenue.

As revenue is recurring, at the end of the financial year the applicant shall determine, in a discretionary manner, how much of it is to be charged to the financial year on the basis of a general correlation with the costs incurred and how much of it is to be deferred and charged as revenue to the following financial year. The costs to be charged, without any margin of discretion, in the year in which the revenue from such taxes is collected shall be those relating to essential goods and services which the public sector entity cannot exempt from, or produce on the basis of, the regulatory and statutory provisions governing its operation.

Considering that, for many government taxes, the revenue collected by the local public authority can be defined as follows:

GOVERNMENTAL RATE DISCOUNT =

[guaranteed minimum revenue + additional revenue from the manipulation of the rates by the public body collecting the revenue].

- The minimum guaranteed revenue from government taxes cannot be altered by the discretion of the political decisions taken by the public bodies which collect the revenue at the local level. This part of the revenue could be regarded as a direct change in assets, equivalent to a government transfer. However, a correlation can be found with the costs of essential goods and services which the local public sector must necessarily produce and provide.
- The additional revenue is, on the other hand, subject to the discretion of the political decisions taken by the public authorities which collect the revenue at the local level, so it can be linked to the "additional"

goods and services of the local public as compared to the essential ones. This part of the revenue may be regarded as an indirect modification of the assets.

It is purely for the sake of accounting simplification that these revenues are all regarded as indirect changes in assets and are therefore included in the statement of management's economic flows. The same applies to government recurring transfers, on which the applicant has no discretion as to their determination. In the case of transfers, the government is normally already able to identify the intended use, so that the specific correlation with the costs to be incurred in the financial year can be considered as revenue and recognised in the statement of economic flows.

2. A revenue from a Government tax, on which the public body collecting the revenue has no power in relation to:

- determination of the tax assumption,
- determination of the taxable base,
- identification of taxable persons,
 - or but for which it is able to identify a specific correlation with the operating costs relating to the services provided.

This income can be considered as an indirect change in equity, therefore it must be recorded in the statement of income for the year attributable to the management activity of the entity, in relation to the allocation of operating costs. This revenue will therefore give rise to operating income.

3. A revenue from a local tax, on which the public body collecting the revenue has power in relation to:

- determination of the tax assumption,
- determination of the taxable amount,
- identification of taxable persons,

may be considered as an indirect change in equity, therefore it must be recorded in the statement of income for the year attributable to the management activity of the entity,

- or even if it is not possible to identify a specific correlation with the expenses relating to the services provided.

This revenue will give rise to operating income.

The reasons are to be ascribed to the fact that the local public authority that introduces a tax (within the limits of the statutory faculties) does so for a need of "budgetary balance", therefore the related expenses to cover which the "new" revenue is introduced are identified upstream.

A local public authority that introduces a tax (within the limits of the statutory faculties) is unlikely to be in a position to cover all the expenses that will be covered by it.

Below is a table summarising the above:

TYPOLOGY TRIBUTE	PUBLIC ENTERPRISE THAT RESCUES THE TRIBUARY JUDGET				TYPE OF MODIFICATION OF THE AZIENDAL PATRIMONY
	determination of the tax assumption	determination of the taxable amount	Identification of taxable persons	identify a specific correlation with the expenditure related to the services provided	
GOVERNMENT TAX	NO	NO	NO	NO	DIRECT
LOCAL TAX	NO	NO	NO	YES	INDIRECT
LOCAL TAX	YES	YES	YES	YES	INDIRECT

We would like to thank this organization for the opportunity given to contribute to the issuing of international accounting standards for the public sector.

6 october 2020

Best regards

Vincenzo Cordaro

