

April 30, 2013

International Public Sector Accounting Standards Board (IPSASB)
International Federation of Accountants (IFAC)
277 Wellington Street West
Toronto, Ontario M5V 3H2 CANADA

Response e-mailed to www.ifac.org

RE: Conceptual Framework Exposure Draft ED 2, *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Elements and Recognition in Financial Statements*

Conceptual Framework Exposure Draft ED 3, *Measurements of Assets and Liabilities in Financial Statements*

Dear Sir/Madam:

On behalf of the over 180,000 members of The Institute of Internal Auditors (IIA), we are pleased to provide the attached comments on IFAC's IPSASB's Public Sector Conceptual Framework Exposure Draft ED 2, *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Elements and Recognition in Financial Statements* and ED 3, *Measurements of Assets and Liabilities in Financial Statements*. As the global standards setting body for the professional practice of internal auditing we appreciate the opportunity to provide comment on the framework that will impact internal auditing professionals world-wide.

Our comments represent the culmination of observations from a core team of auditing professionals from around the world who serve on The IIA's Public Sector Committee. These professionals consist of Certified Government Auditing Professionals (CGAP), Certified Internal Auditors (CIA), and Certified Public Accountants (CPA) who work within the public sector and provide a global perspective

We appreciate and applaud the IPSASB's efforts to serve the public interest by setting high-quality public sector accounting standards and establishing a Conceptual Framework for general purpose financial statements under the accrual basis of accounting.

In formulating our observations, we recognize that defining terms that have global acceptance is a difficult challenge. Although specific comments are provided in the attached document, the following summarizes our principal observations:

1. It is our assumption the framework's focus is on non-profit oriented entities/activities within the government; therefore, it is our collective assessment that the term "ownership" would not be well understood and should not be included in the framework.

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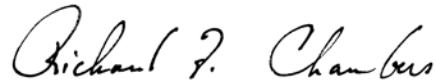
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2. In an effort to ensure global acceptance of the framework, we recommend the concept of deferred inflows and outflows, that are not universally encountered in practice, be removed or explained in more detail.
3. We are in support of and in agreement with all the “Specific Matters for Comment” referenced in ED 3.

For points 1 and 2 above, we welcome an opportunity for further discussion to improve the framework.

Thank you again for the opportunity to provide comments. The IIA values our relationship with IFAC and the IPSASB and looks forward to our continued work together in fostering sound financial management in governments throughout the world.

Best regards,

A handwritten signature in cursive script that reads "Richard F. Chambers".

Richard F. Chambers, CIA, CGAP, CCSA, CRMA
President and Chief Executive Officer

About The Institute of Internal Auditors

The IIA is the global voice, acknowledged leader, principal educator, and recognized authority of the internal audit profession and maintains the International *Standards* for the Professional Practice of Internal Auditing (*Standards*). These principles-based *Standards* are recognized globally and are available in 29 languages. The IIA represents more than 180,000 members across the globe and has 109 affiliates in 190 countries that serve members at the local level.

Appendix

Observations from The Institute of Internal Auditors

Conceptual Framework Exposure Draft-2 (CF-ED2), Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Elements and Recognition in Financial Statements

Specific Matter for Comment 1

Do you agree with the definition of an asset? If not, how would you modify it?

Yes, the definition is similar to those offered by the IASB, FASB and US GASB.

Specific Matter for Comment 2

Do you agree with the definition of a liability? If not, how would you modify it?

Recommend the definition be further defined to include the following:

1. Liabilities are amounts owed to others relating to loans, extensions of credit, and other obligations arising in the course of business.
2. Implicit to the notion of a liability is the idea of an “existing” obligation to pay or perform some duty.

Do you agree with the definition of non-legal binding obligations? If not, how would you modify it?

Recommend removing the term “Non-legal Binding Obligations”. The creation of expectations by government officials, past practices or specific current statements should not be enough to create an obligation and the difficulty in interpreting these items would make the definition difficult to implement. This could also potentially create a situation in which government officials override legislators' authorization of expenses and revenues.

Specific Matter for Comment 3

Do you agree with the definition of revenue? If not, how would you modify it?

Recommend changing the definition to “revenue is inflows during the current reporting period, which increase equity (net assets).” The concept of ownership contribution should not be referenced in the definition of revenue as discussed in Comment 6 below. The deferred inflows definition should also not be part of revenue definition as discussed in Comment 5 below.

Specific Matter for Comment 4

Do you agree with the definition of expenses? If not, how would you modify it?

Recommend changing the definition to “expenses are outflows during the current reporting period, which decrease equity (net assets).” The concept of ownership distributions should not be referenced in the definition of revenue as discussed in Comment 6 below. The deferred outflows definition should also not be part of revenue definition as discussed in Comment 5 below.

Specific Matter for Comment 5

(a) Do you agree with the decision to define deferred inflows and deferred outflows as elements? If not, why not?

Since the terms “deferred inflows” and “deferred outflows” are not well understood or used in practice, especially considering the international diversity of how this concept is viewed, it would be best not to include these concepts and terms. Deferred inflows are similar to deferred revenue (liabilities waiting to be matched against expenses in the future) and deferred outflows are similar to deferred expenses (assets waiting to be matched against revenue in the future). It would be best to use universal language (i.e., terms, definitions) known to all accountants — Assets, Liabilities, Revenues, Expenses and Equity (net assets).

The purpose and usefulness of having Deferred Inflows and Outflows as elements should be more thoroughly discussed before inclusion in the framework.

Specific Matter for Comment 6

(a) Do you agree with the terms of net assets and net financial position and the definitions? If not, how would you modify the terms and/or definitions?

The definition of net assets is clear but recommend the definition of net financial position be modified due to the considerations expressed in comment 5 above in reference to deferred outflows and inflows.

(b) Do you agree with the decision to define ownership contributions and ownership distributions as elements? If not, why?

It is our assumption this framework does not address government profit-oriented entities or activities, so the term “ownership” does not seem to belong in the framework. Governments do not typically raise capital through public offering of shares or other similar investment. Increases in capital come from taxation, transactions and donations, to list a few. Introducing ownership to the framework is addressing an atypical situation and would require significantly more discussion and elaboration than it currently does in the exposure draft. Governments generally have inflows of assets of two forms — one by increasing their liabilities and the other by relationships with society broadly speaking (tax levies, for example) that do not entail any obligations and, therefore, increase equity (net assets) directly.

Specific Matter for Comment 7

Do you agree with the discussion of recognition? If not, how would you modify it?

The concept of government’s legal power of enforcement is an important basis for recognition in addition to transactions. We recommend modifying paragraph (item) 7.3 by adding the following sentence.

“Government legal power of enforcement (e.g., taxation) is also one of the primary bases for recognition and de-recognition of items as elements.”

Conceptual Framework Exposure Draft-3 (CF-ED3), Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Measurement of Assets and Liabilities in Financial Statements

Specific Matter for Comment 1

Do you agree that the selection of a measurement basis should be based on the extent to which a particular measurement basis meets the objectives of financial reporting?

Yes, assets and liabilities should be reported on the same basis where circumstances are similar and only be allowed to select different measurement bases where the economic circumstances justify a change.

Specific Matter for Comment 2

Do you agree with the current value measurement bases for assets that have been identified in Section 3?

Yes, the guidance given is very useful even though the selection of a measurement basis remains a matter of judgment in order to select the basis that most effectively meets the objectives of financial reporting and satisfies users' information needs.

Specific Matters for Comment 3

Do you agree with the approaches proposed in Section 4 for application of:

(a) The fair value measurement model to estimate the price at which a transaction to sell an asset would take place in an active, open and orderly market at the measurement date under current market conditions.(b) The deprival value model to select or confirm the use of a current measurement basis for operational assets.

Agree

(b) The deprival value model to select or confirm the use of a current measurement basis for operational assets.

Agree

Specific Matter for Comment 4

Do you agree with the proposed measurement bases for liabilities in Section 5?

Agree