



**INTERNATIONAL FEDERATION
OF ACCOUNTANTS**

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DATE: 10 OCTOBER, 2006
MEMO TO: IPSASB MEMBERS
FROM: PAUL SUTCLIFFE
SUBJECT: **COLLABORATIVE PROJECT – PUBLIC SECTOR
CONCEPTUAL FRAMEWORK**

ACTION REQUIRED

The IPSASB is asked to:

- **Review** the revised Project Brief and NSS comments thereon, with a view to its approval. (*Please note the term NSS is used in this memo to encompass all national standards setters and similar bodies that are party to the collaborative project*);
- **Agree** membership of the subcommittee to undertake preliminary review of project materials on behalf of IPSASB; and
- **Note** report on the NSS group reviewing the IASB-FASB joint conceptual framework project– to be included in second distribution of Agenda materials.

AGENDA MATERIAL:

| | Pages |
|--|-------------|
| 11.2 A revised draft project brief on the Public Sector Conceptual Framework project | 11.5 -11.37 |
| 11.3 Nominations for Membership of the subcommittee | 11.38 |
| 11.4 Input from IPSASB subcommittee and NSS participants on the draft project brief | |
| 11.5 Report on IASB-FASB joint Conceptual Framework project | |

BACKGROUND

The revised project brief

Changes to the draft brief have been made to reflect discussion at the July 2006 meeting in Paris. Major changes are that:

- (i) It is now proposed that consultative papers be issued on the components of the Framework as the first phase of the project (rather than Exposure Drafts (EDs) as previously proposed). Subsequently, a draft ED dealing with the full framework will be issued for comment;
- (ii) The project brief now provides that whether the project should focus on general purpose financial statements or a broader notion of general purpose financial reports, and implications of the focus adopted for treatment of such matters as budget reporting and performance indicators, will be considered during development of the project. This is intended to provide the capacity for the framework to evolve in this area as different perceptions and views are further discussed and considered;

- (iii) The project timing has been extended by 12 months in recognition that activity will not commence until after the IPSASB's November 2006 meeting, and any subsequent meetings of the participating NSS which will be necessary to formally agree the project brief, subcommittee membership and NSS staff allocation to particular Framework tasks;
- (iv) The project brief acknowledges the revised role of IPSASB staff (a coordinating role) and the NSS staff (project development on a task by task basis);
- (v) The size of the subcommittee is not now specified, but allows for subcommittee membership for all those NSS members who will allocate staff resources to project development tasks, and wish to be a subcommittee member. However, the project brief continues to specify that if possible the IPSASB chair should also chair the subcommittee, and that the subcommittee may comprise up to four or five IPSASB members; and
- (vi) The primary focus and first priority of the project is identified as developing the Framework for the accrual basis.

A clean copy of the project brief is attached. A marked up copy is available on request.

As agreed at the meeting in Paris in July 2006, this project brief has been circulated for comment to all NSS members who participated in the meeting and to the IPSASB subcommittee monitoring the IASB-FASB joint project – that subcommittee worked with staff to develop the first draft project brief. Comments received, and staff recommendations on any further revisions to the project brief as a consequence, will be included in the second distribution of Agenda materials for this meeting.

Membership of the subcommittee

During July 2006 an email was sent to all the NSS bodies who participated in the Paris meeting and to all IPSASB Members and Observers requesting that they advise staff of their interest in participating in the subcommittee. The NSS were also requested to confirm their willingness to provide staff resources to the project on a task by task basis.

Agenda item 11.3 identifies those NSS and IPSASB members and observers who have expressed an interest in membership of the subcommittee. Item 11.3 also identifies those NSS members who have indicated that they are able to allocate staff resources to progress this project.

Some NSS and IPSASB members nominated for both this and the public private partnerships (PPPs) subcommittee, but acknowledged that it may only be possible to be a member of one subcommittee, and indicated a preference for a particular subcommittee. It is proposed that at the forthcoming meeting, the IPSASB consider the composition of both this and the PPPs subcommittee together to ensure an equitable distribution of work-load and subcommittee representation.

To date there have been expressions of interest in membership of the subcommittee or in monitoring the project from the following NSS members. (**Identifies those NSS which have indicated that they are able to provide staff resources on a task by task basis.*):

- *Australia – Australian Accounting Standards Board (AASB)
- FEE – PSC (Monitor only)
- *France - Ministry of Finance,
- *Italy - Ministry Economica/Finance,
- *NZ – Financial Reporting Standards Board (FRSB)
- *Peoples Republic of China - Ministry of Finance
- *South Africa - Accounting Standards Board (ASB)

Spain - Ministry of Economy/Finance, (subject to final confirmation)

*Switzerland - Dept. Finance (Monitor only)

*UK – Accounting Standards Board (ASB)

The following IPSASB Members and observers have also nominated for membership of the subcommittee: Argentina, Australia, France, Japan, New Zealand, South Africa, UK and the IMF (IPSASB Observer).

Please advise staff if you wish to participate in the subcommittee but are not included in this list. Some parties have indicated that they are still in the process of finalizing their potential participation in the subcommittee with their Boards/Organizations. If further nominations are received, the listing will be updated and included in the second distribution of IPSASB Agenda Papers for this meeting.

Key tasks to be undertaken by NSS staff

The key tasks to be undertaken by NSS staff allocated to this project will be preparation of initial drafts of Consultation Papers (or components thereof) for subcommittee review, revision of those drafts based on subcommittee and IPSASB comments, summary and analysis of submissions from the public exposure of those Consultative Papers and participation in preparation of the composite Framework ED.

The first group of tasks will be preparation of Consultation Papers. The draft project brief identifies those papers as dealing with the following:

1. The objectives of financial reporting;
2. The qualitative characteristics of financial information;
3. The characteristics of the reporting entity;
4. The definition and recognition of the “elements” of financial statements;
5. Additional matters that that might be included in general purpose financial reports (rather than in the financial statements themselves);
6. Measurement bases; and
7. The cash basis framework.

The project brief includes a schedule identifying key milestones in the project development, and expectations about when tasks will be progressed and completed.

The NSS participants who indicated their willingness to allocate staff resources to this project have been requested to provide an indication of whether their organization would be prepared to allocate staff to develop a first draft of a paper dealing with issues identified above, and particularly with any of issues 1-5.

The immediate need is, of course, to action development of papers dealing with topics 1 and 2 (objectives and qualitative characteristics). However, for project planning and management purposes it will be very useful to confirm at this time the availability of resources for the development of papers identified at 1-5 above. This will enable the IPSASB to develop preliminary views on NSS staff resources available, and the likely deployment of those resources.

Responses from the NSS on this matter will be included in the second distribution of agenda material for consideration at this IPSASB meeting.

In considering how tasks may be allocated to individual NSS participants, members may wish to consider whether there is merit in “pairing” NSS participants to prepare first drafts of documents for subcommittee review. In this context, one organization could prepare an initial draft for review by its partner. The document would then be updated based on comments received for review by the subcommittee, noting any areas of difference. These areas of difference would also be brought to the attention of the IPSASB.

In determining pairings, a number of the following factors could usefully come into play:

1. Tasks that individual organizations have a particular interest in and may currently be pursuing within their national jurisdiction – to draw on the interest and current work programs of participants.
2. Pairing organizations that may come from different financial reporting traditions and operate within different public sector institutional arrangements – to provide input from different perspectives at the early drafting stage.
3. Pairing one of the four NSS members that have been monitoring the IASB-FASB joint Conceptual Framework project from a non-profit entity perspective, with an NSS member who has not been party to the discussion and deliberations of that group – to take advantage of the work done by the four NSS members and also to benefit from any different perspectives on these matters during the initial development of papers.
4. Pairing jurisdictions with English as a first language with jurisdictions with English as a second language – to draw insights into potential translation or interpretation issues early in the process.

Whether this approach has merit will of course be dependant on responses from individual NSS on their capacity to undertake particular tasks within the time-frame of this project.

Staff Views: Meeting Objectives And Proposed Follow Up Actions

The staff view is that at this meeting the IPSASB should:

1. Agree the Project Brief and subcommittee membership, subject to final confirmation and/or comment by all participating NSS organizations; and
2. Agree proposals for allocation of tasks to individual NSS participants, based on input from the NSS participants.

Subsequent to the meeting, the IPSASB and its subcommittee should communicate with NSS participants to confirm and finalize arrangements for project development and task allocation. Proposals for the preparation and contents of the first Consultation Papers should then be developed by the subcommittee in conjunction with the responsible NSS and circulated to all IPSASB members for confirmation.

Staff are also of the view that the finalized project brief could usefully be issued on the IPSASB web as a Consultative Paper with a request for comment on such matters as the components of the Framework, its authority and scope and the process and timing for its development. This will provide constituents with the opportunity to provide input to the development process. Comments could be considered by the subcommittee and IPSASB early in 2007. (This matter is raised in the project brief itself.)

INTERNATIONAL FEDERATION OF ACCOUNTANTS
INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS BOARD
DRAFT PROJECT BRIEF (UPDATE SEPTEMBER 06)
Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities
(*The Public Sector Conceptual Framework*)

BACKGROUND

When it first actioned its standards setting program, the PSC (subsequently reconstituted as the IPSASB in November 2004) determined that it would initially focus on developing a credible core set of IPSASs that could be adopted by those entities seeking guidance on financial reporting issues. This approach was supported by the funders of the standards setting program. It also reflected the approach of many standards setters - that is, to develop their knowledge of concepts in conjunction with the development of standards before formally developing and publishing a Conceptual Framework.

Many concepts, definitions and principles are embedded in specific IPSASs. However, a document which draws together and makes explicit these concepts, definitions and principles, and identifies, explains and tests their interrelationships has not been articulated and issued. Attachment 1 to this Project Brief provides an overview of the definitions and explanations currently included in the IPSASs.

The need for an IPSASB Conceptual Framework has been recognized by IPSASB members and observers, by the IPSASB Consultative Group and by others in the financial reporting community. It is an important component in the literature of standards setters around the world, will reinforce the ongoing credibility of the IPSASB and will support efficient and consistent decision making by the IPSASB.

PROJECT OBJECTIVE

The objective of this project is to develop a Public Sector Conceptual Framework which is applicable to the preparation and presentation of general purpose financial reports of public sector entities. In developing this Conceptual Framework, the IPSASB and its subcommittee will consider whether the Framework should focus on only financial statements or should encompass a broader notion of general purpose financial reports, and implications of the focus adopted for components of the Framework. (Terminology, including project title, will be amended appropriately to reflect the focus on financial statements or financial reports.)

PROJECT SCOPE

It is intended that the Public Sector Conceptual Framework will be developed primarily for public sector entities other than Government Business Enterprises (GBEs). GBEs are profit seeking entities. As noted in the "Preface to International Public Sector Accounting Standards", GBEs apply IFRSs issued by the International Accounting Standards Board (IASB) and are therefore subject to the IASB's "Framework for Preparation and Presentation of Financial Statements" (the IASB Framework).

The operating/performance objectives of profit seeking entities in the private sector focus on sustainable long run profit maximization within operating parameters established by legislation and legal and social norms and, in most cases, with the objective of being good corporate citizens. However, the performance objectives of GBEs often also include the

achievement of certain non-profit/social policy objectives imposed on them by governments, and their operations are subject to, and conditioned by, certain service delivery objectives. In the development of the Public Sector Conceptual Framework and the revised IASB Framework, the IPSASB and the IASB will need to consider whether the social policy/service delivery objectives that GBE's may be subject to will influence the objectives of financial reporting by GBE's and/or other components of the conceptual Framework that applies to them.

IPSASB DUE PROCESS

The IPSASB follows a formal due process for the development of IPSASs. That process involves the preparation and issuance for comment of an exposure draft (ED) that identifies the proposed requirements of an IPSAS and consideration of responses to the ED in the process of finalizing the IPSAS. The due process may also include the issuance of consultation papers prior to the development of an ED.

The development of the Conceptual Framework will be subject to this due process, with consultative papers and an ED of the proposed Framework being developed and issued for comment. Comments received will then be fully considered in the process of finalizing the Framework.

As noted below, the Public Sector Conceptual Framework will be developed as a collaborative project with other national standards setters and similar bodies, which may also have their own due process. Documents developed as part of this project and issued domestically by those national bodies may also be subject to the national due process.

COLLABORATIVE PROJECT

The IPSASB will lead the Conceptual Framework project in collaboration with national standards setters and similar authoritative bodies which have responsibility for financial reporting by public sector entities in their jurisdiction (the term NSS is used in this document to encompass all such national standards setters and similar bodies that are party to the collaborative project).

Actioning the development of the Framework as a joint project with a number of NSS in IPSASB member and other jurisdictions provides the opportunity for the development of a substantially harmonized Conceptual Framework across a number of jurisdictions, provides the opportunity for the IPSASB to be informed by the work already undertaken at the national level in many jurisdictions, and has the potential to be a resource efficient mechanism for all that are party to it.

Mechanisms for the development of draft documents, the role of the NSS in the project and the operation of the collaborative process are explored further below.

RELATIONSHIP OF THE PUBLIC SECTOR FRAMEWORK DEVELOPED BY IPSASB TO THE IASB FRAMEWORK

Many of the IPSASs currently on issue are based on IASs/IFRSs to the extent that the requirements of the IASs/IFRSs are relevant to the public sector. The current IPSASs therefore draw on concepts and definitions in the IASB Framework with modifications where necessary to address public sector circumstances. Attachment 2 to this Project Brief provides an overview of materials addressed in the IASB Framework and in the IPSASs.

Attachment 3 summarizes the result of a brief survey of IPSASB members (in February 2006) regarding the existence, nature and contents of Frameworks in place in their jurisdictions. It indicates that Frameworks are in place or under development in a number of member jurisdictions. It also indicates that those Frameworks have a similar coverage in respect of scope, nature and content.

While most, if not all, of the components of the IASB Framework are likely to be relevant for the IPSASB's Framework, the objective of this project is not simply to interpret the IASB Framework for application to the public sector. Rather, the objective is to develop the IPSASB's own Framework using the work of the IASB and other standards setters as appropriate.

It is then appropriate to consider whether all matters dealt with in the IASB Framework, and the way in which those items are dealt with, is appropriate for the public sector. It is also appropriate to consider whether additional matters such as disclosure of budget information, reporting performance against budget and disclosure of non-financial performance indicators should be included in the IPSASB Framework.

The IASB is proposing changes to the concepts and definitions in its Framework as part of a joint project with the FASB. A group of 4 national standards setters (NSS-4) with public sector responsibilities is currently monitoring the IASB-FASB joint project and preparing papers that draw out implications of proposed amendments to the IASB Framework for not-for-profit entities in the public and private sectors. An IPSASB subcommittee is an observer on that NSS-4 group. The monitoring process has identified that in many cases the current draft changes being proposed to the IASB Framework do not appear to fit well with public sector needs. The collaborative project will draw on the work already done by the NSS-4 group of standards setters as appropriate.

RESOURCE REQUIREMENTS AND PROJECT DEVELOPMENT

The development of a Conceptual Framework is a long term project. The original IASC Framework project was commenced in the early eighties with a series of separate projects on, for example, objectives, assets and liabilities. It was then brought together as a Framework project in the mid 1980's and finalized and issued in 1989.

The current IASB-FASB project was actioned in late 2004 and was scheduled for completion in 2010, though the time frame may well be modified during the developmental process. Significant IASB-FASB staff resources and Board meeting time are being allocated to the current project.

The IPSASB Conceptual Framework project is also likely to be resource intensive, in terms of both IPSASB meeting time and member and staff resources. The IPSASB already has a heavy work program and additional projects are being considered for inclusion on the active work program from 2007. A project schedule identifying key milestones in a collaborative Conceptual Framework project and is included later in this project brief. It anticipates completion of the Framework in 2011 and its publication in 2012.

The project development process and IPSASB meeting time allocation proposed in this project brief is intended to deliver key outcomes of the project (initial consultation documents, an exposure draft of the proposed Framework and the final Framework) in a timely and efficient manner within the resource capabilities of the IPSASB and of the

participating NSS. It envisages that the participating NSS provide staff resources for the project on a “per task” basis, and that the IPSASB:

- Allocate one half day of each meeting during 2007, 2008, 2009, 2010 and 2011 as necessary to progress the project. (The IPSASB meets three times a year for 3 to 4 days.);
- Use a subcommittee (comprising IPSASB members and members of the NSS) to undertake initial review of papers and other materials being prepared for IPSASB consideration;
- Allocate the equivalent of approximately .333 of a full time IPSASB staff member to the project to work with the subcommittee and NSS staff in the capacity of project co-ordinator. The project coordinator will assist the subcommittee chair, IPSASB, NSS staff and others in presenting materials to the subcommittee and the IPSASB; and
- Make use of additional consultants as the project demands and resources allow.

The IPSASB subcommittee

The IPSASB subcommittee will be broadly based, representing the wide IPSASB constituency to the extent possible. It will operate to implement the directions of the IPSASB and to ensure that documents prepared for IPSASB consideration are balanced and identify viable options and approaches to different concepts. In this context, it will undertake initial review of materials being prepared by NSS staff for discussion at IPSASB meetings, and provide input to the further development of those materials as appropriate. The subcommittee will also ensure that papers for IPSASB review are prepared on a timely basis, are circulated to the NSS who are party to the collaborative project as subcommittee or project advisory panel (PAP) members and, through the subcommittee chair, will report to each IPSASB meeting on progress.

The major characteristics of the subcommittee and its operating procedures, including its interaction with the IPSASB and NSS, are outlined below:

- Composition of the subcommittee – the subcommittee will comprise 4 to 5 IPSASB members and representatives of the national standards setters who provide staff resources to lead development of specific components of the project. (Technical advisors to subcommittee members, including the NSS staff responsible for specific project tasks, will also be welcome to participate.) The subcommittee will be chaired by the IPSASB chair if feasible, or other IPSASB member if not;
- Working procedures – the IPSASB will establish broad parameters for each stage of the project based on a key decisions questionnaires or similar issues papers prepared by an NSS staff member as agreed. That NSS will then be responsible for preparation of drafts of key documents which will be subject to initial review by the subcommittee. The subcommittee chair together with responsible NSS will then present papers together with subcommittee comments thereon to each IPSASB meeting. The subcommittee chair will also provide a report on progress on other papers at each IPSASB meeting;
- Subcommittee materials – papers for subcommittee review will be developed by NSS staff consistent with directions of the IPSASB as per above. All subcommittee papers will also be made available to all IPSASB members and a designated member of each of the participating NSS with an interest to monitor developments. These papers will be made available through the IPSASB web page;

- Subcommittee meeting arrangements - the subcommittee will conduct its business primarily by electronic means, but will retain the option of meeting to ensure some discussion occurs on a face to face basis. These meetings may take place at a time convenient for subcommittee members, including immediately before or following each IPSASB meeting. (Travel, accommodation and other costs to be met by subcommittee participants);
- Publication of consultative papers, exposure drafts and other materials - the issuance of documents for comment (exposure drafts and/or other consultative papers) will be subject to the usual voting rules of the IPSASB. Once approved by the IPSASB for release at the international level, documents may also be released by the NSS for domestic review together with any contextual commentary considered necessary by the NSS in each jurisdiction.

MATTERS TO BE DEALT WITH IN THE PROJECT

A Framework for the Cash Basis and a Framework For The Accrual Basis

The Framework of the IASB deals with only one basis of accounting – the accrual basis. This approach is reflected in the Frameworks of standards setters in IPSASB member jurisdictions – see attachment 3. It reflects that those standards setters issue standards for financial reporting under the accrual basis of accounting.

Discussions of the development of a Public Sector Framework by the IPSASB have focused, explicitly or implicitly, on a Framework for preparation and presentation of financial statements under the accrual basis of accounting.

However, the IPSASB has developed a comprehensive Cash Basis IPSAS as well as a series of accrual IPSASs. Therefore it is appropriate that the IPSASB also articulate the conceptual underpinnings of its approach to financial reporting under the cash basis of accounting.

In anticipation that the greatest interest and priority of the IPSASB and NSS will be to develop the Framework that underpins the accrual basis of reporting, it is proposed that the conceptual underpinnings of the cash basis be developed as the last phase of the project.

The concepts to be dealt with under a cash basis may not be as extensive as for the accrual basis, and there may be some common elements and some common ground – for example components of a Conceptual Framework for the cash basis will need to deal with such matters as the objectives of financial reporting, reporting entity, the definition of cash and presentation and disclosure. While some concepts will be similar for the cash and accrual Frameworks (for example, notions of the reporting entity and the objectives of financial reporting), others are likely to differ from the equivalent concepts for the accrual basis in some respects (for example, presentation and disclosure).

As the project develops, the IPSASB may determine to issue its Public Sector Conceptual Framework as one document including both the cash and accrual Frameworks. However, the cash and accrual concepts should be identifiable as stand alone components and concepts for each Framework identified and explained independently. This will facilitate use of the Framework as developed by the IPSASB by those NSS which currently develop standards only under the accrual basis or only under the cash basis.

Components of the Framework – accrual basis

As illustrated in attachment 3, Conceptual Frameworks have been developed and/or are being developed and improved in many jurisdictions currently represented on the IPSASB. In some cases those Frameworks have been developed to apply to public sector entities. Frameworks have also been developed in other jurisdictions not currently represented on the IPSASB.

Frameworks in member jurisdictions deal with objectives, qualitative characteristics, assets, liabilities, revenue (currently under development in Canada), expenses, equity/net assets, recognition criteria, measurement bases (descriptive only in Australia) and financial statements (Australia and Canada have requirements outside the Framework). A number, but not all, also deal with characteristics of the reporting entity and the scope of financial reporting. In some jurisdictions, Frameworks may also address concepts of capital and capital maintenance, non-financial performance reporting (service efforts and accomplishments), management analysis and discussion, communication, and accounting for interests in other entities.

The IASB Framework also deals with many of these components: for example it includes consideration of objectives, qualitative characteristics, the elements of financial statements for presentation of financial position and performance (assets, liabilities, equity, expenses, and income, which encompasses revenue and gains), recognition criteria, underlying assumptions of going concern and the accrual basis, measurement bases and capital and capital maintenance. The current review of the IASB Framework includes consideration of the reporting entity, purpose and status/authority of the Framework and presentation and disclosure.

Clearly there is a consensus about the core items that should be dealt with in Conceptual Frameworks: objectives, qualitative characteristics, elements of financial statements (assets, liabilities, revenue, expenses, equity/net assets), recognition criteria, measurement bases, and presentation and disclosure. However, given that users of public and private sector financial statements and certain of their information needs may differ, there may well be some differences in the definition and consequences of these concepts – for example, whether private sector objectives which focus on use of financial statements as predictors of future cash flows and whether notions of equity/net assets adopted in the private sector are applicable in the public sector will need to be explored and tested as part of the developmental process.

There is also a case for including concepts of the reporting entity and the scope of financial reporting in the public sector within the IPSASB Framework, and for clarifying the purpose and authority of the Framework itself.

Reporting Entity

Notions of reporting entity and what may be encompassed within a particular reporting entity, whether at the individual entity or consolidated economic entity level, may be well understood in the private sector and in statistical reporting bases in the public sector. However, they are not as well developed for financial reporting consistent with accounting principles in the public sector. In addition, the objectives of statistical reporting models and accounting reporting models differ. Consequently, it may well be that notions of the reporting entity that are appropriate for financial reporting consistent with statistical

reporting models will differ from the notions that are appropriate for accounting reporting models. The IPSASB Framework should provide needed guidance in this area.

Scope of Financial Reporting

The following items may well impact on the scope of financial statements and/or financial reporting in the public sector, and may extend that scope beyond the scope conventionally considered as applicable to by private sector for-profit entities in many jurisdictions.

The extent to which these matters are considered as part of this Framework project, and whether at initial or subsequent stages of the project development, will flow from decisions on whether the Framework should focus only on financial statements or should encompass a broader notion of general purpose financial reporting – this matter was raised under Project Objectives above.

(a) Performance Reporting

The focus of Conceptual Frameworks for financial reporting by private sector entities is primarily on the disclosure of information about the current financial position and immediate past financial performance of the reporting entity, often as input to better enable users to form views about the likely future financial performance of the entity or economic entity. This is consistent with the objectives of such entities which focus on the delivery of financial returns to stakeholders over the long term. Statistical financial reporting models also focus on the disclosure of the financial characteristics of performance as input for economic analysis and decision making.

Public sector entities operate to achieve service delivery and social policy objectives as well as financial objectives. Assessments of the performance of public sector entities, including their financial performance, cannot be isolated from their achievement of service objectives - this is particularly, but not exclusively, so for non-GBE's. There is then a strong case that general purpose financial reports intended to discharge the accountability of a public sector reporting entity will encompass not only the financial characteristics of their performance, but also the achievement of their service delivery objectives – that is, information about non-financial characteristics of their performance.

Whether disclosures of non-financial characteristics of performance are included within general purpose financial statements or a broader notion of financial reporting in the public sector will need to be considered in the process of developing the Conceptual Framework. This is likely to encompass consideration of the status and “location” of disclosure of performance indicators and explanatory narrative which may be included as notes to the financial statements or in management discussions and analysis (MDA) or operations review which accompany those financial statements, and which may (or may not) be subject to audit.

(b) Budget Reporting

Most governments prepare and issue as public documents, or otherwise make publicly available, their annual financial budgets. The budget documents are widely distributed and promoted. They reflect the financial characteristics of the government's plans for the forthcoming period and form the basis of financial data used to compile the national accounts of most countries. Monitoring and reporting on budget execution is necessary for ensuring compliance with Parliamentary (or similar) authorization and is the central component of the process that provides for government and parliamentary (or similar)

oversight of the financial dimensions of operations. Making budget data publicly available is necessary to enable transparent reporting of the government's financial intentions and of its use of taxes and other revenues. In many respects, and for many external users, the budget documents are the most important financial statements issued by governments.

Budget reporting models often embrace the notion of commitments. While there is not a generally accepted single definition of this term, it is generally acknowledged as the government's responsibility for a possible future liability based on a contractual agreement. In many jurisdictions, reporting commitments has had an important role in financial reporting in the public sector.

As part of the process of developing the Public Sector Conceptual Framework it will be necessary to explore and clarify whether presentation of prospective budget data and reporting on budget compliance is within the scope of general purpose financial statements and/or general purpose financial reports in the public sector. In this context, it will be necessary to clearly distinguish between budget formulation and presentation of budget data as GPFs, and the role of commitment accounting in the Framework.

(c) Prospective Financial Information and Reporting on the Long Term Sustainability of Government Programs

Many governments initiate social benefit programs intended to provide benefits to constituents over the long term. These programs are to be funded by revenues raised from constituents in the future in the form of taxes and government charges, and/or by transfers from other levels of government. The financial consequences of these programs and the resources to be generated in the future to fund them, are unlikely to be captured by concepts of assets, liabilities, revenues and expenses which are constructed to ensure that the economic consequences of past transactions and events can be reported on a reliable and consistent basis in financial statements that are subject to audit.

Profit seeking entities which operate in a competitive environment may make disclosures of prospective financial information based on assumptions about events that may occur in the future and possible actions the entity may take. However, any such disclosures are likely to be broad and limited in detail. This is because they may include commercially sensitive information about future plans and strategies which may undermine the competitive advantage of an entity and its ability to achieve its profit objectives, to the detriment of stock holders and other stakeholders.

However, the potential loss of commercial advantage is not a significant factor in assessing whether such disclosures should be made by public sector entities. Disclosure of prospective financial information may be a necessary adjunct to information recognized in the financial statements consistent with the objective of financial reporting by such entities. Such disclosure may include financial information about the long term fiscal sustainability of social benefit programs at different levels of service delivery.

Governments are already responding to this potential information need of users of their financial statements. For example, in some jurisdictions government entities are required to disclose forecasts of long range cash inflows and outflows for major classes of social benefits, information about the present value of future benefits to be provided to current and anticipated beneficiaries and key assumptions underlying those forecasts and estimates. In addition, some governments provide "whole of government" information useful as input to

assessments of the extent to which current social policies are sustainable in the medium and long term, including the projected impact of those policies on taxation, debt and the government's overall financial condition. Such information may be included in "generational reports" which are presented as part of the budget process; or as separate reports and papers on projected revenues, expenses and cash flows under existing policies.

Development of the public sector Framework could usefully include consideration of whether the disclosure of prospective financial information is included within the scope of general purpose financial reporting.

Relationship to Concepts in the System of National Accounts (SNA)

Accounting and statistical bases for reporting financial information have different objectives, focus on different reporting entities and treat some transactions and events differently. However, they also have many similarities in treatment, deal with similar transactions and events and in some cases have a similar type of report structure.

The overarching model for financial reporting of data for macroeconomic statistical analysis is the System of National Accounts, 1993 (1993 SNA). Statistical models of financial reporting in various jurisdictions around the world are broadly harmonized with the SNA. Currently, the 1993 SNA is being updated, with the objective of publishing a revision in 2008. The IPSASB has been contributing to the 2008 update of the SNA through its involvement in the international Task Force on Harmonization of Public Sector Accounting (TFHPSA). The mandate of the TFHPSA included encouraging convergence between accounting and statistical bases of financial reporting where feasible and desirable, and providing input to the 2008 update of the SNA. A number of proposed changes to the 2008 SNA will contribute to ongoing convergence of accounting and statistical bases of financial reporting.

There is then merit in considering the concepts underlying the statistical reporting models, and the potential for convergence therewith, as the IPSASB Framework develops.

Purpose and Authority of the Framework

The authority of the Frameworks in IPSASB member jurisdictions differs – see attachment 3.

The IASB Framework is of a lesser authority than an IAS or IFRS developed to deal with a specific transaction or event. However, the IASB Framework does guide the selection of accounting policies when an IAS/IFRS has not been established on a particular matter. It is then a relevant source of guidance to management in selecting accounting policies to deal with circumstances not specifically dealt with in an IFRS.

At the international level, it is likely that the principles reflected in a Conceptual Framework will be too broad to apply authoritatively to all transactions not dealt with specifically in an IPSAS – this is particularly so given the potential for legal and institutional conventions to differ in different jurisdictions, and for different practices and policies to apply in jurisdictions which may apply IPSASs.

Establishing authoritative requirements for recognition, measurement and disclosure of particular transactions in specific IPSASs will ensure that these requirements are subject to due process. It will also provide the IPSASB with the opportunity to include appropriate

transitional provisions in each IPSAS to respond to practicalities of implementation, in different jurisdictions and thereby ensure that there is an orderly adoption of the IPSAS.

It is therefore intended that the IPSASB Framework have similar authority to that of the current IASB Framework. Such a Framework will be of use to the IPSASB and its subcommittees in guiding decisions and deliberations in the standards setting process, and to users of IPSASs who will be faced with establishing accounting policies for matters not specifically dealt with by IPSASs.

DUE PROCESS

Consultation Papers and Exposure Drafts

The IPSASB has initiated a number of its major projects with a consultative document, whether an Invitation to Comment (ITC), Research Report or Study. Similarly, in a number of jurisdictions a discussion paper or series of discussion papers has set the ground work for the development of the Conceptual Framework.

At the international level, the IASB commenced its original Framework project with the issuance of a series of EDs in the early 1980's. The IASB has now agreed to issue discussion papers as the first step in the revision of its Framework, with an exposure draft to draw all the components together at a later stage in the project (the IASB had originally intended to move directly to exposure drafts of each component rather than to develop discussion papers).

The IPSASB will similarly issue consultative papers of the key components of the Framework, followed by an exposure draft of the full Framework. This will enable it to take advantage of the recent and current development work undertaken in member jurisdictions and by the NSS and IPSASB subcommittee monitoring the IASB developments. Such an approach will build and maintain momentum for the project during the early stages of the project, and draw together the individual components in the final stages of the project.

To ensure constituents have the opportunity to provide input to the development process, it is proposed that the Project Brief as agreed at the November 2006 IPSASB meeting be issued as a consultation document with a request for comment on such matters as the components of the Framework, its authority and scope and the process and timing for its development. Responses can then inform the development of the project. Feedback will be considered by the IPSASB and its subcommittee during the first half of 2007. However, it is anticipated that preliminary work on objectives and qualitative characteristics, components which are common to all Frameworks, will commence in late 2006/early 2007.

Consultative Papers

The components of the Framework are interconnected - decisions about the objectives and scope of financial reporting will influence the elements of financial statements and other information which may be included in notes to general purpose financial statements or as part of general purpose financial reports. There is then a sound argument that, in principle, the components should be developed together and the full Framework issued as an exposure draft. However, on practical grounds, it is not possible to deal with all components at the one time. As such, it will be necessary to move forward on some components of the Framework before others. This will also provide constituents and the IPSASB and NSS with the opportunity to review and comment on components as the Framework develops, and for later stages of project development to be informed by responses to prior consultative documents.

In terms of sequences and groupings it is proposed that the components of the Framework be grouped as follows – these groupings are based on the expectation that staff resources will be allocated to the project by the IPSASB and NSS on a task by task basis, and that the initial focus of the Framework project will be on the concepts underpinning the accrual basis. Whether or not each component is developed as a separate Consultation Paper, whether two or more components may be combined, or whether individual components will be further broken down will be considered by the subcommittee as tasks are allocated to each participating NSS and the development work progresses:

First group of Consultation Papers

- (a) Objectives of financial reporting - this Consultation Paper will identify and justify the objectives of financial reporting by public sector entities. It will also make recommendations on whether the primary focus of the Framework should be on general purpose financial statements or general purpose financial reporting.
- (b) Qualitative characteristics of financial information – these are characteristics that all information included within the general purpose financial statements or report will need to possess. This Consultation Paper will identify and explain the qualitative characteristics and their relationship to each other. Consideration of the qualitative characteristics will illuminate notions of what will be included in primary financial statements and in notes thereto. This will also guide/influence consideration of the scope of financial reporting and whether financial reporting in the public sector may encompass additional information in supplementary statements and reports.

Second group of Consultation Papers

- (c) Characteristics of the reporting entity - this Consultation Paper will establish the criteria for determining which groups of activities, whether legal or administrative units or other organizational arrangements, are reporting entities and are therefore subject to IPSASs. This component will also explore the basis on which the boundaries of a reporting entity should be established and therefore which assets, liabilities, revenues, expenses and other elements should be reported in its financial statements.
- (d) Definition and recognition of the elements of financial statements – this Consultation Paper will identify and define the elements that are reported in financial statements and the criteria that will need to be satisfied for their recognition. These will include assets, liabilities, revenues, expenses and notions of net assets/equity. They may also include other notions such as gains and losses which are included in the IASB Framework and the Frameworks of many national standards setters.
- (e) Other matters that might be addressed in general purpose financial reports. The development of this Consultation Paper will be subject to views on the primary focus of Framework and the timing of consideration of additional matters that may flow from a broader financial reporting (rather than financial statement) focus. If actioned at this stage of project development, it could usefully explore and make recommendations on whether such matters as performance reporting, budget disclosures, and reporting on sustainability of government programs should form part of general purpose financial reports.

Third group of Consultation Papers

- (f) Measurement – this Consultation Paper will explore measurement basis that may validly be adopted for the elements that are recognized in the financial statements. It is not anticipated that the Framework will mandate requirements about the measurement bases to be adopted in specific circumstances. This will be dealt with by individual IPSASs which deal with specific transactions and events and are themselves subject to the full due process. Rather this paper will outline the measurement base(s) that are consistent with the objectives of financial reporting, the qualitative characteristics of financial information and the recognition criteria.
- (g) Presentation and disclosure – this Consultation Paper (or series of papers) will deal with the nature and content of the primary financial statements and notes thereto. It may also include consideration of the presentation and audit status of information presented outside financial statements in a general purpose financial report – for example, presentation and disclosure of information about such matters as budget/prospective financial information, compliance with budgets, and disclosures about the achievement of service objectives in financial reports.

Fourth group of Consultation Papers

- (h) Cash Basis Framework – this Consultation Paper will deal with concepts as they apply to the cash basis, noting any differences to the concepts developed for the accrual basis when applied in the cash basis.

This grouping and sequencing of issues largely reflects that being adopted by the IASB in its joint project with the FASB except that the IASB project, at least in terms of the initial project plan: (a) proposed that consultative documents (discussion papers/exposure drafts) dealing with the elements of financial statements be issued before the definition of the reporting entity; (b) consultative documents dealing with the purpose and status of the Framework be issued towards the end of the project; and (c) does not draw out the additional non-financial performance or budget reporting matters as explicitly as in this brief and does not deal with a Framework for cash basis financial reporting.

The timing of the definition of the reporting entity in the public sector has been elevated in this plan because notions of the reporting entity are less well developed for financial reporting in the public sector than in the private sector. Consequentially, they may raise issues that need to be considered in the development of the elements of financial statements/financial reporting. Given that staff of different organizations are likely to be dealing with these components there is a case to include reporting entity and elements of the financial statements in the same grouping of issues.

A separate Consultation Paper on the purpose and status of the Framework is not included in the above schedule because this is noted in this project brief, which will itself be made available for comment. However, it is intended that the purpose and status of the Framework will be identified in the composite exposure draft to be issued later in the project process.

The non-financial performance, budget reporting and cash basis Framework issues are specific to, or likely to be of greater significance for, the public sector, and therefore have been highlighted in this brief.

TIMING AND KEY MILESTONES

It is anticipated that the Framework will be completed by 2011 and issued in 2012. Key milestones are as follows:

2007 – Consultation Paper(s) dealing with Group 1 components developed for issue.
Issue late 2007/early 2008.

2008 – Consultation Paper(s) dealing with Group 2 components developed and issued.
Issue late 2008.

Responses to Group 1 Consultation Paper(s) reviewed and objectives and qualitative characteristics for inclusion in first draft of Framework ED agreed.

2009 – Consultation Paper(s) dealing with Group 3 components developed and issued.
Issue late 2009.

Consultation Paper dealing with Group 4 component (Cash Basis Framework) developed and issued late 2009.

Responses to Group 2 consultation papers reviewed and the following agreed for inclusion in first draft of Framework ED:

- definition of the elements of financial statements and criteria for their recognition;
- characteristics of the reporting entity
- observations on the scope of financial statements and matters that might be included in general purpose financial reports

2010 – Responses to Group 3 consultation paper(s) reviewed and measurement concepts and matters of presentation and disclosure for inclusion in first draft of Framework ED agreed.

Responses to Cash Basis consultation paper reviewed and exposure draft of Cash Basis Framework finalized (or component for inclusion in accrual basis ED agreed).

Exposure draft of full accrual Framework developed for issue late 2010. (or early 2011).

2011 – Responses to Framework exposure draft(s) reviewed and Framework finalized.

It is projected that the Framework will be finalized by the end of 2011, with the final complete document published in 2012. This is a tight schedule.

This Draft: September 2006 for review by IPSASB Subcommittee and NSS participants by end of business October 16.

ATTACHMENT 1

Definitions, Concepts and “Framework” issues – Accrual IPSASs

Source

Accrual Basis

Accrual basis is a basis of accounting under which transactions and other events are recognized in the financial statements in the period when they occur (and not only when cash or its equivalent is received or paid). The elements recognized under accrual accounting are assets, liabilities, net assets/equity, revenue and expenses.

IPSAS 1.6

SCOPE

International Public Sector Accounting Standards (IPSASs) apply to all public sector entities that prepare financial statements. IPSASs do not apply to Government Business Enterprises and to other information presented in an annual report or other documents.

Preface to
IPSASs.20,
IPSAS 1.67

Objective of Financial Statements

Financial statements that are issued for users that are unable to demand financial information to meet their specific information needs are deemed to be general purpose financial statements (GPFS). The objectives of GPFS are to provide information about the financial position, performance and cash flows of an entity that is useful to a wide range of users in making and evaluating decisions about the allocation of resources. Specifically general purpose financial statements provide:

IPSAS 1.13, 14,
2

- a predictive or prospective role;
- information on solvency of the entity (providing information on the flow of resources); and
- information to evaluate the performance in terms of service costs, efficiency and accomplishments.

Reporting Entity

Implicit in the IPSASs is that the reporting entity encompasses resources and entities controlled by the reporting entity.

Financial Statements

A complete set of financial statements includes the following components:

IPSAS 1.19

- (a) statement of financial position;
- (b) statement of financial performance;
- (c) statement of changes in net assets/equity;
- (d) cash flow statement; and
- (e) accounting policies and notes to the financial statements.

The Elements of Financial Statements

The definitions of elements extracted from the Glossary are stated below:

Assets are resources controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity.

Glossary, IPSAS
1.6 and other
IPSASs as
appropriate
(Note Glossary
to be updated

Source
following the
improvements
project)

Liabilities are present obligations of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits or service potential.

Contributions from owners means future economic benefits or service potential that has been contributed to the entity by parties external to the entity, other than those that result in liabilities of the entity, that establish a financial interest in the net assets/equity of the entity, which:

- (a) conveys entitlement both to distributions of future economic benefits or service potential by the entity during its life, such distributions being at the discretion of the owners or their representatives, and to distributions of any excess of assets over liabilities in the event of the entity being wound up; and/or
- (b) can be sold, exchanged, transferred or redeemed.

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets/equity, other than increases relating to contributions from owners.

Expenses are decreases in economic benefits or service potential during the reporting period in the form of outflows or consumption of assets or incurrences of liabilities that result in decreases in net assets/equity, other than those relating to distributions to owners.

Net assets/equity is the residual interest in the assets of the entity after deducting all its liabilities.

IPSAS 1.12

Recognition of the Elements of Financial Statements

The IPSASs do not have a general “Framework” type rule for recognizing the elements of the financial statements. Rather, the recognition criteria are identified in individual IPSASs. To date, IPSASs have dealt with recognition criteria in specific IPSASs such as property plant and equipment, inventories, leases, investment property, exchange revenue and provisions. Current EDs on issue will extend coverage to non-exchange revenue, and assets from all non-exchange transactions.

IPSAS 19.22,
9.28, 19, 33,
17.13, 16.19

Recognition of Exchange Revenue

Revenue from the sale of goods should be recognized when all the following conditions have been satisfied:

IPSAS 9.28

- (a) the entity has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- (b) the entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- (c) the amount of revenue can be measured reliably;
- (d) it is probable that the economic benefits or service potential associated with the transaction will flow to the entity; and
- (e) the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Recognition of Property, Plant & Equipment

IPSAS 17.13

An item of property, plant and equipment should be recognized as an asset when:

- (a) it is probable that future economic benefits or service potential associated with the asset will flow to the entity; and
- (b) the cost or fair value of the asset to the entity can be measured reliably.

Recognition of a provision

19.22

A provision should be recognized when:

- (a) an entity has a present obligation (legal or constructive) as a result of a past event;
- (b) it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- (c) a reliable estimate can be made of the amount of the obligation.

Although each standard outlines specific criteria in recognizing certain items, there is a common thread evident. For an item to be recognized,

- a) a probable outflow/inflow of economic benefits or service potential into the entity has to be evident; and
- b) the amount recognized are to be reliably estimated/measured.

Measurement of the Elements of Financial StatementsIPSAS 1.129,
13.20, Glossary

The measurement basis (bases) used in IPSASs (historical cost, current cost, realizable value, fair value or present value) form the basis on which the whole of the financial statements are prepared.

The defined measurement bases in IPSASs are:

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Current replacement cost is the cost the entity would incur to acquire the asset on the reporting date.

Net realizable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Market value is the amount obtainable from the sale, or payable on the acquisition, of a financial instrument in an active market.

The "reach" of financial statements - Accounting Policies and Notes to the Financial StatementsIPSAS 1.16
1.23-24

The information contained in the financial statements is unlikely to enable all the objectives (stated above) to be met. Therefore, supplementary information, including non-financial statements is encouraged to be reported alongside the financial statements to provide a more comprehensive picture of the entity's activities during the period. Examples would include:

- presenting additional information to assist users in assessing the performance of the entity, its stewardship of assets and making and

- evaluating decisions about the allocation of resources; and
- disclosing information about compliance with legislative, regulatory or other externally-imposed regulations. Knowledge of non-compliance is likely to be relevant for accountability purposes and may affect a user's assessment of the entity's performance and direction of future operations.
- presentation options under ED 27 "Presentation of Budget Information in Financial Statements may extend this reach.

Underlying Assumptions

Of the four usual assumptions underlying financial statements, the IPSAS framework refers to two explicitly. These are going concern and consistency of presentation. Consistency (comparability) is also presented as part of reliability characteristic. The accrual assumption is implicit in IPSASs and the prudence concept is now presented as part of the reliability characteristic:

Going Concern

Financial statements are normally prepared on the assumption that the entity is a going concern and will continue in operation and meet its statutory obligations for the foreseeable future. In assessing whether the entity is a going concern, preparers of the financial statements take into account all available information for the foreseeable future, which should be at least, but is not limited to, twelve months from the approval of the financial statements.

IPSAS 1.43-44

Consistency of Presentation

The presentation and classification of items in the financial statements should be retained from one period to the next unless:

IPSAS 1.47

- (a) a significant change in the nature of the operations of the entity or a review of its financial statement presentation demonstrates that the change will result in a more appropriate presentation of events or transactions; or
- (b) a change in presentation is required by an International Public Sector Accounting Standard.

Qualitative Characteristics of Financial Statements

Qualitative characteristics are the attributes that make the information provided in financial statements useful to users. The four principal qualitative characteristics are understandability, relevance, reliability and comparability.

IPSAS
1. Appendix 2

Understandability

Information is understandable when users might reasonably be expected to comprehend its meaning. Users are assumed to have a reasonable knowledge of the entity's activities and the environment in which it operates, and to be willing to study the information.

Relevance

However, the materiality criteria, still applies information is relevant to users if it can be used to assist in evaluating past, present or future events or in confirming, or correcting, past evaluations. The relevance of information is affected by its timeliness, nature and materiality. Information is material if its omission or

misstatement could influence the decisions of users made on the basis of the financial statements.

Definitions and Concepts – Cash Basis IPSAS

Cash Basis

Cash basis means a basis of accounting that recognizes transactions and other events only when cash is received or paid. Financial statements prepared under the cash basis provide readers with information about the sources of cash raised during the period, the purposes for which cash was used and the cash balances at the reporting date.

Reporting Entity

The IPSAS requires the reporting entity to report cash it controls.

Financial Statements

General purpose financial statements include the following components:

- (a) a statement of cash receipts and payments which:
 - (i) recognizes all cash receipts, cash payments and cash balances controlled by the entity; and
 - (ii) separately identifies payments made by third parties on behalf of the entity; and
- (b) accounting policies and explanatory notes.

The measurement focus in the Standard is balances of cash and changes therein. Notes to the financial statements may provide additional information about liabilities, such as payables and borrowings, and some non-cash assets, such as receivables, investments and property, plant and equipment.

Qualitative Characteristics

The cash basis standard uses the same qualitative characteristics as in IPSAS framework (IPSAS 1. Appendix 2). The only exception is the exclusion of a paragraph in the prudence assumption providing guidance on practicing caution such that assets and revenue are not understated and liabilities and expenses are not overstated. (Please refer to the comparison between the accrual basis IPSAS framework and the IASBF to note the difference between the IASBF and the qualitative characteristics in IPSASs.)

Going Concern

The requirement to make an assessment of the entity's ability to continue as going concern and to disclose information about the entity's ability to continue is included in the section in the Cash Basis IPSAS. Fair presentation is not mentioned in the Standard. These are both required in the accrual IPSASs.

Understandably, the elements, measurement and recognition of the elements of the financial statements do not reflect the accrual basis of accounting.

ATTACHMENT 2

Concepts and other matters addressed in current IASB Framework and in the Accrual IPSASs

| IASB Framework | IPSASs |
|--|--|
| <p>Introduction</p> <ul style="list-style-type: none"> Purpose and Status Scope Users and Their Information Needs | <p>No separate IPSAS Framework. IPSAS 1 and Preface to IPSASs provide a brief overview of the users of general purpose financial statements.</p> <p>The IASB Framework (IASBF) provides details on major groups of users and the reasons for requesting financial information.</p> |
| <p>Objective of Financial Statements</p> <ul style="list-style-type: none"> Financial Position, Performance and Changes in Financial Position | <p>The IASB Framework identifies the objectives of each individual financial statement.</p> <p>IPSASs include a detailed exposition of the objective for a cash flow statement in IPSAS 2 <i>Cash Flow Statement</i>. The IPSASs provide a broad overview of the objective of financial statements in IPSAS 1. See item 13.4 “Definitions and concepts”: for objectives of financial statements.</p> |
| <p>Underlying Assumptions</p> <ul style="list-style-type: none"> Accrual Basis Going Concern | <p>As specified, IPSASs deal with the accrual and the cash bases of accounting.</p> <p>The notion of going concern is outlined in IPSAS 1.</p> |
| <p>Qualitative Characteristics</p> <ul style="list-style-type: none"> True and Fair View/ Fair Presentation | <p>Qualitative characteristics are included as Appendix 2 to IPSAS 1. They are drawn from the IASB Framework, but do not reproduce it fully. See the attachment to this item for more information about differences in the qualitative characteristics.</p> |
| <p>Elements of Financial Statements</p> <ul style="list-style-type: none"> Financial Position Assets Liabilities Equity Performance Income Expenses | <p>Broadly speaking, the elements are the same. However, the IPSASs define contributions from owners and distributors to owners which are not included in the IASB Framework.</p> <p>There are also differences in some of the definitions. For example, assets include reference to ‘service potential’ in addition to ‘economic benefits’. IPSASs use the term “net assets/equity” while IASB uses the term “equity”.</p> <p>The IPSASs do not define income and interpret the definition of revenue more broadly than in the IASB framework (to include gains).</p> |

| IASB Framework | IPSASs |
|---|---|
| <p>Recognition of the Elements of Financial Statements: The Probability of Future Economic Benefit Reliability of Measurement</p> <ul style="list-style-type: none"> - Recognition of Assets - Recognition of Liabilities - Recognition of Income - Recognition of Expenses | <p>The IASBF establishes general criteria for the recognition of all elements of financial statements. Recognition criteria for certain elements of financial statements is included in specific IPSASs that deal with the particular transaction or event. These criteria are consistent with the general criteria for recognition of elements in IASBF.</p> |
| <p>Measurement of the Elements of Financial Statements</p> | <p>The IASBF notes that different measurement bases may be adopted. The IPSASs generally reflect the same requirements as in the IASs/IFRSs. However, for items acquired at no or nominal cost, (this is being updated to non-exchange transaction) the IPSAS framework provides additional guidance.</p> |
| <p>Concepts of Capital and Capital Maintenance</p> <ul style="list-style-type: none"> - Concepts of Capital - Concepts of Capital Maintenance and Determination of Profit | <p>Not referred to in IPSASs.</p> |

Concepts and other matters addressed in current IASB Framework and in the Accrual IPSASs – terminology/explanation differences

The Preface to International Public Sector Accounting Standards (IPSASs) notes that most IPSASs are based on International Accounting Standards. Therefore, the IASB's *Framework for the Preparation and Presentation of Financial Statements* (IASBF) is a relevant reference for users of IPSASs. However, in developing IPSASs, some public sector context has been added to the IPSASs that differ from the concepts used in IASBF.

Financial Statements

In certain cases, the IPSASs use different terminology to the IASBF. The table below identifies differences in key terms.

| In IPSAS | IASB Conceptual Framework |
|---|--|
| Entity | Enterprise |
| Reporting date | Balance sheet date |
| Statement of Financial Position | Balance Sheet |
| Statement of Financial Performance | Income Statement |
| Statement of Changes in Net Assets/Equity | Statement of Changes in Financial Position |
| Net Assets/Equity | Equity |
| Revenue only | Income and Revenue |

IPSASs apply to all public sector entities except for government business enterprises. Government business enterprises apply IASs/IFRSs.

Preparation of Financial Statements: the Underlying Assumptions

Basis of Accounting

Financial statements prepared under IASBF use only accrual accounting. However, IPSASs encompass (as specified) both the accrual and cash bases of accounting.

Going Concern

Financial statements are prepared on the assumption that the entity is a going concern. IPSASs and IASBF contain similar guidance for assessing whether an entity is a going concern or not. However, IPSASs include additional explanations to place the notion in a public sector context.

Qualitative Characteristics

1. *Understandability*

IASBF notes that financial information should be 'readily understandable by users'. IPSASs (see IPSAS 1, Appendix 2) stipulate that "information is understandable when users might reasonably be expected to comprehend its meaning". However, the characteristic of understandability is essentially the same in both frameworks.

2. *Reliability*

Reliable information satisfies five criteria - faithful representation, substance over form, neutrality, prudence and completeness. IPSASs (IPSAS 1, Appendix 2) uses slightly different words to note that faithfully represented information should reflect the

substance of the transactions rather than just their legal form. ‘Substance over form’ is a criterion used in both the IASB and IPSAS frameworks.

IASBF provides more guidance on prudence than in IPSAS 1, Appendix 2 – IASBF notes that uncertainties surrounding events and circumstances are recognized by disclosure and by exercise of prudence in the preparation of financial statements. IASBF defines prudence and warns against exercising prudence to a degree that affects the reliability of financial information.

3. *Comparability*

While the notions are not different and there is much overlap, IASBF provides more guidance on comparability. The IASBF emphasizes that the measurement and presentation of financial effect of like transactions and other events must be carried out in a consistent way throughout an enterprise and over time for that enterprise and in a consistent way for different enterprises. IASBF also explains that the need for comparability should not be confused with mere uniformity and should not be allowed to impede the introduction of improved accounting standards or policies when more relevant and reliable alternatives exist.

Fair Presentation

IASBF notes that financial statements are frequently described as showing a ‘true and fair view’ or ‘presenting fairly’, while the IPSAS only uses the term ‘fair presentation’.

The Elements of Financial Statements

Definition of Elements

The IPSASs include the same “elements” as in the IASBF, with some terminology differences and, in the case of assets, the inclusion of ‘service potential’ in the definition.

In the IASBF, ‘income’ comprises ‘revenue’ which is limited to ordinary activities. In the IPSASs income is not defined, ‘revenue’ is not limited to ordinary activities and gains are presented as revenue. Similarly, expenses in the IPSASs encompass both expenses from ordinary activities (as defined in the IASBF) and losses. In current IPSASs, the definition of “extraordinary activities” includes an extra criterion requiring the transactions to be ‘outside the control or influence of the entity’.

Equity is used in IASBF as the residual interest of the assets after deducting all liabilities while in the IPSASs the term used is net assets/equity. Many public sector entities do not have share capital, but are separate reporting entities owned by another public sector entity. The structure of a public sector entity’s net assets/equity may include contribution by owners, aggregate accumulated surpluses or deficits and reserves. For the IASs/IFRSs terminology such as capital, retained earnings and reserves is used.

Recognition of Elements of Financial Statements

Under IASBF, an item that meets the definition of an element should be recognized if:

- it is probable that any future economic benefits associated with the item will flow to or from the enterprise; and
- the item has a cost or value that can be, measured reliably.

The IPSASs do not have general recognition criteria (because there is no framework) - rather, the IPSASs identify specific recognition criteria for certain elements of financial statements such as exchange revenue, property, plant and equipment and provisions. The criteria used are similar to those in their equivalent IASs.

Measurement of Elements of Financial Statements

Both frameworks include the same measurement bases: historical cost, current cost, realizable value, fair value and present value when preparing financial statements. The definitions of measurement bases are also similar in the two frameworks.

In regards to items acquired at no or for nominal costs, the IPSASs provide additional guidance that these items should be measured at fair value as at the date it was acquired.

(The term “no or nominal costs” is being replaced with a reference to non exchange transactions.)

ATTACHMENT 3

**SUMMARY TABLE OF RESULT: SURVEY OF IPSASB MEMBERS RE CONCEPTUAL FRAMEWORKS
IN THEIR JURISDICTIONS– March 2006**

| Country | ARG | AUS | CAN | FRA | IND | ISRL | ITAL | JAPN | MAL | MEX | NETH | NZ | NOR | S.AFR | SWIT | UK | USA |
|---|-----|-----|----------------|-----|-----|------|------|------|-----|-----|---------|------------|-----|-------|------|----|-----|
| 1. In your country is there a conceptual framework (CF) for accounting standards? | Y | Y | Y | Y | | Y | Y | Y | Y | Y | Y | Y | Y | Y | Y | Y | Y |
| 2. If Yes, does it: | | | | | | | | | | | | | | | | | |
| a) apply to public sector? | N | Y | Y | Y | | N | Y | N | Y | N | N | Y | | N | N | N* | Y |
| b) also apply to private sector? | Y | Y | N | N | | Y | N | Y | Y | Y | Y | Y | Y | Y | Y | Y | N |
| Are there separate CFs for the public and private sectors? | | N* | Y | N | | N | Y | N | Y | | Y | N | N | Y | n/a | N* | Y |
| 3. Are there plans for further developments which impact the public sector? Please attach a brief overview. | Y | Y* | Y ¹ | N | | Y | Y | N | N | Y | N | Y | | N | Y | Y | Y |
| 4. Is the CF (A) authoritative or (B)a guide only? | | B* | B | A | | A | B | DP | A | | guide | A* | A | A | A | A | A** |
| 5. Does the CF deal with: | | | | | | | | | | | | | | | | | |
| a) the cash basis? | | N | | N | | N | | N | Y | | b) accr | b) b) accr | N | N | b) | N | |
| b) the accrual basis? | | Y | b) | Y | | Y | | Y | Y | | ual | Acc | Y | Y | | Y | |
| c) both cash and accrual bases | | N | | N | | N | C | N | N | | | rual | N | N/A | | N | *** |

| Country | ARG | AUS | CAN | FRA | IND | ISRL | ITAL | JAPN | MAL | MEX | NETH | NZ | NOR | SAFR | SWIT | UK | USA |
|---------------------------------|-----|-----|-----|-----|-----|------|------|------|-----|-----|------|----|-----|------|------|----|-----|
| 6. Does the CF deal with: | | | | | | | | | | | Y | | | | | | |
| a). Reporting Entity | | Y | N3 | Y | | N | Y | N | Y | | | Y | | N | N | Y | N |
| b). Objectives | | Y | Y | Y | | Y | Y | Y | Y | | Y | Y | | Y | Y | Y | Y |
| c). Qualitative Characteristics | | Y | Y | Y | | Y | Y | Y | Y | | Y | Y | | Y | Y | Y | Y |
| d). Definitions of: | | | | | | | | - | | | | | | | | | |
| Assets, | | Y | Y | Y | | Y | Y | Y | Y | | Y | Y | | Y | Y | Y | Y* |
| Liabilities, | | Y | Y | Y | | Y | Y | Y | Y | | Y | Y | | Y | Y | Y | Y* |
| Revenues, | | Y | N1 | Y | | Y | Y | Y | Y | | Y | Y | Y | Y | Y | Y | Y* |
| Expenses,. | | Y | Y | Y | | Y | Y | Y | Y | | Y | Y | Y | Y | Y | Y | Y* |
| Equity/net assets | | Y | Y | | | Y | Y | Y | Y | | Y | Y | | Y | Y | Y | Y* |
| Other terms (indicate in notes) | | N | Y4 | | | N | Y | N | N | | | Y | | | | Y | Y* |
| e) Recognition criteria | | Y | Y | Y | | Y | Y | Y | Y | | Y | Y | Y | Y | Y | Y | |
| f) Measurement bases | | N* | Y | Y | | Y | Y | Y | Y | | Y | Y | Y | Y | Y | Y | Y |
| g) Financial statements | | N | N5 | Y | | Y | Y | N | Y | | Y | Y | | Y | Y | Y | Y |
| h) Scope of financial reporting | | N | Y | | | N | Y | N | Y | | Y | Y | | Y | N | Y | Y |
| i) Frequency of presentation | | N | N | | | N | Y | N | N | | Y | N | | Y | (Y) | N | N |
| 7. Are other Matters addressed | | Y* | Y6 | | | Y | N | N | N | | *) | Y | | N | Y | Y | Y |
| | | | | | | | | | A | | | | | | | | |

In some cases, members provided additional comments on Framework in their country. Those notes are identified below (they only identify notes in English):

ARG – Argentina (2002 comment)

The Inter-American Development Bank has requested the National Accounting Office of Argentina to harmonize Argentinean public sector accounting standards with International Public Sector Accounting Standards. The Law of Financial Administration states that the National Accounting Office shall be the body responsible for the issuance of any regulations for the national public sector.

AUS – Australia (2006 Comment)

With effect from 1 January 2005, Australia has adopted the International Accounting Standards Board's (IASB's) Framework for the Preparation and Presentation of Financial Statements (Framework), modified to include limited additional guidance on not-for-profit entities in the public and private sectors. The Australian Framework applies to entities in both the public and private sectors. As a consequence of issuing an Australian equivalent to the IASB Framework, the following Australian Statements of Accounting Concepts were withdrawn:

- SAC 3 Qualitative Characteristics of Financial Information
- SAC 4 Definition and Recognition of the Elements of Financial Statements

However, the following Statements of Accounting Concepts were retained:

- SAC 1 Definition of the Reporting Entity
- SAC 2 Objective of General Purpose Financial Reporting

SAC 1 was retained because the IASB Framework does not include a concept of a reporting entity. SAC 2 was retained as guidance to amplify the discussion of the objective of financial statements in the IASB Framework.

In relation to Question 4, the concepts in the Australian Framework are not set out as requirements. However, like International Financial Reporting Standards, some Australian Accounting Standards require application of the Framework in specific circumstances. The Australian equivalent to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors outlines a hierarchy to be followed in developing an accounting policy when an Australian Accounting Standard does not specifically address the transaction. The Framework is an integral part of this hierarchy. In addition, the Australian equivalent to IAS 1 Presentation of Financial Statements specifies application of the accrual basis of accounting (except for cash flow information), and describes the accrual basis as recognition of assets, liabilities, equity, income and expenses when they satisfy the definitions and recognition criteria for those financial statement elements in the Framework.

In relation to Question 3, the Australian Framework is incomplete. The Australian Accounting Standards Board (AASB) will monitor the joint project of the IASB and US Financial Accounting Standards Board to complete and update their conceptual

frameworks, and will develop a revised Australian Framework in the light of that international project. That revision will apply to entities in both the private and public sectors.

In relation to Question 2, the AASB has yet to decide whether to develop a separate Statement composed of additional guidance for not-for-profit entities in the public and private sectors, as the UK Accounting Standards Board (ASB) is doing with its Proposed Interpretation for Public Benefit Entities in respect of the ASB's Statement of Principles for Financial Reporting. The Financial Reporting Council (the federal government body that oversees the AASB) has commissioned research that may lead to consideration of whether the AASB should retain its policy of issuing sector-neutral pronouncements. The outcome of that research has the potential to lead to changes in the content and structure of Australian pronouncements, including the conceptual framework applicable to public sector entities.

Question 6(f) was answered in the negative because, although the Australian Framework (like the IASB Framework) discusses measurement bases, it does so only in a descriptive sense, not normatively.

In relation to Question 7, the Australian Framework (like the IASB Framework) also discusses concepts of capital and capital maintenance.

CAN – Canada (2006 Comment)

1) Canada's conceptual framework for the public sector does not currently include a definition of revenue though a general revenue recognition principle is included in the general standards of financial statement presentation. This gap is currently being addressed with completion scheduled for November 2006.

2) Canada's conceptual framework for the public sector does not constitute a financial reporting standard, however, where the Public Sector Accounting Handbook is silent on an issue, any proposed solution must be consistent with the conceptual framework if those financial statements are to be described as having been prepared in accordance with GAAP.

3) Canada has a separate financial reporting standard addressing the reporting entity Section PS 1300 *Government Reporting Entity*.

4) Definitions of 'Financial Asset', 'Non-Financial Asset' and 'Tangible Capital Asset' are also given in the public sector conceptual framework. The first two definitions necessary to providing a key measure of financial performance for Canadian governments – the measure of 'Net Debt'.

5) The conceptual framework does discuss what information must be portrayed in the financial statements as well as naming those financial statements. However a separate financial reporting standard (Section PS 1200 *Financial Statement Presentation*) gives the actual directive as to what financial statements should be prepared.

6) Canada's conceptual framework for the public sector provides discussion on user identification and user information needs. Further, the framework acknowledges the 'benefit vs cost' constraint when complying with standards for example, in considering disclosure of information beyond that required by the standards.

ISRL – ISRAEL (2006 Comment)

In July 2005, the board of directors of the Israel Accounting Standards Board (private sector), approved a decision in respect of fully adoption of all IFRS's in Israel as of the year 2008.

One of the steps towards the adoption of IFRS's was adoption of the International Framework for the Preparation and presentation of Financial Statements in October, 2005.

The Israeli Government Accounting Standards Board (the Israeli GASB) has been established In the End of 2005. One of its mandatory goals is to adopt the International Public Sector Accounting Standards (Copyright 12/2005). As an integral part of the adoption process, the Israeli GASB will adopt a Conceptual Framework after one will be published by the IPSASB.

JAPN – Japan (2006 Comment)

Accounting Standards Board of Japan (ASBJ), the accounting standards setter for private sector entities issued Discussion Paper on Conceptual Framework in July 2004. The DP was developed by Working Group of ASBJ and does not necessarily represent formal view of Board of ASBJ. The DP has been under "field testing" since the issuance. The DP is considered when ASBJ develop or amend standards but DP itself might be revised by the result of this field testing process. ASBJ seems not to finalize the CF project in a few years.

Since ASBJ is the accounting standards setter for private sector entities, the DP may not impact directly on public sector. However, this is the first and only authoritative document regarding CF of accounting standards in Japan. The DP may have impact on public sector to some extent. My answer in this questionnaire is based on my understanding of the DP issued by ASBJ.

The Japanese Institute of CPAs (JICPA) set up a Project Team to discuss CF for the public sector in 2001. However, the PT did not reach consensus in many aspects. Points of discussion during intensive talks in the PT for one and half years were summarized into "Discussions on CF for public sector accounting" in March 2003. The document is open to the public through JICPA website to aim fostering discussions on CF of public sector accounting. It is in my opinion that, the document has not influence so much on developing public sector accounting standards so far. JICPA currently does not have a plan to further develop CF for public sector.

Malaysia (2006 comment)

In Malaysia, there are two accounting standards setters that are:

- (i) Malaysian Accounting Standards Board (MASB), the accounting standards setter for private sector entities and
- (ii) Public Sector Accounting Standards Committee (PSASC). the accounting standards setter for public sector entities

MASB formulates accounting standards within the framework of accrual basis of accounting whereas PSASC formulates accounting standards within the framework of cash basis of accounting.

MASB is established under the Financial Reporting Act 1997 (the Act) as an independent authority to develop and issue accounting and financial reporting standards in Malaysia.

The MASB, together with the Financial Reporting Foundation (FRF), make up the new framework for financial reporting in Malaysia. This new framework comprises an independent standard-setting structure with representation from all relevant parties in the standard-setting process, including preparers, users, regulators and the accountancy profession.

The Public Sector Accounting Standards Committee is established in the year 1992 in order to enhance accountability and improve standards of government financial reporting. Public Sector Accounting Standards Committee is responsible for issuing of Government Accounting Standards (GAS) in Malaysia. Public Sector Accounting Standards applies to Federal Government and all States Governments.

MEX – Mexico (2002 comment)

The legislation applicable to the Superior Audit Institution was changed a few months ago. It establishes that the Superior Audit Institution will have the responsibility for issuing (or at least approving) accounting standards for the public sector. The current private sector statement of concepts does not apply to the public sector.

NETH – The Netherlands

Public sector:

There is not one single body responsible for public sector accounting standards in the Netherlands. Various ministries develop accounting standards for governmental entities within their jurisdiction. The Ministry of Internal Affairs develops accounting standards for the 12 provinces and 458 municipalities in this country. The Ministry of Internal Affairs also develops accounting standards for the 25 police departments. The Ministry of Transport, Public Works and Water Management develops accounting standards for the 27 waterboards in the Netherlands. Furthermore, each Ministry establishes tailor-made accounting standards in separate contracts with each of its agencies. The Ministry of Finance develops standards for the central government all ministries.

Consequently, there is not one overriding conceptual framework for financial reporting by all Dutch public sector entities. There is, however, one conceptual framework in the public sector: the accounting standards developed by the Ministry of Internal Affairs for the provinces and municipalities are based on a conceptual framework. I answered the questions in the survey table for this conceptual framework.

Other Matters addressed: Apart from the items mentioned in the table, this conceptual framework gives a brief guidance on the budget and the operating and financial review.

Companies and non-profit organizations:

The Dutch Accounting Standards Board (DASB) develops accounting standards for non-listed companies and non profit organizations. The DASB developed a conceptual framework for these accounting standards.

Listed companies follow IFRS, as all listed companies in the European Union do.

NZ – New Zealand (2006)

*The Conceptual Framework is authoritative but not legally enforceable.

Up until the decision to adopt IFRS New Zealand had in place a single concepts statement - New Zealand's Statement of Concepts for General Purpose Financial Reporting. This was issued in 1993 and some minor amendments were made in 2001.

In 2004 New Zealand adopted IFRS. New Zealand equivalents to IFRS are mandatory for reporting periods commencing on or after 1 January 2007, with early application permitted from 1 January 2005.

New Zealand has adopted the IASB Framework as the New Zealand Equivalent to the IASB Framework for the Preparation of Financial Statements. This Framework will supercede the Statement of Concepts and is applicable by all entities adopting the New Zealand equivalents to IFRS.

The NZ Framework is based on the IASB Framework. The NZ Framework is an essential component of New Zealand financial reporting pronouncements as it establishes definitions and recognition criteria that are applied in other pronouncements.

The IASB Framework was developed for application by profit-oriented entities. The NZ Framework includes material additional to that in the IASB Framework to ensure that it can be applied by all reporting entities required to prepare general purpose financial statements that comply with generally accepted accounting practice in New Zealand. In order to preserve the integrity of the IASB Framework and to enable this NZ Framework to be readily updated for future revisions of the IASB Framework, changes to the text of the IASB Framework have been minimized.

In adopting the IASB Framework for application as the NZ Framework, the following changes have been made.

(a) The discussion in paragraphs 1-4 has been revised to reflect the purpose of the proposed NZ Framework and the role of the FRSB (paragraphs NZ 4.1 to NZ 4.4).

- (b) The description of a complete set of financial statements has been amended for consistency with NZ IAS 1 Presentation of Financial Statements (paragraph 7).
- (c) A discussion acknowledging the role of non-financial and supplementary information has been included (paragraph NZ 7.1).
- (d) Additional paragraphs have been inserted to acknowledge the range of entities that are required to prepare general purpose financial statements (paragraphs NZ 8.1 to NZ 8.3).
- (e) A discussion of two additional users of financial statements (funders or financial supporters, and elected or appointed representatives) has been inserted (paragraph NZ 9.1).
- (f) A discussion of the role of financial statements in demonstrating accountability has been included (paragraphs NZ 14.1 and NZ 14.2).
- (g) A discussion of various types of non-financial and supplementary information has been included (paragraphs NZ 20.1 to NZ 20.8).
- (h) Additional guidance for public benefit entities in respect of materiality has been inserted (paragraph NZ 30.1).
- (i) An additional paragraph discussing “future economic benefits” and “service potential” has been inserted (paragraph NZ 49.1).
- (j) Additional guidance has been inserted stating that in the context of public benefit entities, references to contributions from (or distributions to) equity participants should be read as contributions from (or distributions to) equity holders acting in their capacity as equity holders (paragraph NZ 70.1).
- (k) A brief discussion of the elements of non-financial statements has been included. The NZ Framework requires that the quality of the information presented in non-financial and supplementary information should be considered with regard to the qualitative characteristics and constraints on those qualitative characteristics discussed in paragraphs 24 to 45 of the Framework (paragraphs NZ 101.1 to NZ 101.3).
- (l) A brief rationale for the New Zealand specific sections has been included as an Appendix.

Projects to revise the Framework

The NZ FRSB is actively monitoring the IASB project to revise the Framework. New Zealand Institute staff are on IASB-FASB project team revising the Framework.

In addition the FRSB is monitoring the project to review the revised IASB Framework from a public sector perspective. The FRSB plans to work with standard setters from other jurisdictions and expects that this work will assist the FRSB in considering what approach to take to the adapting the revised IASB framework for application to public benefit entities in New Zealand.

NOR – Norway (2006 Comment)

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Norway has a set of codified basic accounting principles for private sector that have many similarities to a CF. The responses are based on the basic principles. The principles have previously been implicitly used as basis for issuing accounting standards, but were explicitly stated in the new accounting act from 1999.

SWIT – Switzerland (2006 Comment)

The Swiss Foundation for accounting and reporting recommendations, the issuer of Swiss GAAP FER, has issued a conceptual framework with an effective date of 01 January 2006. This framework, as well as the standards, is only applicable for private sector companies. It is only authoritative for companies applying Swiss GAAP FER.

There are currently discussions between the various stakeholders, whether a Swiss Public Sector Accounting Standard should be developed. While larger entities like the federal government, large states and cities have decided to apply the IPSASs, it remains unclear whether a national standard could prove to be helpful for the numerous small and very small entities. A draft project brief suggests to initiate such a potential project with the development of a conceptual framework.

SAFR – South Africa (2006 comment)

The South African conceptual framework applicable to the private sector is based on the International Accounting Standards Board's Framework for the Preparation and Presentation of Financial Statements. The South African Public Sector Accounting Standards Board's Framework for the Preparation and Presentation of Financial Statements is based on the private sector framework, but has been updated to reflect the public sector perspective.

South Africa's conceptual framework for the public sector does not constitute a financial reporting standard, however, where no financial reporting standard exists on an issue, any proposed solution must be consistent with the conceptual framework if those financial statements are to be described as having been prepared in accordance with GRAP.

As with IFRS, the reporting entity has not been addressed.

We are monitoring developments at the IASB and will make the necessary public sector amendments when the IASB project is finalized.

UK – United Kingdom (2006 Comment)

In 1999 the UK Accounting Standards Board issued its Statement of Principles for Financial Reporting. This applies straightforwardly to the private sector, and has substantially influenced UK public sector standard setting.

The UK ASB has developed, but has not issued in final form, guidance on how the private sector Statement of Principles should be applied to non-profit or 'public benefit' entities. After a discussion paper released in 2003, a full exposure draft "Statement of
Item 11.2 Summary Table of result from survey IPSASB members
IPSASB Norwalk, November 2006

Principles for Financial Reporting: Proposed Interpretation for Public Benefit Entities” was issued for comment in August 2005.

The Statement of Principles is authoritative for the private sector inasmuch as it sets out principles which must be considered in the development of UK GAAP. Its status will need to be reviewed in the light of adoption of or convergence with IFRS in the UK jurisdiction. As of 2006, the Statement of Principles remains extremely influential for public sector standard setters, particularly as financial reporting for central government is required to have due regard to UK GAAP.

In addition to the points listed, the Statement of Principles also considers accounting for interests in other entities.

US – United States of America (2006 comment)

There are two bodies responsible for public sector accounting standards – the Federal Accounting Standards Advisory Board (FASAB), which issues concepts and standards for the federal government and its agencies, and the Governmental Accounting Standards Board (GASB), which issues concepts and standards for state and local governments and their agencies. FASAB has issued three Statements of Federal Financial Accounting Concepts (SFFAC) whilst GASB has issued three Concepts Statements.

*GASB’s current work program includes two conceptual framework projects, one on financial statements elements and one on recognition and measurement attributes. FASAB is currently requesting comments on its proposed work plan, which includes a project to develop a concepts statement on the elements of financial statements.

**Both the FASAB’s and the GASB’s concepts statements are considered to be “other accounting literature” in the authoritative hierarchy.

***Would have application to the cash basis to the extent that encompasses a cash flow statement.

In developing the elements concepts, the GASB is proposing definitions for inflows and outflows that will encompass multiple measurement focuses and deferral accounts. Deliberations on the recognition and measurement attribute concepts are scheduled to being the fourth quarter of 2006.

The statements currently on issue are:

SFFAC 1 Objectives of Federal Financial Reporting;

SFFAC 2 Entity and Display;

SFFAC 3 Management’s Analysis and Discussion – Concepts;

GASB Concepts Statement No. 1 Objectives of Financial Reporting;

GASB Concepts Statement No. 2 Service Efforts and Accomplishments Reporting; and

GASB Concepts Statement No. 3, *Communication Methods in General Purpose External Financial Reports That Contain Basic Financial Statements*.

NOMINATIONS FOR MEMBERSHIP OF CONCEPTUAL FRAMEWORK SUBCOMMITTEE

| Contact Name | Country | Chair | Member | Monitor | Provide Staff | Comments |
|--|---|-------|--------|---------|---------------|-------------------------------------|
| Paolo Germani – cc Pompeo Pepe, Marcello Bessone | Ministry Economica/Finance, Italy | | X | | X | |
| Lionel Vareille | Ministry of Finance - France | | X | | X | |
| Erna Swart | ASB - South Africa | | X | | X | |
| Mr Weidong Feng cc. Ms Hongxia Li | Ministry Finance, PRC China | | X | | X | |
| D Victor Nicolas Bravo, Monica Garcia Saenz | Ministry of Economy/Finance, Spain | | X | | | subject to final confirmation |
| Ian Mackintosh | ASB - UK | | X | | X | #Prefer PPP if only on 1 subcom |
| Jim Paul | AASB - Australia | | X | | X | |
| Beat Blaser, Markus Stockli | Dept Finance - Switzerland | | | X | X | |
| Caroline Mawhood | PSC - FEE | | | X | | |
| Simon Lee | FRSB – NZ | | X | | X | #Prefer IPSASB member on subcom |
| | | | | | | |
| IPSASB Members observers: | | | | | | |
| Philippe Adhémar, Jean-Luc Dumont | France | | X | | | *Consult new member 2007+ |
| Erna Swart | South Africa | | X | | | |
| Carmen Palladino | Argentina | | - | | | |
| Mike Hathorn | UK | X | | | | |
| Tadashi Sekikawa | Japan | | X | | | *Only 1 subcom - prefer this to PPP |
| Greg Schollum | | | X | | | |
| Wayne Cameron | Australia | | X | | | *Consult new IPSASB member |
| Lucie Laliberte | IMF | | X | | | |

#**UK ASB**: Would prefer membership of both Conceptual F/W and PPP Subcom. – but if only membership of one possible, prefer PPP subcom.

#**NZ FRSB**: Would prefer NZ IPSASB member be on subcom, but will identify FRSB member if this not possible.

***IPSASB member France**: Notes a new IPSASB member in 2007, who should be consulted.

***IPSASB member Japan**: Can only participate in one subcom and prefer Conceptual F/W subcom.

***IPSASB member Australia**: Notes a new IPSASB member in 2007, who should be consulted and should co-ordinate with Australia NSS re membership.