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The International Public Sector Accounting Standards Board

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Submission via website

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Dear Ross

COMMENT ON THE CONSULTATION PAPER, *PRESENTATION OF FINANCIAL STATEMENTS*

We thank you for the opportunity to comment on the *Consultation Paper, Presentation of Financial Statements*.

The views in this comment letter are those of the Secretariat of the ASB and not the Board. The comments were formulated after consultation with our stakeholders, which included preparers, auditors, technical experts, consultants and users.

Our overarching concern is that IFRS 18 on *Presentation and Disclosure in Financial Statements* has been used as the basis for developing the proposals. In our view, the IPSASB should first identify the information users require for accountability and decision-making purposes and then consider guidance in IFRS 18 only where it addresses those needs. Any proposed changes should respond to a clearly identified public-sector reporting need and not be introduced solely to maintain alignment with IFRS Accounting Standards. This would ensure that the new Standard is developed from a public-sector perspective rather than primarily through alignment with IFRS Accounting Standards.

Our detailed responses to the Preliminary Views and the Specific Matter for Comment are outlined below.

Should you have any questions regarding the comment outlined in this letter, please feel free to contact me.

Board Members: Mr A van der Burgh (Chair), Mr A Hardien, Ms W de Jager,
Mr D Dlamini, Mr I Engelmohr, Mr S Gcwabe, Mr S Khan, Ms A Muller
Chief Executive Officer: Mrs J Poggiolini

Yours sincerely

A handwritten signature in black ink, appearing to read 'Elizna van der Westhuizen'.

Elizna van der Westhuizen
Head of Technical

PRELIMINARY VIEWS AND SPECIFIC MATTER FOR COMMENT

Preliminary View 1—Chapter 1: Development of New Presentation Standard

The IPSASB's Preliminary View is that the development of a new IPSAS Standard to replace IPSAS 1, *Presentation of Financial Statements* should consider IFRS 18 *Presentation and Disclosure in Financial Statements*, with appropriate adaptations to reflect the objectives of financial reporting by public sector entities.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons and clearly explain what you consider should be changed in the development approach.

We support considering IFRS 18 in replacing IPSAS 1, but we do not support the approach to align with IFRS 18.

While we support considering IFRS 18 on *Presentation and Disclosure in Financial Statements* in developing the new Standard, our view is that alignment with IFRS Accounting Standards should not, in itself, justify amendments to established public-sector requirements. Any proposed changes should be based on a clearly identified public-sector reporting need and supported by evidence that the changes will improve the information available to users of public-sector financial statements.

Accordingly, we recommend the new Standard be developed from a public-sector perspective to meet users' information needs for accountability and decision-making purposes.

Before amending the existing requirements in IPSAS 1 on *Presentation of Financial Statements*, the IPSASB should understand whether the current requirements are insufficient and explain how each proposed amendment would enhance accountability and decision-making. The IPSASB should also assess whether the expected benefits of the proposed information outweigh the costs of providing the information. Where a clear public sector need and corresponding benefit cannot be demonstrated, the existing requirements should be retained.

Preliminary View 2—Chapter 2: General Presentation Requirements

The IPSASB's Preliminary View is to continue providing definitions on financial statement elements (aligned with the IPSASB Conceptual Framework and IFRS 18) in the new IPSAS Standard, and to provide other definitions that support the understanding and application of presentation requirements.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons, and clearly explain what you consider should be changed from a public-sector perspective.

We do not support the IPSASB's Preliminary View.

We acknowledge that the proposed hierarchy in paragraph 2.27 in the Conceptual Framework is intended to address potential challenges from aligning Standards-level definitions with those in the Conceptual Framework. We agree that the hierarchy provides useful clarification on the use of the definitions in the Standards and the Conceptual Framework. We do not, however,

support including definitions of financial statement elements in the new Standard for the following reasons:

Authoritative status of definitions

Our primary concern is that the definitions in the Conceptual Framework become authoritative if included in an IPSAS and may create tension with other authoritative material such as the same or similar definitions in other IPSAS.

This concern is particularly relevant to the liability definition in the Conceptual Framework that is proposed to be included in the new Standard, which no longer requires settlement of an obligation to result in an outflow of resources. Making this definition authoritative could affect how some obligations are assessed and may be inconsistent with existing IPSAS Standards that include the current definition, or with related recognition requirements.

Although the proposed hierarchy may indicate which definition prevails, it does not explain the consequences of the differences between definitions or the potential for inconsistent application across pronouncements.

Duplication of definitions

We also question repeating definitions of assets, liabilities, revenue and expenses in the new Standard and are of the view it does not provide additional guidance or clarity for preparers. These concepts are already established in the IPSASB Conceptual Framework and underpin the development of transaction-specific IPSAS Standards.

The Consultation Paper (paragraph 2.23(b)) notes that the IASB does not include equivalent definitions in IFRS 18 and instead refers preparers to the IFRS Conceptual Framework. We believe this demonstrates that it is possible to apply presentation requirements effectively without reproducing the definitions from the Conceptual Framework in a presentation Standard.

Furthermore, maintaining definitions across pronouncements may create an ongoing standard-setting burden. Future amendments to the Conceptual Framework may require consequential amendments to the presentation Standard to maintain consistency, even where no changes to the presentation requirements are intended.

Recommendation

We recommend that definitions in the new Standard be limited to concepts specific to presentation and disclosure. Rather than reproducing the element definitions from the Conceptual Framework, the IPSASB should cross-reference to the Conceptual Framework. The IPSASB should explain the relationship between the Conceptual Framework, transaction-specific IPSAS Standards and the presentation requirements in the new Standard. This explanation should include how differences in definitions and their consequences should be addressed. The explanatory material could be provided through non-authoritative guidance, such as FAQs or other staff guidance.

Preliminary View 3—Chapter 2: General Presentation Requirements

The IPSASB's Preliminary View is to retain the existing requirements regarding comparative information, and to add the requirement for an additional Statement of Financial Position at the beginning of the preceding period when previously reported

information has been materially impacted by a restatement or reclassification into IPSAS Standards, aligned with IFRS 18 requirements.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons and clearly explain what you consider should be changed from a public-sector perspective.

We do not support the IPSASB's Preliminary View.

Stakeholders expressed uncertainty about the purpose and practical application of the proposed requirement for an additional Statement of Financial Position. In particular, they questioned whether the proposal could be interpreted as requiring the presentation of three years of financial statements and noted that the circumstances in which an additional Statement of Financial Position would be required are not sufficiently clear.

While the Consultation Paper explains the rationale for the proposal, it does not include illustrative examples demonstrating when the requirement would apply and how the additional Statement of Financial Position should be presented.

Some stakeholders noted that detailed explanations and supporting information about material restatements and reclassifications can already be provided in the notes and questioned whether an additional Statement of Financial Position would provide sufficient incremental benefit to users. They cautioned that the proposal could increase the volume and complexity of financial information without providing equivalent benefits.

Consequently, we recommend that the IPSASB demonstrate the public-sector need for the proposal before finalising the requirement. If the IPSASB proceeds with the proposal, we recommend including illustrative examples that clarify when an additional Statement of Financial Position is required to support consistent application.

Preliminary View 4—Chapter 2: General Presentation Requirements

The IPSASB's Preliminary View regarding the other general presentation requirements is to:

a) Retain existing IPSAS 1 guidance, without updates:

i. The responsibility of financial statements (paragraphs 2.9-2.10);

b) Retain existing IPSAS 1 guidance, with updates to align with IFRS 18 for the public sector context:

i. The objective of financial statements (paragraphs 2.4-2.8);

ii. The complete set financial statements (paragraphs 2.11-2.13);

iii. Identification of financial statements (paragraphs 2.20-2.21);

iv. Material information (paragraphs 2.33-2.34);

v. The other general presentation requirements in Table 2 (paragraphs 2.41-2.44);

c) Add new guidance, aligned with IFRS 18 and the IPSASB's Conceptual Framework:

i. The roles of the financial statements and notes (paragraphs 2.14-2.19); and

ii. The other general presentation requirements in Table 2 (paragraphs 2.41-2.44).

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons and clearly explain what you consider should be changed in the development approach

We support the IPSASB's Preliminary View.

The proposed approach appropriately retains established public sector guidance while incorporating useful improvements from IFRS 18 and the IPSASB's Conceptual Framework.

Preliminary View 5—Chapter 3: Statement of Financial Position

The IPSASB's Preliminary View is to retain:

- (a) The current/non-current approach as the general approach for classifying assets and liabilities on the face of the Statement of Financial Position;**
- (b) The order of liquidity approach as a permitted approach on an exception basis; and**
- (c) The mixed approach, to allow some assets and liabilities to be presented using the current/non-current classification, and others are presented in order of liquidity.**

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons and clearly explain what you consider should be changed regarding the classification of assets and liabilities on the Statement of Financial Position.

We support the IPSASB's Preliminary View.

The proposed approach retains the current approaches for classifying assets and liabilities on the Statement of Financial Position, which are well established and understood in practice. We agree that there is insufficient justification for introducing a different approach for presenting assets and liabilities.

Preliminary View 6—Chapter 3: Statement of Financial Position

The IPSASB's Preliminary View is that the specific line items required in IPSAS 1 should be carried forward, with enhancements limited to adding a new line for goodwill (to align with IFRS 18).

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons and clearly explain what line items should be added or removed from the list provided in Table 3.

We support retaining existing minimum line items, but we do not support a separate goodwill line item.

We agree with retaining the existing minimum line items, as they continue to be fit for purpose and no public-sector-specific concerns with the current requirements have been identified. However, we are not convinced that there is a public-sector-specific need for the separate presentation of goodwill. In our view, changes to presentation requirements should be driven by the information needs of public sector users, with IFRS 18 serving as a reference point where such a need has been identified.

As the rationale for this proposal appears to be limited to achieving alignment with IFRS 18, we do not support introducing a separate line item for goodwill.

Preliminary View 7—Chapter 3: Statement of Financial Position

The IPSASB's Preliminary View is that the new IPSAS Standard should retain IPSAS 1 requirements to:

- (a) Not prescribe a specific structure (i.e., order or format) for presenting the Statement of Financial Position; and**
- (b) Not require the presentation of specific subtotals on the Statement of Financial Position.**

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons and clearly explain what you consider should be changed regarding the structure and the presentation of specific subtotals.

We support the IPSASB's Preliminary View.

The proposed approach appropriately balances comparability and flexibility by allowing entities to determine the most appropriate structure and subtotals based on their user needs.

Preliminary View 8—Chapter 4: Statement of Financial Performance

The IPSASB's Preliminary View is to present revenue and expense items recognized in surplus or deficit in categories on the Statement of Financial Performance. The categorization requirements are aligned with IFRS 18 requirements, with additional public sector guidance.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons and clearly explain what you consider should be changed (for example, if you prefer a specific public-sector specific categorization, such as those considered in paragraph 4.30, please explain why it would meet the criteria in paragraph 4.29).

We do not support the IPSASB's Preliminary View.

During our consultation, stakeholders questioned whether the IPSASB has demonstrated a clear reporting problem that necessitates the categorisation of revenue and expenses in the Statement of Financial Performance. Stakeholders indicated that they have not experienced significant challenges with the current presentation requirements and were not persuaded that the proposed categorisation would provide sufficiently useful information to justify the associated cost, complexity and judgement required to apply it.

Stakeholders also questioned whether the proposed categories appropriately reflect the nature of public sector activities and how financial performance is assessed in the public sector. Most public sector entities primarily undertake activities to deliver services and are funded through revenue received for that purpose. As a result, most revenue and expenses are likely to be presented within the operating category. In these circumstances, the proposed

categorisation may neither meaningfully distinguish between different activities nor significantly improve users' understanding of financial performance.

In addition, stakeholders questioned whether sufficient work has been undertaken to identify public-sector-specific notions of financial performance and the information needs of primary users. Given the diversity of public sector entities, their objectives and their users, stakeholders were not convinced that the IFRS 18 categorisation model would necessarily provide decision-useful information across the public sector.

Stakeholders further noted that the IPSASB's rationale for categorisation is based largely on improving comparability and reducing diversity in practice. However, they were not convinced that sufficient evidence has been provided to demonstrate that the proposed categorisation would achieve these objectives, particularly where stakeholders have not identified deficiencies in the current presentation requirements.

Stakeholders also observed that the proposed operating, investing and financing categories were familiar from the Statement of Cash Flows. However, the basis for classification differs from that used in the cash flow statement, and in certain circumstances revenue and expenses that would ordinarily be considered investing or financing in nature in the cash flow statement may be reported within the operating category in the Statement of Financial Performance because they relate to an entity's main operating activities. Stakeholders were concerned that using the proposed categories may create confusion and lead users to assume that the categories have the same meaning across the two statements when this may not be the case.

Consequently, we recommend that the IPSASB retain the existing presentation requirements or consider public sector specific categories. While our stakeholders agreed a public sector specific categorisation approach could provide more useful information, they were unable to identify an alternative model that would be appropriate across jurisdictions.

Preliminary View 9—Chapter 4: Statement of Financial Performance

The IPSASB's Preliminary View is to present totals and subtotals, and to permit entities to present additional subtotals, on the Statement of Financial Performance, as listed in paragraph 4.35. The total and subtotal requirements are aligned with IFRS 18 requirements, adapted for the public sector.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons and clearly explain what you consider should be changed.

We do not support the IPSASB's Preliminary View.

Consistent with our response to Preliminary View 8, we do not support the introduction of the proposed mandatory subtotals. Stakeholders noted that they have not experienced difficulties with the existing presentation requirements and were not persuaded that the proposed subtotals would provide more useful information to primary users of public-sector financial statements.

In the absence of clearly identified reporting challenges or evidence that the proposed subtotals would improve users' understanding of financial performance, we are not convinced

that the benefits of introducing mandatory subtotals have been demonstrated. We therefore recommend that the existing requirements be retained.

Preliminary View 10—Chapter 4: Statement of Financial Performance

The IPSASB's Preliminary View is to maintain the minimum requirements regarding the presentation of line items on the face of the Statement of Financial Performance, with additional guidance. The minimum line item presentation requirements are aligned with IFRS 18 requirements, with additional public sector guidance.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons and clearly explain what you consider should be changed.

We support retaining the existing minimum line-item requirements but only support additional guidance that is independent of the categorisation proposals.

We support retaining the existing minimum presentation requirements for line items on the face of the Statement of Financial Performance, as these requirements are appropriate and continue to provide a sound basis for presenting financial performance. We also support providing additional guidance to assist entities in determining when additional line items should be presented to provide a useful and structured summary of revenue and expense items.

However, our support is limited to guidance that can be applied independently of the categorisation approach proposed in Preliminary View 8. Because we do not support the introduction of mandatory categories for revenue and expenses, we do not support aspects of the additional guidance that depend on that approach. The IPSASB should instead develop any improvements to the existing line-item requirements independently of the categorisation proposals.

Specific Matter for Comment 1—Chapter 4: Statement of Financial Performance

The IPSASB proposes to maintain the requirements to present expenses by the nature of the expenses or by their function to the entity on the face of the Statement of Financial Performance, in alignment with IFRS 18 requirements, with additional guidance.

In your view, should the new IPSAS Standard replacing IPSAS 1 permit mixed presentation, where some expense line items are presented by nature, while others are presented by function? Would mixed presentation result in a useful structured summary of those expenses for users of financial statements in your jurisdiction?

Please provide the reasoning behind your view.

We support retaining the existing requirements for presentation by nature or function, but do not support permitting mixed presentation.

We agree that entities should continue to determine whether presentation by nature or by function provides the most relevant and faithfully representative information. However, we disagree that permitting mixed presentation would provide a useful, structured summary of expenses.

During our consultation, stakeholders questioned the usefulness of a mixed presentation approach in the public sector. It was noted that presenting expenses using a combination of nature and function classifications may reduce comparability and make financial performance more difficult for users to understand.

We therefore support retaining the existing requirement that entities present expenses either by nature or by function, based on which approach provides the most relevant and faithfully representative information. Additional information can continue to be provided in the notes where necessary to support users' understanding of the financial statements.

Preliminary View 11—Chapter 5: Statement of Changes in Net Assets/Equity

The IPSASB's Preliminary View is to maintain (1) requirements to present revenue and expense items recognized outside surplus or deficit directly in net assets/equity, on the Statement of Changes in Net Assets/Equity, and (2) requirements related to reclassification adjustments.

Do you agree with the IPSASB's Preliminary View, and are there additional enhancements to these IPSAS 1 requirements the IPSASB should consider (for example, whether to enhance disclosure requirements to help users better understand the nature and composition of material revenue and expense items recognized outside of surplus or deficit)?

If you do not agree, please provide your reasons and clearly explain what you consider should be changed.

We support the IPSASB's Preliminary View.

Retaining the existing location avoids unnecessary disruption and reflects established public sector practice. We support enhancing the disclosures in the notes accompanying the Statement of Changes in Net Assets/Equity to better communicate key messages and provide additional context and detail to support users in understanding, analysing and comparing this information. We also support retaining the existing requirements relating to reclassification adjustments.

Preliminary View 12—Chapter 5: Statement of Changes in Net Assets/Equity

The IPSASB's Preliminary View is to maintain the presentation requirements regarding the Statement of Changes in Net Assets/Equity, and revise the reconciliation requirement to require the reconciliation be displayed on the face of the Statement.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons and clearly explain what you consider should be changed.

We support the IPSASB's Preliminary View.

Requiring the reconciliation of each component of net assets/equity to be presented on the face of the Statement of Changes in Net Assets/Equity improves transparency and comparability. The reconciliation provides a useful overview of the movements in net

assets/equity during the reporting period and supports users' understanding of what is driving those changes.

Preliminary View 13—Chapter 5: Statement of Changes in Net Assets/Equity

The IPSASB's preliminary view is that guidance based on IFRIC 17 *Distribution of Non-cash Assets to Owners* should not be incorporated into the IPSAS Standards, as the relevant transactions are not prevalent in the international public sector.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons and clearly explain what you consider should be changed.

We support the IPSASB's Preliminary View.

Transactions within the scope of IFRIC 17 are not prevalent in the public sector. We therefore agree that guidance based on IFRIC 17 need not be incorporated into IPSAS Standards.

Preliminary View 14—Chapter 6: Disclosure of Information in the Notes

The IPSASB's Preliminary View is to retain existing IPSAS 1 requirements for the disclosure of information in the notes to the financial statements, and incorporate the IASB's amendments to IAS 1 (as presented in paragraphs 6.7 and 6.12) which would align with equivalent IFRS Accounting Standards guidance.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons and clearly explain what you consider should be changed.

We support the IPSASB's Preliminary View.

We support the emphasis on materiality and the application of judgement in determining accounting policy disclosures, including the greater flexibility to organise notes in a manner that best communicates information to users.

Preliminary View 15—Chapter 6: Disclosure of Information in the Notes

The IPSASB's Preliminary View is to not incorporate the IFRS 18 definition and disclosure requirements for management-defined performance measures (MPMs) into the IPSAS Standards.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons and clearly explain what you consider should be changed.

We support the IPSASB's Preliminary View.

Our stakeholders confirmed that management-defined performance measures, as defined in IFRS 18, are not prevalent in the public sector and incorporating the IFRS 18 definition and disclosure requirements into IPSAS Standards is unnecessary.

Preliminary View 16—Chapter 6: Disclosure of Information in the Notes

The IPSASB's Preliminary View is to not include an amended IFRS 18 MPM concept for application in the public sector (thereby not introducing an amended version of the IFRS 18 MPM definition or disclosure requirements into the IPSAS Standards).

Do you agree with the IPSASB's Preliminary View?

If not, please:

- a) Provide your reasons, and provide specific examples of alternative performance measures that are defined by management and provided in public communications outside the financial statements; and**
- b) Clearly explain why there is a need for greater transparency of those measures that warrants new guidance in the IPSAS Standards.**

We support the IPSASB's Preliminary View.

There is insufficient evidence of a need for a public sector version of management-defined performance measures. Introducing an amended concept and related disclosure requirements would add complexity without a clear benefit.