



**INTERNATIONAL FEDERATION
OF ACCOUNTANTS**

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**Agenda Item
2**

DATE: 24 May 2007
MEMO TO: Members of the IPSASB
FROM: Paul Sutcliffe
SUBJECT: Public Sector Conceptual Framework

OBJECTIVE OF THIS SESSION

To note progress on the Conceptual Framework Project and provide input to the authors of Group 1 Consultation Papers on the further development of those papers.

AGENDA MATERIAL

Agenda Papers

- 2.1 Subcommittee and monitoring group members, authors of Group 1 and Group 2 papers and project development schedule
- 2.2 Meeting notes - first subcommittee meeting in Hong Kong on March 26, 2007
- 2.3 Issues paper: Objectives of Financial Reporting by David Loweth, UK-ASB
- 2.4 Issues paper: Scope of Financial Reporting by Erna Swart, South Africa-ASB
- 2.5 Letter to Sir David Tweedie re Liaison on Framework Project
- 2.6 IASB/FASB Conceptual Framework Project: Project Status

ACTION REQUIRED

- Review and provide input on the initial issues papers dealing with “The Objectives of Financial Reporting” and “The Scope of Financial Reporting”;
- Note the report of the first meeting of the Conceptual Framework Subcommittee in Hong Kong on March 26; and
- Review the project scheduling in light of progress to date, and consider NSS participants to act as primary authors of Group 2 papers.

PUBLIC SECTOR CONCEPTUAL FRAMEWORK - UPDATE ON PROGRESS

Background

The IPSASB is leading a collaborative project with national standards setters and similar bodies (NSS) to establish a public sector conceptual framework. The IPSASB Conceptual Framework Project Brief was issued in December 2006 and the subcommittee and monitoring group membership, and responsibility for preparation of Group 1 Consultation papers, was confirmed by end January 2006.

The IPSASB was provided with an update on progress at its March 2007 meeting. This agenda item provides an update on the progress since the IPSASB's March 2007 meeting.

Issues papers on "The Objectives of Financial Reporting" and "The Scope of Financial Reporting" have been drafted for this meeting.

The Conceptual Framework Project Brief

The Project Brief was issued as a public document in December 2006. It notes that, as for any long term project, the process is evolutionary and it may be necessary to update and or refine particular components with the benefit of experience. It also notes that interested parties may direct any comments on the Project Brief to IPSASB staff for consideration by the IPSASB and/or its subcommittee as the project progresses.

Comments have been provided to staff that a paragraph on page 12 of the Project Brief, in the section headed "Purpose and Authority of the Framework", which explains the authority of the concepts was (or could be read to be) inconsistent with a later paragraph that refers to the hierarchy of authoritative guidance.

Staff agree with these comments and have proposed amendments to the particular paragraphs to overcome the potential problem. The Attachment to this memorandum (page 6) illustrates the changes proposed.

In the absence to any objection from IPSASB members, these changes will be processed. (The subcommittee has been advised of these proposed changes – staff will update IPSASB members at this meeting on any feedback from subcommittee members.)

The Conceptual Framework Subcommittee - meetings and activities

Subcommittee meeting in Hong Kong on 26 March, 2007

The subcommittee held its first meeting in Hong Kong on the afternoon of 26 March 2007. The objectives of that meeting were to review and confirm operation procedures and consider first drafts of issues papers dealing with objectives and scope of financial reporting, the qualitative characteristics of financial information and the reporting entity. (Material relating to this subcommittee meeting was included in Agenda materials for the IPSASB meeting on March 20-23, 2007.)

The IPSASB Chair and Technical Director provided the subcommittee with a report on the IPSASB's discussion of the project at the IPSASB meeting on March 20-23. The subcommittee noted advice from the Board regarding project development and confirmed the role of the subcommittee and its operating procedures as directed by the Board.

A full report on the subcommittee meeting is included at Agenda item 2.2.

Subcommittee meeting in Montreal on 2 July 2007

The subcommittee will hold its second meeting in Montreal on 2 July 2007. At this meeting the subcommittee will review the project scheduling in light of progress to date; consider the timing of future subcommittee meetings and the allocation of project tasks; and review an update of the reporting entity paper.

A verbal report on the subcommittee meeting will be provided to members at the IPSASB meeting on July 3-6.

Progress on Development of Draft Consultation Papers for Consideration by the IPSASB

Group 1 consultation papers

As agreed by the IPSASB and the NSS participants, the first group of Consultation Papers deal with the following topics:

1. The objectives of financial reporting – author: David Loweth, United Kingdom - ASB
2. The qualitative characteristics of financial information – author: Didrik Thrane-Nielsen, Norwegian Institute of Public Accountants;
3. The “scope” of financial reporting – author: Erna Swart, South African-ASB; and
4. The characteristics of the reporting entity – author: Ahmad Hamidi Ravari, Australian-AASB.

The conceptual framework subcommittee considered initial issues papers dealing with each of these topics at its March 2007 meeting.

Group 1 issues papers for consideration at this (July 2007) IPSASB meeting

The subcommittee agreed that the papers dealing with the “Objectives of Financial Reporting” by David Loweth and the “Scope of Financial Reporting” by Erna Swart will shape and significantly influence other components of the framework, and should be further developed for consideration by the IPSASB at this (July 2007) meeting.

The notes of the Hong Kong subcommittee meeting identify the specific areas for development agreed by the subcommittee.

Group 1 issues papers for consideration at the November 2007 IPSASB meeting

The subcommittee noted that the papers dealing with reporting entity and the qualitative characteristics of financial information may be significantly influenced by IPSASB decisions regarding the objectives and scope of financial reporting, as well as developments in the IAASB-FASB conceptual framework project. Consequently, it was agreed that these papers should be further developed for consideration by the IPSASB at its November 2007 meeting. They can then incorporate as appropriate the consequences of decisions the IPSASB makes about objectives and scope of financial reporting at this (July 2007) meeting.

The notes to the subcommittee meeting identify major issues raised by subcommittee members and the authors in respect of these papers.

Report on NSS-4 Meeting in March 2007

A group of four national standards setters (NSS-4) has been monitoring the IASB-FASB joint Conceptual Framework Project for possible public sector and not-for-profit entity implications (termed public benefit entities). The NSS-4 group comprises: Australia, Canada, New Zealand and the UK. The IPSASB is an observer on this Group.

Mr. Kevin Simpkins, a former IPSASB member, has prepared for NSS-4 review a series of reports which identify possible implications for public benefit entities of matters being considered by the IASB as part of their joint Conceptual Framework Project with the FASB. These reports are provided to IPSASB members and members of the subcommittee.

The NSS-4 Group met in the morning of March 26. IPSASB subcommittee members and staff, and IASB staff responsible for the IASB's conceptual framework project attended the NSS-4 meeting.

Key decisions emerging from the NSS-4 discussion were:

- The NSS-4 would continue to monitor the IASB-FASB joint project and Mr. Simpkins would continue to prepare the monitoring reports on papers considered by the IASB-FASB. These reports would be made available to IPSASB members and members of the IPSASB subcommittee and the wider monitoring group, and IPSASB staff would provide staff views to Mr. Simpkins on issues raised in his monitoring reports.
- The NSS-4 Group confirmed full support for the IPSASB project, including providing to the IPSASB the equivalent of one day per month of Kevin Simpkins' time to work on the IPSASB project as considered most useful by the IPSASB.
- There was a case made for the NSS-4 Group and the IPSASB subcommittee to co-ordinate their meetings where possible.
- The IPSASB Chair and Ian Mackintosh, the UK-ASB Chair, should meet with Sir David Tweedie, Chair of the IASB, to explore mechanisms for increasing the profile of the IPSASB project and NSS-4 Group with the IASB. (The IPSASB Chair had previously written to the IASB Chair seeking a meeting to explore mechanism for ongoing liaison between the IASB and IPSASB on their Framework Project. The Chair's letter is included at item 2.5)

Group 2 Consultation Papers

In the process of finalizing the subcommittee and monitoring group membership in late 2006/early 2007, NSS participants were requested to indicate their interest in taking primary responsibility for Group 1 and Group 2 issues papers. Those expressing an initial interest in leading a project are identified at item 2.1.

The primary authors of Group 1 papers have been confirmed and development of Group 1 papers is underway. It is then timely to consider responsibilities for development of Group 2 papers and begin to drive this process forward.

The NSS participants from China, France, Italy and Switzerland indicated an interest in leading the development of Group 2 papers. In addition, the IMF expressed an interest in leading the development of particular components of papers. While expressing an interest in Group 2 papers, the specific topics that they had most interest in were not identified by these NSS participants. Staff has recently followed up with these participants to confirm that they are still interested in leading a Group 2 project and are awaiting responses – a verbal report will be provided at the meeting.

In the Project Brief, the following two matters were identified as Group 2 projects:

- Definition and recognition of the elements of financial statements. This consultation paper (or papers) is to identify and define the elements that are reported in financial statements and the criteria that will need to be satisfied for their recognition. These elements will include assets, liabilities, revenues, expenses and notions of net assets/equity. They may also include other potential elements such as gains and losses which are included in the IASB Framework and the Frameworks of many national standards setters.

- The consequences of conclusions/recommendations on the scope of financial reporting for the elements of general purpose financial reports.

Staff are of the view that in determining the process and responsibility for development of Group 2 papers, the sub-committee should consider the following:

- As the Group 1 paper on the “Scope of Financial Reporting Project” is developed, it may well be that the need for a further paper on the consequences of the scope of financial reporting for the elements of general purpose financial reports as a Group 2 project will diminish, or at least the nature of that paper will change substantially. As members will note from the discussion of the scope paper at the Hong Kong subcommittee meeting (at agenda item 2.2) and the issues paper presented for consideration at this meeting (agenda item 2.4 in second distribution), the paper is developing into a comprehensive discussion of matters related to the scope of financial reporting, including issues related to the elements of financial reports (identified as a Group 2 project). It may well be that, rather than a separate Group 2 paper focusing on the consequences of the scope paper for the elements, there will be a need for a separate Group 3 paper to draw out issues related to presentation and disclosure of information presented outside the financial statements in the general purpose financial report.
- The definition and recognition of the elements of financial statements encompass a range of complex issues. Staff is of the view that there is a case for initially identifying a number of discreet components for development by the primary authors, with staff working with the authors to co-ordinate development of the individual components into a broad paper or series of papers. Staff are of the view that the following separate components could usefully be identified for project development: (i) definition and recognition of assets, (ii) definition and recognition of liabilities; (iii) definition and recognition of revenues; (iv) definition and recognition of expenses; (v) the concept of net assets/equity for public sector entities; and (vi) other potential elements of financial statement, including gains and losses. There is, of course, also the potential for individual papers to deal with more than one component – for example, definition and recognition of revenues and expenses and consideration of gains and losses may well be developed as a single paper. Similarly, the definition and recognition of assets and liabilities and the notion of net assets/equity could also be drawn together into a single paper.

At its July 2 meeting, it is intended that the Subcommittee consider potential authors of Group 2 papers and the manner in which this component of the project should be developed. A verbal report on subcommittee discussions will be provided at the IPSASB meeting.

Project Schedule

The project schedule identified in the Project Brief is included at page 3 of agenda item 2.1. In finalizing the Project Brief the IPSASB acknowledged that the project time frame was ambitious, but considered it appropriate to maintain momentum on the project. The IPSASB also acknowledged that it may be necessary to refine and update the schedule in the light of experience.

The development schedule is included for information purposes. Staff are of the view that the broad parameters of the development schedule remain as was intended by the IPSASB – ambitious but appropriate. However, subject to progress at this meeting on review of papers dealing with the objectives and scope of financial reporting, it may be appropriate to revisit the timing of issue of Group 1 papers and communicate to constituents expectations regarding target achievements for late 2007 and first half of 2008.

Attachment 1 – Proposed Amendment to the Project Brief

The following extract identifies proposed changes to page 12 of the Project Brief issued in December 2006.

Purpose and Authority of the Framework

The authority of the Frameworks in IPSASB member jurisdictions differs – see attachment 1.

The current 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 an IPSASB 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: and allows potential differences in legal and institutional conventions and different practices and policies adopted in different jurisdictions to be fully considered in that 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 when faced with establishing accounting policies for matters not specifically dealt with by IPSASs.

**PUBLIC SECTOR CONCEPTUAL FRAMEWORK
SUBCOMMITTEE AND MONITORING GROUP MEMBERSHIP**
(Updated 15 May, 2007)

Country	Member	Contacts
<i>IPSASB</i>	<i>IPSASB Member</i>	
UK	M. Hathorn - Chair	M. Hathorn, I. Carruthers
Argentina	C. Palladino	C. Palladino
Japan	T. Sekikawa	T. Sekikawa, K. Izawa
New Zealand	G. Schollum	G. Schollum,
Norway	T. Olsen	T. Olsen, H. Brandis, Didrik Thrane-Nielsen**
USA	D. Bean	D. Bean
<i>NSS</i>	<i>NSS Member</i>	<i>NSS Contacts</i>
Australia - AASB	D. Boymal	D. Boymal, J. Paul, Ahmad Hamidi-Ravari**
China - Ministry Finance	Weidong Feng	Weidong Feng , Li Hongxia
France - Ministry of Finance	P. Soury	P. Soury, L. Vareille
IMF Statistics Department and Fiscal Affairs Department	Sagé De Clerck, Cor Gorter	L. Laliberte
Italy - Ministry Economica/Finance	P. Pepe	M. Bessone
South Africa - ASB	E. Swart	E. Swart**, R.Cottrell
UK- ASB	I. Mackintosh	I. Mackintosh, D. Loweth**
<i>Monitoring Group</i>	<i>Monitoring Group Member</i>	<i>Monitoring Group Contacts</i>
Canada - PSAB	R. Salole	R. Salole
FEE - PSC	C. Mawhood	C. Mawhood
Netherlands – Ministry of Internal Affairs	W.G.J. Wijntjes	W.G.J. Wijntjes
Spain - Ministry Economy and Finance	M. Garcia Saenz	M. Garcia Saenz, B. Hernandez Fehatrnandez-Canteli
Switzerland - Dept Finance	M. Stockli	M. Stockli
		<i>IPSASB Staff</i>
		S. Fox, P. Sutcliffe

** Primary author of Group 1 Consultation Paper

**PUBLIC SECTOR CONCEPTUAL FRAMEWORK
SUBCOMMITTEE MEMBERS WITH PRIMARY RESPONSIBILITY FOR
PREPARATION OF CONSULTATION PAPERS (Updated February, 2007)**

Country	Provide staff for	Proposed topic	Primary Author
<i>IPSASB</i>			
UK			
Argentina			
Japan			
New Zealand			
Norway	1st stage paper - (NIPC)*	Qualitative Characteristics	Didrik Thrane-Nielsen
USA			
<i>NSS</i>			
Australia - AASB	1st stage paper	Reporting Entity	Ahmad Hamidi-Ravari
China - Ministry of Finance	2 nd stage paper	To be determined	To be determined
France - Ministry of Finance	2 nd stage paper	To be determined	To be determined
IMF Statistics Dep & Fiscal Affairs Dep	Components of papers	To be determined	To be determined
Italy - Ministry Economica/Finance	To be confirmed		
South Africa - ASB	1st stage paper	Scope of financial reporting	Erna Swart
UK- ASB	1st stage paper	Objectives of financial reporting	David Loweth
<i>Monitoring Group</i>			
Canada - PSAB			
FEE - PSC			
Netherlands – Ministry of Internal Affairs			
Spain - Ministry Economy and Finance			
Switzerland - Dept Finance	2 nd stage paper	To be determined	To be determined
<i>IPSASB Staff</i>			
S. Fox	Oversight		
P. Sutcliffe	Project management Draft ED		

Staff resources provided through Norwegian Institute of Public Accountants (NIPC)

All subcommittee members will participate in review of materials prepared by the lead NSS.

Project Development Schedule – Extract From Project Brief Pages 16 And 17

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, scope, qualitative characteristics and reporting entity agreed for inclusion in first draft of accrual Framework ED.

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

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

- (a) definition of the elements of general purpose financial statements and criteria for their recognition; and
- (b) consideration of other elements of financial reports (in addition to those recognized in financial statements) and criteria for their inclusion 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.

Consultation Paper dealing with Group 4 component (Cash Basis Framework) developed and issued late 2010.

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

2011 – Responses to accrual Framework exposure draft reviewed and Framework finalized.

Responses to Cash Basis consultation paper reviewed and exposure draft of cash basis Framework finalized.

2012 – Accrual Framework issued.

Responses to exposure draft of cash basis Framework reviewed and Framework finalized.

**IPSASB SUBCOMMITTEE
MEETING NOTES – HONG KONG, 26 MARCH 2007**

PARTICIPANTS

In Hong Kong	
<i>Subcommittee Members/Contacts</i>	
UK - IPSASB	M. Hathorn
Japan- IPSASB	T. Sekikawa, K. Izawa
New Zealand- IPSASB	J Perry, K Crook
Australia - AASB	J. Paul, A Thomson
South Africa - ASB	E. Swart
UK- ASB	I. Mackintosh, D. Loweth
<i>Observers</i>	
IASB Staff	I. Hague, R Villmann
NSS-4 Consultant	K. Simpkins
Hong Kong ICPA- Hong Kong Audit Commission and Hong Kong Treasury	P. Wong, Principal Auditor J. Ying, Assistant Director -Audit L. Wong, Assistant Director -Accounting Services K. Li, Deputy Director-Accounting Services
<i>IPSASB Staff</i>	S. Fox, P. Sutcliffe
Participating by Conference call	
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Spain – Ministry of Economy and Finance	M Garcia Saenz
<i>Apologies</i>	
Argentina - IPSASB	C. Palladino
China - Ministry Finance	Weidong Feng
France - Ministry Finance	P. Soury

Introductions and Opening Remarks

Mr. Mike Hathorn, the IPSASB Chair and Subcommittee Chair, welcomed all participants and thanked the Hong Kong Institute of CPAs (HKICPAs) for making the meeting facilities available, and Patricia McBride and her staff for all their work in ensuring all meeting arrangements were in place and worked very well.

The Chair also thanked the authors of Group 1 papers for preparing materials for consideration at this meeting.

Meeting Objectives and Subcommittee Role

Members discussed and confirmed the role of the subcommittee as being to prepare issues papers and draft Consultative Papers for IPSASB discussion, review and ultimately approval to issue. Members also confirmed the staff role and subcommittee procedural arrangements as outlined in meeting papers.

Update on recent IPSASB meeting

The Chair and Ms Stephenie Fox, the IPSASB Technical Director, provided participants with an update on the recent IPSASB meeting on March 20-23, and confirmed that the IPSASB would debate initial issues papers and subcommittee recommendations on major issues as the first step in the development of a Consultative Paper.

It was also noted that the IPSASB had requested the subcommittee and authors to explicitly consider the issue of differential reporting in the development of relevant components of the IPSASB Framework

Reports on NSS-4 Group Monitoring IASB-FASB Joint Project and Update from IASB project staff

Ms Joanne Perry provided an update on the meeting of the NSS-4 Group held in the morning of 26 March noting that:

- It had been agreed that Mr. Kevin Simpkins' monitoring reports would be provided to the IPSASB and IPSASB subcommittee and monitoring group members – consequently it would not be necessary to prepare summaries of those reports.
- The NSS-4 Group was fully supportive of the IPSASB project and would work with the IPSASB Chair and staff to determine appropriate mechanisms to activate that support.
- Subject to the availability of resources, the NSS-4 would provide to the IPSASB the equivalent of 1 day per month of Mr. Simpkins time for the remainder of 2007.

Mr. Simpkins provided an overview of major issues identified in his monitoring reports of the IASB-FASB joint project, with particular emphasis on those matters which were relevant to the issues papers being considered at this meeting. Mr. Simpkins confirmed his interest and willingness to provide input to the IPSASB project, subject to his time constraints.

Ms Rebecca Villmann provided an update on the current status of the IASB-FASB joint project. Mr. Ian Hague noted that the IASB-FASB Conceptual Framework team would be

happy to assist the IPSASB work, subject to resource availability, and that it would be useful to establish a mechanism whereby each of the IAS-FASB and IPSASB teams can learn from each other's deliberations.

It was agreed that the IASB-FASB staff and the IPSASB staff further explore mechanisms to strengthen ongoing liaison to ensure timely advice and exchange of views on common issues/material.

Issues papers:

The subcommittee discussed the following four issues papers:

- 1 – Objectives of Financial Reporting: Author: David Loweth, UK - ASB
- 2 – Scope of Financial Reporting: Author: Erna Swart, South Africa - ASB
- 3 – Reporting Entity – Author: Ahmad Hamidi-Ravari, Australia - AASB
- 4– Qualitative Characteristics: Author: Didrik Thrane-Nielsen, Norway - NIPC

Re: Objectives of Financial Reporting

There was broad agreement that:

- The approach being adopted, in terms of structure and format, was appropriate, and should be adopted by all initial issues papers.
- The paper should examine the requirements of the US GASB on inter-period equity, which could be considered as an element of accountability.
- The paper needed to be clearer on what accountability is, why it is important, and how it might be articulated. It should also consider what accountability might encompass and whether the nature/role of accountability should be focused in some way - for example, be restricted to 'financial' accountability. It was also noted that this may be dealt with more fully in the “scope” paper.
- The paper needed additional consideration on the issue of whether it was appropriate to designate a primary group of users, to reflect the differing views that were expressed at the meeting. This section of the paper would consider whether a primary user group was necessary, how that group would be identified/described and whether there were any consequences of adopting such an approach.
- In the context of the objectives of financial reporting, the paper should consider whether any form of differential reporting might be appropriate. In particular, whether the same objectives should be applied to all public sector entities should be raised as an issue for the IPSASB to discuss. (There was an initial feeling amongst members that it was unlikely that at this high level of objective formulation different objectives would be established for different entities, rather that it may be an issue that would be resolved at the reporting entity or qualitative characteristics level.)
- The paper for the IPSASB meeting in July 2007 should focus on the high-level issues both to guide the Board's discussion and to seek the Board's views.

- If subcommittee members had any specific jurisdiction matters/requirements they thought relevant they would forward such to the authors. In particular, participants were to provide updates to the references included in the paper.

Members agreed that it was not anticipated that the paper would be issued to the subcommittee for comment before going to the IPSASB. Rather the paper would be developed for provision to the IPSASB in May and would be forwarded to the subcommittee, with a request for comment, around the same time as distributed to the IPSASB. The author and staff would then report to the IPSASB on comments made by subcommittee members. (If the author could provide an updated draft to the subcommittee for comment before finalizing the draft for IPSASB review, this would be most welcome - but all appreciated the time constraints - particularly for the first two papers.)

Re: Scope of Financial Reporting

Members agreed that an issues paper should be developed for discussion at the July IPSASB meeting and should reflect the style of the Objectives Paper (as noted above). The paper should consider the principles that might underpin the boundary of financial reporting.

It was agreed the paper to go to the IPSASB should:

- Outline the consequences of the Objectives for Financial Reporting in the public sector as being developed in the other subcommittee paper.
- Explore the boundary of financial reporting by considering not only what is in, but what might be excluded from, the scope.
- Raise and test potential approaches to establishing the boundary and what might be included and excluded by different approaches - for example by considering implications of defining the scope:
 - As dealing with financial reporting only - raised but rejected as being too narrow for public sector entities (which were not GBE's).
 - By reference to the objectives of the entity – that is profit seeking, achievement of designated financial results and/or the achievement of service delivery outcomes.
 - By reference to the mandate of standards setters - raised but rejected because the scope will itself establish that.
- Consider whether the approach that may have to be adopted is to identify major characteristics of the boundary and note that the specifics of what is in and out will develop over time. Some noted this reflects current experience with establishing and expanding boundaries of financial reporting.
- The paper should explain that, the subcommittee's initial view is that:
 - Budget presentation is a role for the Department of Treasury/Budget agency rather than for accounting standards.

- For the public sector, financial reporting has a wider scope than financial statements.
- The scope of financial reporting includes reporting on social policy, budget compliance, service accomplishments.

Subcommittee members agreed to provide input to the author if they had any further insights/views.

Re: Reporting Entity

The Subcommittee focused on the questions raised in the additional paper provided to support the issues paper and, in broad terms, agreed that:

- Re: question 1 - The conceptual guidance on reporting entity should include general principles regarding the characteristics of a public sector entity that should prepare general purpose financial reports that comply with IPSASs, without prescribing which entities should prepare such reports. This would allow jurisdictions to respond to those general principles and exercise their own judgement to identify the entities that should prepare such reports. Therefore, the Consultation Paper should set out the IPSASB's conceptual thinking, note some practical implications of the proposed characteristics and acknowledge that those implications can vary according to the legal systems in place in each jurisdiction.

Subcommittee members noted that many public sector entities might be primarily accountable for the non-financial aspects of their performance. They agreed that this issue should be addressed in the Scope phase, rather than the Reporting Entity phase, of the Conceptual Framework project.

- Re: question 2 - The Subcommittee did not express a view on whether different terms should be used for the two dimensions of the reporting entity concept (1. Basis for determining the boundary of the entity and 2. characteristics of entities which should report.)

It was noted that the primary purpose of using different terms to describe the two dimensions of the reporting entity concept is to allow an entity that chooses to prepare general purpose financial reports that comply with IPSASs to be a reporting entity, even if it does not possess the characteristics of an entity that should prepare such reports.

- Re: question 3 – The issues paper should explore whether the boundaries of a reporting entity should be based on the concept of control. However, subcommittee members did note and focus mainly on the practical difficulties encountered in applying the concept of control in the public sector (for example, to autonomous and independent entities).

It was also agreed that the issue paper to go to the IPSASB should raise the issue of whether the concept of control is appropriate for defining the boundaries of a reporting entity, and also how “control” should be defined. Subcommittee

members observed that the current working definition of control in the IASB-FASB Conceptual Framework project is likely to change and that various possible definitions of control should be canvassed.

Members discussed whether the current working definition encompassed special-purpose entities, and whether it might be better off waiting for the changes in the working definition to occur rather than base this aspect of the paper on a definition that is likely to change. It was noted that the purpose of examining these definitions is to test whether the concept of control (under any definition of control) can usefully be applied in the public sector, not to develop standards-level drafting.

Subcommittee members also agreed that the Consultation Paper should examine whether the boundaries of a reporting entity should be based on other concepts, such as accountability (using the GASB's definition), the fund concept, ownership or common control. The primary author is to consider the potential application issues for each of these concepts (consistent with the testing of the concept of control).

- Re: question 4 - Whether net investment accounting should be applied to government sub-entities is a standards-level issue, and the IPSASB's Conceptual Framework should not preclude either form of reporting.
- Re: question 5 - Subcommittee members disagreed about where the issue of assets recognised by a reporting entity, including resources that are not controlled but are administered or held in custody for another entity, should be addressed. Some argued that this issue should only be addressed in the elements of financial statements component of the Conceptual Framework project, while others argued that this issue affects both that component and the reporting entity component.

Subcommittee members also disagreed about whether administered (not controlled) resources should be recognised as assets by the entity that administers them. Some argued that only controlled resources should be recognised as assets, whilst some others argued that administered resources should also be recognised as assets to discharge the entity's accountability for them.

- Subcommittee members would provide input to the author out-of-session on implementation experience with the concept of control.

It was agreed that this paper will not be included on the IPSASB Agenda in July 2007. Rather, it is to be further developed by the authors and the subcommittee, with a view to its inclusion in the Agenda for the November 2007 IPSASB meeting.

Re: Qualitative Characteristics

It was agreed that:

- The approach adopted in the paper was appropriate, but would need to be further developed as issues were explored and the paper was prepared for Board consideration.
- The qualitative characteristics should track IASB subject to:
 - Differences in objectives IASB/IPSASB.
 - Differences in scope of financial reporting for public sector entities and those subject to the IASB Framework.
- Given anticipated developments in the IASB-FASB project as a result of submissions to the IASB-FASB Discussion Paper, and the current IPSASB consideration of Objectives and Scope, this Paper should not move forward too quickly. Rather it should wait until any differences between the IPSASB and IASB in respect of the objectives and scope of financial reporting become clearer.

Re Future Actions/Approach

It was agreed that:

- The Objectives and Scope issues papers would be further developed for presentation to the IPSASB at its next meeting in Montreal.
- The style of all the initial issues papers to go to the IPSASB for discussion, including the scope and objectives papers which are to go to the July IPSASB meeting, should reflect the style of the objectives paper - that is, a paper which identifies the issue, notes background, requirements/practice from some other jurisdictions/IASB, options re the potential approach and an author's recommendation/view.
- The subcommittee may wish to meet in conjunction with the Montreal meeting to discuss the reporting entity and qualitative characteristics paper if the authors had further developed those papers. However, these papers would not be presented to the IPSASB until the November 2007 meeting.
- The authors of the objectives and scope papers would attend the Montreal meeting if possible.
- The objectives and scope paper would be circulated to the subcommittee members at the same time as finalized for distribution to the IPSASB.

As a general approach it was also agreed that where appropriate, the IPSASB Framework was to acknowledge and reflect the IASB Framework, however it would depart from the IASB Framework where necessary to reflect the public sector environment, priorities and circumstances.

**INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS BOARD
(IPSASB): CONCEPTUAL FRAMEWORK PROJECT**

Date: 6 June 2007
Memo to: Members of the IPSASB
From: David Loweth (UK Accounting Standards Board)
Subject: Conceptual Framework project: the Objectives of Financial Reporting

PURPOSE OF THE SESSION

1. The purpose of this session is to consider some initial thoughts as set out in this paper on the key issues on the objectives of financial reporting by public sector entities as part of the conceptual framework project. The paper is work-in-progress and is designed to stimulate debate by Board members and views on the future direction in drafting a consultative document. The paper seeks to reflect the discussion on the objectives of financial reporting which was held at the IPSASB Conceptual Framework Sub-Committee meeting held in March 2007, but the author bears responsibility for errors of omission or commission.

ACTION REQUIRED

- A view from Board members as to whether the key issues are the right ones to be addressed in this phase of the conceptual framework project.
- Comments on the staff preliminary views on each of the key issues.
- Direction to the staff on the approach to be adopted in drafting the consultation paper on this aspect of the conceptual framework project.

KEY ISSUES TO BE ADDRESSED

2. The key issues to be addressed in this component of the project are:

- Is there one objective of public sector financial reporting, or more than one?
- What is the role of accountability/stewardship in the public sector context?
- Who are the users of public sector financial reports?
- What are their information needs?
- Should the objectives designate a primary group of users?
- Are there different considerations/implications with regard to financial reporting at the whole of the public sector/whole of government level as compared to reporting by individual public sector bodies and/or categories of entity (such as central government, local authorities etc)?

Issue #1 One objective, or more?

Coverage in existing International Public Sector Accounting Standards (IPSASs)

3. In the accrual IPSASs, IPSAS 1 ‘Presentation of Financial Statements’ contains a section on the purpose of financial statements (paragraphs 13-15, see Appendix A), including the statement that “the **objectives** (my emphasis) of general purpose financial reporting in the public sector should be to provide information useful for decision-making, and to demonstrate the accountability of the entity for the resources entrusted to it”.

The Existing Framework of the International Accounting Standards Board (IASB)

4. The IASB’s current ‘Framework for the Preparation and Presentation of Financial Statements’ applies to business entities in the private sector, but is relevant to the project, given that many of the current IPSASs are based on International Accounting Standards (IAS)/International Financial Reporting Standards (IFRS) to the extent that the requirements of IAS/IFRS are relevant to the public sector. The current IPSASs therefore draw on concepts and definitions in the IASB Framework with modifications necessary to address public sector circumstances.

5. The IASB Framework (paragraph 12) states that:

“the objective of financial statements is to provide information about the financial position, performance and changes in financial position of an entity that is useful to a wide range of users in making economic decisions”.

6. The Framework (paragraph 14) goes on to add that:

“Financial statements also show the results of the stewardship of management, or the accountability of management for the resources entrusted to it”.

The IASB-FASB joint Conceptual Framework project

7. The IASB issued a Discussion Paper (DP) in July 2006 ‘Preliminary Views on an improved Conceptual Framework for Financial Reporting: The Objective of Financial Reporting and Qualitative Characteristics of Decision-useful Financial Reporting Information’ as the first output from the joint conceptual framework project being undertaken with the US Financial Accounting Standards Board (FASB).

8. In the DP, the IASB and FASB have proposed that the converged framework should specify only one objective of general purpose external financial reporting (paragraph OB2 of the DP), that of resource allocation decision-usefulness. Paragraph OB3 goes on to place the emphasis on the provision of information that helps in assessing future cash flows. The DP does not identify the provision of information that enables users to assess the stewardship of management as a separate objective. Rather, the DP notes (in paragraph OB28) that the objective “encompasses” providing information useful in assessing management’s stewardship.

9. There is an Alternative View from two IASB members set out in Chapter 1 of the DP that stewardship should be identified as a separate objective of financial reporting, or as part of the decision-usefulness objective. Many respondents to the DP have expressed support for the Alternative View. As the Observer Notes presented to the February 2007 IASB meeting¹ make clear, 86 per cent of those who specifically responded on this issue disagreed with the assertion of the IASB and FASB that there should be only one objective of financial reporting and that stewardship should be subsumed within the decision-usefulness objective. I believe that the IASB plans to commence redeliberations for the objective of financial reporting at its June 2007 meetings.

10. The preliminary views of the IASB and FASB are clearly of relevance to this component of the IPSASB project. A group of chairs and senior staff of the standard-setters of Australia, Canada, New Zealand and the UK (the ‘Group of Four’) is monitoring the applicability of the conceptual framework project to not-for-profit entities in the public and private sectors (public-benefit entities, PBEs). A report from the group (authored by Kevin Simpkins) issued in July 2006² highlighted as two of the main issues in relation to PBEs of the IASB/FASB’s proposed objective of financial reporting (i) the fact that there is insufficient emphasis on accountability/stewardship and (ii) the inappropriateness of the pervasive cash flow focus.

11. The Simpkins report makes clear that (paragraph 1.6):

“In the case of not-for-profit entities, we consider that stewardship or the discharge of accountability is a significant aspect of the objective of financial reporting and should either be identified as a separate objective or recognised within a single objective”.

Other relevant material

12. As the Simpkins report notes (paragraph 1.7), the conceptual frameworks of all of the Group of Four includes accountability or stewardship explicitly within its objective of financial reporting. In some cases this is included as a separate additional objective and in other cases by inclusion within a single objective.

13. There are also a number of public sector specific conceptual frameworks which can be drawn upon. A (non-exhaustive) list of a number of the relevant frameworks is set out at Appendix B. All relate the objective (or objectives) to meeting the information needs of users (who might be the users and their information needs are considered further below). Even where only one objective is specified, it specifically refers to the importance of the provision of information for accountability/stewardship purposes.

14. The US Governmental Accounting Standards Board (GASB), in particular, goes even further. In its Concepts Statement No.1 ‘Objectives of Financial Reporting’, GASB states that

¹ IASB (2007) Information for Observers ‘Conceptual Framework – Phase A: Objective of Financial Reporting and Qualitative Characteristics – Comment Letter Summary (Agenda paper 3A)’.

² Simpkins (2006) ‘The IASB/FASB’s Conceptual Framework Project’s Preliminary Views on an improved Conceptual Framework for Financial Reporting: The Objective of Financial Reporting and Qualitative Characteristics of Decision-useful Financial Reporting information – Applicability to not-for-profit entities in the private and public sector’.

“accountability is the cornerstone of all financial reporting in government”, linked to the citizen’s ‘right to know’ how public resources have been spent, although it does acknowledge that governmental (to use the GASB term) financial information should also provide information to assist users in making economic, social and political decisions³. Given this fundamental emphasis on accountability, and the need to provide information necessary for users to make social and political (as well as economic) decisions, GASB has further argued⁴ that financial accounting and reporting is – and should be – different from that of for-profit business entities. That view is not shared universally (it is not, for example, shared by the author).

15. The UK ASB has also developed a ‘Statement of Principles for Financial Reporting: Interpretation for Public Benefit Entities’ (SoP-PBE)⁵, in which the ASB sets out its view that the objective (note the singular) should be the same as for the ‘Statement of Principles for Financial Reporting’ itself (which is aimed at profit-orientated business entities), namely:

“to provide information about the reporting entity’s financial performance and financial position that is useful to a wide range of users for assessing the stewardship of the entity’s management and for making economic decisions”.

16. Like the GASB’s CS 1, the SoP-PBE also stresses the importance of accountability/stewardship:

“Stewardship plays an important role in the preparation of financial statements by public benefit entities. Accountability to a public benefit entity’s stakeholders for the use of funds and the safekeeping of its resources is often of paramount importance and there may be a wide range of people having such an interest in the activities of the entity. For example, accountability to the public for the collection of taxation and its use in the provision of public goods and services is fundamental in public sector reporting. Therefore, a key objective of financial statements for public benefit entities is the provision of information to assist in a user’s assessment of the efficient and effective use of funds and other resources”.

³ The US Federal Accounting Standards Advisory Board (FASAB) takes a similar broad view of (1) assessing accountability and (2) contributing to the understanding of the economic, political and social consequences of the allocation and various uses of federal resources. See, for example, FASAB (2006) ‘Clarifying FASAB’s Near-Term Role in Achieving the Objectives of Federal Financial Reporting’, page 5.

⁴ GASB (2006) White Paper ‘Why Governmental Accounting and Financial Reporting is – and should be – Different’.

⁵ Scheduled to be published in late June 2007. The term ‘public benefit entities’ goes wider than the public sector and encompasses any entity whose primary objective is to provide goods or services for the general public or social benefit and where any equity has been provided with a view to supporting that primary objective rather than with a view to providing a financial return to equity shareholders.

Preliminary staff view

17. The staff's preliminary view is that decision-usefulness is a legitimate objective, but for all entities (whether private or public sector, whether for-profit or not-for-profit), stewardship or the discharge of accountability is a significant aspect of the objective and should either be identified as a separate objective or recognised explicitly within a single objective. In the public sector context, the preliminary staff view is that accountability/stewardship should be articulated as a separate objective.

Issue #2 But what is the role of accountability/stewardship in the public sector context?

Coverage in existing IPSASs

18. As well as the reference to accountability noted in paragraph 3 above, IPSAS 1 (paragraph 14) notes that financial reporting may provide users with information:

- (a) indicating whether resources were obtained and used in accordance with the legally adopted budget (paragraph 22 provides further explanation of how this might be presented where the financial statements and the budget are on the same basis of accounting); and
- (b) indicating whether resources were obtained and used in accordance with legal and contractual requirements, including financial limits established by appropriate legislative authorities.

19. Entities which make publicly available their approved budget(s) are required to comply with the requirements of IPSAS 24 'Presentation of Budget Information in Financial Statements'.

The existing IASB Framework

20. As noted above, the current IASB Framework (paragraph 14) does at least acknowledge that the objective envisages a role for accountability/stewardship:

“Those users who wish to assess the stewardship or accountability of management do so in order that they may make economic decisions; these decisions may include, for example, whether to hold or sell their investment in the entity or whether to reappoint or replace the management”.

The IASB-FASB joint Conceptual Framework project

21. As noted in paragraph 8 above, the IASB's July 2006 DP states that the objective “encompasses” providing information useful in assessing management's stewardship. In the private sector context, a majority of respondents to the DP have stressed the importance of stewardship/accountability. For example, the response of the UK ASB⁶ highlights this and refers

⁶ The UK ASB response and Andrew Lennard's paper can be downloaded via the following link:
http://www.frc.org.uk/images/uploaded/documents/20061102%20Conceptual%20Framework_response%20to%20IASB_FINAL.PDF

to Andrew Lennard's paper 'Stewardship and the objectives of financial statements', which makes clear that stewardship should not be characterised simply as information to assist an assessment of the competence and integrity of 'stewards' (ie the management and directors), but as the provision of information that provides a foundation for a constructive dialogue between management and shareholders.

Other relevant material

22. As noted above, the major relevant frameworks highlight the important role that accountability/stewardship plays in the preparation of financial statements by all entities, in particular public benefit entities. There are, however, some differences of emphasis on what that role should encompass and how it should be articulated.

23. Perhaps the widest articulation of the role of accountability/stewardship is set out in GASB's CS 1⁷, which specifies that:

"Accountability requires governments to answer to the citizenry – to justify the raising of public resources and the purposes for which they are used...Financial reporting plays a major role in fulfilling government's duty to be publicly accountable in a democratic society.

The Board (ie GASB) is aware that applying the broad concept of public accountability to financial reporting by state and local governments creates the potential to extend reporting beyond current practice⁸.

The Board believes that, at a minimum, demonstrating accountability through financial reporting includes providing information to assist in evaluating whether the government was operated within the legal constraints imposed by the citizenry".

24. The extent of accountability which should be articulated as an objective of financial reporting is perhaps more an issue for the phase of the project dealing with the scope of financial reporting. But one issue to consider here is whether accountability should incorporate what the GASB refer to as 'interperiod equity'. In the USA, the laws of most Governments require balanced budgets, which can be on a yearly basis. GASB believes that the intent of balanced budget laws is that the current generation of citizens should not be able to shift the burden of paying for current-year services to future-year taxpayers. GASB:

"believes that interperiod equity is a significant part of accountability and is fundamental to public administration. It therefore needs to be considered when establishing financial reporting objectives. In short, financial reporting should help users assess whether current-year revenues are sufficient to pay for the services provided that year and whether future taxpayers will be required to assume burdens for services previously provided".

⁷ It should be noted that FASAB has a view that the federal government has a constitutional stewardship responsibility for the nation's wealth and well-being, but FASAB also acknowledges that it does not recommend standards for wider economic reporting to reflect this.

⁸ These issues are explored further in GASB's Concepts Statement No.2 (1994) 'Service Efforts and Accomplishments Reporting'

Preliminary staff view

25. The staff believe that there should be an articulation of the meaning of the role of accountability/stewardship as an objective of financial reporting, which may be summarised as the provision of financial information to assist in a user's assessments of the efficient and effective use of funds and other resources and which can provide the basis for a constructive dialogue between the management of a public sector entity and users of its financial statements/financial reports. In the public sector context in some jurisdictions, it is felt that a further key element is to provide financial information to demonstrate that resources have been properly applied in accordance with all relevant rules and regulations, and limited to the extent and purposes authorised.

Issue #3 Who are the users of public sector financial reports?

Coverage in existing IPSASs

26. IPSAS 1 (paragraph 2) notes that users of general purpose financial statements include taxpayers and ratepayers, members of the legislature, creditors, suppliers, the media and employees.

The existing IASB Framework

27. The Framework (paragraph 9) notes that the users of financial statements include present and potential investors, employees, lenders, suppliers and other trade creditors, customers, governments and their agencies and the public.

The IASB-FASB joint Conceptual Framework project

28. In its July 2006 DP (paragraph OB6), the IASB has listed the potential users of financial reports as including equity investors, creditors, suppliers, employees, customers, governments and their agencies and regulatory bodies and members of the public.

29. In response to the DP, the Simpkins report (paragraph 1.15) suggests that not-for-profit entities have a wider group of users. The users include those who provide resources to the organisation in the form of contributions. The report notes that this category of user might be described as "present and potential funders and financial supporters".

Other relevant material

30. The conceptual frameworks of a number of other jurisdictions all list the potential users of financial statements/financial reports, as does some academic literature. This material will be drawn upon as the project develops. As an example, Appendices C and D reflect the results of research undertaken in 2000⁹ on the users of public sector financial statements (Appendix C

⁹ Loweth (2000) 'A Statement of Principles for Financial Reporting in the UK Public Sector' (unpublished MA thesis, Leeds Metropolitan University)

covers the whole of government level; Appendix D the level of individual public sector entities/categories of entities), which will be updated for the consultation document.

31. As a further example, the UK ASB in its ‘Statement of Principles for Financial Reporting’ lists the potential users as present and potential investors, lenders, suppliers and other trade creditors, employees, customers, governments and their agencies, and the public. In its SoP-PBE, the ASB has set out a revised list of users: present and potential funders and financial supporters (‘funders and financial supporters’), lenders, beneficiaries/customers, governments and their agencies – including regulators, and the public.

32. One interesting feature to note is that many of the users may not actually see an actual financial report¹⁰. Often, the financial reports themselves are studied by intermediaries (such as legislators, citizen research organisations, rating agencies, the media etc) who then disseminate what they see as the key information to a wider population of users.

Preliminary staff view

33. All the existing literature lists a wide range of users that might have an interest in the financial information of an entity. The staff’s preliminary view is that the consultation document should similarly specify a ‘long list’ of potential users of public sector financial reports. This could take as a starting point the IASB-FASB’s list referred to in paragraph 28 above, amended and adapted as necessary to reflect the public sector context, including:

- (a) the addition of funders and financial supporters (which would include the public as taxpayers);
- (b) clarification that government and their agencies and regulatory bodies includes legislative and oversight bodies;
- (c) clarification that members of the public relates to the citizens as beneficiaries/recipients of public services, non-tax payers and representatives of the public, including the media and public advocacy groups.

Issue #4 What are the information needs of users?

Coverage in existing IPSASs

34. IPSAS 1 (paragraphs 13-15, reproduced in Appendix A) provides a list of the information that users need in order to meet the objectives of general purpose financial reporting in the public sector as referred to in paragraph 3 above.

The existing IASB Framework

35. The Framework (paragraph 9) lists the information needs of the users listed in paragraph 27 above. The need for information on financial position, performance and changes in financial position are summarised in paragraphs 15-20 of the Framework.

The IASB-FASB joint Conceptual Framework project

¹⁰ This was one conclusion of a study of user needs conducted by the GASB in 2004-05

36. In its July 2006 DP (paragraph OB6), the IASB has listed the information needs of the potential users of financial reports listed in paragraph 28 above. The need for information about an entity's resources, claims to those resources and changes in resources and claims is summarised in paragraphs OB18-25, and the need for management explanations referred to in paragraph OB26.

37. The Simpkins report notes (in paragraph 1.15) that present and potential funders and financial supporters are interested in the utilisation of the resources provided to the entity that might be useful in making decisions about resources they may choose, or be required, to provide in the future.

Other relevant material

38. There is a good deal of material on information needs in the conceptual frameworks of certain national jurisdictions and other literature. As noted above, the information needs of users are critical in determining the objectives of financial reporting and there is a great deal of overlap between the two. As well as the information needs of users at the whole of government level summarised in Appendix B, the staff have reviewed some of the literature on the information needs of users at the level of individual entities/categories of entities, which are summarised in:

- (a) Appendix E, which relates to UK literature on the issue; and
- (b) Appendix F, which relates to international literature.

Preliminary staff view

39. Given that general purpose public sector financial reports are designed to meet the information needs of users, there is clearly a need to articulate what are those information needs. In reviewing the literature referred to above, the staff's preliminary view is that some common key themes emerge about particular information needs, in addition to the requirement to demonstrate accountability/stewardship as referred to above. The information needs have to be considered in the wider context of what should be regarded as coming within the scope of public sector financial reporting. However, in the narrower context of considering the information needs to meet the objectives, then (putting to one side for the present the issue of interperiod equity) the key information required to included may be summarised as:

- (a) Financial performance – information to assist users evaluate the operating performance by making transparent the costs of providing services and activities, in line with an entity's objectives, and information useful to help users assess management performance in achieving economy, efficiency and effectiveness. This should also include information about how an entity has financed its activities (notably through the raising of taxes and issuance of debt) and met its cash requirements, as well as information about the sources, use and allocation of financial resources;
- (b) Financial position – information about the economic resources controlled and the use made of them, plus information to assist users to determine whether that financial

- position has improved or deteriorated over the period of the operating performance being reported on;
- (c) Financial condition – to provide information useful in evaluating a public sector entity's ability to meet its liabilities and commitments. In the longer term, this includes the provision of information to demonstrate that the fiscal position is sustainable over the longer term (the issue of whether long term sustainability of government programmes should be included is considered in the paper on the scope of financial reporting, which is also on the Board's agenda for this meeting);
 - (d) Budgetary compliance – information to demonstrate that resources have been used in accordance with the legally adopted budget

40. The preliminary list above will need to be amended/reconsidered in the light of the Board's views on what should come within the scope of public sector financial reporting for the framework, in particular if the decision is made to incorporate wider performance (including non-financial performance) within the scope.

Issue #5 *Should the objectives designate a primary group of users?*

Coverage in existing IPSASs

41. IPSAS 1 does not specify a primary group of users.

The existing IASB Framework

42. The Framework (paragraph 10) identifies investors as the primary user:

“As investors are providers of risk capital to the entity, the provision of financial statements that meet their needs will also meet most of the needs of other users that financial statements can satisfy”.

The IASB-FASB joint Conceptual Framework project

43. The IASB's July 2006 DP (paragraph OB12) identifies present and potential investors and creditors (and their advisers) as the primary users, as the most prominent external groups who use the information provided by financial reporting and who generally lack the ability to prescribe all the of the information they need.

44. In response, the Simpkins report also considers the designation of a primary user group as applicable in the context of not-for-profit entities. The report notes (paragraph 1.16) that the primary user group designated in the IASB DP only exists in the form of creditors in the context of not-for-profit entities. The report continues:

“We consider that the most appropriate primary user group for not-for-profit entities is the funders and financial supporters. These may be described as the not-for-profit sector equivalent of investors”.

45. This reflects the work of the UK ASB in developing the SoP-PBE (see paragraphs 46-48 below).

Other relevant material

46. There is material on primary users in the conceptual frameworks of certain national jurisdictions and other literature, which will be drawn upon. As an example, the UK ASB in its ‘Statement of Principles for Financial Reporting’ has identified present and potential investors as the primary user group. In developing the SoP-PBE, the ASB has reviewed this and concluded that it was also appropriate to develop a defining class of user for the financial statements of public benefit entities: funders and financial supporters. The SoP-PBE (paragraph 1.13) goes on to state that:

"they provide a source of cash or other resources without the incentive of a return ... for themselves. The funder and financial supporter generally provides taxation, grants or donations to the entity. The defining class of user includes the present and potential funders and financial supporters of the entity".

47. The reason for identifying a defining class of user was explained in the ASB’s 2005 Exposure Draft (ED) of the SoP-PBE. It is to:

“identify a perspective from which to view the need for financial information: financial information required by the defining class should generally be provided by the financial statements and information that is not needed by the defining class need not be included in financial statements”.

While there might be many people who are interested in the general performance of a public benefit entity, not all will be interested in the financial performance (and position) of the entity and many of those that are interested in the financial statements will also be interested in other information that assists in their assessment of the overall performance of the entity.

48. The SoP-PBE explains the differences between a ‘financial supporter’ and a ‘funder’. A financial supporter is someone who has made a conscious decision to contribute, whereas this might not be true of a funder, such as a taxpayer.

49. There is, however, some debate as to whether it is appropriate to designate a primary group of users in the way that the UK ASB has done. Some take the view that “present and potential funders and financial supporters” could cover the citizenry as a whole. The US GASB, for example, takes a wide view on who should be the primary users. It believes that there are three groups of primary users of external state and local government reports:

- (a) those to whom government is primarily accountable (the citizenry);
- (b) those who directly represent the citizens (legislative and oversight bodies); and
- (c) those who lend or participate in the lending process (investors and creditors).

50. The Australian Accounting Standards Board (AASB) takes a similarly wide view, although the categories of primary users¹¹ are split in a somewhat different way:

- (a) resource providers (eg employees, lenders, creditors, taxpayers);
- (b) recipients of goods and services; and
- (c) parties performing a review or oversight function.

In both the GASB and AASB examples, the articulation of primary users just about covers all external users.

Preliminary staff view

51. The staff's preliminary view is that it would be useful for a primary user to be designated, or at least that the consultation document should discuss the issue. The staff's starting assumption (admittedly, reflecting the author's background) is that for general purpose public sector financial reports the primary class of user, if one is to be designated, should be funders and financial supporters.

Issue #6 Should there be a distinction in respect of reporting at the whole of government level and at the level of individual entities/categories of entities

52. One issue the Conceptual Framework Sub-Committee discussed was whether, at least on certain issues, different considerations and implications may well apply to financial reporting at the whole of the public sector/whole of government level as compared to reporting by individual public sector bodies and/or categories of entity (such as central government, local authorities etc). However, in specifying what should be the objectives of financial reporting, at this high level it is unlikely that different objectives should be established for different entities. Taking the analogy of the private sector, the objectives of financial reporting are the same for individual companies and subsidiaries that prepare general purpose financial reports as for consolidated financial reports. The frameworks reviewed do not differentiate the objectives for different entities.

Preliminary staff view

53. The staff's preliminary view is not to make such a differentiation when articulating what should be the objectives of financial reporting. It is perhaps more appropriate that the issue of differential reporting could be examined in the reporting entity or qualitative characteristics phases of the project.

**UK Accounting Standards Board (ASB)
6 June 2007**

¹¹ As set out in AARF (1990) Statement of Accounting Concepts (SAC) 2 'Objective of Financial Purpose Financial Reporting'.

Appendix A

Extracts from IPSAS 1 ‘Presentation of Financial Statements’

From Scope – current para dealing with likely users

2. General purpose financial statements are those intended to meet the needs of users who are not in a position to demand reports tailored to meet their specific information needs. Users of general purpose financial statements include taxpayers and ratepayers, members of the legislature, creditors, suppliers, the media, and employees. General purpose financial statements include those that are presented separately or within another public document such as an annual report. This Standard does not apply to condensed interim financial information.

From Purpose of Financial Statements

13. The objectives of general purpose financial statements 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, the objectives of general purpose financial reporting in the public sector should be to provide information useful for decision-making, and to demonstrate the accountability of the entity for the resources entrusted to it by:
 - (a) providing information about the sources, allocation and uses of financial resources;
 - (b) providing information about how the entity financed its activities and met its cash requirements;
 - (c) providing information that is useful in evaluating the entity’s ability to finance its activities and to meet its liabilities and commitments;
 - (d) providing information about the financial condition of the entity and changes in it; and
 - (e) providing aggregate information useful in evaluating the entity’s performance in terms of service costs, efficiency and accomplishments.
14. General purpose financial statements can also have a predictive or prospective role, providing information useful in predicting the level of resources required for continued operations, the resources that may be generated by continued operations, and the associated risks and uncertainties. Financial reporting may also provide users with information:
 - (a) indicating whether resources were obtained and used in accordance with the legally adopted budget; and
 - (b) indicating whether resources were obtained and used in accordance with legal and contractual requirements, including financial limits established by appropriate legislative authorities.
15. To meet these objectives, the financial statements provide information about an entity’s:
 - (a) assets;
 - (b) liabilities;
 - (c) net assets/equity;
 - (d) revenue;
 - (e) expenses; and
 - (f) cash flows.

THE OBJECTIVES OF PUBLIC SECTOR FINANCIAL STATEMENTS – MEETING USER NEEDS: WHOLE OF GOVERNMENT ACCOUNTS
(WGA)

Date	Publication	Objectives/User Needs
1986	Joint Canadian/US <i>Federal Government Reporting Study (FGRS)</i>	<p>FGRS identifies the following user needs (p.15). Users want a federal government annual financial report to:</p> <ol style="list-style-type: none"> 1. Give an overview of the financial position and operating results of the entire government; 2. Provide a common framework to enhance users' understanding of government operations; 3. Provide a common database for analysis and for developing and debating policy issues; 4. Provide an historical perspective from which to consider future budget and spending proposals; 5. Assist users in demanding an accountability for actual results by comparison with earlier projections or budget; 6. Provide a key to matters of interest about which users might want further, more details information; 7. Facilitate the communication of information on government to others (for example, by legislators to their constituents or by media representatives to their audiences); 8. Save users the time otherwise needed to search through voluminous reports for desired information about the government and to work out the required reconciliations.
1987	<p>US Governmental Accounting Standards Board (GASB) Concepts Statement No.1 <i>Objectives of Financial Reporting (CS1)</i></p> <p>Included here as the objectives apply to financial reporting by all governmental entities, including "subunits of those entities".</p>	<p>CS1 (para 32) notes that financial reporting by state and local governments is used in making economic, social and political decisions and in assessing accountability primarily by:</p> <ol style="list-style-type: none"> a. comparing actual financial results with the legally adopted budget; b. assessing financial condition and the results of operations; c. assisting in determining compliance with finance-related laws, rules and regulations; and d. assisting in evaluating efficiency and effectiveness. <p>The financial reporting objectives are:</p> <ol style="list-style-type: none"> a. Financial reporting should assist in fulfilling government's duty to be publicly accountable and should enable users to assess that accountability by: <ol style="list-style-type: none"> 1. Providing information to determine whether current-year revenues were sufficient to pay for current-year services 2. Demonstrating whether resources were obtained and used in accordance with the entity's legally adopted budget, and demonstrating compliance with other finance-related legal or contractual requirements 3. Providing information to assist users in assessing the service efforts, costs, and accomplishments of the governmental entity b. Financial reporting should assist users in evaluating the operating results of the governmental entity for the year by: <ol style="list-style-type: none"> 1. Providing information about sources and uses of financial resources 2. Providing information about how it financed its activities and met its cash requirements 3. Providing information necessary to determine whether its financial position improved or deteriorated as a result of the year's operations c. Financial reporting should assist users in assessing the level of services that can be provided by the governmental entity and its ability to meet its obligations as they become due by:

Date	Publication	Objectives/User Needs
		<ol style="list-style-type: none"> 1. Providing information about its financial position and condition 2. Providing information about its physical and other nonfinancial resources having useful lives that extend beyond the current year, including information that can be used to assess the service potential of those resources 3. Disclosing legal or contractual restrictions on resources and the risk of potential loss of resources.
1991	IFAC Public Sector Committee (PSC) <i>Financial Reporting by National Government</i>	<p>The Study notes (p.3) that “The overriding objective of financial reporting is to provide useful information”. It goes on to identify user needs under 4 categories (pps.8-10):</p> <ol style="list-style-type: none"> 1. Stewardship and compliance – <ul style="list-style-type: none"> - to assess whether resources were used in accordance with legally mandated budgets and other legislative and related authorities such as legal and contractual constraints and program mandates; - to assess the government’s or unit’s stewardship over the custody and maintenance of resources; 2. State of finances – <ul style="list-style-type: none"> - to assess the sources and types of revenue; - to assess the allocation and use of resources; - to assess the extent to which revenues were sufficient to cover costs of operations; - to predict the timing and volume of cash flows and future cash borrowing requirements; - to assess the government’s or unit’s ability to meet financial obligations, both short and long term; - to assess the government’s or unit’s overall financial condition; 3. Performance – <ul style="list-style-type: none"> - to assess the performance of the government or unit in its use of resources; 4. Economic impact – <ul style="list-style-type: none"> - to assess the economic impact of the government on the economy; - to evaluate government spending options and priorities.
1993	US Federal Accounting Standards Advisory Board (FASAB) IN ITS Statement of Federal Financial Accounting Concepts (SFFAC) No.1 <i>Objectives of Federal Financial Reporting</i>	<p>SFFAC identifies 4 broad categories of user needs which comprise the objectives of federal financial reporting;</p> <ol style="list-style-type: none"> 1. Budgetary integrity – which arises from “from the responsibility of representative governments to be accountable for the monies that are raised and spent and for compliance with law” (paragraph 113). This enables users to determine – <ul style="list-style-type: none"> - how budgetary resources have been obtained and used and whether their acquisition and use were in accordance with the legal authorization; - the status of budgetary resources; - how information on the use of budgetary resources relates to information on the costs of program operations and whether information on the status of budgetary resources is consistent with other accounting information on assets and liabilities; 2. Operating performance – which arises from a government’s duty “to be accountable to its citizens for managing resources and providing services economically and efficiently and for effectiveness in attaining planned goals” (paragraph 123). This enables users to determine – <ul style="list-style-type: none"> - the costs of providing specific programs and activities and the composition of, and changes in, these costs; - the efforts and accomplishments associated with federal programs and the changes over time and in relation to costs; - the efficiency and effectiveness of the government’s management of its assets and liabilities;

Date	Publication	Objectives/User Needs
		<p>3. Stewardship – which is based on the federal government’s responsibility “for the general welfare of the nation in perpetuity” (paragraph 135). This enables users to determine whether –</p> <ul style="list-style-type: none"> - the government’s financial position improved or deteriorated over the period; - future budgetary resources will likely be sufficient to sustain public services and to meet obligations as they come due; <p>4. Systems and control - this objective underpins the first three objectives, “in conjunction with the fact that accounting supports both effective management and control of organizations and the process of reporting useful information” (paragraph 147). Information relevant to this objective helps users determine “whether the entity has established reasonable, cost-effective programs to safeguard assets, prevent and detect waste and abuse, and reduce error rates” (paragraph 150).</p>
1996	Australian Accounting Standard (AAS) 31 <i>Financial Reporting by Governments</i>	<p>AAS31 refers to two broad objectives (paragraph 3.2):</p> <ul style="list-style-type: none"> 1. To assist users in making and evaluating decisions about the allocation of resources; 2. To assist governments to discharge their financial accountability.
1998	HM Treasury scoping study <i>Whole of Government Accounts</i>	<p>The scoping study does not fully articulate objectives and user needs, but does highlight some potential benefits from the production of WGA:</p> <ul style="list-style-type: none"> 1. To assist government planners and managers in setting fiscal policy, fiscal management and in making resource allocation and investment decisions, through improved transparency and accountability; 2. To improve accountability to Parliament and “help Parliament and others to gain a better understanding of the significance of the Government’s expenditure, taxation and borrowing plans” (paragraph 2.26); 3. To help effective scrutiny of fiscal policy by Parliament, taxpayers and other potential users.

**STATEMENT OF PRINCIPLES FOR THE PUBLIC SECTOR : WHO ARE THE USERS OF PUBLIC SECTOR FINANCIAL STATEMENTS? –
WHOLE OF GOVERNMENT ACCOUNTS (WGA)**

Date	Publication	Identified Users
1986	Joint Canadian/US <i>Federal Government Reporting Study (FGRS)</i>	<p>The study identifies 6 broad user groups who would have an interest in and need for federal government financial information. These are:</p> <ol style="list-style-type: none"> 1. Legislative users – ie Parliament or their equivalent; 2. Citizens, media, policy analysts, special interest groups and other levels of Government 3. Government planners and managers – including Ministers; 4. Economists; 5. Corporate users; and 6. Lenders, security dealers and their advisers.
1991	A study by IFAC's Public Sector Committee (PSC) <i>Financial Reporting by National Government</i>	<p>The study identifies the following users of government financial reporting:</p> <ol style="list-style-type: none"> 1. Legislative and other governing bodies; 2. The public – including taxpayers, electors, voters, special interest groups and recipients of goods, services or benefits provided by the government. These groups often rely heavily on reports in the media; 3. Investors and creditors – investors in government securities and enterprises and other creditors provide financial resources to governments; 4. Other governments, international agencies and other resource providers; 5. Economic and financial analysts; 6. Internal managers, policy makes and administrators. <p>User groups (1) to (5) are highlighted as being primary users. Those in group (6) also need additional information eg costing information in order to carry out their management responsibilities effectively.</p>
1993	US Federal Accounting Standards Advisory Board (FASAB) – Statement of Federal Financial Accounting Concepts (SFFAC) No.1 <i>Objectives of Federal Financial Reporting</i>	<p>SFFAC1 identifies 4 major user groups of federal government financial information:</p> <ol style="list-style-type: none"> 1. Citizens – including individual citizens (whether taxpayers, voters or service recipients), the general news media and more specialized users (such as trade journal), public interest and other advocacy groups, state and local legislators and executives, and analysts from corporation, academe, and elsewhere; 2. Congress – both elected members and their staffs; 3. Executives – including the President and those acting as his agents eg those acting as the heads and other senior executives of agencies, bureaus, administrations and services;and 4. Program managers – individuals who manage Government programs.
1996	Australian Accounting Standard (AAS) 31 <i>Financial Reporting by Governments</i>	<p>AAS31 identifies the following user groups (as examples):</p> <ol style="list-style-type: none"> 1. Parliamentarians; 2. The public; 3. Providers of finance; 4. The media and other analysts; and 5. Governments themselves – to help them discharge their financial accountability.

1998	(UK) HM Treasury scoping study <i>Whole of Government Accounts</i>	<p>The WGA report identifies the following potential users:</p> <ol style="list-style-type: none">1. Government planners and managers – including Ministers;2. Legislative users – Parliamentary Select Committees, as well as individual MPs;3. Taxpayers more generally and those who act on their behalf, such as academics, and financial and other commentators in the media;4. Corporate users;5. International bodies – such as the IMF, the European Commission and the OECD.
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Appendix D

STATEMENT OF PRINCIPLES FOR THE PUBLIC SECTOR: WHO ARE THE USERS OF PUBLIC SECTOR FINANCIAL STATEMENTS? –
INDIVIDUAL PUBLIC SECTOR ENTITIES/CATEGORIES OF ENTITIES

Date	Publication	Identified Users
1981	Drebin et al entitled <i>Objectives of Accounting and Financial Reporting for Governmental Units</i> , as reported in Jones and Pendlebury (1996).	<p>This US study offers a list of 10 user groups for the financial reports of US state and local governments:</p> <ol style="list-style-type: none"> 1. Taxpayers; 2. Grantors; 3. Investors; 4. Fee-paying service recipients; 5. Employees; 6. Vendors; 7. Legislative bodies; 8. Management; 9. Voters; 10. Oversight bodies – including higher-level governments. <p>The rationale for these groups is that (1) to (4) all provides financial resources; (5) and (6) provide labour and material resources; (7) and (8) take the resource allocation decision; and (9) and (10) impose constraints on groups (1) to (8).</p>
1987	US Governmental Accounting Standards Board (GASB) Concepts Statement 1 <i>Objectives of Financial Reporting</i>	<p>The Statement lists the following primary user groups for the financial statements of state and local governmental entities:</p> <ol style="list-style-type: none"> 1. The citizenry – ie those to whom government is primarily accountable. This group includes citizens (whether classified as taxpayers, voters or service recipients), the media, advocate groups, and public financial researchers; 2. Legislative and other oversight bodies – ie those who directly represent the citizens. This group includes members of state legislatures, county commissions, city councils, boards of trustees, school boards, and those executive branch officials with oversight responsibility over other levels of government; 3. Investors or creditors – ie those who lend or who participate in the lending process. This group includes individual and institutional investors and creditors, municipal security underwriters, bond rating agencies, bond insurers, and financial institutions. <p>As well as these three primary user groups, GASB also notes that internal managers in the executive branch of government also have many uses for external purpose financial reports.</p>
1998	(UK) HM Treasury paper <i>Central Government: Financial Accounting and Reporting Framework</i>	<p>This paper does not focus on users as such, but a number of user groups can be identified in the description of the accounting objective:</p> <ol style="list-style-type: none"> 1. Parliament and thereby to the electorate; 2. Government itself – with the objective of demonstrating accountability ‘up the line’ within bodes to Ministers; 3. Auditors – to meet the objective of auditability ie enabling an independent third party to develop an informed opinion as to the accuracy of the accounting information and to ensure that adequate supporting records are maintained.

Date	Publication	Identified Users
1992	Mayston <i>Capital Accounting. User Needs and the Foundations of a Conceptual Framework for Public Sector Financial Reporting</i>	<p>The author suggests that the potential users of financial reports in the public sector can be taken to include the following groups:</p> <ul style="list-style-type: none"> A. Voters, tax-payers and consumers of the goods and services produced by the public sector; B. Representatives of those in Group A, such as (in the UK context) MPs, the Public Accounts Committee and Departmental Select Committees, and their advisers; C. Policy-makers, such as government ministers, and their civil service and other advisers; D. Managers within governmental organisations and public sector agencies; E. Employees and professionals working in the public sector; F. Monitoring bodies, such as the Audit Commission and the National Audit Office, and regulatory agencies, such as the Office of Telecommunications (OfTel); G. Lenders to, and trade and other creditors of, public sector bodies. <p>Groups (A) to (F) would be interested not only in financial information, but also wider performance information.</p>
1993	Likierman <i>Financial Reporting in the Public Sector</i>	<p>The author notes that it is not always clear when looking at many public sector financial statements who are the intended readers, but offers a suggested list of user groups:</p> <ul style="list-style-type: none"> 1. Elected members; 2. The public as voters and/or taxpayers - it is noted that the media can help inform the public on developments and interpret the complexities of financial information for them; 3. The customers or clients – although it is acknowledged that the financial reports are less likely to be used by individuals than by pressure groups and representative organisations eg Community Health Councils in the NHS; 4. Employees; 5. Customers and suppliers; 6. Government – a number of government bodies are likely to be interested in the financial reports of other public sector bodies; <p>The following groups will have interests in certain circumstances:</p> <ul style="list-style-type: none"> 7. Competitors – where public sector entities compete with those in the private sector; 8. Regulators; 9. Lenders – for those organisations which borrow money from non-government sources; 10. Donors or sponsors; 11. Investors or business partners; 12. Other pressure groups eg environmental groups.
1995	UK Resource Accounting and Budgeting (RAB) White Paper <i>Better Accounting for the Taxpayer's Money</i>	<p>The White Paper does not specifically address the issue of user groups. But in summarising the general principle of the aims of financial reporting by central government bodies, identifies 3 groups:</p> <ul style="list-style-type: none"> 1. Parliament 2. The public; 3. Government – for the planning, monitoring and management of public expenditure.

Date	Publication	Identified Users
1996	Australia, AAS29 <i>Financial Reporting by Government Departments</i>	AAS29 notes that Parliament is likely to be the primary user of general purpose financial reports by government departments, also other potential users include: <ol style="list-style-type: none"> 1. Those who provide the resources that departments control (eg taxpayers and creditors); 2. Those who receive goods or services or otherwise benefit from the activities of departments (eg consumers); and 3. Those who perform oversight or review services on behalf of members of the community (eg regulators, community groups and the media).
1997	Canadian Public Sector Accounting Recommendation PS1400 <i>Objectives of Financial Statements – Federal, Provincial and Territorial Governments</i>	PS1400 identifies the following users: <ol style="list-style-type: none"> 1. The public – PS1400 states that the public is “comprised of groups with a variety of interests and views”; 2. Legislators – elected representatives of the public; 3. Investors – ie those investing in government securities and enterprises; and 4. Economic and financial analysts – who serve legislators, investors and other interested parties.
1998	Granof	The author, writing about US governments (state and local) and not-for-profit organisations in general, noted that the main users of financial statements are the parties to whom the organisations are accountable, including : <ol style="list-style-type: none"> 1. Governing boards – whether elected or appointed; 2. Investors and creditors; 3. Citizens/taxpayers, and organisational members; 4. Donors and grantors; 5. Regulatory agencies; 6. Employees and other constituents.
2000	IPSASB <i>Preface to International Public Sector Accounting Standards</i>	Financial statements issued for users that are unable to demand financial information to meet their specific information needs ... Examples of such users are citizens, voters, their representatives and other members of the public. (paragraph 15)
2000	IPSAS 1 <i>Presentation of Financial statements</i>	Users of general purpose financial statements include taxpayers and ratepayers, members of the legislature, creditors, suppliers, the media, and employees. (paragraph 2)
2004	France: Ministry of Finance <i>Central government accounting standards - Conceptual framework for central government accounting.</i>	This information is intended primarily for citizens and their representatives. Accounting information must naturally meet the needs of those responsible for conducting and managing the central government’s tasks and activities. The information is also intended for international public institutions, capital markets and investors in debt securities. The variety of people using the information requires it to be wide-ranging and comprehensive, encompassing all elements that have an impact on the financial situation.

Appendix E

THE OBJECTIVES OF PUBLIC SECTOR FINANCIAL STATEMENTS: MEETING USER NEEDS – INDIVIDUAL ENTITIES/CATEGORIES OF ENTITIES (UK)

Date	Publication	Objectives/User Needs
1986	National Audit Office – Report by the Comptroller and Auditor General <i>Financial Reporting to Parliament</i>	<p>This report focuses on the needs of one category of user, Parliament, and summarises the objectives of financial reporting, in terms of Parliament’s needs (both in general and for departmental Select Committees) as follows:</p> <ol style="list-style-type: none"> 1. To have information which is reliable and sufficient as the basis for examination of departments’ performance in carrying out policies, functions, programmes and projects; 2. To have information which is reliable and sufficient as the basis for Parliamentary consideration and approval of the levels of finance voted to services in the Appropriation Act; 3. To ensure departments’ accountability by demonstrating their stewardship of the money voted by Parliament; and 4. To have systematic information on performance which is reliable as an assurance of the economy, efficiency and effectiveness with which departments are operating services and as the basis for selective enquiries.
1987	Committee of Public Accounts <i>Financial Reporting to Parliament</i> (8 th Report, Session 1986-87)	<p>The Committee report repeats the objectives set out in the 1986 NAO report and sets out what it sees as Parliament’s information needs (pp.viii-ix):</p> <ol style="list-style-type: none"> 1. The provision of information on the aims and objectives of expenditure; 2. Indicators of output, performance and level of service; 3. Volume information – in particular clearer information on the assumptions made about incremental changes in the volume of inputs devoted to programmes and in the efficiency with which departments expect to manage their resources; 4. Use and holding of assets; 5. “Understandable and digestible” presentation of information in the Estimates and Accounts
1988	HM Treasury document <i>Central Government: Financial Accounting and Reporting Framework</i> (1988)	<p>This document (pp.6-7) defines the objectives ie the purpose for which financial and accounting documents are prepared, as:</p> <ol style="list-style-type: none"> a. Accountability – the duty of those responsible for the development and implementation of policy and/or managing affairs and resources to demonstrate not only propriety but also how economic, efficient and effective their policies and/or management have been over a period of time; b. Propriety and regularity – with – <ol style="list-style-type: none"> i. Propriety being the requirement that public funds should be applied strictly to the extent and for the purposes authorised by Parliament and be financed by methods of raising revenue approved by Parliament; and ii. Regularity – the requirement for all items of expenditure and receipts to be dealt with in accordance with all the rules, regulations and delegations laid down by the appointed authority for any particular type of transaction; and c. Auditability – the requirement for sufficient evidence to establish that a transaction or item reported has been properly and accurately dealt with and reported.

1992	Mayston <i>Capital Accounting, User Needs and the Foundations of a Conceptual Framework for Public Sector Financial Reporting</i>	<p>The author identifies a number of user needs, in particular in the context of accounting for capital:</p> <ol style="list-style-type: none"> I. To assess whether a public body is achieving value for money from in its investment in capital assets, both in terms of stewardship and in achieving economy, efficiency and effectiveness (p.237); II. To assess whether prices set by a public sector body are fair and reasonable (p.240) – this is of particular relevance for regulated industries; III. To assess debt sustainability, in terms of the provision of current cost information combined with general price level adjustments (p.241); IV. To inform the capital resource allocation process (p.241); V. To assess how the burden of capital investment for a given public body should be shared across time (p.241); VI. To underpin the preparation of asset register systems and Asset management Plans; VII. To inform whether good asset management is being achieved in the portfolio of assets held by a body (p.242); VIII. To demonstrate the <i>ex post</i> monitoring of conformity of expenditure with the target budget (p.243); and IX. To assess the solvency of individual public bodies or agencies (p.243).
1993	Likierman <i>Financial Reporting in the Public Sector</i>	<p>The author (pp.11-12) notes similarities between the broad objectives and functions of public sector entity financial statements, despite the diversity of bodies across the sector:</p> <ol style="list-style-type: none"> 1. Compliance and stewardship: <ol style="list-style-type: none"> a. To provide authorities and users with the assurance that there has been conformity with legal and other mandatory requirements in the organization's use of resources. 2. Accountability and retrospective reporting: <ol style="list-style-type: none"> a. To monitor performance and evaluate management, providing a basis for looking at trends over time, achievement against published objectives and comparison with other similar organizations (if any); b. To enable outsiders to have cost information on goods or services provided and to enable them to assess efficiency and effectiveness in the use of resources made available to the organization. 3. Planning and authorization information: <ol style="list-style-type: none"> a. To provide the basis for planning future policy and activities; b. To provide supporting information for further funds to be authorized. 4. Viability: <ol style="list-style-type: none"> a. To help readers judge whether the organization can continue to provide goods and services in the future. 5. Public relations: <ol style="list-style-type: none"> a. To give the organization the opportunity to put forward a statement of its achievements to influential users, employees and the public. 6. Source of facts and figures: <ol style="list-style-type: none"> a. To provide information for the wide variety of interest groups who want to find out about the organization.

THE OBJECTIVES OF PUBLIC SECTOR FINANCIAL STATEMENTS, MEETING USER NEEDS – INDIVIDUAL ENTITIES/CATEGORIES OF ENTITIES (INTERNATIONAL)

Date	Publication	Objectives/User Needs
1978	Professor R. Anthony, in a study commissioned by the UIS Financial Accounting Standards Board (FASB) <i>Financial Accounting in Nonbusiness Organizations</i> , as reported in Jones and Pendlebury (1996, p.122)	<p>The author identifies 4 user needs:</p> <ol style="list-style-type: none"> 1. Financial viability – ie an organization’s ability to continue in its present/planned form; 2. Fiscal compliance – ie the extent to which the organization has complied with the conditions laid down in its authority to spend; 3. Management performance – in this context, defined as a need to know whether the money has been wisely spent; and 4. Costs of services provided.
1980	The US FASB Statement of Financial Accounting Concepts No.4 <i>Objectives of Financial Reporting by Nonbusiness Organizations</i> .	<p>Although FASB’s remit does not cover governmental entities, this project included them within its scope (para.3). In terms of user needs and objectives, SFAC4 suggest that financial reporting should provide information:</p> <ol style="list-style-type: none"> 1. Useful to present and potential resource providers and other users in making resource allocation decisions (paras. 35-37); 2. Useful in assessing services and ability to continue to provide services (paras. 38-39); 3. Useful in assessing how management have discharged their stewardship responsibilities and other aspects of their performance (paras.40-42); 4. About the economic resources, obligations and net resources of an organization, and the effect of changes in them over the period (paras.44-46); 5. About the financial performance of the organization during the period (para.47); 6. About how an organization’s resources in terms of inputs are used in providing different programs or services (paras.51-53); 7. About factors which might impact on an organization’s liquidity (para.54); and 8. To help users understand the financial information through explanations and interpretations.
1980	A research study commissioned by the Canadian Institute of Chartered Accountants (CICA) <i>Financial Reporting by Government</i>	<p>The study (pp.27-29) sets out 4 objectives as the basic purpose of financial statements meeting user needs, being:</p> <ul style="list-style-type: none"> - Demonstrating stewardship and compliance with parliamentary authority; - Facilitating evaluation of the economic impact of government; - Facilitating evaluation of program delivery choices and their management; and - Displaying the state of the government’s finances – those interested in this use are particularly concerned about the tendency of governments to enter into pension and other commitments that demand an ever-increasing amount of cash to discharge them, with serious future distributive and inflationary consequences. <p>The study also notes (p.22) a comment from the American Accounting Association that “the whole basis for accounting standards and required financial reporting must be a perceived public interest, and that this thought should be explicitly incorporated in any statement of objectives”.</p>

Date	Publication	Objectives/User Needs
1981	Drebin <i>et al</i> – <i>Objectives of Accounting and Financial Reporting for Governmental Units</i> , as reported in Jones and Pendlebury (1996, pps.118-121)	<p>The authors offer a series of basic objectives for supporting the overall goals of financial reporting and meeting users' needs:</p> <ol style="list-style-type: none"> 1. To provide financial information useful for determining and predicting the flows, balances, and requirements of short-term financial resources of the governmental unit; 2. To provide financial information useful for determining and predicting the economic condition of the governmental unit and changes therein; 3. To provide financial information useful for monitoring performance under terms of legal, contractual and fiduciary requirements; 4. To provide information useful for planning, and budgeting, and for predicting the impact of the acquisition and allocation of resources on the achievement of operational objectives; and 5. To provide information useful for evaluating managerial and organizational performance.
1987	The US Governmental Accounting Standards Board (GASB) Concepts Statement 1 <i>Objectives of Financial Reporting</i>	<p>This Statement identifies 4 user needs (p.B-16):</p> <ol style="list-style-type: none"> 1. Comparing actual financial results with the legally adopted budget; 2. Assessing financial condition and results of operations; 3. Assisting in determining compliance with finance-related laws, rules and regulations; and 4. Assisting in evaluating efficiency and effectiveness.
1996	Australia, Australian Accounting Standard (AAS)29 <i>Financial Reporting by Government Departments</i>	<p>AAS29 (para.3.1.1) states that financial reports of departments shall “provide information useful to users for making and evaluating decisions about the allocation of scarce resources and which will assist the management of an entity to discharge their accountability obligations. Such decision making is likely to involve users in assessing the performance, financial position, financing and investing and compliance of the reporting entity”.</p>
1997	Section PS1400 of the Canadian Institute of Chartered Accountants (CICA) <i>Public Sector Accounting Recommendations</i>	<p>PS1400 cites 5 objectives of financial statements of the federal, provincial and territorial governments as follows:</p> <ol style="list-style-type: none"> 1. Financial statements should communicate reliable information relevant to the needs of those for whom the statements are prepared, in a manner that maximises its usefulness ie as minimum, information that is clearly presented, understandable, timely and consistent. 2. Financial statements should provide an accounting of the full nature and extent of the financial affairs and resources for which the government is responsible including those related to the activities or government agencies and enterprises. 3. Financial statements should demonstrate the accountability of a government for the financial affairs and resources entrusted to it. <ol style="list-style-type: none"> a. Financial statements should provide information useful in evaluating the government's performance in the management of financial affairs and resources. b. Financial statements should provide information useful in assessing whether financial resources were administered by the government in accordance with the limits applied by the appropriate legislative authorities. 4. Financial statements should account for the sources, allocation and use of the government's resources in the accounting period and show how government financed its activities and how it met its cash requirements. 5. Financial statements should present information to display the state of the government's finances. <ol style="list-style-type: none"> a. Financial statements should present information to describe the government's financial condition at the end of

Date	Publication	Objectives/User Needs
		<p>the accounting period.</p> <p>b. Financial statements should provide information that is useful in evaluating the government's ability to finance its activities and to meets its liabilities and commitments.</p>
1998	<i>Granof Government and Not-for-Profit Accounting: Concepts and Practices</i>	<p>The author (p.12) draws on the purposes identified by GASB (1987):</p> <ol style="list-style-type: none"> 1. Assess financial condition; 2. Compare actual results with the budget; 3. Determine compliance with appropriate laws, regulations and restrictions on the use of funds; 4. Evaluate efficiency and effectiveness.
2004	<i>France Ministry of Finance Central government accounting standards. Conceptual framework for central government accounting.</i>	<p>With regard to the conceptual framework, the latter is not a rule-making standard in itself. Its purpose is to provide helpful material for understanding and interpreting the rules. It is aimed at the rule-makers, the accountants responsible for keeping and drawing up the financial statements, the auditors responsible for certifying the financial statements and the users of financial information thus produced.</p> <p>It provides a conceptual benchmark for rule-makers to ensure the consistency of various rules and standards.</p> <p>It helps accountants and auditors understand and interpret the rules. Interpretation may be necessary to deal with special cases or new transactions that are not adequately covered by the existing rules. The conceptual framework may also help with the definition and technical organisation of accounting systems by explaining the ultimate purpose of such systems. It will also give those who use accounting information a better understanding of its scope and limitations.</p> <p>With regard to the purpose of the financial statements, under business accounting standards, the purpose of financial statements is generally to provide a true and fair view of the net assets, financial position and earnings of an enterprise. The concepts used in legislation on business financial statements need to be explained in the case of the central government.</p>

Scope of financial reporting

Financial reporting versus financial statements

1. In the accrual based IPSAS standards, IPSAS 1 ‘Presentation of Financial Statements’ contains a section on the purpose of financial statements (paragraphs 13-15):
2. The objectives of general purpose financial statements 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, the objectives of general purpose financial reporting in the public sector should be to provide information useful for decision-making, and to demonstrate the accountability of the entity for the resources entrusted to it by:
 - (a) providing information about the sources, allocation and uses of financial resources;
 - (b) providing information about how the entity financed its activities and met its cash requirements;
 - (c) providing information that is useful in evaluating the entity’s ability to finance its activities and to meet its liabilities and commitments;
 - (d) providing information about the financial condition of the entity and changes in it; and
 - (e) providing aggregate information useful in evaluating the entity’s performance in terms of service costs, efficiency and accomplishments.
3. General purpose financial statements can also have a predictive or prospective role, providing information useful in predicting the level of resources required for continued operations, the resources that may be generated by continued operations, and the associated risks and uncertainties. Financial reporting may also provide users with information:
 - (a) indicating whether resources were obtained and used in accordance with the legally adopted budget; and
 - (b) indicating whether resources were obtained and used in accordance with legal and contractual requirements, including financial limits established by appropriate legislative authorities.
4. The IASB Framework (paragraph 12) states that: “the objective of financial statements is to provide information about the financial position, performance and changes in financial position of an entity that is useful to a wide range of users in making economic decisions”.
5. Based on the above, one can conclude that the financial statements on its own are insufficient to address all the information needs of users as listed in IPSAS 1.
6. If one also assesses the type of information required by stakeholders, it is not limited to financial information, but includes non-financial information and commentary. Accordingly, the term corporate reporting is generally used in the private sector. An appropriate equivalent term should be used in the public sector. In the absence of

such a term, financial reporting is used in the remainder of this paper, but it is intended to include non-financial information and commentary.

Boundary of financial reporting

7. If the scope is expanded beyond financial statements to financial reporting, the issue is what is the boundary of financial reporting?
8. Boundary in this instance refers to the range of reports that could be included within the scope of financial reporting. The following alternatives were considered:
 - As dealing with financial statements only - raised but rejected as being too narrow for public sector entities (which are not GBEs). It is also in conflict with IPSAS 1 as explained in paragraphs 1-5 of this paper.
 - By reference to the mandate of standards setters - raised but rejected because the scope of the framework will itself establish that. If the scope is wide, the implications for the work programme remains unchanged in that priorities are determined based on the available resources.
 - By reference to the objectives of the entity - Most entities in the public sector do not have a profit objective, but a service delivery objective aimed at the achievement of designated results and/or the achievement of service delivery outcomes. This aspect will be considered in more detail elsewhere in this paper.
9. The following potential items have been identified:
 - Performance reporting
 - Budget reporting
 - Prospective financial information
 - Long term sustainability of government programmes (fiscal sustainability)
 - Sustainability (cultural, environmental, social and financial)
 - Management comment

If one considers each of these items, a case can be made to include each of these items in the scope of financial reporting.

Performance reporting

10. There are two types of performance reporting:
 - The first is connected with the objective of the entity in that it is a report on the achievement of service delivery outcomes. It is also called performance against predetermined objectives. In this report management report both financial and non-financial performance information and in particular the setting of measurable objectives, determining output, output performance measure/service delivery indicators, and reporting actual performance against the targets set, in summary service accomplishments.
 - The other is an assessment of economy, efficiency and effectiveness of a particular activity, function, programme etc. It is normally called performance reporting. IFAC PSC, IPSASB's predecessor, issued Study 7 "Performance

- Reporting” in January 1996 on this topic. In my opinion, this should be outside the scope of the framework, even though the principles in the framework may be relevant when performing the review or when reporting. The scope of such an engagement is agreed between the parties.
11. In my opinion, Performance against Predetermined Objectives should be included in financial reporting and the Framework. This report should link the budget and the activities permitted through the budget, with the actual achievement. It is also a link to the strategic plan of each reporting entities. The information reported should as a minimum meet the qualitative characteristics listed in Appendix 1 of IPSAS 1 and in formulating alternative qualitative characteristics (the topic of a separate issues paper). Qualitative characteristics are aimed at ensuring the quality and proper reporting of information, financial and non-financial.
 12. If one refers to IPSAS 1, (see paragraph 3 of this report), (a) and (b) is achieved by reporting the performance of the entity. Item (e) would be achieved by reporting on Performance against Predetermined Objectives.
 13. Many jurisdictions have already established a requirement for the reporting of this information. Divergent practices are emerging. As the standard-setter for the public sector we should issue guidance in this regard, and in the absence of guidance, the framework should serve as guidance.

Budget Reporting

14. What is our role with regards to budget compilation and presentation? From reporting to citizens and taxpayers, this is the one financial document issued by government with the highest public profile.
15. Budgets in the private sector are not made public, but from a public sector perspective it is an important component of the accountability cycle.
16. What, if any, should a financial reporting standard setter’s role be? IPSASB has considered this aspect previously. It resulted in the publication of the Research Report on “Budgeting” issued in May 2004 and IPSAS 24.
17. Contrary to the private sector, the preparation of the budget is the responsibility of the Department of Finance/Treasury/Budget agency, rather than those persons involved in financial reporting.
18. Accordingly, the project committee at its meeting in Hong Kong expressed the view that we should maintain our existing position, i.e. requiring a comparison between the budget and the outcome as reported in the statement of financial performance.

Prospective financial information

19. Those countries that have adopted medium term expenditure frameworks include prospective financial information for up to three years in the framework. Once again, in the private sector the three year or five year plans are not public documents. The private sector, economists and financial analysts are very interested in the information and the assumptions made by government. Do we have a role with the compilation and presentation of that information and should there be reporting of that information in the annual report.

20. The current users of this information are used to the formats adopted in the relative jurisdictions. However, comparability and transparency may be improved if a financial reporting standard is developed to determine the format in which this information is presented. The aim would be to align the presentation and disclosure more closely with the format of the current financial statements. This would be helpful when this information is presented with historical financial information.
21. An example of prospective financial reporting would be restating the budget in the format of financial statements.
22. The current IASB framework in paragraph 6 states that “prospectuses are outside the scope of the IASB’s framework”. The IASB framework addresses only financial statements and not financial reporting. The IASB is likely to make a decision in this regard during the final phase only.

Long term sustainability of government programmes (fiscal sustainability)

23. The financial information that is provided should be sufficient to enable the user to evaluate the entity’s ability to finance its activities and to meet its liabilities and commitments.
24. Many social programmes provide benefits that extend over the long term. Measurement of these programmes and reporting the sustainability of these programmes are particularly challenging. The usual elements of assets, liabilities, revenue and expenses cannot easily be used to report the impact.
25. Whether one agrees that a commitment by government to provide social benefits is a liability or merely a commitment, current information that is provided is inadequate to assess the entity’s ability to finance its activities in relation to social benefits.
26. The lack of information can be addressed by disclosure of information about the programmes, but increasingly, users of financial statements are demanding information about the sustainability and affordability of these programmes.
27. The importance of this information is recognised in the current project on social benefits. Guidance is also being developed by other national standard setters.

Sustainability

28. Sustainability is defined in a CIPFA publication, Sustainability a Reporting Framework for the Public Services, as “a dynamic process which enables all people to realize their potential and improve their quality of life in ways which simultaneously protect and enhance the Earth’s life support systems”.
29. GRI is promoting the reporting of triple bottom lines (social, environmental & financial) in the financial reports of for-profit entities. New Zealand has identified a fourth component, namely the cultural bottom line.
30. GRI has issued Sustainability Reporting Guidelines and a public sector supplement. The UK government published in March 2005 a document titled “ “Securing the Future” and “One Future – Different Paths”, the UK’s shared framework for sustainable development. Each central government department is required to develop an action plan on sustainability. It is however one thing to develop and implement the

action plan. The other aspect is how to report on it. Should it be part of the financial report?

31. Both GRI and CIPFA believe reporting to external stakeholders is an opportunity to hold organisations to account. Other proponents hold the view that financial reporting should be limited to matters of finance and financial reporting standard setters should rather liaise with organisations such as GRI to ensure public sector issues receive the relevant attention, rather than expanding the framework to include reporting on sustainability. A further view is that the scope of the framework should be wide enough to include sustainability. Work on a reporting standard will then commence when there are sufficient resources and a high enough priority is assigned to it in terms of the work programme.

Management comment

32. Terms also used are management commentary, operating and financial review and management discussion and analysis. The role of narrative reporting in public sector reporting should be considered.
33. The UK has published a reporting standard. It is designed as a formulation and development of best practice and is intended to have persuasive rather than mandatory force.
34. Canada has issued a standard and the IASB has issued a discussion paper on the same topic.
35. Divergent practices are emerging as the requirements are set for the private sector, without taking public sector differences into account. As the standard-setter for the public sector we should issue guidance in this regard, and in the absence of guidance, the framework should serve as guidance.

Conclusion

36. My proposal would be that the scope of the framework should be as wide as possible. The applicability of a standard is determined in the scope of each standard.
37. Entities should be left to determine the needs of their stakeholders: groups that affect and/or could be affected by the organisation. Those needs should be determined by reference to the objectives of the entity. In order to determine whether or not to report on a particular matter, entities should:
- Identify and understand their stakeholders' interests and needs, in order to meet their needs
 - Innovate using stakeholder knowledge
 - Enhance performance. (Extract from Sustainability A Reporting Framework for the Public Service).
38. A department responsible for the environment may place a greater focus on environmental reporting. Another department responsible for cultural diversity may focus on cultural reporting. Legislation in various jurisdictions normally determines the minimum requirements.



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12 March 2007

Sir David Tweedie
Chair
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear David

Re: IASB involvement in IPSASB Conceptual Framework Project

As you are aware, the IPSASB is leading a collaborative project with national standards setters and other organizations (NSS) to develop a Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities (Public Sector Conceptual Framework).

This project was formally initiated at a meeting of the IPSASB and NSS participants in July 2006. That Meeting was attended by IASB Board Member Gilbert Gelard, as the IASB observer to the IPSASB, and Wayne Upton, the IASB Director of Research. My predecessor as Chair wrote to you following the Paris meeting (26 July, 06), thanking you for supporting attendance by Gilbert and Wayne, both of whom made a valuable contribution to our discussions. I would like to echo those observations by the then Chair.

At that time, it was noted that it would be beneficial to the IPSASB if there was an ongoing liaison with the IASB on this project. As you are aware 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, and therefore draw on concepts and definitions in the IASB Framework. The IPSASB has also agreed to develop the IPSASB's framework using the work of the IASB and other standards setters as appropriate. To this end, the IPSASB has been monitoring progress on the IASB-FASB joint Conceptual Framework Project through the work of the Group of 4 national standards setters (NSS-4) reviewing your joint project for potential implications for public benefit entities.

Having observed the development of your project, and NSS-4 response to certain aspects of it, I am even more convinced than previously that it is in our mutual interest, and the interests of the not-for profit entities that fall within the purview of each of our Boards, to liaise closely on the development of this project.

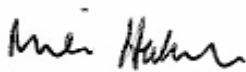
The IPSASB project is being developed initially through a subcommittee comprising IPSASB members and NSS participants. I chair that subcommittee. I have attached to this letter a copy of the Project Brief and subcommittee membership.

The first subcommittee meeting is being held in Hong Kong on 26 March 2007, immediately following the meeting of National Standards Setters. We are fortunate that Ian Hague and other staff who are working on the IASB-FASB joint Conceptual Framework project will be in Hong Kong for the NSS meeting and will attend our subcommittee meeting on this occasion. However, I would like to raise with you now, the potential for ongoing involvement of the IASB in our project. The subcommittee will conduct its business primarily by electronic means, though it may be necessary to meet periodically. When this occurs, I anticipate that subcommittee meetings will be linked to either an IPSASB meeting or a meeting of national standards setters (or similar) to take advantage of a number of subcommittee members already being in the meeting location.

In addition to subcommittee members, a wider monitoring group of NSS members has been established. This wider group will receive all subcommittee working papers and will comment on these papers as considered appropriate. I would welcome the opportunity to include an IASB member and/or staff on the monitoring group and to extend an invitation to those you identify to attend subcommittee meetings if meeting location and agenda items allow. I would also welcome your views on additional and/or alternative mechanisms by which we can ensure that the IPSASB development work benefits from the considerations already undertaken by the IASB, and that differences between our framework arise only where necessary to respond to differences in the operating environments of the public and private sectors or differences in the objectives of reporting entities in those sections.

I look forward to hearing from you in the future.

Kindest regards,



Mike Hathorn
Chair
International Public Sector Auditing Standards Board

IASB/FASB Conceptual Framework Project: Project Status

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INTRODUCTION

The Conceptual Framework Project

1. The IASB/FASB Conceptual Framework project is a joint project between the International Accounting Standards Board and Financial Accounting Standards Board (the Boards) to develop an improved and common conceptual framework. Such a framework would provide a sound foundation for developing future accounting standards and is essential to fulfilling the Boards' goal of developing standards that:
 - Are principles-based, internally consistent, and internationally converged
 - Will lead to financial reporting that provides decision-useful information that investors and creditors (capital providers) need for making rational investment, credit, and similar decisions.
2. At the July meeting of the IPSASB, Ian Hague, a member of the IASB/FASB project team will provide an overview of the IASB/FASB project and the current status of IASB/FASB deliberations. This paper provides background information in that regard. For those seeking additional information, please consult the IASB web site at www.iasb.org.

OVERVIEW OF THE PROJECT PLAN AND STATUS

Project Plan

3. The objective of this joint project is to develop a common conceptual framework that is both complete and internally consistent. In developing that framework the Boards will build on, and fill significant holes in, the existing IASB and FASB frameworks and consider other conceptual frameworks and developments since they issued their original frameworks.

Conduct and status

4. The Boards are conducting the joint project in eight phases, four of which are currently active. Their status is as follows:

<u>Project Phases, Status, and Timing</u>			Documents/Due Process	
Phase	Topic	Current Status	To Date	2007 and beyond
A	Objectives and qualitative characteristics	Board redeliberations of issues raised by respondents to DP/PV	DP/PV issued July 2006	ED-Q4 2007 (estimated)
B	Elements and recognition	Board deliberations		DP Q4 2008 (estimated)
C	Measurement	Board deliberations	Roundtables – Q1 2007	DP Q1 2009 (estimated)
D	Reporting entity	Initial Board deliberations completed		DP/PV-Q3 2007 (estimated)
E	Presentation and disclosure, including financial reporting boundaries	Inactive		TBD
F	Framework purpose and status in GAAP hierarchy	Inactive, initial staff research, FASB to consider elevating.		TBD
G	Applicability to the not-for-profit sector	Inactive		TBD
H	Remaining issues	—		TBD

Phase A—Objectives and Qualitative Characteristics

5. This phase involves consideration of the objectives of financial reporting and the qualitative characteristics of financial reporting information. The latter include relevance, faithful representation, comparability (including consistency) and understandability, and how they relate to the pervasive constraints of materiality and cost-benefit relationships.

6. In July 2006, the Boards each issued discussion papers, *Conceptual Framework for Financial Reporting: Objective of Financial Reporting and Qualitative Characteristics of Decision-Useful Financial Reporting Information*, that sought public comment on their preliminary views. In February 2007, the Boards discussed a staff summary of the comments received and the plan for redeliberations of the issues raised. Those redeliberations, which began in April, are ongoing. The Boards plan to complete their redeliberations in the coming months leading to an Exposure Draft in the fourth quarter. One issue of particular focus in the deliberations is the role of stewardship, or accountability, in the objectives of financial reporting. The Boards are also re-deliberating the primary user group for financial reporting information and the roles of timeliness and verifiability as qualitative characteristics of decision-useful financial reporting information.

Phase B—Elements and Recognition

7. Phase B of the project, *Elements and Recognition*, consists of several milestones, which include defining assets, liabilities, and other elements of financial statements, issues related to distinguishing between liabilities and equity, determining the unit of account, and recognition and derecognition of items in financial statements. Deliberations on the definition of an asset are substantially complete. The Boards have also commenced deliberations of the definition of a liability and the distinction between liabilities and equity. In recent months, the IASB has focused on the distinction between liabilities and general business risks.
8. Early this year the Boards also considered whether to explore an alternative approach to reconsidering the existing definitions of liabilities and equity in the IASB Conceptual Framework and FASB Concepts Statements. That alternative would focus on developing a single element approach, such as claims, and determining the implications for presenting information about changes in claims. Given the varying views concerning the potential benefits of a single element approach, the Boards decided not to devote their limited staff resources to developing that approach, but rather leverage off the Preliminary Views that FASB expects to issue through its standards-setting project on liabilities and equity and the comments of constituents that both Boards will be seeking on that forthcoming document.

9. In the coming months, the Boards will commence discussions on two parts of this phase that have not previously been addressed: (a) unit of account and (b) recognition and derecognition.
- a) ***Unit of Account*** — The Boards' current frameworks provide little or no guidance on how the unit of account should be determined. They intend to develop conceptual guidance to assist in analyzing such issues that arise in various standards projects. They include, for example:
- Should similar things be accounted for together, rather than separately?
 - Should an entity recognize assets and/or liabilities for contracts that are still fully executory? If so, what are the assets and liabilities and should the entity account for and report them separately or account for them as a single net item?
 - Should some "related" assets and liabilities be accounted for together or netted?
- b) ***Recognition and Derecognition*** — The Boards' current frameworks contain recognition criteria, some of which are similar and others that are different. Neither Board's frameworks contain criteria as to when an item should be derecognized. The Boards plan to revise their recognition criteria concepts to eliminate those differences and provide a framework for resolving derecognition issues.
10. The next major goal is the issuance of a Discussion Paper that is estimated to be in the fourth quarter of 2008.

Phase C—Measurement

11. Phase C of the project, *Measurement*, is intended to fill a significant gap in the Boards' existing frameworks on the subject of measurement in the context of financial reporting. This phase is being conducted in three major milestones with several issues in each.
12. Early this year, as part of the first milestone, the Boards held roundtable discussions in Hong Kong, London and Norwalk that had three objectives:
- a) To hear the views of representative IASB and FASB constituents on measurement early in the measurement phase of the conceptual framework project. The discussion around this objective was unstructured. Any views on measurement that constituents wished to express were welcome.

- b) To discuss whether the list of measurement issues identified in the plan for the measurement phase of the conceptual framework project is appropriate and substantially complete.
 - c) To discuss whether the initial inventory of potential measurement bases prepared by the project staff and the terminology associated with that inventory is substantially complete and understandable.
13. The Boards discussed a summary of roundtable comments and in April they completed deliberations on Milestone I issues, which identified the following primary measurement basis candidates. These candidates will be evaluated in milestone II by reference to the qualitative characteristics of decision-useful financial reporting information, as well as concepts of capital maintenance:
- Past entry price
 - Modified past entry amount
 - Past exit price
 - Current entry price
 - Current exit price
 - Current equilibrium price
 - Value in use
 - Future entry price
 - Future exit price.
14. The staff is preparing a summary of milestone I decisions for posting to the Boards' websites that will provide an easily accessible source for the status of the measurement phase of the conceptual framework project as the Boards proceed to the next milestone.
15. Milestone II includes the analysis of measurement basis candidates using various criteria, including the qualitative characteristics from Phase A of the CF project. The Boards will be deliberating the Milestone II issues beginning in July and throughout the remainder of 2007. The staff plans to commence Milestone III issues in 2008 with a goal of a Discussion Paper early in 2009.

Phase D—Reporting Entity

16. Phase D of the project, *Reporting Entity*, is intended to fill a gap in the Boards' existing frameworks on the subject of the reporting entity.
17. The Boards recently completed their initial deliberations of the reporting entity issues and directed the staff to draft a discussion paper. The boards reached the same preliminary views on substantially all issues. The Boards' tentatively decided that a reporting entity can be broadly described as a circumscribed area of economic interest to external users of financial reporting and that:
- The conceptual framework should describe what constitutes an entity for the purposes of financial reporting, but should not define a reporting entity.
 - What constitutes an entity for financial reporting purposes should not be limited to legal entities. Hence, legal existence is a sufficient condition for determining that an entity exists, but is not a necessary condition. Rather, an entity includes other types of arrangements or organizational structures. Thus, examples would include a corporation, trust, partnership, or association, as well as a sole proprietorship of a natural person, and, in some circumstances, a branch, segment, division, or other business unit of a legal entity.
 - An entity that chooses to, or is required to, prepare general purpose external financial reports (GPEFR) is a reporting entity, and the reporting entity concept should not specify (or provide guidance on) which entities should be required to prepare GPEFR.
 - The composition of a group entity should be based on the above **and** a notion of control that unifies the group.
18. The next major goal is a Discussion Paper, in the form of preliminary views, which is tentatively scheduled for issuance in the second half of 2007. There is one issue (concerning the decision-usefulness of parent-only financial statements) for which some alternative views will be presented.

Phase E—Presentation and Disclosure

19. The Boards have yet to commence work on this Phase. However, it is likely to draw on work in the IASB Research project on Management Commentary, in the IASB/FASB joint project on Financial Statement Presentation, and research work being undertaken by the Canadian AcSB in developing a disclosure framework. This phase also considers the boundaries of financial reporting—an issue that has arisen in response to the Phase A Discussion Paper and for which some work might be necessary at an earlier stage.

Phase F—Framework Purpose and Status in GAAP Hierarchy

20. The Boards agreed that each Board, within the context of its current GAAP hierarchy, will finalize the common framework as parts are completed and noted that later parts may include consequential amendments to earlier parts. The Boards noted that the decision of how to finalize the joint framework may need to be readdressed when the Boards discuss the placement of the framework within the IASB and FASB hierarchies.
21. The FASB also recently decided its future due process documents will include a notice that the Board will consider the authoritative status of the framework in the future, and that respondents should assume that the framework's authoritative status will be elevated in the U.S. GAAP hierarchy to be comparable to the status of the framework in International Financial Reporting Standards.

Phase G—Applicability to the Not-for-profit Sector

22. The Boards decided, in the interest of efficiency, to focus their work on a Framework for private sector business enterprises. The Boards will consider applicability to the Not-for-profit Sector only at a later stage and their mandate does not extend to the public sector.
23. Liaison arrangements have been established, whereby an individual, Kevin Simpkins, is monitoring the IASB/FASB project on behalf of the Australian, Canadian, New Zealand and UK Accounting Standards Boards. He reviews all papers prepared for the IASB and FASB and provides a commentary identifying issues for not-for-profit organizations and the public sector. This input proves valuable, not only in identifying issues for those sectors, but also in identifying additional private sector issues. The IASB/FASB will endeavour, wherever possible, to express views in a manner that will not restrict convergence between the private sector Framework and that for public sector entities. However, their prime focus is entities in the private sector.
24. Kevin Simpkins' reports are also made available to the IPSASB project team and sub-Committee and liaison arrangements between the private sector and public-sector project teams have been established.

Phase H—Remaining Issues

25. The IASB and FASB expect to finalize the Framework in stages as they go along. Therefore, there should be no remaining issues at the end of the project. However, this phase has been included in the work plan as an opportunity for a stand-back at the end of the day to assess whether any inconsistencies remain, or there is a need to fill any remaining holes in the new Framework.