



**INTERNATIONAL FEDERATION
OF ACCOUNTANTS**

545 Fifth Avenue, 14th Floor
New York, New York 10017
Internet: <http://www.ifac.org>

Tel: (212) 286-9344
Fax: (212) 286-9570

Agenda Item

2

DATE: November 13, 2007
MEMO TO: Members of the IPSASB
FROM: Paul Sutcliffe
SUBJECT: Public Sector Conceptual Framework

OBJECTIVE OF THIS SESSION

To review Group 1 papers and provide input to staff on preparation of a draft composite Consultation Paper.

AGENDA MATERIAL

Agenda Papers

- 2.1 Conceptual Framework subcommittee meeting notes - second subcommittee meeting in Montreal in July, 2007 and third subcommittee meeting in London (with the NSS-4 Group) in September, 2007;
- 2.2 Issues paper: *Objectives of Financial Reporting* by David Loweth, UK-ASB;
- 2.3 Issues paper: *Scope of Financial Reporting* by Erna Swart, South Africa-ASB and Paul Sutcliffe (IPSASB);
- 2.4 Issues paper: *The Qualitative Characteristics of Information included in General Purpose Financial Reports* by Didrik Thrane-Nielsen Norwegian Institute of Public Accountants (DnR) and Barry Naik (IPSASB);
- 2.5 Issues paper: *The Reporting Entity* by Ahmad Hamidi-Ravari and Jim Paul, Australia - AASB;
- 2.6 Schedule and responsibilities for development of Group 2 papers;
- 2.7 The Conceptual Framework Project Brief; and
- 2.8 Project History Sheet.

ACTION REQUIRED

- Review and approve for inclusion in the draft composite Consultation Paper, the draft papers dealing with “The Objectives of Financial Reporting”, “The Scope of Financial Reporting”, “The Qualitative Characteristics of Information Included in General Purpose Financial Reports” and “The Concept of the Reporting Entity in the Public Sector” (the Group 1 papers);
- Note proposed arrangements and process for development of the composite Consultation Paper encompassing all Group 1 papers;
- Note the reports of the second and third meetings of the Conceptual Framework subcommittee and receive a verbal report of the fourth meeting of the subcommittee to be held on November 26, 2007 in Beijing; and

- Note the primary authors of Group 2 papers and the proposed schedule for development of those papers.

BACKGROUND

Issues papers on “The Objectives of Financial Reporting”, “The Scope of Financial Reporting”, “The Qualitative Characteristics of Information Included in General Purpose Financial Reports” and “The Reporting Entity” have been prepared by authors from National Standards Setters and other organizations (NSS) participating in the framework project with input from the IPSASB subcommittee and IPSASB staff.

The Conceptual Framework Subcommittee - meetings and activities

Subcommittee meetings in Montreal (July 2007), London (September 2007) and Beijing (November 2007)

The subcommittee held its second meeting in Montreal on the afternoon of July 2, 2007 immediately prior to the July IPSASB Meeting, and its third meeting in London on the morning of September 24, 2007 in conjunction with the NSS-4 Group¹ monitoring the implications of the IASB-FASB joint project for public benefit entities. Over the course of those two meetings, the subcommittee reviewed and provided input to the authors of all four Group 1 papers on further development of the objectives, scope, qualitative characteristics and reporting entity papers. Meeting notes of these subcommittee meetings are included at Agenda item 2.1.

The subcommittee will hold its fourth meeting in Beijing on November 26, 2007 immediately prior to the IPSASB meeting. At that meeting the subcommittee will review the four Group 1 papers and provide input to staff on the development of the composite Consultation Paper. The subcommittee will also consider arrangements for progressing Group 2 papers. A verbal report on the subcommittee meeting will be made at the IPSASB meeting on November 27.

Group 1 Consultation Papers

The four Group 1 papers are attached for review at this meeting.

The Board reviewed papers dealing with Objectives and Scope (Agenda items 2.3 and 2.4) at its July meeting and provided directions for their further development. These papers have been updated to reflect those directions.

Papers dealing with qualitative characteristics and reporting entity (Agenda items 2.5 and 2.6) will be subject to their first review by the Board at this meeting. They have previously been reviewed by the subcommittee and IPSASB staff, and have been further developed in response to input received.

¹ The NSS-4 Group comprises the chairs and senior staff of the standards-setting Boards of Australia, Canada, New Zealand and the United Kingdom. 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 the joint Conceptual Framework Project with the FASB. These reports are provided to IPSASB members and members of the subcommittee.

Because of work and other pressures on the authors of the “qualitative characteristics” and “scope” papers, IPSASB staff members Barry Naik (qualitative characteristics) and Paul Sutcliffe (scope) have recently become more directly involved in the drafting of these papers.

At the July 2007 meeting, the IPSASB agreed that all four Group 1 papers should be issued together as chapters/components of a single composite Consultation Paper. All four papers are presented at this meeting for review and approval for inclusion in the draft Consultation Paper. It is intended that, following directions from the Board at this meeting, staff will develop that Consultation Paper, and present it for review and approval to issue at the IPSASB’s March 2008 meeting.

A number of specific issues that members are requested to provide input on are identified at the first page of each paper. The specific issues identified in respect of each paper include a request that members review the appendices to ensure that they include appropriate references from each member jurisdiction.

Staff is of the view that, in the process of developing the draft composite Consultation Paper, it is appropriate to consider more broadly the nature and role of the appendices in each paper, and their relationship to each other. Accordingly, members’ views are sought on the policy to adopt when compiling the appendices for the composite Consultation Paper. Background material and staff views on the issues are noted below as input for discussion at this meeting.

Appendices – Level of detail, jurisdictional coverage and select bibliography

Separate appendices have been developed by the authors of each paper. These appendices have been important as the authors develop and justify the positions and potential alternative views reflected in the narrative. They include detailed examples of, for example, objectives, users and user needs, definitions of control and application of qualitative characteristics from certain jurisdictions. As is expected given the interrelated nature of these topics, in some cases the appendices overlap - for example, both the objectives and scope papers include appendices which note potential user information needs and the objectives of financial reporting identified in certain jurisdictions. There is then a case for merging appendices where appropriate to reduce duplication.

The current appendices encompass material from authoritative bodies and commentators from Australia, Canada, France, New Zealand, UK, USA, IFAC and the International Task Force on Harmonization of Public Sector Accounting (IPSASB). Staff is concerned that some readers may take the view that the papers rely too heavily on the views from only a subset of jurisdictions included on the IPSASB. This of course is not the case - many IPSASB members and observers and/or members of the IPSASB’s subcommittee have made a significant contribution to, and influenced the development of, these papers. Consequently, the papers reflect the views of many jurisdictions. However, it would be very useful if the appendices to these papers reflected the broad range of input received. Accordingly, staff request that, where possible, members from jurisdictions not yet reflected in the appendices add input on such matters as the users and objectives of general purpose financial reporting as identified in authoritative and/or influential guidance/publications in their jurisdictions.

When the four papers are put together, the composite Consultative Paper will be a lengthy document, with significant detail in the appendices. Broadening the coverage in the appendices will of course further add to the length of the document. Some of the detail currently included in the appendices will be necessary to support and illustrate the matters and options noted in the papers themselves. However, staff is also of the view that reductions in the level of detail where possible will have a positive effect on the accessibility of the document, particularly for those for whom English is the second language. Accordingly, staff requested that in their review of each of the papers, members provide views on where the appendices may be reduced.

The specific issues for comment identified at the first page of each of the Group 1 papers attached include staff proposal for reducing and merging the appendices.

Staff is of the view that there is merit in including within the paper a select bibliography encompassing material used by the authors of the four papers. The inclusion of the bibliography may also support some reduction in the level of detail included in the current appendices. A first draft of that bibliography which includes references currently identified in the papers is also attached to this memorandum. Members are requested to review that bibliography and, if its inclusion is supported, to provide staff with any updates for their own jurisdiction as appropriate. (To facilitate this process an electronic version of the attachment will be sent to each member by email following this meeting with a request to add references as appropriate and return to staff.)

Process for finalization of Group 1 papers

It is proposed that following this meeting, and subject to the directions of the Board, staff will prepare a draft of the composite Consultation Paper for review at the next IPSASB meeting in March 2007. That process will involve:

- Preparation of an introductory section of the Consultation Paper which explains:
 - the purpose of the Framework project and the due process the IPSASB will adopt in its development;
 - the intended authority of the resultant Framework. This will be based on the views of the IPSASB as currently reflected in the Project Brief;
 - that, consistent with position reflected in the Preface to International Public Sector Accounting Standards”, the focus of the Framework will be on public sector entities other than government business entities.

It is proposed that respondents be requested to provide their views on the authority of the Framework and its applicability to GBE’s;
- Making any necessary refinements to the individual papers to ensure that they co-ordinate appropriately, acknowledge linkages to the other Group 1 papers and conform in matters of style and presentation; and
- Updating of appendices to link across the four papers as appropriate and addition of the select bibliography.

Group 2 Consultation Papers

At its July 2007 meeting, the IPSASB agreed that the development of Group 2 papers would be accelerated. Members also noted that it was likely that additional staff resources would need to be allocated to support the accelerated project development.

The primary authors of Group 2 papers have been confirmed and a schedule for development of those papers has been developed. A report from the Technical Director on the current status, schedule and resourcing of Group 2 projects is included at Agenda item 2.6.

ATTACHMENT 1

Select Bibliography – drawn from the appendices of each paper

(This bibliography is subject to further development)

Australia, Australian Accounting Standard (AAS) 29 *Financial Reporting by Government Departments* (1998)

Australia: Australian Accounting Standard (AAS) 27 *Financial Reporting by Local Governments*. (1996)

Australia: Australian Accounting Standard (AAS) 31 *Financial Reporting by Governments* (1996)

Canada: Canadian Institute of Chartered Accountants (CICA) Research Study *Financial Reporting by Government* (1980)

Canada: Public Sector Accounting Recommendation PS1400 *Objectives of Financial Statements – Federal, Provincial and Territorial Governments* (1997)

Canada PSAB – Indicators of Government Financial Condition (2007)

Canada Public Sector Accounting Board (PSAB) – Statement of Principles – Indicators of Government Financial Condition (2007)

Canadian Institute of Chartered Accountants, Indicators of Government Financial Condition (1997, p5-6)

CICA Research Report “Indicators of Government Financial Condition” (1997)

Drebin et al – *Objectives of Accounting and Financial Reporting for Governmental Units*, (1981) as reported in Jones and Pendlebury (1996, pps.118-121)

France Ministry of Finance Central government accounting standards. *Conceptual framework for central government accounting*. (2004)

Granof *Government and Not-for-Profit Accounting: Concepts and Practices* (1998)

IASB/FASB Conceptual Framework Project Preliminary Views on an Improved Conceptual Framework for Financial Reporting – The Objective of Financial Reporting and Qualitative Characteristics of Decision-useful Financial Reporting Information by Chairs and Senior Staff of AASB, CASB, CPSAB, NZFRSB, UKASB.

International Federation of Accountants (IFAC) – Professional Accountants in Business “At the Heart of Sustainability (2006).

- IFAC – Professional Accountants in Business “Why Sustainability Counts for Professional Accountants in Business (2006)
- IFAC - Public Sector Committee (PSC) *Financial Reporting by National Governments* (1991)
- IFAC – International Public Sector Accounting Standards Board (IPSASB)
- - IPSAS 1 *Presentation of Financial statements* (2006)
- - *Preface to International Public Sector Accounting Standards* (2005)

New Zealand Equivalent to the IASB *Framework for the Preparation and Presentation of Financial Statements* New Zealand Framework (June 2005)

North America: Joint Canadian/US *Federal Government Reporting Study (FGRS)* (1986)

UK: Accounting Standards Board – *Stewardship and the objectives of financial statements* by Andrew Lennard (2006)

UK: Committee of Public Accounts *Financial Reporting to Parliament (8th Report, Session 1986-87)* (1987)

UK: HM Treasury *Central Government: Financial Accounting and Reporting Framework* (1988)

UK: HM Treasury scoping study *Whole of Government Accounts* (1998)

UK: Likierman *Financial Reporting in the Public Sector* (1993)

UK: Mayston *Capital Accounting, User Needs and the Foundations of a Conceptual Framework for Public Sector Financial Reporting*

UK: National Audit Office – *Report by the Comptroller and Auditor General Financial Reporting to Parliament* (1986)

UK: Resource Accounting and Budgeting (RAB) *White Paper Better Accounting for the Taxpayer’s Money* (1995)

USA: FASB Statement of Financial Accounting Concepts No.4 *Objectives of Financial Reporting by Nonbusiness Organizations.* (1980)

USA: Federal Accounting Standards Advisory Board (FASAB) – Statement of Federal Financial Accounting Concepts (SFFAC) No.1 *Objectives of Federal Financial Reporting* (1993)

USA: Governmental Accounting Standards Board (GASB) Concepts Statement 1 *Objectives*

of Financial Reporting (1987)

USA: Professor R. Anthony, in a study commissioned by the UIS Financial Accounting Standards Board (FASB) *Financial Accounting in Nonbusiness Organizations*, as reported in Jones and Pendlebury (1996, p.122) (1978)

USA – Government Accounting Standards Board, Concepts Statement No. 44 – Economic Condition Reporting: The Statistical Section (2005)

SUBCOMMITTEE MEETING NOTES – LONDON
24 September 2007

**GROUP OF 4 NATIONAL STANDARDS SETTERS (NSS-4) AND
PUBLIC SECTOR CONCEPTUAL FRAMEWORK SUBCOMMITTEE**

<i>IPSASB</i>	Attending
UK	M Hathorn (Chair) *, Chris Wobschall
Argentina	Apology
Japan	T Sekikawa
New Zealand	G Schollum*, A Davis*
Norway	Didrik Thrane-Nielsen
USA	D Bean*
<i>NSS-4 and IPSASB subcom</i>	
Australia - AASB	D Boymal, A Thompson, Ahmad Hamidi-Ravari*, J Paul*
Canada - AcSB	P Cherry, P Martin
China - Ministry Finance	Apology
France - Ministry of Finance	P Soury
IMF Stats/Fiscal Affairs Dep’t	-
Italy - Ministry Economica/Finance	-
New Zealand - FRSB	K Crook
South Africa - ASB	Apology
UK- ASB	I Mackintosh, D Loweth
Spain - Ministry Economy/Finance	M Garcia Saenz
<i>Observers/Guests/Staff</i>	
IASB Staff	I Hague , R Villmann, L Lian
NSS-4 Consultant	K Simpkins*
IPSASB Staff	P Sutcliffe*, B Naik

Introductions and Opening Remarks

Mr Mike Hathorn, the IPSASB Chair and Subcommittee Chair, welcomed all participants. The Chair also thanked the UK-ASB for making the meeting arrangements and providing the meeting venue, and the authors for preparing materials for consideration at this meeting. The Chair also noted the considerable overlap between the items to be addressed by the NSS-4, as outlined in Kevin Simpkins’ paper, and the projects under development by the IPSASB and its subcommittee, and consequently the benefits of holding joint meetings.

Meeting Objectives and Subcommittee Role

Members reviewed the agenda papers and noted:

- and confirmed the report of the second meeting of the IPSASB Conceptual Framework subcommittee (July 2007);
- that many members had not received the paper on reporting entity in sufficient time to subject it to review;

- that the subcommittee would meet on Monday 26 November in Beijing to review the papers being considered by the IPSASB - in particular, the papers on reporting entity and qualitative characteristics which were being considered at this meeting for the first time. Members also noted that at that meeting, arrangements for progressing Group 2 projects would also be considered.

Issues papers:

Qualitative Characteristics

Barry Naik spoke to the issues paper developed in consultation with Didrik Thrane-Nielsen of the Norwegian Institute, and advised that in future drafts the authors would include additional discussion of the role of QCs in public sector financial reporting.

In reviewing the paper, members noted that the position reached by the IPSASB in respect of the objectives of financial reporting and scope of financial reporting could have an impact on any conclusions reached in respect of the identity, nature and application of the qualitative characteristics of financial reporting.

Members agreed the paper should include additional consideration of whether the broad principles reflected in the QCs identified in the IASB-DP should apply in the public sector, drawing out differences in their interpretation, application and emphasis to reflect potential differences in objectives, scope and users of financial reports in the public and private sectors and different operating environments of public and private sector entities. Members identified the following specific areas for further development:

- inclusion of specific matters for comment for readers to respond to;
- identification of the differences between the QCs currently included in IPSASs and those proposed in the IASB Discussion Paper (IASB-DP), noting which differences reflected terminology changes and which reflect changes of substance;
- consideration of the applicability of the QCs identified in the IASB-DP to broader types of reporting beyond financial statements - particularly in respect of the application of the QCs to the additional information that might be included in financial reports in a public sector environment;
- in respect of the application of materiality in the public sector, further consideration of the relationship between the ‘nature’ of an item as opposed to just its amount and any implications thereof in respect of public sector accountability relationships; and
- consideration of the relationship between “verifiability “ as used in the IASB-DP and “validity” as used in the Canadian performance guidance referred to in the paper; and
- inclusion of a discussion of, and a request for constituents views on, whether the IPSASB should depart from the QCs of the IASB.

Many members expressed the view that it is desirable that the IPSASB and the IASB adopt the same principles and terminology for the QCs if possible and appropriate. That is, different wording should only be adopted if there is an intended difference in principle or application. In addition, a number of members noted their view that in principle the same characteristics should apply to financial reporting in the public and private sectors,

and to information communicated in financial statements and in a wider financial report – albeit that the detailed application of those principles may differ dependent on the objectives of the reporting entity (profit generating or not) and the nature of the information (financial statement or “other” information). However, it was noted that to do so may require more discussions with the IASB on the future wording of their QCs.

The subcommittee Chair requested that members provide further comments to the authors by Friday October 5. Shortly after this date the Chair, authors and project leaders will conference call to further develop the paper which is to be presented to the IPSASB for consideration at its Beijing meeting in November 2007.

Reporting Entity

Angus Thomson spoke to the revised consultation paper. Ahmad Hamidi-Ravari and Jim Paul apologized for the delay in distribution of the paper and noted that valuable input had been received from the IMF and USA members of the subcommittee. Given the timing of issue of the papers, members' comments were limited. However, some members did note that:

- the boundaries of the entity (in addition to the boundaries of the group entity) could usefully be further developed;
- the discussion of the nature of an entity could usefully be relocated from the attachment to the body of the text and could usefully lead to a specific matter for comment; and
- the location of specific matters for comment and relevant text should be revisited – in some cases the specific matter for comment seemed to precede the relevant explanation.

The authors agreed to further develop the paper for consideration by the subcommittee and IPSASB in November 2007.

Report on NSS-4 Group Monitoring IASB-FASB Joint Project and Update on IASB-FASB joint project

Mr Ian Mackintosh noted that the major item for consideration of the NSS-4 Group was whether the Group should issue a commentary or submit responses to the IASB on the IASB Discussion Paper on reporting entity and the IASB Exposure Draft on objectives and qualitative characteristics anticipated to be issued in the near future and, if yes, arrangements for developing those responses. Mr Mackintosh noted a paper had been prepared by Kevin Simpkins that raised issues and options regarding the process for development of such responses and their content. Mr Simpkins spoke to his paper and members agreed:

- Mr Simpkins reports on IASB-FASB papers have value and should be continued;
- a submission/commentary should be made by the NSS-4 group on the IASB reporting entity Discussion Paper and the Objectives and Qualitative Characteristics ED. When the DP and ED are issued, Mr Simpkins should prepare the first draft of the submission/commentary for review by the NSS-4 Group and , if necessary, used as the basis for a follow up conference call to finalize the submission/commentary;

- the nature and operation of “control” was likely to be a key issue for comment in respect of the reporting entity Discussion Paper.

Mr Hathorn noted that the IPSASB may well make its own separate submission to the IASB on the reporting entity Discussion Paper when issued, in addition to any input it may make to the NSS-4 submission, in its capacity as an observer on the NSS-4.

Mr Ian Hague and Ms Kimberley Crook provided a brief update on the current status of the IASB-FASB projects on reporting entity objectives and qualitative characteristics, and agreed that to the extent possible they would continue to provide relevant materials and input to the NSS-4 Group and the IPSASB authors.

Next Subcommittee meetings

Members agreed:

- a subcommittee meeting would be held on November 26, 2007 in Beijing immediately prior to the meeting of the IPSASB;
- that the papers on objectives, scope, reporting entity and qualitative characteristics would be reviewed at that meeting - in particular the papers on reporting entity and qualitative characteristics which were being considered at this meeting for the first time; and
- that the mechanisms for co-ordination and finalization of Group 1 papers and arrangements for progressing Group 2 projects would also be considered at this meeting.

Members agreed to provide comments to the authors of each paper by October 5, and that the subcommittee Chair, authors and IPSASB staff would conference call in mid October to discuss progress.

It was noted that the intention was to distribute revised papers to the subcommittee and IPSASB by the end of October and that the papers would be provided to IPSASB staff with sufficient time for them to be reviewed prior to distribution.

Mr Hathorn thanked the authors for preparing the discussion papers and NSS-4 and IPSASB subcommittee members for their attendance and participation in the discussion.

SUBCOMMITTEE MEETING NOTES – Montreal
2 July 2007

<i>IPSASB</i>	Attending
UK	M. Hathorn, I. Carruthers
Argentina	C. Palladino
Japan	T. Sekikawa, K. Izawa
New Zealand	G. Schollum, A. Davis
Norway	H Brandis, Didrik Thrane-Nielsen*
USA	D. Bean
<i>NSS</i>	
Australia - AASB	J. Paul
China - Ministry Finance	Apologies
France - Ministry of Finance	Apologies
IMF Statistics Department and Fiscal Affairs Department	Sage De Clerck
South Africa - ASB	E. Swart, R.Cottrell
UK- ASB	I. Mackintosh, D. Loweth
<i>Observers/Guests</i>	
IASB Staff	Ian Hague
NSS-4 Consultant	Apologies
<i>IPSASB Staff</i>	S. Fox, P. Sutcliffe, J Stanford

Introductions and Opening Remarks

Mr. Mike Hathorn, the IPSASB Chair and Subcommittee Chair, welcomed all participants. The Chair also thanked Ahmad Hamidi-Ravari and the Australian Accounting Standards Board (AASB) for preparing materials for consideration at this meeting.

Meeting Objectives and Subcommittee Role

Members reviewed the agenda papers and:

- noted and confirmed the report on the first meeting of the Conceptual Framework subcommittee (March 2007);
- noted the Chair’s report on his meeting with the Chair of the International Accounting Standards Board (IASB) and the Chair of the UK Accounting Standards Board (ASB) to consider enhanced co-operation on the IASB and IPSASB Conceptual Framework Projects. The Chair noted that it was a very positive meeting and the prospects for strengthening co-operation would be further pursued with the IASB, including the very real prospects of Board engagement with the IPSASB on this project; and

- noted the proposed amendment to the Conceptual Framework Project Brief identified at the Hong Kong meeting - to clarify that it was proposed that the IPSASB Framework would have similar authority as the current IASB Framework.

Members discussed and agreed with the following amendments to the project development schedule and process proposed by the Conceptual Framework subcommittee:

- The subcommittee would meet on the day proceeding each IPSASB meeting and also in conjunction with the group of four national standard setters (NSS-4) who are reviewing the IASB-FASB joint Framework project for its implications for public benefit entities;
- Papers for presentation to the IPSASB would be prepared by the national standard setters and provided to staff with sufficient time for them to be reviewed and discussed with the authors prior to their inclusion in IPSASB agenda papers;
- IPSASB staff would continue to work with the authors between IPSASB meetings to support the paper development process– the authors, Chair and staff would conference call between meetings to confirm progress and expectations and discuss issues;
- The style of all papers would reflect that of the UK-ASB paper, and differing views/approaches to the issues would be included in the paper before a unanimous or majority subcommittee view was expressed. (*Update from IPSASB meeting on July 3– the IPSASB agreed with proposed structure and format of papers except that Consultation Papers would not include preliminary views – rather they would note alternatives the seek the views of respondents on which alternative, or whether another approach, should be adopted*);
- It was desirable that progress be accelerated with the commencement of Group 2 projects and Group 3 projects as soon as possible. Some members expressed a desire that all Consultation papers be issued for comment by the end of 2008. Others expressed doubts about whether this was achievable.
- Members proposed that the AASB be contacted to see if Jim Paul would be available to lead the development of the measurement project, and if so that the project be actioned as soon as possible – Jim Paul noted he would raise this matter with the AASB on his return;
- It was agreed that, as far as possible, the authors should draw on the work of the IASB, but that for some projects the IPSASB need not wait until the IASB had completed its deliberations before developing the public sector Framework Consultation Paper; and
- “user needs” focus groups would be established to provide reactions to, and further input on, the discussion of user needs in the Consultation Paper dealing with the objectives of financial reporting. Members agreed to explore mechanisms to facilitate the establishment of user groups in their jurisdictions.

It was also noted that it was likely that additional staff resources would need to be allocated to support the proposed accelerated project development. The IPSASB Chair and IPSASB Technical Director agreed that it was likely that additional staff resources

would be necessary for this project and, subject to other IPSASB priorities, would be made available.

Report on NSS-4 Group Monitoring IASB-FASB Joint Project and Update on IASB-FASB joint project

Mr. Ian Mackintosh noted that:

- the NSS-4 Group would hold a meeting in London in late September 2007 to coincide with the World Standard Setters meeting – the final date yet to be confirmed. Members agreed that, if possible, the subcommittee should meet with the NSS-4 Group;
- Mr. Kevin Simpkins’ contract with the NSS-4 had been renewed for 6 months, and the NSS-4 continued to contribute the equivalent of one day per month of Mr. Simpkins’ time to support the IPSASB project. Members noted that Mr. Simpkins’ had provided comments on the “Objectives” and “Scope” papers to be considered by the IPSASB at its forthcoming meeting. Those comments were most useful and had been circulated to the authors and the IPSASB members.

Mr. Ian Hague provided a brief update on the current status of the IASB-FASB joint project. Members noted that Mr. Hague would provide a full briefing to the IPSASB at the meeting on July 3.

Issues papers:

Mr Jim Paul spoke to an updated issues paper on the Reporting Entity prepared by Ahmad Hamidi-Ravari, of the AASB. Members commended the author on the significant development of the paper since the last meeting and noted their support for the broad directions of development of the paper. Members then discussed the paper in detail and agreed that:

- the style/format of the paper should be further developed to reflect that of the UK paper on “Objectives” (confirming the decision made in Hong Kong);
- terminology (reporting entity Vs. entity) should be used consistently throughout (e.g., perhaps use only “reporting entity”);
- the notion of accountability should be explained as encompassing control plus some economic dependency relationships and additional jurisdictional-specific characteristics central to accountability in that jurisdiction;
- reference should be made to indicators of control developed/proposed by the ITFHPA for System of National Accounts purposes;
- the discussion of *control* should note that the IPSASs already define control to encompass “power” and “control” components, and draw out the implications of the “power” and “benefit” elements of the definition of control being developed by the IASB and FASB in their joint Conceptual Framework project. The paper should raise and discuss whether the “power” element should be defined as the power to direct the strategic financing and operating policies of an entity;
- the concept of control should be explained in the context of the specific environment of the public sector;
- the analysis of the concept of control should focus on its relevance and general application rather than details of precisely how that concept would be defined and

- specification of which entities would be identified as controlled in different jurisdictions. In addition, the paper should identify the broad consequences of each of the various approaches and principles it discusses;
- whether government departments and funds would be identified as entities should not be discussed, because this depends on the system of government in each jurisdiction;
 - the role of parent-only financial statements should be explored (as occurs in Part V of the draft paper considered at this meeting), but the notion of the Crown as a potential parent entity should not be explored;
 - the boundaries of the operations covered by a budget should not determine the boundaries of an entity;
 - a “risks and rewards” approach to defining the boundaries of an entity should not be treated as mutually exclusive of a control-based approach – the paper could usefully note that the locus of risks and rewards can help explain where control lies. Similarly, other characteristics such as accountability and ownership should be explored as complementary factors to consider in identifying whether an entity should present general purpose financial reports; and
 - how “administered items” are accounted for should be addressed only in the Elements phase of the Conceptual Framework project.

Next Subcommittee meetings

Members agreed:

- to hold the next subcommittee meeting in London in conjunction with the NSS-4 meeting in September 2007; and
- that the papers on reporting entity and qualitative characteristics should be further developed for review at that meeting and should be distributed to subcommittee members prior to that meeting in early September; and
- a subcommittee meeting would be held on 26 November 2007 in Beijing prior to the meeting of the IPSASB (subject to final confirmation).

The Objectives of General Purpose Financial Reporting - Specific Issues for Consideration at the IPSASB meeting

In addition to any other matters members wish to raise, the author and staff would particularly welcome input from members of the following matters:

The current structure of the paper

As staff move to develop the composite Consultation Paper for review at the March IPSASB meeting, members are requested to confirm (or otherwise) that the current structure/flow of the paper is appropriate – The current flow is as follows:

1. Should decision-usefulness and accountability/stewardship be identified as objectives?
2. What is the role of accountability/stewardship in GPFRs ?
3. Who are the users of public sector general purpose financial reports?
4. Should a primary group of users be identified?
5. What are the information needs of users?
6. The differential reporting issue?

The relationship between these components has been noted at previous meetings by the subcommittee and the IPSASB, and is explained in the paper itself. In the process of developing this paper, staff and the author have considered whether other structures/sequences would might also (or better) serve the reader and support the flow of the paper – for example, a structure which commences with a consideration of users and their likely information needs, before moving to consider the objectives of financial reporting and differential reporting issues.

Such a structure does have merit, but can also give rise to issues about how best to sequence the individual components of the paper. Staff and the author are of the view that the sequence in the current paper does work, particularly given the explanation in the introductory paragraphs which acknowledges the inter-relationship between users, user needs and the objectives of general purpose financial reporting. However, it would be helpful to staff to have member’s confirmation that this structure/flow should be adopted in preparing the composite Consultation Paper, or directions on an alternate structure/flow.

Listing of users in paragraph 49

The users identified in paragraph 49 has as its starting point the list of users identified in the IASB-FASB Discussion Paper. It then notes how that listing could be amended/interpreted in the public sector context. This is consistent with a view that, where appropriate for the public sector and consistent with the IFRS convergence policy, differences from the IASB position should be minimized. However, staff are concerned that this approach may be perceived to limit/bias the potential range of users that the IPSASB contemplates. As such, members views are sought on whether this list should start with users identified in IPSAS 1 and the Preface to IPSASs, and then add to that list additional users identified by the public sector authoritative bodies noted in the appendices, and then compare that list the IASB-FASB Discussion paper.

The matters that should be linked to accountability – paragraph 72

Some authoritative bodies have discussed the matters identified in paragraph 72 in the context of the discharge of accountability. However, these matters are also useful as input for decision making purposes, including assessments of whether the entity has used resources efficiently and

effectively. Indeed, there is significant overlap between the information required as input for decision making and for the discharge of accountability (see paras 78- 83). Staff would welcome comments on whether the linkage of these matters to accountability is appropriate and whether the balance between information for decision making and accountability purposes is appropriately struck.

Specific matters for comment

Staff would welcome input on whether the current specific matters raised for comment are appropriate and suitably formulated and whether there are additional specific matters that should be put to readers for comment.

Appendices

As noted in the covering memoranda, members are requested to review the appendices to determine if they are necessary and, if yes, to ensure that they include appropriate references from each member jurisdiction.

Staff propose that the following appendices be combined, focus only on the views of the relevant authoritative body (whether Ministry of Finance or equivalent, or national standards setter) as they apply to whole of government level (whether national, state or local) in each jurisdiction, and be expanded to encompass additional IPSASB member jurisdictions:

- Appendices B and E which currently deal separately with the objectives of general purpose financial reporting at the whole of government level and individual entity level, because of the objectives are largely the same; and
- Appendices C and D which deal with users at the whole of government level and individual entity level – again because of the significant overlap between the users identified.

Subject to members’ agreement with the proposals for updating the appendices, a pro-forma of a potential appendix on user needs and the objectives of financial reporting will be circulated to each member with a request to provide input on relevant matters as identified in authoritative guidance in each jurisdiction.

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

Subject: The Objectives of Financial Reporting

INTRODUCTION

1. The IPSASB has actioned a project to develop a conceptual framework for general purpose financial reporting by public sector entities. The Project Brief which identifies the components of that framework and process for its development is included as [Appendix x]. A key element of the framework is the establishment of the objectives of general purpose financial reporting – it identifies the purpose of general purpose financial reporting and influences other components of the framework.
2. This paper sets out what IPSASB believes to be the key issues to be addressed in establishing the objectives of general purpose financial reporting by public sector entities. The use of the term ‘general purpose’ is intended to cover financial reports that are prepared and made available publicly and, as explained in this paper, are directed towards the common information needs of a wide range of external users.

KEY ISSUES TO BE ADDRESSED

3. The key issues to be addressed in this component of the project are:
 - Should decision-usefulness and accountability/stewardship be explicitly identified as objectives of general purpose financial reporting in the public sector, whether as a component of a single objective or as separate objectives?
 - What is the role of accountability/stewardship in the context of general purpose financial reporting by public sector entities?
 - Who are the users of public sector general purpose financial reports?
 - Should a primary group of users be identified and objectives developed to respond to the needs of that primary group?
 - What are the information needs of users?
 - Are there different considerations/implications for general purpose 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)?
4. The issues of the objectives of general purpose financial reporting, the identity of users and their information needs and objectives of financial reporting are interrelated. For example, the objective of general purpose financial reporting is to provide information to respond to users’ information needs. Assessments that users require information for a wide range of purposes will inform the articulation of the objectives of general purpose financial reporting. Similarly, what is specified as the objectives of general purpose financial reporting (together with the scope of general purpose financial reporting addressed in a different paper/chapter of this document) will qualify the extent to which

general purpose financially reporting can, or will be directed to, satisfy a potentially wide and diverse range of users’ information needs.

5. The issues in this paper have been structured to focus, and draw input on the key issue of whether the objectives of general purpose financial reporting should explicitly identify both a decision-usefulness and an accountability/stewardship dimension, and to test that objective against users and user needs. Accordingly, the issue of whether the objectives of general purpose financial reporting by public sector entities should identify both decision-usefulness and accountability/stewardship as objectives is raised as the initial issue. However, conclusions on that issue will be informed by consideration of the other matters addressed in this paper/section relating to such matters as user information needs and the nature of decision making and accountability/stewardship in the public sector.

Issue 1: Should decision-usefulness and accountability/stewardship be explicitly identified as objectives of general purpose financial reporting in the public sector, whether as a component of a single objective or as separate objectives?

6. The process for development of the IPSASB Framework includes the consideration and, where appropriate, use of the work of the International Accounting Standards Board (IASB) and other standard setters. Accordingly this section of the paper reviews the current position and current developments of certain key standard setters and similar bodies on the objective(s) of financial reporting and seeks the views of constituents on whether the proposed conceptual framework for financial reporting by public sector entities should identify both decision-usefulness and accountability/stewardship as the objective of general purpose financial reporting. In this section, reference is made to ‘accountability/stewardship’. The issue of whether the two words are interchangeable and terminology is considered later in the paper (paragraphs 36-38 below).

Coverage in authoritative literature of standard setters and similar bodies

International Public Sector Accounting Standards (IPSASs)

7. In the accrual IPSASs, IPSAS 1 ‘Presentation of Financial Statements’ contains a section on the purpose of financial statements (paragraphs 15-18, reproduced at Appendix A of this paper), including the statement that “the **objectives** (author’s 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” (IPSAS 1, paragraph 15).

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

8. The IASB’s current ‘Framework for the Preparation and Presentation of Financial Statements’ applies to business entities in the private sector. However, that Framework and the proposed revisions and updates to it, are relevant to this 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.

9. 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”.

10. 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

11. The IASB and the US Financial Accounting Standards Board (FASB) are undertaking a joint project to develop a common conceptual framework that both Boards can use in developing new and revised accounting standards. This is a multi-phase project that will take some time to complete. The initial focus of the joint project is on financial reporting by business entities in the private sector. The two Boards have indicated that, in a later phase of the project, they will consider the applicability of the framework to financial reporting by other entities, such as not-for-profit entities in the private sector and business entities in the public sector.
12. In July 2006, 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. The relationship of the IASB Framework to definitions and concepts embedded in the existing IPSASs is noted above. As such, the preliminary views of the IASB and FASB are clearly of relevance to this component of the IPSASB project.
13. In the DP, the IASB and FASB proposed that for business entities in the private sector the objective of general purpose external financial reporting is to provide information that is useful to present and potential investors and creditors and others in making investment, credit and similar resource allocation decisions” - with the emphasis on the provision of information that helps in assessing the amounts, timing and uncertainty of the entity’s future cash flows (paragraphs OB2 and OB3). The DP does not identify the provision of information that enables users to assess the accountability/stewardship of management as a separate or specific objective. Rather, the DP notes (in paragraph OB28) that the objective “encompasses” providing information useful in assessing management’s stewardship.
14. 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.

15. Following up on this theme, in June 2007, the European Financial Reporting Advisory Group (EFRAG), the UK Accounting Standards Board (ASB) and a number of other European standard-setters published a paper² discussing the rationale for including stewardship as a separate objective of financial reporting. The paper explains that:
 - (i) there is consensus amongst respondents to the IASB DP that stewardship/accountability is a central plank of financial reporting; and
 - (ii) stewardship/accountability is inherently linked to agency theory and is a broader notion than resource allocation decision-making as it focuses on both past performance and potential future direction. A large number of respondents to the IASB DP made the point that omitting stewardship/accountability from the objective(s) would lead to undue emphasis on the ability of the entity to generate cash flows in the future. It should therefore be retained as a separate objective of financial reporting to ensure that there is appropriate emphasis on company performance as a whole and not just on potential future cash flows.
16. The FASB and IASB redeliberated stewardship and the objective of financial reporting at their meetings held in August and September 2007 respectively. At those meetings, the two Boards have tentatively agreed that the objective should be amended to better accommodate the role that the disclosure of financial information about stewardship/accountability can play in providing information useful for decision making purposes. The current wording of the proposed objective is:

“The objective of general purpose external financial reporting is to provide financial information about the reporting entity that is useful to present and potential investors and creditors and others in making the decisions that they make in their capacity as capital providers to the reporting entity”.
17. At the time of writing, the Boards are preparing an Exposure Draft (ED) of that part of the framework that covers the objective of financial reporting and qualitative characteristics. (Staff note – this objective will be monitored as the IASB/FASB move to an ED)
18. 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 IASB-FASB joint conceptual framework project to not-for-profit entities in the public and private sectors (public-benefit entities, PBEs). A report from the group issued in July

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

² EFRAG (2007) Pro-active Accounting Activities in Europe (PAAinE) ‘Stewardship/Accountability as an Objective of Financial Reporting: A comment on the IASB/FASB Conceptual Framework Project’.

2006³ (the Simpkins report) highlighted as two of the main concerns in application of the proposed objective of financial reporting to PBE’s were: (i) that there is insufficient emphasis on accountability/stewardship and (ii) the inappropriateness of the pervasive cash flow focus.

19. The Simpkins report makes clear the views of the Group of Four on this matter:

“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” (paragraph 1.6).

Frameworks of other standard setters

20. As the Simpkins report notes (paragraph 1.7), the conceptual frameworks of all of the Group of Four standard-setters 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.
21. The objectives of general purpose financial reporting by governments and other public sector entities as identified by a number of authoritative bodies and academic literature is set out in the Appendices. All relate the objective (or objectives) of meeting the information needs of users (who might be the users and their information needs are considered further below) and the decisions they may make. This of course is not an exhaustive list, but it is a powerful indication that for a period spanning some three decades a number of authoritative bodies have specifically identified accountability/stewardship as an objective of general purpose financial reporting by public sector entities and/or have made, a specific reference to the importance of the provision of information for accountability/stewardship purposes.
22. The US Governmental Accounting Standards Board (GASB), in particular, goes even further. In its Concepts Statement No.1 (CS 1) ‘Objectives of Financial Reporting’, GASB states that “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 decisions⁴. Given this fundamental emphasis on accountability, and the need to provide information necessary for users to make social and political (as well as

³ Author Kevin 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’.

⁴ 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.

economic) decisions, GASB has further argued⁵ that financial accounting and reporting is – and should be – different from that of for-profit business entities. However, that view is not shared universally. For example, Australia and New Zealand have “sector-neutral” and “transaction neutral” standards covering financial reporting by entities across the whole economy. In the UK, the Government Financial Reporting Manual (FReM)⁶ notes specifically (paragraph 2.1.1) that the general principles underlying Generally Accepted Accounting Practice (GAAP) apply to the public sector “to the extent that it is meaningful and appropriate”.

23. The UK ASB has also developed a ‘Statement of Principles for Financial Reporting: Interpretation for Public Benefit Entities’ (SoP-PBE)⁷, 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”.

24. 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”.

25. From the literature reviewed, there is a consistent view that an objective of general purpose financial reporting in the public sector is to provide information that is useful to users in making decisions. That decision-usefulness should be an objective appears to be uncontroversial and reflects the objectives in the private sector, although the nature of those decisions and consequently information needs may differ to reflect the not-for-profit nature of public sector entities. For example, both CS 1 (paragraphs 32-42 in

⁵ GASB (2006) White Paper ‘Why Governmental Accounting and Financial Reporting is – and should be – Different’.

⁶ HM Treasury and Devolved Administrations (2007) ‘Government Financial Reporting Manual 2007-08’. The FReM sets out the accounting and disclosure requirements for UK central government departments and executive agencies, executive Non-Departmental Public Bodies (NDPBs) and trading funds.

⁷ ASB (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.

particular) and the SoP-PBE (paragraph 1.2) specify the kinds of decisions that may be made, such as:

- future allocation of financial resources to the entity (whether through tax, grants or loans);
- whether to lend money to the entity and/or contract with the entity (for example, in a service concession arrangement) and on what terms;
- whether to advocate changes in the entity’s priorities and/or increases (or decreases) in financial resources available to the entity.

26. Financial reporting in general is not an end in itself, but is a means of communicating financial information that users find useful. However, the importance of accountability/stewardship as an objective of financial reporting is also made clear in the literature. As noted above, many view this as important in the context of financial reporting by business entities in the private sector, but of even greater importance (the ‘cornerstone’ to use the GASB term referred to in paragraph 22 above) for financial reporting by public sector entities. This aspect is dealt with in the section on issue 2 below.

Specific matters for comment

27. The IPSASB would welcome comment on the following matters:

- (Q1) Do you consider that decision-usefulness should be identified as an objective of public sector general purpose financial reporting?
- (Q2) Do you consider that stewardship or the discharge of accountability is a significant aspect of general purpose financial reporting by public sector entities and should be explicitly identified as such, either as a separate objective or recognised explicitly within a single objective?

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

28. If accountability/stewardship is to be identified as a separate objective or recognised explicitly within a single objective, then there is a need to consider what information should be reported consistent with that view. This is considered in the section below on the information needs of users (paragraphs 63-85). This section considers the broad notions of accountability/stewardship. A sample of the existing literature is reviewed (covering both the public and private sectors), followed by a consideration of whether the term ‘accountability’ or ‘stewardship’ should be used. The views of constituents on this issue are requested.

Coverage in authoritative literature of standard setters and similar bodies

IPSASs

29. As noted in paragraph 7 above, IPSAS 1 (paragraph 15) makes specific reference to the role of general purpose financial reporting in providing information to demonstrate the

accountability of the entity for the resources entrusted to it, as well as for decision-making.

The existing IASB Framework

30. The current IASB Framework (paragraph 14) acknowledges specifically that the objective covers accountability or 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

31. As noted in paragraph 13 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 ASB⁸ highlights this and refers to a paper ‘Stewardship and the objectives of financial statements’ (authored by Andrew Lennard), 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. In reaching this conclusion, it builds on agency theory, noting that the separation of owners and management requires a mechanism that not only enables owners to control management, but also one that provides a means for management to make regular, credible reports: management as well as owners have an interest in ensuring that the agency relationship works.
32. The EFRAG paper referred to in paragraph 15 above also notes that stewardship/accountability is inherently linked to agency theory and comments that if owners assign stewardship of their company to management they wish to have the ability to oversee management behaviour to ensure that:
- it is aligned to the owners’ objectives;
 - management are devising strategies aimed at making the best use of company assets; and
 - no misappropriation of the company assets takes place.
33. While the EFRAG paper focuses on financial reporting by business entities in the private sector, it also states that the users of financial reports for not-for-profit entities usually do not have the option to make the buy, sell and hold decisions resulting from the resource allocation objective. Rather, the decision they need information on is whether to

⁸ 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

intervene in the management of the business, which is only provided if the stewardship objective is retained in the framework. Finally, the paper concludes that the stewardship objective:

“is about providing information about the past (including, for example, the transactions entered into, the decisions taken and the policies adopted) at a level of detail and in a way that enables the entity’s past performance to be assessed in its own right, rather than just as part of an assessment about likely future performance”.

Other relevant material

34. The conceptual frameworks of a number of major jurisdictions 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.
35. Perhaps the widest articulation of the role of stewardship/accountability is set out in GASB’s CS 1⁹, 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 practice¹⁰.

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”.

Does it matter if the term used is ‘accountability’ or ‘stewardship’?

36. As the EFRAG paper highlights, most respondents to the IASB DP appear to treat the two terms ‘accountability’ and ‘stewardship’ as interchangeable. That view is not shared universally. Some constituents believe that stewardship embodies far more than accountability, most obviously when considering that stewardship reflects the concept of managers having “responsibility for” the management or administration of resources or activities which, in their view, is broader than management being “accountable to” others for the consequences of that stewardship”. They also note that stewardship encompasses the idea that management should be striving to act in the best interests of shareholders, in

⁹ 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.

¹⁰ These issues are explored further in GASB’s Concepts Statement No.2 (1994) ‘Service Efforts and Accomplishments Reporting’

the light of current circumstances and those that may prevail in the future. By contrast, for those constituents accountability appears to be a more backward looking and narrower concept than stewardship.

37. In the public sector context, both terms appear to be used interchangeably. For example, stewardship is used at the US federal government level and in the UK SoP-PBE, and accountability by the US GASB (as noted above), and in Canada¹¹ and Australia¹². In neither case is there an implication that the use of one term implies a narrower concept than the use of the other, as demonstrated by the following example from the Canadian Public Sector Accounting Standards Handbook:

“Information that helps users assess a government’s stewardship of the resources entrusted to it, including how resources have been applied and consumed in providing services, has accountability value. Information in government financial statements must be presented in a manner that assists in discharging this accountability”¹³.

38. What is critical in each jurisdiction is what information is to be reported to be consistent with an objective of accountability or stewardship. However, for the purposes of the development of the international framework there is considerable merit in adopting a single term and providing guidance on what that term encompasses. The IPSASs currently use the term ‘accountability’. This term is also adopted in the authoritative literature of many, though not all, standard setters and is widely used in the public sector to characterise a government’s obligation to report to its constituency on its management of financial and other resources. Given the current IPSASB use of this term and subject to any jurisdictional impediments or translation issues there is a strong case for using accountability to encompass stewardship in the framework. This paper will use accountability going forward. However, this should not be interpreted as pre-empting any subsequent decisions about terminology based on feedback from constituents
39. Drawing together the threads in this section, it may be useful to categorise accountability 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 reports. (The nature and extent of such information that might be encompassed within general purpose financial reports is considered in the [paper/chapter] on the scope of financial reporting.)

¹¹ CICA (2005) Public Sector Accounting Handbook Section PS 1100 ‘Financial Statement Objectives’ (see Objective 4 in particular).

¹² AARF (1990) Statement of Accounting Concepts (SAC) 2 ‘Objective of General Purpose Financial Reporting’.

¹³ CICA (2006) Public Sector Accounting Handbook Section PS 1000 ‘Financial Statement Concepts’ (paragraph .28(b)).

Specific matters for comment

40. The IPSASB would welcome comments on the following matters:

- (Q3) Do you agree that the terms accountability and stewardship are interchangeable and that the IPSASB framework should use the term accountability? Are you aware of any jurisdictional issues or translation impediments to doing so?
- (Q4) How would you articulate the meaning of accountability? One suggestion is set out in paragraph 39 above. Do you agree with this suggestion, or do you have an alternative description?

Issue 3: Who are the users of public sector general purpose financial reports?

41. As noted above, general purpose financial reporting is a means of communicating financial information to external users. Who those users are and their information needs impacts on the objectives of that financial reporting. This section of the paper reviews some of the existing literature on the users(s) of general purpose financial reports produced by public sector entities and seeks the views of constituents on who those users should be.

Coverage in authoritative literature of standard setters and similar bodies

IPSASs

42. IPSAS 1 (paragraph 3) notes that users of general purpose financial statements include taxpayers and ratepayers, members of the legislature, creditors, suppliers, the media and employees. The Preface to IPSASs also identifies citizens, voters, their representatives, and other members of the public as examples of users of general purpose financial reports.

The existing IASB Framework

43. The existing IASB 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

44. In the July 2006 DP (paragraph OB6), the IASB and FASB 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. In the context of the DP, the term ‘creditors’ is used to refer to present and potential institutional and individual lenders and their advisors who provide financial capital to an entity by lending cash (or other assets) to it. Trade creditors come within the category of suppliers.

45. 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

46. The conceptual frameworks of a number of other jurisdictions identify the potential users of financial statements/financial reports, as does some academic literature. As an example, Appendices C and D reflect the results of research undertaken in 2000¹⁴ (with some updating) on the users of public sector financial statements (Appendix C covers the whole of government level; Appendix D the level of individual public sector entities/categories of entities). (Staff note: Appendices to be updated following Board discussion at November meeting.)
47. 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.
48. The role of intermediaries and representatives of user groups (such as legislators, citizen research organisations, rating agencies, the media etc) as users who review the financial reports and then disseminate what they see as the key information to a wider population of users is also well recognised by standards setters¹⁵.
49. The existing literature lists a wide range of users that might have an interest in the financial information of an entity. The conceptual framework for general purpose financial reporting by public sector entities could similarly specify a ‘long list’ of potential users of public sector general purpose financial reports. As an example, this could take as a starting point the IASB-FASB’s list referred to in paragraph 44 above, amended and adapted as necessary to reflect the public sector context. A suggested potential list of users might therefore be:
- ~~equity~~ investors – this is used by GASB in CS 1, but this could be expanded to also specify ‘funders and financial supporters’(taxpayers and ratepayers);
 - ~~creditors~~ – replace with ‘lenders’ (including purchasers of government bonds);
 - suppliers;
 - employees;
 - ~~customers~~ – see ‘members of the public’ below;

¹⁴ Loweth (2000) ‘ A Statement of Principles for Financial Reporting in the UK Public Sector’ (unpublished MA dissertation, Leeds Metropolitan University)

¹⁵ See, for example, paragraph 19 of SAC 2. The role of intermediaries was one of the findings from a survey of user needs conducted by the GASB during 2004-05.

- governments and their agencies and regulatory bodies (including legislative and other oversight bodies); and
- members of the public (citizens as beneficiaries/recipients of public services, non-tax payers and representatives of the public, including the media and public advocacy groups,

50. However, before seeking the views of constituents on this issue, the next section considers whether the conceptual framework should designate a primary group of users.

Issue 4: Should the objectives designate a primary group of users?

Coverage in authoritative literature of standard setters and similar bodies

IPSASs

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

The existing IASB Framework

52. 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

53. The IASB’s July 2006 DP (paragraph OB12) identifies present and potential investors and creditors (and their advisers) as the primary users - that is, 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. The DP (paragraph BC1.15) makes clear that the IASB and FASB:

“concluded that identifying a group of primary users of financial reports, as the existing frameworks do, provides an important focus for the objective and the other parts of the conceptual framework. Without a defined group of primary users, the framework would risk becoming unduly abstract or vague”.

54. 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”.

55. This reflects the work of the UK ASB in developing the SoP-PBE (see paragraphs 56-58 below).

Other relevant material

56. There is material on primary users in the conceptual frameworks of certain national jurisdictions and other literature. For 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 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 funders and financial supporters:

"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".

57. 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. Financial reporting does have its limitations and is only one source of information needed by users. It will not meet **all** the information needs of **all** users. One argument for specifying a primary user group is in recognition of those limitations. In addition, by focusing on the financial information needs of the primary user group it is likely that the financial report will, in effect, be focusing on the common interest that all users have in that financial information.

58. 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.
59. Those who advocate identifying a primary group of users also highlight the link to the qualitative characteristics of financial reporting information, in particular that of understandability. The IASB’s Framework (paragraph 25) says that users “are assumed to have a reasonable knowledge of business and economic activities and accounting and a willingness to study the information with reasonable diligence”. That reasonable knowledge can be more readily assumed for a primary user group. While the SoP-PBE

acknowledges that, in the context of public benefit entities, it may not always appear appropriate to assume that knowledge, preparers must be able to assume a reasonable knowledge if financial reports are to be useful to a wide range of users. In this regard, as noted in paragraph 48 above, an important role is played by intermediaries, such as oversight and regulatory bodies, who often work on behalf of users.

60. 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 question the need for doing so and are concerned that identifying a primary group does not seem consistent with the view (as specified in paragraph 2 above) that general purpose financial reporting is directed towards the common information needs of a wide range of external users. Some take the view that “present and potential funders and financial supporters” should cover the citizenry as a whole and that making a distinction between a primary user group along the lines of the UK approach is somewhat artificial. 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).
61. The Australian Accounting Standards Board (AASB) takes a similarly wide view, although the categories of primary users¹⁶ 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 covers a wide range of external users, to the extent that the use of the word ‘primary’ could be seen as redundant.

Specific matters for comment

62. The IPSASB would particularly welcome comments on the following:
- (Q5) Do you agree with the potential users of general purpose financial reports by public sector entities as identified in paragraph 49 above. Do you have any suggestions for additions, deletions or amendments?
 - (Q6) Do you believe the users are better articulated in broad categories such as identified in paragraphs 60 or 61? If yes, what are the categories?
 - (Q7) Subject to your views on Q5 and Q6, do you think that a primary group of users should be specifically identified? If so, why and what should that group be?

¹⁶ As set out in AARF (1990) Statement of Accounting Concepts (SAC) 2 ‘Objective of Financial Purpose Financial Reporting’.

Issue 5: What are the information needs of users?

63. This section of the paper considers the information needs of the users of general purpose financial reports produced by public sector entities reflected in the existing authoritative literature of standard setters. It sets out some thoughts on identifying the key categories of information that should be produced, including what information needs might be necessary to fulfil an accountability objective, and seeks the views of constituents.

Coverage in authoritative literature of standard setters and other bodies

IPSASs

64. IPSAS 1 (paragraphs 15-18, 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 7 above. General purpose financial reporting should provide information about the sources, allocations and uses of financial resources, financing of activities, financial position, financial condition, and information useful in evaluating an entity’s performance in respect of service costs, efficiency and accomplishments for both economic decision making and accountability purposes. In addition, IPSAS 1 notes that general purpose financial reporting may provide users with information:
- (i) Indicating whether resources were obtained and used in accordance with the legally adopted budget; and
 - (ii) Indicating whether resources were obtained and used in accordance with legal and contractual requirements, including financial limits established by appropriate legislative authorities.
65. IPSAS 1 also notes that the information in financial statements is unlikely to meet all the above and that supplementary information may need to be reported to provide a more comprehensive picture of the entity’s activities during the period.
66. Entities which make publicly available their approved budget(s) are also required to comply with the requirements of IPSAS 24 ‘Presentation of Budget Information in Financial Statements’. IPSAS 24 (paragraph 1) states that:
- “Compliance with the requirements of this Standard will ensure that public sector entities discharge their accountability obligations and enhance the transparency of their financial statements by demonstrating compliance with the approved budget(s) for which they are held publicly accountable and, where the budget(s) and the financial statements are prepared on the same basis, their financial performance in achieving the budgeted results”.

The existing IASB Framework

67. The IASB Framework (paragraph 9) lists the information needs of the users listed in paragraph 43 above. In summary, the Framework specifies that there is a need for

information on financial position, performance and changes in financial position (paragraphs 15-20 of the Framework).

The IASB-FASB joint Conceptual Framework project

68. In its July 2006 DP (paragraph OB6), the IASB has listed the information needs of the potential users of financial reports listed in paragraph 44 above. In summary, the IASB believes that users need information about an entity’s resources, claims to those resources and changes in resources and claims (paragraphs OB18-25 of the DP) that cover:

- financial position (information on the entity’s resources and the claims on them;
- financial performance (measured by both accrual accounting and cash flows); and
- changes in resources and claims that do not affect cash.

The DP (paragraph OB26) also highlights the need for financial reporting to include management’s explanations and other information to enable users to understand the information provided.

69. The Simpkins report does not comment specifically on particular information needs, but 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, as well as the stewardship of management of the resources under its control.

Other relevant material

70. 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 shaping the objectives of general purpose financial reporting and what is identified as the objectives of general purpose financial reporting will have a significant influence on the extent to which user needs can be satisfied – as such there is an intimate relationship between users’ information needs and the objectives of financial reporting. As well as the information needs of users at the whole of government level summarised in Appendix B, a further summary of the literature on the information needs of users at the level of individual entities/categories of entities is set out in Appendix E. (Staff note – it is proposed to update and consolidate appendices – this cross reference will be revisited as appropriate). While those needs may be articulated in different ways and the level of detail may differ between different standard-setters and other commentators, there are common themes in the information needs - for example, they generally encompass the need for information about: sources and uses of financial and other resources; financial performance including service costs and accomplishments; the efficiency and effectiveness of operations, financial position and changes therein; financial condition; and compliance with budget and other authorities.

Information on accountability: what should this encompass in the context of public sector general purpose financial reporting?

71. The information that should be included in general purpose financial reports directed at satisfying an objective that encompasses the discharge of accountability is perhaps more an issue for the phase of the project dealing with the scope of general purpose financial reporting. As, for example, noted by GASB¹⁷, accountability by a government can be viewed from several perspectives, which can go broader than financial reporting into wider performance reporting. These observations are also true in respect of information that may be included in general purpose financial reports to satisfy an objective which encompasses decision-useful information. Indeed there is significant overlap between the information required as input for decision-making and for the discharge of accountability.
72. That said, there are a number of matters to consider in determining what information about accountability should be included in the context of general purpose financial reports to meet users’ information needs. In particular:
- (i) whether such information should incorporate notions of ‘interperiod equity’;
 - (ii) the extent to which, if any, such information should cover compliance with all relevant rules and regulations, including whether activities are limited to the extent and purposes authorised; and
 - (iii) the extent to which the information provided in general purpose financial reports should contribute to assessments of the economic, efficient and effective use of resources.

Each matter is considered further below. While they are discussed in the context of a heading which focuses on information that may be disclosed by general purpose financial reports to discharge accountability obligations, they also have a place in considerations of decision-useful information that may be disclosed by general purpose financial reports.

Inter-period equity

73. In some jurisdictions the discharge of accountability may encompass the disclosure of information as input to assessments of interperiod equity. This may be characterised in different ways and supported by legislation. For example in the USA, the laws of most state and local Governments require balanced budgets, which can be on a yearly basis. The 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. In CS1, GASB explains:

“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

¹⁷ GASB (1994) Concepts Statement No.2 ‘Service Efforts and Accomplishments Reporting’.

whether future taxpayers will be required to assume burdens for services previously provided” (CS 1, paragraph 61).

Compliance

74. 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. This includes, but goes wider than, simple budgetary compliance. For example, in CS 1, the GASB states that one of the objectives of financial reporting is to demonstrate compliance with “other finance-related legal or contractual requirements”. Similarly, IPSAS 1 notes that general purpose financial reporting may also provide users with information confirming compliance with budgets and legal and contractual requirements.

Assessments of the economic, efficient and effective use of resources

75. Again, in some jurisdictions, there is specific reference in the objectives of financial reporting to providing information that will assist users in determining the economic, efficient and effective use of resources. For example, the US FASAB states¹⁸ that information on operating performance will enable users to determine:
- the efforts and accomplishments associated with federal programs and the changes over time and in relation to costs; and
 - the efficiency and effectiveness of the government’s management of its assets and liabilities.
76. There is a consensus that information provided in general purpose financial reports will be useful in contributing to users’ assessments of the economic, efficient and effective use of resources, but additional information outside the scope of general purpose financial reporting will also be necessary for such assessments to be made.

Key categories of information to be provided to meet users’ needs

77. 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, some common key themes emerge about particular information needs. The information needs have to be considered in the wider context of what should be regarded as coming within the scope of public sector general purpose financial reporting. However, in the narrower context of considering the information needs to meet the objectives, then the key information requirements to be considered may be summarised in the following paragraphs.

¹⁸ FASAB (1993) Statement of Federal Financial Accounting Concepts (SFFAC) No.1 ‘Objectives of Federal Financial Reporting’.

Financial performance

78. Information in this category is designed to assist users to 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 (as noted in paragraphs 75-76 above). 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.

Financial position

79. Information in this category is 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.

Financial condition

80. The financial condition of a public sector entity, as distinct from its financial position, has been defined by the CICA¹⁹ as follows:

“financial health, as measured by sustainability, vulnerability and flexibility, looked at in the context of the overall economic and financial environment. These terms are defined as follows:

- **Sustainability:** the degree to which a government can maintain existing programs and meet existing creditor requirements without increasing the debt burden on the economy.
- **Flexibility:** the degree to which a government can increase its financial resources to respond to rising commitments, by either expanding its revenues or increasing its debt burden.
- **Vulnerability:** the degree to which a government becomes dependent on, and therefore vulnerable to, sources of funding outside its control or influence, both domestic and international”.

81. In short, information on financial condition is 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 general purpose financial reporting).

¹⁹ CICA (1997) Public Sector Accounting and Auditing Board Report of a Study Group ‘Indicators of Government Financial Condition’.

Budgetary compliance

82. Information in this category is designed to demonstrate that resources have been used in accordance with the legally adopted budget (as referred to in paragraph 68 above).
83. 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 general purpose financial reporting for the framework, in particular if the decision is made to incorporate wider performance (including non-financial performance) within the scope and the extent to which the information on accountability issues (considered in paragraphs 71-76 above) is not adequately encompassed or reflected in general purpose financial reporting by public sector entities.

Specific matters for comment

84. On the issue of users’ information needs on accountability, IPSASB would welcome comment on the following matters:
- (Q8) Do you consider that information disclosed in general purpose financial reports should provide input to assessments of whether ‘interperiod equity’ has been maintained, the entity has complied with the legally adopted budget and that the entity has also complied with all other relevant rules and regulations?
85. On the categories of information to be provided, IPSASB would welcome comments on the following:
- (Q9) What are your views on the proposed list of the key categories of information to be provided in general purpose financial reports: financial performance; financial position; financial condition; and budgetary compliance? Are there other categories that you believe should be covered (for example, information using in assessing service costs, efficiency and accomplishments as referred to in paragraph 75 above)?

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

86. One further matter to contemplate is whether different considerations and implications may apply to general purpose 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). In at least one jurisdiction (Australia), separate accounting standards have been written for categories of individual public sector entities²⁰ and for general purpose financial reporting at government level²¹ (although these are currently under review and it is likely that the text of each standard will be relocated to topic based standards). However, it is significant that

²⁰ AARF (June 1996) AAS 27 ‘Financial Reporting by Local Governments’ and AARF (June 1998) AAS 29 ‘Financial Reporting by Government Departments’.

²¹ AARF (June 1998) AAS 31 ‘Financial Reporting by Governments’.

the standards all specify (with admittedly some slight differences in wording) the same objective for preparing general purpose financial reports (namely to provide information useful to users in making resource allocation decisions and assisting management/governments to discharge their accountability obligations), and there is no proposed change in the objective of general purpose financial reporting that applies in respect of them.

87. In the context of financial reporting by business entities in the private sector, a number of jurisdictions apply a differential reporting regime, whereby smaller entities may be subject to simplified requirements. An example is the UK’s Financial Reporting Standard for Smaller Entities (FRSSE). However, such simplified requirements have been developed in response to practical concerns about the burdens on smaller entities and reflect cost-benefit considerations, rather than any assessment that such entities should have different objectives for their financial reporting. Cost-benefit aspects are considered further in the separate [paper/chapter] on qualitative characteristics.
88. Therefore, there is a view that, in specifying what should be the objectives of general purpose financial reporting, at this high conceptual level it is unlikely that different objectives should be established for different entities or categories of 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 general purpose financial reports (which is considered in the separate [paper/chapter on the reporting entity]), and for companies of any size. The frameworks reviewed do not differentiate the objectives for different entities.

Specific matters for comment

89. IPSASB would welcome comments on the following:
- (Q10) Do you think that a differentiation should be made between financial reporting by individual entities and financial reporting at the whole of government level when articulating what should be the objectives of general purpose financial reporting? Or do you think that the issue of differential reporting is better examined in the [papers/chapters] on qualitative characteristics and/or reporting entity?

**UK Accounting Standards Board (ASB)
26 October 2007**

Appendix A

Extracts from IPSAS 1 ‘Presentation of Financial Statements’

From Scope – current para dealing with likely users

- 3 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

15. 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.
16. 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.

17. 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.
18. Whilst the information contained in financial statements can be relevant for the purpose of meeting the objectives in paragraph 15, it is unlikely to enable all these objectives to be met. This is likely to be particularly so in respect of entities whose primary objective may not be to make a profit, as managers are likely to be accountable for the achievement of service delivery as well as financial objectives. Supplementary information, including non-financial statements, may be reported alongside the financial statements in order to provide a more comprehensive picture of the entity’s activities during the period

Extract from Preface to IPSASs

10. Financial statements issued for users that are unable to demand financial information to meet their specific information needs are general purpose financial statements. Examples of such users are citizens, voters, their representatives and other members of the public. The term “financial statements” used in this Preface and in the standards covers all statements and explanatory material which are identified as being part of the general purpose financial statements.

Appendix B

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

Date	Publication	Objectives/User Needs
1986	North America: 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>USA: Governmental Accounting Standards Board (GASB) Concepts Statement No.1 <i>Objectives of Financial Reporting</i> (CS1)</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

Date	Publication	Objectives/User Needs
		<p>resources</p> <ol style="list-style-type: none"> 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 <p>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:</p> <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	USA: 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

Date	Publication	Objectives/User Needs
		<p>with the legal authorization;</p> <ul style="list-style-type: none"> - 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; <p>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 –</p> <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; <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>
1998	Australia: Australian Accounting Standard (AAS) 31 <i>Financial Reporting by Governments</i>	<p>AAS31 refers to two broad objectives (paragraph 3.2):</p> <ol 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	UK: 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> <ol 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);

Date	Publication	Objectives/User Needs
		3. To help effective scrutiny of fiscal policy by Parliament, taxpayers and other potential users.
2005	Canada: Public Sector Accounting Standards Handbook Section PS 1100 <i>Financial Statement Objectives</i>	<p>The objectives of government financial statements are based on the information needs of users:</p> <ol style="list-style-type: none"> 1. Financial statements should provide an accounting of the full nature and extent of the financial affairs and resources which the government controls, including those related to the activities of its agencies and enterprises. 2. Financial statements should present information to describe the government’s financial position at the end of the accounting period. Such information should be useful in evaluating: <ol style="list-style-type: none"> (a) the government’s ability to finance its activities and to meet its liabilities and contractual obligations; and (b) the government’s ability to provide future services. 3. Financial statements should present information to describe the changes in a government’s financial position in the accounting period. Such information should be useful in evaluating: <ol style="list-style-type: none"> (a) the sources, allocations and consumption of the government’s recognized economic resources in the accounting period; (b) how the activities of the accounting period have affected the net debt of the government; and (c) how the government financed its activities in the accounting period and how it met its cash requirements. 4. Financial statements should demonstrate the accountability of a government for the resources, obligations and financial affairs for which it is responsible by providing information useful in: <ol style="list-style-type: none"> (a) evaluating the financial results of the government’s management of its resource, obligations and financial affairs in the accounting period; and (b) assessing whether resources were administered by the government in accordance with limits established by the appropriate authorities.

Appendix C

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	North America: 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	IFAC 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	USA: 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.

Date	Publication	Identified Users
1996	Australia: 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.

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	USA: 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 A: 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;

Date	Publication	Identified Users
		<p>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.</p>
1992	UK: 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	UK: 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.

Date	Publication	Identified Users
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> <ol style="list-style-type: none"> 1. Parliament 2. The public; 3. Government – for the planning, monitoring and management of public expenditure.
1996	Australia: AAS29 <i>Financial Reporting by Government Departments</i>	<p>AAS29 notes that Parliament is likely to be the primary user of general purpose financial reports by government departments, also other potential users include:</p> <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	Canada: Public Sector Accounting Recommendation PS1400 <i>Objectives of Financial Statements – Federal, Provincial and Territorial Governments</i>	<p>PS1400 identifies the following users:</p> <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	USA: Granof	<p>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 :</p> <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>	<p>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)</p>
2004	France: Ministry of Finance <i>Central government accounting standards - Conceptual framework for central government accounting.</i>	<p>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.</p> <p>The variety of people using the information requires it to be wide-ranging and comprehensive, encompassing all elements that have</p>

Date	Publication	Identified Users
		an impact on the financial situation.
2007	Preface to International Public Sector Accounting Standards	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)
2007	IPSAS 1 Presentation of Financial statements	Users of general purpose financial statements include taxpayers and ratepayers, members of the legislature, creditors, suppliers, the media, and employees. (paragraph 3)

Appendix E

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

Date	Publication	Objectives/User Needs
1978	USA: 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)	The author identifies 4 user needs: <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	USA: FASB Statement of Financial Accounting Concepts No.4 <i>Objectives of Financial Reporting by Nonbusiness Organizations</i> .	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: <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 or 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	Canada: A research study commissioned by the Canadian Institute of Chartered Accountants (CICA) <i>Financial Reporting by Government</i>	The study (pp.27-29) sets out 4 objectives as the basic purpose of financial statements meeting user needs, being: <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

Date	Publication	Objectives/User Needs
		<p>inflationary consequences.</p> <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>
1981	<p>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>	<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 organisational performance.
1986	<p>UK: National Audit Office – Report by the Comptroller and Auditor General <i>Financial Reporting to Parliament</i></p>	<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	<p>UK: Committee of Public Accounts <i>Financial Reporting to Parliament</i> (8th Report, Session 1986-87)</p>	<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

Date	Publication	Objectives/User Needs
		in the Estimates and Accounts
1988	UK: 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> <ul 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 – <ul 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	UK: 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> <ul style="list-style-type: none"> I. To assess whether a public body is achieving value for money from 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	UK: 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> <ul style="list-style-type: none"> 1. Compliance and stewardship: <ul 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.

Date	Publication	Objectives/User Needs
		<ol style="list-style-type: none"> 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.
1996	Australia: Australian Accounting Standard (AAS) 27 <i>Financial Reporting by Local Governments</i> .	AAS 27 (para 9) quotes from SAC 2 and states that: “general purpose financial reports shall provide information that is useful to users for making and evaluating decisions about the allocation of scarce resources, and be presented in a manner which assists in discharging the accountability of the reporting entity’s management or governing body. To provide information useful for these purposes, general purpose financial reports of local governments need to disclose information about the performance, financial position, financing and investing, and compliance of those local governments”.
1997	Canada: 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

Date	Publication	Objectives/User Needs
		<p>by the government in accordance with the limits applied by the appropriate legislative authorities.</p> <ol style="list-style-type: none"> 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 the accounting period. b. Financial statements should provide information that is useful in evaluating the government’s ability to finance its activities and to meet its liabilities and commitments.
1998	Australia, Australian Accounting Standard (AAS)29 <i>Financial Reporting by Government Departments</i>	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”.
1998	Granof <i>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	France Ministry of Finance <i>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>

Date	Publication	Objectives/User Needs
2007	Preface to International Public Sector Accounting Standards	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)
2007	IPSAS 1 Presentation of Financial statements	Users of general purpose financial statements include taxpayers and ratepayers, members of the legislature, creditors, suppliers, the media, and employees. (paragraph 3)

The Scope of General Purpose Financial Reporting Specific Issues for Comment

Members are requested to provide input on all aspects of this paper as appropriate. In addition to any other comments, staff would welcome comments on the following matters.

The factors to be considered in determining the boundary of general purpose financial reporting

This paper reflects a view that the scope of general purpose financial reporting (GPFR) should not be established so firmly as to exclude the potential for that scope to evolve in response to users’ information needs. Rather, it identifies a number of factors to be considered in determining whether particular issues may appropriately be considered to fall within the scope of GPFR, and therefore potentially be the subject of guidance by the IPSASB.

Members are requested to provide their views on whether the approach is supported and, if so, whether the factors identified in this paper are appropriate and any additional factors that should be considered.

The specific topics to be “tested” against the factors identified

Consistent with the directions in the project brief, this paper currently includes discussion of whether the following items may fall within the scope of general purpose financial reporting: prospective financial information, budget reporting, long term fiscal sustainability of government programs and non-financial performance indicators. It also includes consideration of management discussion and analysis (or similar) and sustainability reporting (triple bottom line reporting), as raised in some subcommittee discussions. Staff request confirmation that discussion of these matters should be retained in the consultation paper and whether any additional matters should be included.

Terminology – scope or boundary

The project brief notes that this component of the framework project deals with the scope of general purpose financial reporting. This is the terminology that has been adopted in drafts already considered by the subcommittee and the IPSASB. The IASB-FASB joint project uses the term “boundary” rather than “scope” of general purpose financial reporting. Staff is of the view that there is merit in using the same terminology as the IASB, and seek directions from the Board on terminology to be used in developing the Consultative Paper.

Frequency of financial reporting and communication methodology

The initial draft of this paper sought input on whether issues of frequency of reporting and the range of potential financial reports should be considered in discussing the scope. This paper now makes it clear that it does not consider issues related to such matters as the frequency of financial reporting, including whether interim financial reports should be issued, or whether all the other means of communication with stake holders in addition to

GPFRs should be explored and developed at this level of the framework. However, it does acknowledge that such matters may be considered in other components of the framework which consider presentation and display, or by specific standards. Staff is of the view that this is appropriate – that is, this chapter should not consider matters of frequency of reporting or the nature of reports.

Staff request members’ directions on whether this view is appropriate.

Specific matters for comment

Staff would welcome input on whether the current specific matters raised for comment are appropriate and whether there are additional specific matters that should be put to readers for comment.

The manner in which specific matters for comment are formulated and expressed will be standardized across the four papers following discussion at this meeting.

Appendices

The appendices attached to this paper have been compiled based on input provided by subcommittee members. Certain elements of the appendices were included in the draft of this paper reviewed by the IPSASB in July 2007 – but additional input has been received. The material in the appendices and other input received from members has been extremely valuable in developing the paper.

Staff are of the view that as the paper is further developed for inclusion within the composite Consultation Paper the appendices have become less critical, and there is a case to delete them – in some respects matters dealt they deal with will be embraced by the broad appendix on objectives (raised in the context of the objectives paper) and they reflect an important but relatively narrow jurisdictional coverage. In addition, the bibliography could usefully be extended to include references to appropriate literature in each IPSASB member jurisdiction.

An alternative approach to deletion of the appendices is to broaden the coverage in the them to encompass relevant extracts of material from additional jurisdictions.

Members are requested to review the appendices to determine if they are necessary and/or whether including additional appropriate references from each member jurisdiction in the bibliography would better serve the reader.

Members are also requested to provide staff with additional input from their jurisdiction for inclusion in the bibliography and, subject to decisions regarding the appendices, extracts for inclusion therein.

Subject: Conceptual Framework project: Scope of financial reporting

INTRODUCTION

1. The current Preface to International Public Sector Accounting Standards explains that “IPSASs are designed to apply to the general purpose financial statements of all public sector entities”. IPSAS 1 “Presentation of Financial Statements” deals with the objectives and presentation of financial statements, and for the most part the remaining IPSASs provide guidance on the recognition, measurement and display of transactions and events presented in those financial statements and/or in notes thereto. However, IPSAS 1 does acknowledge the potentially broader scope for general purpose financial reporting – a broader scope which is reflected in IPSAS 24 dealing with budget reporting, and in a number of current or potential projects being considered for inclusion on the IPSASB work program.
2. The IPSASB Project Brief explains: “The objective of this project is to develop a Public Sector Conceptual Framework which is applicable to the preparation and presentation of general purpose financial reports of public sector entities, including but not necessarily limited to financial statements and notes thereto. In developing this Conceptual Framework, the IPSASB and its subcommittee will consider the information that may be included within general purpose financial reports in addition to financial statements and notes thereto, and the implications of any such information for each component of the Framework as appropriate”.
3. This component of the Framework responds to that (above) aspect of the Project Brief – it is concerned with identifying the activities and range and type of information about those activities that may be encompassed by general purpose financial reporting. It deals with what legitimately may be considered within the mandate of the IPSASB and potentially subject to the IPSASB’s authority – that is, potentially subject to an IPSAS or other authoritative document that the IPSASB may issue.

Relationship to developments in the IASB framework

4. The current IASB Framework also deals with objectives and concepts underpinning general purpose financial statements prepared to respond to the information needs of external users. Consistent with the IPSAS convergence policy, the accrual IPSASs which are based on International Financial Reporting Standards (IFRSs) reflect the requirements of those IFRSs unless there is a public sector specific reason for a departure. (IPSASB Convergence Policy September 2005 - *to be updated as necessary*.) Consequently, the current IPSASs draw on the concepts in the IASB Framework where appropriate for the public sector. The scope of financial reporting reflected in IPSASs is also similar to that reflected in International Financial Reporting Standards (IFRSs) – albeit that, as noted above, recently released IPSAS on budget reporting and a number of projects on the IPSASB work program deal with matters that extend the scope of financial

- reporting beyond, or at least stretch the limits of what may be considered as, general purpose financial statements.
5. The IASB is also reviewing its framework in a joint project with the FASB. The IASB-FASB joint project is directed at developing a conceptual framework for general purpose external financial reporting, which is broader than financial statements. The IASB Discussion Paper “Preliminary Views on an Improved Conceptual Framework for Financial Reporting - The objectives of Financial Reporting and Qualitative Characteristics of Decision-Useful Financial Reporting Information” (IASB-DP1) explains that:
- the “objective (of general purpose external reporting) pertains to all of financial reporting, not just financial statements, because some types of both financial and non-financial information may best be communicated by means other than traditional financial statements” (IASB-DP paragraph OB16) ; and
 - “the other concepts (*in the framework project*) provide guidance on identifying the boundaries of financial reporting, selecting the transactions, other events, and circumstances to be represented.....” (IASB-DP paragraph S1)
6. The IASB-FASB will consider the boundary of financial reporting in conjunction with presentation issues at a later stage in the framework development – following consideration of the elements of financial statements, measurement and reporting entity.

Consideration of the scope of GPFR in conjunction with objectives of general purpose financial reporting

7. As noted in the Objectives chapter/paper, all components of the framework are interconnected. While the objectives of general purpose financial reporting (financial reporting) will influence all components of the framework to some extent, the IPSASB is of the view that there is a particularly strong interaction between the objectives and the scope of financial reporting - what is specified as the objective(s) of financial reporting will significantly influence the scope of financial reporting and vice versa. For example, the information that might be included within the scope of general purpose financial reports (GPFRs) whose objective is to demonstrate compliance with budgets may differ substantially from the information presented in GPFRs whose objective is to provide information useful for decision making and accountability purposes, including information about the efficiency and effectiveness of operations and the achievement of service delivery objectives.
8. Similarly, what may be encompassed within the scope of financial reporting can have a significant impact on the achievement of the objectives of GPFRs. For example, drawing the boundary of financial reporting to encompass the recognition and presentation of only the financial consequences of past transactions and events will influence and constrain the information that can be

disclosed to support objectives which encompass the assessment of the entities service delivery objectives and the ongoing sustainability, and likely financial consequences, of current long term government programs.

9. The IPSASB Framework will apply in respect of IPSASs developed for financial reporting by governments and public sector reporting entities other than GBE’s. Such entities are created primarily for the delivery of services, including provision of social benefits and other services the government may have committed to provide over the long term. The activities of these entities are generally substantially funded from taxes and levies, rather than from the voluntary transfer of funds in an exchange transaction. Consequently, the assessments of the performance of such entities will be dependent on the achievement of both their service delivery and financial objectives, and decisions made about long term programs in a particular period can have significant consequences for the taxes to be raised from citizens in future periods to support these programs.
10. These characteristics of public sector entities can have a significant and direct impact on perceptions of what should be encompassed within the scope of financial reporting and disclosed in GPFRs whose objectives is to provide information for decision making and accountability purposes. Given the potential for what is encompassed within the scope of financial reporting to have a significant impact on the achievement of the financial reporting objectives established for such entities and vice versa, the IPSASB considers it important to consider the scope of financial reporting in conjunction with, and in the context of, the objectives of financial reporting.

THE PURPOSE AND NATURE OF THE SCOPE OF GPFR

11. As noted above, the scope of financial reporting will significantly influence, if not determine, the types of activity and information that may be presented within GPFRs prepared to respond to users’ information needs. For many, specifying the scope of, or establishing the boundary of, financial reporting may be anticipated to give rise to a clearly identifiable perimeter beyond which the standards-setter will not go in its consideration of matters that may need to be the subject of a standard. That is, matters outside that boundary will not be addressed by the standards-setter, at least not without first revisiting and if necessary recalibrating that boundary.
12. However, the boundary of general purpose financial reporting is not a firm “bright line” which marks a clear and tangible delineation between what is, or may be, included in general purpose financial reporting at any point in time, and what is outside its scope. Rather, the scope of financial reporting, while establishing broad parameters around what may appropriately be the area of interest of the standards setter, develops and evolves in response to a number of factors - not the least of which is users needs for reliable and relevant information about new and innovative transactions that impact such matters as the financial position and performance of the entity and its discharge of its accountability obligations.

13. It can be argued that attempting to establish specific and firm boundaries for financial reporting is not only unlikely to be possible, given the changing environment faced by users of GPFR and the standards setters that work in their interest, but also likely to be counterproductive. It may stifle the potential for standards setting to develop and evolve in response to user needs, and this will not serve public interest.
14. Therefore, while at any point in time the scope of financial reporting may be specified – it is, at least to some extent, subjective, arbitrary and flexible. It reflects such matters as the current expertise of the standards setter, the major financial reporting issues on which guidance is needed, community expectations of what matters will be addressed in GPFRs and the resources the standards setter has available to respond to those expectations. However, that scope or boundary of financial reporting is not, and should not be static. It should develop and evolve as new issues arise, accounting expertise develops and standards setters respond to users need for information about specific matters.
15. If one accepts that the scope of financial reporting can and should evolve, then the purpose of this component of the framework is not to establish firm boundaries that the standards setter is not to breach. Rather, it is to acknowledge that the boundary will and should develop, and to explore the characteristics or factors that the standards setter will need to consider in determining whether particular transactions or events should be the subject of their deliberation and potentially the subject of authoritative guidance. It is the consequences of the standards setters consideration of these factors, often on a case by case basis, which will determine and shape the scope of financial reporting at any point of time. The primary focus of the discussion in this chapter is on those factors and their implication for certain matters that may potentially be the subject of guidance by the IPSASB.
16. As a precursor to that consideration, it should be noted that inclusion of matters within the scope of GPFR, or more appropriately – not excluding matters from the scope of GPFR, does not mean that it is inevitable that an IPSAS will be developed to regulate reporting on the matter. IPSASB priorities and work programmes are developed after wide consultation, consideration of other authoritative or persuasive guidance already in place to assist preparers in dealing with the issue, and after consideration of the expertise that can be brought to bear at any point in time. In addition, the IPSASB has published research studies and other non authoritative guidance intended to assist development of financial reporting of particular matters. The IPSASB has also acknowledged that further experimentation and exploration of reporting methodologies may need to occur on particular issues such as financial reporting of heritage assets before the need for, and nature of, any IPSAS on the matters should be contemplated.
17. It should also be noted that while this chapter deals with what might be included within the scope of financial reporting at a conceptual level – how that manifests

itself in any specific standard or other guidance will be influenced by a range of factors including such matters as whether:

- the information is disclosed in other reports issued in conjunction with, or at the same time as the GPFR, - therefore whether there is a need for additional guidance by the standards setter;
- the reporting framework encompasses the disclosure of supplementary material that accompanies the financial statements and notes thereto and whether such material is subject to audit - therefore the nature of any authoritative requirements or other guidance, the placement of that guidance in the reporting “package” and its audit consequences;
- different qualitative characteristics apply to financial statements and notes thereto and other supplementary reports or different components of the reporting package, particularly if requirements or guidance may be developed on such matters as the disclosure of semi or non-financial performance indicators; and
- whether the matters have been addressed in IFRS and statistical financial reporting models – strategic themes underlying the IPSASB’s work program includes its IFRS convergence policy (noted above) and convergence with statistical reporting models where appropriate. These strategic objectives are likely to influence both the specific standards setting projects the IPSASB initiates and the requirements and guidance that may be issued as a consequence.

Many of these matters will be addressed at the presentation and display level of this Framework and in the context of specific standards. Some may also be subject to interpretation and application in the financial reporting and audit framework that apply in specific jurisdictions.

18. Specific matter for comment
19. Do you agree that it is appropriate to acknowledge that the scope can, and should develop and evolve and the primary role of this component of the framework is to identify the characteristics to be considered in determining whether a particular matter is appropriately within the “scope”?

Frequency of reporting, additional specific reports and special purpose reports

20. This chapter does not consider issues related to such matters as the frequency of financial reporting, including whether interim financial statements and financial reports should be issued. It also does not address the range of potential methods that may exist for communication with users or the nature and types of statements or presentations that may be encompassed within GPFRs. In particular, it does not address whether a single general purpose financial report could or should encompass all the matters that are to be disclosed to satisfy the objectives of general purpose financial reporting, or whether a series of separate reports or a

hierarchy of presentation formats distinguishing between required and encouraged disclosures and primary and supporting financial reports may better achieve that end. These matters may well be addressed at the presentation and disclosure level of the framework and in the development of specific standards.

The factors to consider in establishing the scope

21. This chapter considers the impact that the following factors will have in establishing the scope of financial reporting. While collectively they will have a significant influence on whether a particular matter is considered within the boundary, the impact that each of these factors have may be greater or less at any point in time and ultimately the decision will be based on the professional judgement of the standard setter after weighing the merits of each of these factors:
 - the objectives of financial reporting;
 - the expectations of the community has in respect of the role of GPFR;
 - the nature of the reporting entity that will be subject to IPSASs;
 - the impact that inclusion of “financial” has on the potential to broaden the scope beyond financial statements and notes thereto, or matters derived from such;
 - the skills and areas of expertise that accountants might legitimately be assumed to possess.
22. There is also a case that at the practical level, standards setter will consider whether the topic is one in which its authority will be recognized by the community such that its standards will be applied and will be effective in enhancing financial reporting practice. This does not mean that standards will not be developed in circumstances where the IPSASB does not have authority to require compliance. The IPSASB recognizes the right of governments and national standard-setters to establish accounting standards and guidelines for financial reporting in their jurisdictions, but issues standards to enhance financial reporting in the public interest and encourages the adoption of IPSASs and the harmonization of national requirements with IPSASs. (See The Introduction to International Public Sector Accounting Standards). However, it does mean that in determining whether to deal with particular topics, the standard setter will consider other guidance that relates to the matter, the effectiveness of that guidance and where it can add greatest value with its scarce standards setting resources.
23. In considering the impact that these factors may have on the scope of financial reporting, it is also appropriate to acknowledge that:
 - what is presented in GPFRs will be subject to satisfaction of the qualitative characteristics of information included in GPFRs, and influenced and conditioned by the presentation formats available to the standards-setter.

- what matters are actively pursued by the standard setter at any point in time will be subject to the standards setting resources available, the relative priority of all items on the standards setting work program, and the breadth of expertise the standard setter has access to.

Objectives of GPFR and user needs

24. The paper/chapter on the “Objectives of General Purpose Financial Reports” explains that user needs encompass the disclosure of information for accountability and decision making purposes, whether identified as separate objectives or encompassed under a broad decision useful objective. That paper/chapter also notes (paragraph 70) that standards setters and other commentators identify common themes in the information that should be presented to satisfy those objectives. Those themes generally encompass the need for information about: sources and uses of financial and other resources; financial performance including service costs and accomplishments; the efficiency and effectiveness of operations; financial position and changes therein; financial condition; and compliance with budget and other authorities. It also notes they encompass the disclosure of any additional information as necessary to fully support assessments of interperiod equity and the discharge of accountability.
25. This is a potentially broad range of data, its only limiting factors appear to be that it:
- must relate to the “reporting entity” – that is, subject to the definition of the reporting entity in financial reporting, matters that the reporting entity is not accountable for or does not control, are unlikely to be within the scope of GPFR. The characteristics of the reporting entity are considered by another chapter/component of this paper;
 - must be included in “financial” reports – therefore the scope of financial reporting will be constrained by the notion of “financial” the standards setter imposes on itself in considering whether a particular issue is a “financial” reporting issue that it should address. The notion of “financial” that may be applied by the standard setter is considered further below;
 - must be included within “general purpose” financial reports – in broad terms general purpose financial reports are those financial reports that are prepared and made available to meet the common information needs of a wide range of external users;
 - must be within the skill range that the standard setter possesses or can bring to bear in the form of expert advice – the skill range of accountants continues to develop with accountants increasingly playing a prominent role in developing reporting areas of, for example, operation reporting and sustainability (triple bottom line) reporting. In addition, the standards setter has access to a wide range of skills and knowledge from allied professions, including actuarial, valuation and legal professions and a wide range of industry. The skill range of the standard setter is therefore unlikely to exert as significant a constraining

- influence on what might be considered to fall within a GPFR as the other matters identified above; and, perhaps most significantly
- must add value for the user.

Meaning of Financial in general purpose financial reporting

26. The meaning of “financial” in financial reporting may be expected to exert a significant influence on what might be encompassed within the boundary of financial reporting. If interpreted as limiting the contents of the GPFRs to information expressed in numeric financial terms, the scope of GPFRs will be drawn narrowly. Arguably narrower than current practice – that is, limiting the contents of GPFRs to the expression in only numeric and financial terms of information useful as input for decision making and accountability purposes reflects a much narrower scope than current practice.
27. The IASB acknowledges the role of quantitative and other information and management explanation in understanding the financial information provided in GPFR and enhancing its usefulness as input to users in making resource allocation decisions. Current standards of all standards setters, whether private or public standards setters encompass the disclosure of at least some additional narrative informative which supplements, supports and places in context the financial characteristics of performance, position and condition reflected in the financial statements. The disclosure of such non-financial information is then widely accepted as a necessary and valid component of GPFRs of both for profit and not-for profit entities.
28. The objectives of public sector entities which are subject to IPSASs are focused primarily on the achievement of non-financial service delivery objectives. These entities use financial and non financial resources in concert to achieve service delivery objectives. Decisions about the allocation of resources for these entities are directed at enhancing the achievement of non-financial outputs and outcome, and financial accountability involves the consideration of, for example, the economy, efficiency and effectiveness of operations in achieving those service delivery objectives.
29. For such entities, the case for including within the scope of financial reporting the disclosure of non-financial information, including information about the achievement of service delivery objectives is even stronger than for profit seeking entities. Financial performance and the achievement of financial objectives can only be assessed in the context of the achievement of service delivery objectives and, arguably, the objectives of financial reporting will not be achieved if the non-financial and financial characteristics of performance are disengaged and presented independently. In this interpretation, the impact of “financial” is only to require that information be relevant to financial decisions and financial accountability, not that it be derived from, or be limited to explaining, the information included in financial statements. Consequently, “financial” does not

have as significant a limiting effect on what standards setters might include within the scope of financial reporting as may be expected.

30. A number of standards setters, particularly those responsible for public sector entities acknowledge and support the inclusion of non-financial information in general purpose financial reports. For example, the New Zealand concepts statement explicitly recognizes the role of interpretive comment, information on compliance with legislation and service performance information within general purpose financial reports and/or as supplementary information. Similarly, GASB concepts statement 1 notes that financial reporting objectives pertain to more than general purpose financial statements and that the broader notion of financial reporting can encompass non-financial and narrative information.

(Members are requested to provide input on guidance in their jurisdictions which acknowledge that financial reporting is a broader notion than financial statements and can encompass non-financial data.)

31. Specific matter for comment
32. Do you agree that these are the key factors to be considered by the standard setter in determining whether particular items may be included within the scope of financial reporting - are there other factors to be considered in establishing the scope of financial reporting?
33. Do you agree with the interpretation of how these factors operate and their likely effects?

SPECIFIC REPORTING ISSUES

34. As noted above, the boundaries of GPFR reflects a largely arbitrary line between what, at any point in time, is considered to be appropriately the potential subject of standards setters and included within GPFRs and what is not.
35. A review of the standards development work programs and background research projects of standards setters in IPSASB member jurisdictions provides an insight into matters that are currently mainstream standards setting topics, those that might need to be included in the future and those that are outside their current mandate. Students of these work programs will have noted their movement and expansion into new areas over the years as resources change, new financial reporting issues are identified, community expectations and technology changes and the need for accountants to embrace additional skills have been recognized.
36. Developments in standards setters work programs encompass projects directed at better reporting of existing transactions and events that impact the assets, liabilities, revenues, expenses and cash flows of the entity. In the private sector, they include such matters as financial reporting of insurance contracts and financial reporting by extractive industries. In the public sector, they encompass better reporting of liabilities arising from social policy obligations, employee

- entitlements and recognition and measurement of non-exchange transaction including tax and transfers. They also encompass responding to new economic phenomena and service delivery mechanisms – for example, accounting for special purpose entities and public, private partnerships which impact both the work programs of private and public sector standards setters.
37. Similarly, there has been development in reporting of other matters that enhance the usefulness of financial information as input for economic decision making and reflect an acknowledgement of a broader notion of accountability that may be encompassed by financial reporting. For example, disclosure of related party relationships, management remuneration and other pecuniary interests is now acknowledged as being clearly within the ambit of GPFRs, and the incidence of standards setters providing guidance on management discussion and analysis is increasing. Corporate sustainability (or triple bottom line) reporting is also gaining importance. While currently voluntary and outside the work program of standards setters, some express the view that such reporting is increasingly being recognized as a necessary adjunct to (or even part of) financial reporting, and guidance from standards setters could usefully enhance the prominence and consistency and quality of such disclosures.
38. The current IASB Framework focuses on financial statements and explains that financial statements do not include such matters as for example discussion and analysis by management (MDA) – albeit such may be included in a financial report. The current IASB work program includes a project on MDA. While the form of the guidance is not yet clear, there are views, including amongst IASB members, that it may be appropriate to include a requirement in IAS 1 “Presentation of Financial Statements” to prepare a narrative report, coupled with non-mandatory implementation guidance on what ought and ought not to be included in such a report.
39. The Basis for Conclusion to the IASB DP also notes that the nature of information that might be included in GPFR in addition to financial statements, including environmental sustainability, prospective information and cash flow or other features will be considered at a later phase of the project (IASSB-DP paragraphs BC1.3 – 1.7).
40. Many standards setters with responsibility for establishing standards for public sector entities have acknowledged in their framework that the scope of financial reporting for public sector entities may encompass the disclosure of budget and budget compliance information, of prospective financial information and of indicators of service achievement and comment thereon. A number of standards setters have developed authoritative or best practice guidance to support the development and enhance the quality of such reporting. These includes standards setters and other authoritative bodies in North America, Europe, and Oceania. The work programs and potential uptake of IPSASs in other jurisdictions where current frameworks are based on the existing IASB Framework or may not have been made explicit, also reflects a broadening of the scope of GPFR beyond

financial statements. Extracts of relevant literature from a number of standards setters is included in Appendices A, B and C. *(Staff note, subject to the directions of members, these appendices will be subject to further development.)*

41. The IPSASB project brief directs that this component of the framework consider whether the following should be included within the scope of financial reporting: performance reporting including non-financial performance indicators, budget reporting and prospective financial information including reporting on the long term fiscal sustainability of government programs. Reflective of increased interest and/or activity by standards setters, this chapter also considers whether management discussion and analysis and sustainability reporting (triple bottom line) reporting may be encompassed within the scope of financial reporting.

Prospective financial information

42. The current IASB Framework explains that prospectuses and other special purpose reports are outside the scope of the framework, but that the framework may be applied in the preparation of such special purpose financial reports where their requirements permit. (IASB Framework, paragraph 6) The IASB-DP1 acknowledges that the disclosure of prospective information or forecasts will be explicitly considered in the Framework development process. (IASB-DP - BC 1.5)
43. While the reporting entities which may be subject to IPSASs do not issue prospectuses, a number of national and state governments have adopted medium term expenditure frameworks and include prospective financial information for up to three years in the documents tabled with the budget. Some may be of the view that the comparability and transparency of such disclosures by different governments and by the same government over time would be reinforced, if not improved, if prepared in accordance with an IPSAS. Others, are likely to hold the view that the standard setter should deal with the reporting of only past transactions and events.
44. General purpose financial statements prepared in accordance with IPSASs, present financial information about past transactions and events which have occurred during the reporting period. As noted in IPSAS 1, historical based financial statements may also have a predictive or prospective role by “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.” (IPSAS 1.16.)
45. In many jurisdictions, in the interests of enhancing transparent reporting, governments and government agencies disclose past trend data as input to assessments of current financial condition and input to assessments about such matters as likely resources required in the future to maintain current programs – such disclosures may be made voluntarily or in response to encouragements of directions of standards setters and other authoritative bodies.

46. In some cases, accounting standards may also include requirements to disclose projections of future resource flows that arise from past transactions and events - for example, IPSAS 17 “Leases” requires the disclosure in time bands of lease payments to be made in the future. Current and anticipated IPSASs also include requirements to base current measures of assets and liabilities that have arisen from past transactions or events on the present value of future resource flows in the future in certain circumstances – for example, IPSAS 19 “Provisions, Contingent Liabilities and Contingent Assets”. Current IPSASB projects dealing with such matters as impairment of cash generating assets and employee benefits include the recognition in the financial statements of amounts based on projection of future cash flows.
47. However, the current suite of IPSASs do not include standards or guidance on the nature and characteristics of prospective or forecast financial information that may be issued in a report which has the purpose and characteristics of a general purpose financial report.
48. The objectives chapter notes that users information needs encompass the disclosure of provision of information to demonstrate that such matters as the financial position and service delivery base is sustainable over the longer term. Arguably, the disclosure of forecast or prospective information about the anticipated future financial consequences of current government programs is consistent with the disclosure of information useful as input for making decisions about the allocation of resources in the future and for accountability purposes – that is, it enhances the transparency of reporting about the financial consequences of current and past decisions and this enhances the decision making process.
49. Some note that the consequences of including prospective financial information within the scope of GPFR is that a standard may be developed to require or encourage the restating of the government budget in the format of financial statements. They express concern about the appropriateness of such an approach, noting that in many jurisdictions government budgets are prepared and presented in accordance with comprehensive statistical financial reporting models. Some also note that in many jurisdictions prospective or forecast financial information prepared in accordance with an accounting standard and presented as a GPFR are likely to be subject to audit, and express concern about the level of assurance that should be applied by an audit of such information and the nature of the resultant audit report.
50. However, a decision that the scope may be extended to encompass such disclosures does not mean that the IPSASB is compelled to develop guidance on them – rather it means it is not precluded from doing so.

51. Whether or not an IPSAS should be developed to require such disclosures or to establish the principles that should be adopted if such disclosures are made¹, will be dealt with at the standards level. Similarly, the characteristics of prospective or forecast information (and any differences in those characteristics), the nature of assumptions that may be made in developing the prospective information to be disclosed, the format of presentation and their location within the GPFR package (as required, encouraged, supplementary or other disclosures), will also be dealt with at the standards level. The qualitative characteristics of financial information will also constrain and condition the disclosures that may be made.
52. Clearly, the decision of the Board on whether the disclosure of prospective financial information is within the scope of financial reporting will have consequences for whether it will develop guidance on such matters as reporting on long term fiscal sustainability and budget presentation as part of a general purpose financial report. A decision to exclude prospective financial information from the scope of financial reporting would clearly constrain what might be reported about for example, tax revenues and expenditures that might arise in future periods as a result of transaction and events that are anticipated to occur in those future periods.
53. Whether or not long term fiscal sustainability and budget presentation may be included within the scope of GPFR is considered further below.

Specific matters for comment

54. Should the conceptual framework acknowledge that the scope of GPFR may encompass the disclosure of prospective financial information?

Budget Reporting

55. Most governments prepare and make publicly available their financial budgets. The budget documents are widely distributed and promoted.
56. The Research Report “Budget Reporting” issued by the PSC (the IPSASB’s predecessor committee) in 2004 included recommendations that IPSASs should be issued on ex-ante and ex-post budget reporting and compliance with budgets. It also proposed that IPSASs should require that governments and government agencies publish their legally approved budget if not currently doing so. That Report recognized that budget and financial reporting concepts may differ and recommended that budget reporting, including commitment accounting where appropriate, should be incorporated into the conceptual framework for IPSASs.

1. The financial Reporting Standards Board of New Zealand Financial Reporting Standard 42 “Prospective Financial Statements” provides guidance on the principles to be applied when an entity presents prospective financial information.

57. The Research report was prepared with input from a steering committee which included accountants and “budgeteers” from Ministry of Finance of a number of jurisdictions and international organizations. The Report notes that there were differences of opinion about whether ex-ante and ex-post budget reporting should be the subject of IPSASs, there was “a high degree of consensus among Steering Committee members” that presentation of ex-post budgets (budget outturn or outcome reports) should meet the qualitative characteristics of financial reporting as identified in IPSASs.
58. IPSAS 24 “Presentation of Budget Information in Financial Statements” requires the disclosure of information about compliance with budgets which are made publicly available. Such disclosures are to be made on the budget basis. Standards setters in a number of jurisdictions require the disclosure of government budgets and the reporting of compliance with those budgets. However, IPSASs do not require that the budget should be made publicly available, and are silent on whether budgets which are made publicly available should possess particular characteristics and conform to any principles of presentation regarding content and overage.
59. Some respondents to ED 27, “Presentation of Budget Information in Financial Statements” (the ED which foreshadowed IPSAS 24), while generally supportive of the inclusion of comparison with budgets in GPFRs as proposed, noted concern that the GPFRs may now contain information prepared on a different basis to that required by IPSASs and reflected in the primary financial statements.
60. It may be argued that government budgets satisfy the criteria identified in this chapter as matters that are appropriately within the scope of GPFRs intended to satisfy objectives of providing information useful for decision making and accountability purposes. That is, they are widely distributed, represent key input for decision making and reporting against budget is a key component of the government’s discharge of its accountability obligations to report on its use of taxes and other revenues. This is particularly so if such reporting compliance with those budgets is to be included in GPFRs – that is, included in financial reports which themselves are subject to rules regarding the presentation of information and the qualitative characteristics that such information should process². If persuaded by these argument there is a case that standards setters should establish principles for the presentation of budgets including such matters as the coverage of the budget and the format of presentation and the principles for accompanying explanation.

² It should be noted that those that hold there is a case for establishing principles for presentation of budgets as GPFRs do not propose the standard setter should become involved in matters of (a) budget formulation – consideration of policy initiatives and underlying economic conditions that shape the budget and determine the allocation of resources and responsibilities to particular programs; or (b) budget execution – the operation of the budget and collection of data on the outcomes of questions during the budget period.

61. Some may also hold that, while the case that budgets are in the nature of GPFRs may be persuasive, arguments that the establishment of principles for their presentation fall within the mandate of an accounting standards setter are not. They explain that the budget reflects the financial characteristics of the government’s plans for the forthcoming period and is a key tool for financial management and control of expenditures and revenue by the government. Central to an understanding of those budgets are the assumptions that underlie them and the relationship between their components. Accordingly, the manner of compilation and presentation of such budgets should clearly be within the ambit of the Department of Finance, Treasury and Budget agencies responsible for the development and implementation of policy initiatives in the budget, for monitoring execution of the budget and for reporting on the results thereof.
62. In many jurisdictions, the government budget is presented within the parameters established by the SNA, and consistent with a comprehensive reporting framework such as Government Finance Statistics Manual 2001 (GFSM 2001) issued by the IMF or the European system accounts (ESA95) Manual of Government Default and Debt (EMGDD). As such, it can be argued that there is already in place a widely accepted, authoritative and credible international benchmark, and the development of accounting standards on budget reporting are unnecessary and wasteful of scarce standards setting resources.
63. The IPSASB Project Brief notes that there is merit in considering the concepts underlying the statistical reporting models, and the potential for convergence therewith, as the IPSASB Framework develops. If the boundary of GPFR is extended to encompass the presentation of budget information, there is clearly a greater potential for an interface between the financial reporting requirements for prospective financial information and the statistical bases for budget presentation.
64. As with other matters identified in this chapter, whether IPSASB deals with budget presentation, what aspects it deals and the nature of any guidance it provides will be the subject of consideration at the standards level. At issue at this concepts level, is whether the IPSASB should be precluded from providing such guidance, not the nature of that guidance

Specific matters for comment

65. Do you believe the legally approved budget has the characteristics of a general purpose financial report and that the establishment of principles applicable to the presentation of budget information is within the scope of GPFR.

Performance Reporting

66. The focus of Conceptual Frameworks for financial reporting by private sector entities is primarily on the disclosure of information about the current financial position and immediate past financial performance of the reporting entity, often as input to better enable users to form views about the likely future financial

- performance of the entity or economic entity. This is consistent with the objectives of such entities which focus on the delivery of financial returns to stakeholders over the long term. Statistical financial reporting models also focus on the disclosure of the financial characteristics of performance as input for economic analysis and decision making.
67. This focus is largely reflected in the current IASB Framework and preliminary views emerging from the IASB-FASB joint Framework project. However, it is pertinent to note the IASB-DP notes that the objectives encompass financial reporting generally and that this may encompass information that might be reported outside financial statements – this may include non financial data that supports the achievement of the objective of general purpose financial reporting.
68. As noted above, public sector entities are expected to achieve both financial and service delivery objectives. Assessment of their success is dependent on achievement of both financial and non-financial objectives. In making decisions about the allocation of resources to the entity in the future, and in confirming past resource allocation decisions, users will need information about both the financial and non-financial characteristics of performance – that is information about the financial resources that have been deployed to the achievement of service delivery objectives and the outcome of that deployment. Similarly, the disclosure of information about the achievement of both financial and non-financial objectives is likely to be necessary to discharge any obligation for an entity to be accountable for its use of resources in supporting service delivery activities during the reporting period.
69. There is then a strong case that GPFs prepared in respect of entities whose objectives encompass the achievement of financial and non-financial objectives will need to encompass the disclosure of information that reflects the achievement of its financial and its non-financial (or service delivery) objectives. The current IPSASs include requirements relating to the presentation of information in the statement of financial position and the disclosure of certain information that strengthens the reporting of certain aspects of financial performance – for example the disclosure of financial information about distinguishable activities or groups of activities (segments), about the general government sector and about compliance with approved budgets. However, the current IPSASs do not include specific or detailed requirements to report on the achievement of service objectives, or identify the disclosures that are consistent with such reports.
70. Standards dealing with the disclosure of information on the achievement of service delivery objectives have been issued by some governmental standards setters, and governments and their agencies routinely compile and disclose a range of performance indicators. In addition, there is considerable academic literature which identifies the disclosures that may be made to report on particular characteristics of performance. IFAC PSC, Study 7 “Performance Reporting by Government Business Enterprises” (1996) explored a range of such indicators.

71. Performance indicators may encompass for example, the disclosure of the volume of output from a given resource base, the costs of particular services or groups of services, the availability and quality of service provided and the service outcomes – such indicators expose differing aspects of the economy, efficiency and effectiveness of service delivery during the reporting period. In some cases they will relate to reporting quantifiable results against predetermined quantified objectives. In other cases, they may encompass qualitative assessment of service outcomes. The nature of the performance indicators will also be influenced by and be responsive to, the operating environment and service objectives of the entity.
72. The acknowledgement that the scope of financial reporting may include the disclosure of quantifiable semi-financial performance indicators is unlikely to be controversial – the cost of services has a direct link to financial information in the financial statements and is well within the expertise of accountants. The challenge facing the standard setter at this level of the framework is whether to acknowledge that its responsibility may encompass non- financial performance indicators and that in developing such indicators it may need to rely on input from expertise outside the accounting profession.
73. As with other matters addressed in this chapter, the nature of any disclosures that may be required and the location of such disclosures in the financial reporting package will be determined at the standards development level.

Specific matters for comment

74. Should performance reporting be incorporated in the scope of financial reporting?
75. Should the nature of any such performance indicators be limited to financial or semi financial indicators, or should financial reporting encompass the potential to disclose non-financial indicators of performance?

Management Discussion and Analysis

76. Management discussion and analysis (MDA, also sometimes referred to as management comment, operating and financial review or review of operations) can provide stakeholders with a narrative description of such matters as the major factors underlying the performance of the entity during the reporting period and the factors which are likely to influence its performance in the future. Such analysis can also assist in placing the results of operations during the report period, and the financial position at the end of the period, in context and enhance the value of financial information as input to decision making and to assessments of the entities discharge of accountability.
77. The importance of MDA in adding value to financial data is increasingly being recognised by preparers, and the extent and nature of analysis and commentary included in, issued with and/or intended to support financial statements continues to develop and evolve. In recognition of the potential for such analysis to enhance

- (or degrade, if compiled inappropriately) the value and usefulness of information included in financial reports that conform with accounting standards, the accounting standards-setters are increasing acknowledging the merits of establishing guidance on the principles that should be applied in the preparation of such analysis. As such, guidance on MDA has been issued by some national standards setters in both the private and public sectors, and is making its way up the priority list of standards setters in other jurisdictions.
78. As noted above, the current IASB work program includes a project on MDA. This appears an appropriate response to developing reporting practices, an acknowledgement of the power of MDA to enhance financial data and confirmation of the need for the standard setter to provide guidance to ensure that the “quality” and content of such analysis is appropriate. At the time of writing, the IPSASB is itself considering whether or not to include on its work program a project on MDA.
79. It does then appear that there is increasing acceptance at national and international level of the case that establishing standards or guidance on MDA should be within the purview of the standard-setter, even where the primary focus is on financial statements. Arguably, the role and importance of MDA increases as the scope of financial reporting extends beyond financial statements into other areas of financial reporting considered in this chapter/component – for example to place disclosures intended as input to assessments of the long term sustainability of government programs in context, to note the relationship between the financial and non financial characteristics of performance and achievement of budget outcomes.
80. In some jurisdictions, guidance issued is in the form of encouragements and/or best practice guidance. In addition, whether the MDA is a core element of the financial statements or is in the nature of supplementary or supporting report can differ.
81. As noted previously in this chapter in respect of other potential inclusions within the scope of financial reporting, any detailed guidance and the nature and authority of such guidance will be developed at the standards setting level

Specific matters for comment

82. Are you of the view that management discussion and analysis (however described or styled) should be included within the scope of financial reporting and therefore, potentially the subject of a standard or other document issued by the IPSASB?

Long Term Fiscal Sustainability of Government Programmes (Fiscal Sustainability) and Sustainability Reporting (Triple Bottom Line Reporting)

83. In this paper, the term reporting on long term fiscal sustainability is used to refer to disclosure of information useful in assessing the sustainability of government

- programs. (*Staff note - This is the terminology currently adopted by the IPSASB. It will be revised if IPSASB terminology changes.*) Such disclosures may encompass disclosure of key indicators of a governments financial condition which focus on current and historical trend data such as the ratio assets to liabilities, and debt and deficits/surplus to GDP. However, they may also encompass projections of the costs, taxes and other revenue sources necessary to support the program, and the outputs or outcomes of those programs.
84. In some jurisdictions, the terms “fiscal sustainability” and “long term fiscal sustainability” may be used interchangeably to refer to such disclosures. Reporting on fiscal sustainability may be synonymous with an intergeneration report which provides information useful in assessing the need and fiscal sustainability of government programmes over the long term as jurisdiction demographics change and evolve.
85. Long term fiscal sustainability is distinguished from “sustainability reporting” or “triple bottom line” reporting – the voluntary reporting by private and public sector entities of information about such matters as an organization's environmental, social, economic and, in some jurisdictions, cultural performance over a specified period, usually a financial year. Whether sustainability reporting may fit within the scope of GPFR is considered later in this chapter.

Long Term Fiscal Sustainability

86. Many governments initiate social benefit programs intended to provide benefits to constituents in the future and over the long term. These programs are funded by revenues raised from constituents in the future in the form of taxes and government charges, and/or by transfers from other levels of government.
87. As noted in the Objectives chapter, there is a broad consensus that the information needs of users of GPFRs include information as input to making resource allocation decisions, including decisions about such matters as whether to advocate changes in the entity’s priorities and/or increases (or decreases) in financial resources available to the entity. Users also often express the need for information about a government’s financial ability to maintain the level and quality of its services and to finance new programs.
88. There is then a case that the disclosure of information about the long term fiscal sustainability of government programs sits squarely within the scope of GPFRs which are developed to provide input to resource allocation decisions. It may be argued that this case is further strengthened if the objective of GPFRs encompass the provision of information useful to users in making social and political decisions, as well as resource allocation decisions.
89. It can also be argued that being accountable for decisions made about the initiation of long term government programs and the allocation of resources to those programs encompasses more than reporting on the short term, immediate

- financial consequences of those programs. That is, where commitments are made in respect of long term programs, being accountable encompasses the disclosure of the anticipated long term consequences of those commitments, including both the costs of those programs and tax revenues and other resources that will need to be generated in the future to fund them.
90. General Purpose financial statements report such matters as the assets and liabilities of the entity at reporting date, and the cash flows, revenues and expenses, and changes in net assets/equity which occur during the reporting period. The long term financial consequences of decisions to initiate and maintain these programs are unlikely to be fully captured by financial statements which are constructed to ensure that the economic consequences of past transactions and events are reported on a reliable and consistent basis. Arguably, financial statements can present the present value of future cash flows related to anticipated provision of services in the future to current participants, but will not capture the present value of cash flows related to participants that may enter in the future. Similarly, such statements will not reflect the volume and source of future tax revenue and other funding anticipated to be generated to support those programs in the future.
91. Disclosure of historical trend data identifying key financial data and ratios can provide valuable input to assessments of the sustainability of particular programs including the costs of operating those programs over time and the relationship of those costs to government revenues and the tax base. However, by its nature such data cannot capture future expectations about the volume, nature and costs of such programs and their relationship to anticipated future tax and other revenues. Data necessary for such disclosures is likely to encompass non-financial data about the likely need for particular services in the future as well as forecast financial data.
92. Information about the projected costs of such programs at current and likely future service levels, and their likely revenue sources can provide necessary input to assessments of such matters as:
- whether the current allocation of taxes or other revenues to support the program is sufficient to fund maintenance of the current levels of service in the future; and
 - the extent to which the expected future level of service will increase or decrease in response to the needs of the community, whether the program will absorb a larger or smaller proportion of the available resources of government in the future, and the likely sources of any increases in funding of the program.
93. It can be argued that the disclosure of forecast financial and other information that provides input to assessments of the sustainability of government programs is consistent with the achievement of the objectives of GPFR. However, such disclosures would rely on non-financial and financial forecast data generated by economic and other modelling techniques that are not conventionally within the

skill set of accountants. Support for inclusion of such forecast data within the scope of GPFR is then likely to involve input from experts from disciplines outside the accounting profession. Arguably, this need not be an impediment to encompassing such disclosures within the scope of financial reporting – financial reports already include input from, for example, the actuarial and valuation professions. In some cases, industry standards may also be reliant on input from industry specific expertise.

94. Governments and standards setters in many jurisdictions are already responding to this potential information need of users of their financial statements through the disclosure of medium and long term expenditure frameworks which draw out the cost and revenue implications of particular programs. For example, in some jurisdictions:

- government entities disclose on a voluntary basis or consistent with the requirements of accounting standards or other authoritative directive, forecasts of long range cash inflows and outflows for major classes of social benefits, information about the present value of future benefits to be provided to current and anticipated beneficiaries and key assumptions underlying those forecasts and estimates;
- some governments provide “whole of government” information useful as input to assessments of the extent to which current social policies are sustainable in the medium and long term, including the projected impact of those policies on taxation, debt and the government’s overall financial condition. Such information may be included in “generational reports” which are presented as part of the budget process; or as separate reports and papers on projected revenues, expenses and cash flows under existing policies;
- standards setters are increasingly requiring, or encouraging disclosure of information as input to assessments of financial condition, including sustainability of government activities and the costs thereof. These disclosures may include, for example, ratios and historical trend data on such matters as the growth of tax revenue, the relationship of tax revenues to gross domestic product GDP (or other indicator of aggregate economic activity) GDP and to other revenue sources, and in some cases other non financial demographic change data. In many cases, the disclosures encompass data that is generated for purposes outside the scope of financial statements, but within financial reporting. *(Staff note – subject to IPSASB directions an appendix identifying current and recent developments by authoritative bodies will be included – input from members on guidance in their jurisdiction is requested for this purpose)*
- The IPSASB is itself currently developing a project brief as the first stage of a potential project to provide guidance on the disclosure of information about fiscal sustainability. That project brief explains that fiscal sustainability involves an assessment of the extent to which governmental obligations under

existing legal frameworks can be met in the future. (*Staff note- to be updated to align with IPSASB decisions on the project brief.*)

95. This chapter has already considered whether the presentation of prospective financial statements and budget reporting principles, including commitment accounting, may be encompassed within GPFRs. Conclusions about those matters are likely to have a significant influence on whether the reporting of fiscal sustainability is considered to be within the scope of GPFRs, and the nature of any standards that might be developed on the subject. Conclusions about what may be encompassed in management discussion and analysis or similar reports are also likely to influence the nature of such disclosures.
96. Matters related to the appropriate manner to display information about the long term sustainability of government programs, whether such disclosures should focus on current key ratios, past historical trends and/or future projections is a matter for consideration in presentation and display levels of the framework, and in the development of particular standards. As with the other specific matters considered in this chapter, at issue here is whether the boundaries of financial reporting should be drawn to exclude the potential for the standard setter to establish principles to guide such reporting in the future.

Specific matters for comment

97. Do you agree that reporting on long term fiscal sustainability may be encompassed within the boundaries of general purpose financial reporting?

Sustainability Reporting

98. The Professional Accountants in Business Committee (PAIB) of IFAC noted “There are many competing definitions of sustainable development but arguably the foremost is that of The Brundtland Report. ...It defined sustainable development as development which meets the needs of the present without compromising the ability of future generations to meet their own needs” (IFAC, Information Paper “Why Sustainability Counts for Professional Accountants in Business” August 2006).
99. A related PAIB Information Paper, and contributors to it from the public and private sectors, note the increasing demand for reporting on sustainability as part of transparent reporting by public and private sector entities “... it’s no longer enough to focus on profits and growth alone. Post Enron, organizations have a heavier responsibility in terms of transparency when carrying out their activities. Business will have to answer the consequences of their decisions in an environment that is placing greater emphasis on accountability.” (IFAC PAIB Executive Overview August 2006).

100. While not necessarily driven by an “Enron” experience, public sector entities within the purview of the IPSASB are also subject to this same “environment that is placing greater emphasis on accountability”.
101. As the incidence of, interest in, and reliance on sustainability reporting grows, so does the need for guidance to support consistency in the nature, content and quality of the information grow.
102. The Global Reporting Initiative (GRI)³ is responding to this need. The GRI has developed sustainability reporting guidelines for voluntary use by organizations in sustainability reporting. The guidelines include principles governing report content and quality (in many ways reflecting the qualitative characteristics of financial reporting), and identify specific indicators of economic, environmental, and social performance (often termed, triple bottom line or corporate responsibility reporting). The GRI has issued public sector specific guidance to respond to sustainability reporting issues that are specific to the public sector.
103. The IFAC Information Paper also notes that while the financial community may not yet have embraced sustainable reporting, and accountants may not currently possess all the necessary skills, the environment is changing with the expectation that there will be greater pressure on transparency of reporting on sustainability results and that reporting of non-financial performance is the key to such disclosures. Contributors to the paper also acknowledge that the accounting profession can bring to sustainability reporting “an increase in its rigor, consistency and transparency. (IFAC, Information Paper “Professional Accountants in Business – At the Heart of Sustainability”) August 2006).
104. While certain of the information appropriate for inclusion in sustainability reports may be derived from the financial statements, sustainability reporting clearly involves the disclosure of non-financial information and financial information on economic performance which is not recognized in or derived from the general purpose financial statements. While sustainability reporting is not currently on the active work programs of accounting standards setters, there is an argument that:
 - sustainability reports are general purpose in nature;
 - that the reporting of information on sustainability is necessary to place the financial characteristics of performance in context and enhances the decision usefulness of information in GPFRs for accountability and decision making purposes - therefore sustainability reports do have a financial reporting dimension and are increasingly being recognized as a necessary adjunct to (or even part of) financial reporting; and

³ The GRI is an independent institution which incorporates the active participation of representatives from business, accountancy, investment, environmental, human rights, research and labour organisations from around the world. It is an official collaborating centre of the United Nations Environment Programme (UNEP).

- presentation of information on sustainability is consistent with the objectives of GPFRs intended to respond to users’ needs for information as input to users.
105. There is then a case that sustainability reporting should be encompassed within the scope of general purpose financial reporting. Whether, and when, the IPSASB might provide guidance on such reporting, and the nature of that guidance, would be influenced by factors such as the consistency and quality of current reporting practices, the extent to which narrative reporting in any MDA or operations review would deal with relevant factors, whether there was demand for guidance from IPSASB constituents and the relative priority ranking of such a project on the IPSASB work program.
106. The IASB has noted that it will consider whether sustainability reporting, or certain aspects of such reporting should be included within the scope of financial reporting at a later stage of the development of its conceptual framework. (IASB-DP para 1.7) It is then appropriate that the IPSASB consider whether sustainability reporting is within the scope of financial reporting for public sector entities.

Specific matters for comment

107. Should the scope of financial reporting encompass the disclosure of information about the sustainability aspects of their activities?

Differential reporting considerations

108. This chapter deals with matters related to determination of the scope of financial reporting and considers where and how the boundaries of financial reporting may be drawn, and the factors that might influence the nature of transactions and events that may be included within that boundary. It is also appropriate to consider whether the scope of financial reporting and/or the factors that influence that scope should be different at the whole of government and individual government agency levels, or for larger and smaller governments or agencies.
109. Factors to consider in reaching a position on this include whether:
- users’ information needs are likely to differ because of the size of the government is larger or smaller, or whether its responsibility is only to deliver a particular subset of services of the government;
 - the obligation of a reporting entity to be accountable for the resources it controls or is otherwise accountable for differs dependent on the size of the government or the whether it is a government or government agency; and
 - the information that users are entitled to receive as input for decision making purposes and to discharge of the entity’s obligation to be accountable should differ dependent on the reporting entity that is the primary object of the user’s interest.

110. The Objectives chapter notes that “there is a view that, in specifying what should be the objectives of general purpose financial reporting, at this high conceptual level it is unlikely that different objectives should be established for different entities or categories of entities.” There is equally an argument that boundaries of financial reporting are drawn to respond to the objectives of financial reporting – if the objectives of financial reporting do differ for differing entities at the conceptual level, neither should the scope of financial reporting differ for differing entities.
111. What is included within the scope of financial reporting, and therefore what may be the subject of a standard, may of course impose significant reporting burdens on the reporting entity. At the practical level it may be fully appropriate for the standard setter to respond to that potential burden and to acknowledge that based on cost/benefit considerations, it is not in the public interest that certain requirements be imposed on certain reporting entities. These matters of course will be considered at the standards setting level and may well, and appropriately, establish differential reporting requirements.

Specific matters for comment

112. Do you think the factors to consider in determining the scope of financial reporting should differ for financial reporting by individual entities and financial reporting at the whole of government level?

Appendix A

GASB Concepts Statement

GASB Concepts Statement no 1 states the following:

“Financial reporting should assist in fulfilling government’s duty to be publicly accountable and should enable users to assess that accountability by:

- a. Providing information to determine whether current-year revenues were sufficient to pay for current-year services
- b. 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
- c. Providing information to assist users in assessing the service efforts, costs, and accomplishments of the governmental entity

Financial reporting should assist users in evaluating the operating results of the governmental entity for the year by:

- d. Providing information about sources and uses of financial resources
- e. Providing information about how it financed its activities and met its cash requirements
- f. Providing information necessary to determine whether its financial position improved or deteriorated as a result of the year’s operations

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:

- g. Providing information about its financial position and condition
- h. Providing information about its physical and other non-financial resources having useful lives that extend beyond the current year, including information that can be used to assess the service potential of those resources
- i. Disclosing legal or contractual restrictions on resources and the risk of potential loss of resources.

Accordingly, the financial reporting objectives ... pertain to general purpose external financial reporting and are not restricted to information reported in the GPFS.”

Appendix B

New Zealand Concepts statement

All Entities

NZ 7.1. A financial report may include financial statements, non-financial statements such as statements of service performance and supplementary information which is additional to the information in financial statements.

Non-financial and Supplementary Information

All Entities

NZ 20.1. In order to assist users of financial statements in making economic decisions and in forming assessments of an entity’s accountability for its obligations, an entity may provide a range of non-financial and supplementary information including:

- (a) historical information;
- (b) interpretive comment;
- (c) prospective information;
- (d) service performance information;
- (e) information on compliance with legislation; and
- (f) key value driver information.

NZ 20.2. Historical information reports on past transactions and events.

NZ 20.3. Interpretive comment reports on reported results. For example, narrative comment could explain the relationship between material changes in financial elements and the entity’s history, objectives, current activities and changes in the external environment (including the economic, physical and social environment) or objectives.

NZ 20.4. Prospective information reports on the potential effects of past transactions and events and the likely effects of proposed transactions and events. It is commonly disclosed in narrative and/or quantitative form. For example, narrative information could provide an assessment of the entity’s future impacts and prospects, focusing on how anticipated changes in the external environment (including the economic, physical and social environment) might affect results, liquidity and risk. In contrast, quantitative information could take the form of predictive results for anticipated economic, social or environmental effects based on proposed courses of action.

NZ 20.5. Service performance is the term used to describe an entity’s performance in meeting its objectives of supplying goods and services. An entity’s service performance is assessed by comparing the entity’s service performance results with its service performance objectives. Service performance objectives and

results are reported in non-financial terms, such as quantities of goods and services provided.

- NZ 20.6. An entity may have an obligation to report service performance when it receives funding from one party (the ratepayer, the donor etc) but delivers (or arranges to deliver) outputs (goods and services) to third parties (the general public, the disabled etc). This relationship occurs when the entity has the coercive power to tax, rate or levy to obtain public funds, or the entity receives donations from the public. For example, this relationship exists where the entity reporting is a charity that receives donations from the public but provides services to third parties such as the disabled. Similarly, a local authority may charge rates to property owners but provide a park and other services to the general public as third parties.
- NZ 20.7. Entities have a range of legal obligations, including compliance with legislation governing health and safety, human resources and protection of the environment. Such obligations may impact upon financial performance, or information from the financial statements may be used to demonstrate an entity’s commitment to these obligations. In addition, some entities have legal obligations to operate in accordance with approved budgets.
- NZ 20.8. Non-financial information might also focus on identifying and describing the key business, operational and strategic factors facing an entity. Key value driver information can encompass a broad range of measures including sales growth, profit, client satisfaction, measures of the quality of goods and services, and supplier relationships.

Appendix C

CICA Research report “Indicators of Government Financial Condition”

The CICA Research report “Indicators of Government Financial Condition” (1997) stated the following:

“What users want has been fairly well documented. The CICA Public Sector Accounting and Auditing Handbook, for example, indicates that users look to financial information to show the following:

- a. the allocation and use of financial resources;
- b. the sources and types of government revenues;
- c. the extent to which revenues were sufficient to meet expenditures;
- d. how the government financed its activities and how it met its cash requirements;
- e. the government’s financial condition;
- f. actual results of financial activities in comparison with those originally forecast and those of past periods; and
- g. that public financial resources were managed in accordance with legislative authorities.

PSAAB also indicates that users want financial information that extends beyond traditional financial statements. They indicate such uses would include:

- a. a government’s ability to meet its financial obligations, both short and long term;
- b. a government’s financial ability to maintain the level and quality of its services and to finance new programmes;

Canadian Accounting and Assurance Reference Service (CAARS)

- c. future tax and other revenue requirements;
- d. government spending priorities;
- e. the impact of government financial activities on the economy; and
- f. the performance of government in the management of financial resources

In the FGRS, the study team surveyed users who told them that governments should publish a comprehensive, but precise annual financial report. Users also indicated that such an annual financial report should contain information to:

- give an overview of the financial position and operating results of the entire government;
- provide a common framework to enhance users’ understanding of government operations;

- provide a common data base for analysis and for developing and debating policy positions;
- provide an historical perspective from which to consider future budget and spending proposals;
- assist users in demanding an accountability for actual results by comparison with earlier projections or budget;
- provide a key to matters of interest about which users may want further, more detailed information;
- facilitate the communication of information on government to others (for example, by legislators to their constituents or by media representatives to their audiences); and
- save users the time otherwise needed to search through voluminous reports for desired information about the government and to work out the required reconciliations.

In addition, the FGRS noted that, along with the basic financial information, such as the government’s assets, liabilities, revenues, expenses, deficit and borrowing requirements, most users wanted other information that would increase their understanding of these measures. This would include information on tax expenditures, common measures of the performance of the economy, the effects of inflation, regional breakdowns of revenues and expenses and government employment.

Bibliography

(To be further developed)

Australian Government – The Treasury “Intergenerational Report 2007”

Australian Government Department of Family and Community Services “Global Reporting Initiative” – Sector Supplement for Public Agencies issued March 2005

Canada PSAB – Indicators of Government Financial Condition (2007)

Canada Public Sector Accounting Board (PSAB) – Statement of Principles – Indicators of Government Financial Condition (2007)

Canadian Institute of Chartered Accountants, “Indicators of Government Financial Condition” (1997, p5-6)

Canadian Institute of Chartered Accountants Research Report “Indicators of Government Financial Condition” (1997)

Canadian Institute of Chartered Accountants “Financial Statement Concepts” (1997)

International Federation of Accountants – Professional Accountants in Business “At the Heart of Sustainability” (2006).

International Federation of Accountants – Professional Accountants in Business “Why Sustainability Counts for Professional Accountants in Business” (2006)

International Federation of Accountants – Public Sector Committee Research report “Budget Reporting” (2004).

New Zealand Institute of Chartered Accountants - Financial Reporting Standards Board “New Zealand Equivalent to the IASB Framework for the Preparation and Presentation of Financial Statements” (NZ Framework) (June 2005)

New Zealand Institute of Chartered Accountants issued December 2005 Financial Reporting Standard No. 42. “Prospective Financial Statements”

UK – HM Treasury “Long Term Public Finance Report – An Analysis Of Fiscal Sustainability” (December 2004)

UK – HM Treasury “Securing the Future”, “One Future – Different Paths”, (March 2005)

UK – Accounting Standards Board “The Operating and Financial Review”(2006)

UK – CIPFA, Sustainability a Reporting Framework for the Public Services (2006)

USA – Government Accounting Standards Board, Concepts Statement No. 44 – “Economic Condition Reporting: The Statistical Section” (2005)

USA – Government Accounting Standards Board, “Survey of Users, Preparers and Auditors – Final Report of Results” (May 2006)

USA – Government Accounting Standards Board “Why Governmental Accounting And Financial Reporting Is – And Should Be – Different” (2005)

The Qualitative Characteristics of General Purpose Financial Reporting -

Members are requested to provide input on all aspects of the paper as appropriate. In addition to any other matters members wish to raise, the author and staff would particularly welcome input from members of the following matters:

The Current Structure of the Paper

As staff move to develop the composite Consultation paper, members are requested to confirm that the current structure/flow of the paper is appropriate – the current flow is as follows:

- 1 Do the proposed revisions to the QCs in the IASB-DP raise significant public sector issues?
2. At a conceptual level, are converged QCs a realistic outcome? What reasons should result in the QCs of a public sector reporting framework not converging with those of the private sector reporting framework??
3. Differential reporting.

The overall design of the paper has been constructed to focus on the over-arching issue for this paper of determining the realism, at least at a conceptual level, of converged QCs for both the private and public sector.

Opinion has been expressed by both the subcommittee and constituents that convergence of QC material encompassing principle QCs all the way through to application guidance may not be attainable. However, convergence to the extent of, for example, the same QCs both in terms of their names and their definitions is considered to be not only a very desirable outcome, but also realistic.

This is the first attempt at the development of a draft consultation paper and as such, Board comments on structure would be appreciated.

Specific matters for comment

Staff would welcome input on whether the current questions are appropriate and suitably formulated and whether there are additional specific matters that should be put to readers for comment.

Appendices

Members are requested to review the appendices to determine if they are necessary and, if yes, to consider the need for the inclusion of additional reference material from other jurisdictions and how such material would be beneficial.

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

Subject: Qualitative Characteristics

INTRODUCTION

1. In July 2006, the International Accounting Standards Board (IASB) issued a Discussion Paper (DP): *Preliminary Views on an improved Conceptual Framework for Financial Reporting: The Objective of Financial Reporting and Qualitative Characteristics of Decision-Useful Financial Reporting Information*. (DP)
2. As discussed in the preface of the DP, the paper is the first in a series of publications being developed jointly by the US Financial Accounting Standards Board (FASB) and the IASB (the boards) as part of a joint project to develop a common Conceptual Framework for Financial Reporting.
3. Among other things, the DP proposes revisions to the qualitative characteristics (QCs) of decision-useful financial reporting information. Those revisions support a proposed scope of reporting encompassing not only financial statements, but also financial reporting as a whole.¹ Further, the characteristics support an objective of financial reporting which has a strong focus on information useful to the investor and creditor community in making investment, credit and similar resource allocation decisions.
4. This paper sets out the key issues to be addressed related to proposed revisions to the QCs component of the IASB-DP from a public sector perspective. As explained in the objective paper, the use of the term ‘general purpose’ is intended to cover financial reports that are prepared and made available publicly and, as also explained in that paper, are directed towards the common information needs of a wide range of external users.

The Role of QCs

5. QCs are an essential feature of any conceptual/reporting framework. Broadly speaking, they underpin the defined reporting objective of that framework. At a conceptual level, their role is to ensure that information which is developed within a reporting framework, possess the qualities that meet that reporting framework’s objective(s) – that is, they assist in ensuring the resulting information can be used for the purposes for which it is designed to be useful for. From a practical perspective, in preparing, for example, a set of financial statements, they would assist a preparer in making decisions and making choices about what information should or should not be included within those financial statements. As such, QCs are a common feature of financial reporting frameworks internationally.

¹ IASB DP - para BC 1.4.

6. Presented below are some examples of the defined role of QCs from the frameworks of some accounting national standard setters – each definition to varying degrees captures the spirit of intent of the paragraph above:

Qualitative characteristics are the attributes that make the information provided in financial statements useful to users. (South Africa Accounting Standards Board - Framework for the Preparation and Presentation of Financial Statements & International Accounting Standard Board – Framework for the Preparation and Presentation of Financial Statements)

Financial statements provide evidence of accountability and report information required by users to help them make assessments and judgments concerning government financial operations and management. To adequately serve these needs in a manner that maximizes its usefulness, information in financial statements must possess certain basic qualities. These qualities are essential to the utility of government financial statements. The information required to meet the objectives of government financial statements needs to embody these essential characteristics. (Canadian Public Sector Accounting Standard Board – Section PS 1000 Financial Statement Concepts).

General purpose financial reporting involves making decisions about the selection of financial information to be included in general purpose financial reports, the measurement of that information and its presentation. These decisions should be consistent with the objective of general purpose financial reporting and should yield information which possesses the qualitative characteristics set out in this Statement. (SAC 3 Qualitative Characteristics of Financial Information - Australian Accounting Research Foundation).

7. As illustrated above, QCs are pinnacle to ensuring that the objectives of the reporting model are achieved. As such, they are worthy of careful consideration as part of the IPSASB conceptual framework project.

KEY ISSUES TO BE ADDRESSED

8. The key issues to be addressed in this component of the project are:
- Do the proposed revisions to the QCs in the IASB-DP raise significant public sector issues?
 - At a conceptual level, are converged QCs a realistic outcome? What reasons should result in the need for the QCs of a public sector reporting framework, to differ from those of the private sector reporting framework? and
 - Are there different considerations/implications for general purpose 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)?

9. The issues in this paper have been structured to focus, and draw input on, the key issue of whether it is appropriate (and possible) at a conceptual level to have a converged set of QCs between the reporting frameworks of the private and public sectors.

IPSASB QCs

10. The existing suite of QCs are set out in IPSAS 1, *Presentation of Financial Statements*. QCs are defined along very similar lines to the examples provided above - as the attributes that make the information provided in financial statements useful to users. The four principal QCs are understandability, relevance, reliability and comparability.
11. Their resemblance to those in the existing IASB Framework for the Preparation and Presentation of Financial Statements (IASB Framework) is due to the IPSAS 1 QCs being originally sourced and adapted from that framework.
12. The IPSAS 1 QCs reflect the qualities of information satisfying the objectives of general purpose financial statements as outlined in that IPSAS - specifically:

...provide information about the financial position, financial 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:...
13. As discussed further below, at a conceptual level, the existing QCs of the IASB and IPSAS 1 can be characterized as being similar. Appendix 1 'Comparative Table of Existing IPSASB and IASB QCs' provide an analysis of the similarities and differences between the QCs of the IASB Framework and IPSAS 1. The comparison demonstrates the following similarities:
 - i) Areas where the QCs are identical:
 - explanation as to the role of QCs;
 - the titles of the four principal QCs: ie understandability, relevance, reliability and comparability;
 - the title of the sub-components underpinning the four principal QCs: ie materiality, faithful representation, substance over form, neutrality, prudence, completeness; and
 - the title of the constraints on relevant and reliable information ie: timeliness, balance between benefit and cost and balance between qualitative characteristics.

- ii) Areas where the QCs have materially identical descriptions/definitions - all:
 - four principal QCs;
 - subcomponents underpinning the four principal QCs; and
 - constraints on relevant and reliable information.
- 14. Some differences between the QCs do however exist – some more notable than others – for example:
 - for faithful representation, IPSAS 1 focuses on the importance of substance over form while the IASB Framework re-emphasizes and loops back into discussion relating to when information has the quality of reliability - *To be reliable, information must represent faithfully the transactions and other events it either purports to represent or could reasonably be expected to represent*;
 - the IASB Framework locates discussion on ‘true and fair view/fair presentation’ within its discussion on QCs while IPSAS 1 locates very similar discussion outside the discussion of QCs though within the body of IPSAS 1:
 - more private sector focused terminology used in the IASB QCs; and
 - the amount of discussion given about each characteristic (generally, the IASB provides more discussion/explanation with more private sector focused examples).

Issue 1: The impact of proposed QCs on existing QCs in IPSAS 1

IASB-DP QCs

- 15. In relation to the IASB-DP, the IASB currently proposes the following objective for general purpose financial reporting:

The objective of general purpose external financial reporting is to provide financial information about the reporting entity that is useful to current and potential investors and creditors and others in making decisions in their capacity as capital providers.²

- 16. Further, the IASB-DP provides significant discussion about the proposed scope of reporting emphasizing a broader scope of financial reporting. However, there is clear focus, at this stage, on matters more related to financial statements with deferral of consideration of specific issues concerning the boundaries of financial reporting and distinctions between financial statements and other parts of financial reporting.³

² IASB Update Oct 2007 - further discussion about public sector issues related to the objectives of financial reporting are considered in the paper ‘The Objective of Financial Reporting’.

³ IASB-DP BC 1.4.

17. Associated with this proposed objective and scope, are the related proposed QCs (and their components), enhancing characteristics and pervasive constraints presented below (as re-deliberated by the IASB⁴). A brief description of each item as provided in the IASB-DP is provided (for a fuller description, please see appendix 2 - Comparative Table of Existing IPSASB QCs and IASB-DP QCs):

Relevance	Information is capable of making a difference in the decisions of users by helping them to evaluate the potential effects of past, present, or future transactions or other events on future cash flows (predictive value) or to confirm or correct their previous evaluations (confirmatory value).
Faithful Representation	Information must be a faithful representation of the real-world economic phenomena that it purports to represent.
Substance Over Form	Information cannot be a faithful representation of an economic phenomenon unless it depicts the economic substance of the underlying transaction or other event, which is often, but not always, the same as its legal form.
Neutrality	Is the absence of bias intended to attain a predetermined result or to induce a particular behavior.
Completeness	Means including in financial reporting all information that is necessary for faithful representation of the economic phenomena that the information purports to represent.
<u>Enhancing characteristics</u>	
Timeliness	Making information available to decision makers before it loses its capacity to influence decisions.
Verifiability	Implies that different knowledgeable and independent observers would reach general consensus, although not necessarily complete agreement on one of two options (see appendix 2 for further discussion of the options)
Comparability	...including consistency, is the quality of information that enables users to identify similarities in and differences between two sets of economic phenomena.

⁴ Staff will be constantly reviewing re-deliberations by the IASB and will reflect the IASB’s most recent thinking in the paper.

Understandability

The quality of information that enables users who have a reasonable knowledge of business and economic activities and financial reporting, and who study the information with reasonable diligence, to comprehend its meaning.

Pervasive constraints

Materiality

Information is material if its omission or misstatement could influence the resource allocation decisions that users make on the basis of an entity’s financial report.

Benefits that justify costs

The benefits of financial reporting information should justify the costs of providing and using it.

18. To assist discussion on the similarities/differences and issues between the IASB-DP QCs and IPSAS 1 QCs, the table below provides a mapping of one to the other. As can be seen in the table, the mapping provides an early indication of the similarity between both sets.
19. To further assist in considering key issues to be addressed related to the IASB-DP QCs, appendix 2 provides an analysis of the similarities and differences between the QCs of the IASB-DP and IPSAS 1. While differences certainly exist between the two, as evidenced in the appendix, at a conceptual level, there is arguably a considerable degree commonality conveyed between the two sets of QCs.

IASB-DP QCs	IPSAS 1 QCs
Relevance	Understandability
Faithful Representation	Relevance
Substance Over Form	Materiality
Neutrality	Reliability
Completeness	Faithful Representation
	Substance Over Form
<u>Enhancing characteristics</u>	Neutrality
Timeliness	Prudence
Verifiability	Completeness
Comparability	Comparability
Understandability	
<u>Pervasive constraints:</u>	<u>Constraints on relevant and reliable information</u>
Materiality	Timeliness
Benefits that justify costs	Balance between benefit and cost
	Balance between qualitative characteristics

20. Each of the IASB-DP QC’s above is reviewed below, and compared, where applicable, with the related existing IPSAS 1 QC.

Relevance

21. Both the IASB-DP and IPSAS 1 discuss conceptually the same notions of relevance focusing on assisting with evaluating past, present or future events or in confirming, or correcting, past evaluations.
22. However, it is noted that within relevance (and other QCs/components of QCs), that in defining or describing the QC, reference is made to the proposed objective of financial reporting within the IASB-DP (see below). While at a conceptual level, the definitions and descriptions of those effected QCs appear materially aligned, to assist maximizing the degree of commonality and convergence between the finalized QCs of the IPSASB and IASB, consideration should be given to liaising with the IASB early in the process with the objective of keeping at least the definitions of QCs focused on concepts if possible.

To be useful in making investment, credit, and similar resource allocation decisions, information must be relevant to those decisions. Relevant information is capable of making a difference in the decisions of users by helping them to evaluate the potential effects of past, present, or future transactions or other events on future cash flows (*predictive value*) or to confirm or correct their previous evaluations (*confirmatory value*).⁵

23. Additionally, upfront reference within relevance focusing on predicting future cash-flows may also require further consideration by the IPSASB. Predicting future cash-flows is something which is arguably not as important in a public sector context.

Faithful Representation (and components - substance over form, neutrality, completeness)

24. The IASB-DP QCs have placed faithful representation as a QC in the place of reliability. The existing QCs of both the IASB Framework and IPSAS 1 present faithful representation as a component of the QC reliability.
25. The rationale for the IASB-DP’s revision stems essentially from the observation as to a wide variation existing as to the meaning of ‘reliability’ by constituents. As raised in the IASB-DP:

Given the nature and extent of the longstanding problems with the qualitative characteristic of reliability, as well as previous efforts to address them, the boards⁶ concluded that the term itself needed reconsideration. Because further efforts to explain what reliability means did not seem likely to be productive, the boards sought a term that would more clearly convey the intended meaning. The boards concluded that at least some of the problems seem to be

⁵ IASB-DP para QC 8.

⁶ FASB and IASB – please see paragraph 2.

related to presenting faithful *representation* as only one component of reliability.⁷

27. While the intent has been clarification, it is understood this has been a controversial revision to the IASB QCs and as such, could be a revision that the IPSASB could potentially seek the views of constituents.
28. The related components of faithful representation in the IASB-DP (substance over form, neutrality, and completeness) appear to discuss, at a conceptual level, very similar notions as those in the IPSASB QCs (see appendix 2 for the comparison). As such, the components of faithful representation do not seem to pose significant issues from a public sector perspective.

Timeliness

29. The current definition of timeliness in the IASB-DP is considered conceptually similar to that given in IPSAS 1. The proposed placement of timeliness as an enhancing characteristic by the IASB is not, for the purposes of this paper, considered to raise significant public sector issues.

Verifiability

30. The IASB currently considers verifiability within its QC discussion as an enhancing characteristic (originally it was proposed in the IASB-DP as a component of fundamental uncertainty):

Verifiability implies that different knowledgeable and independent observers would reach general consensus, although not necessarily complete agreement, either:

- (a) that the information represents the economic phenomena that it purports to represent without material error or bias (by direct verification); or
 - (b) that the chosen recognition or measurement method has been applied without material error or bias (by indirect verification).⁸
31. While the placement of verifiability maybe considered an issue from a public sector perspective, for the purposes of this paper, it would appear secondary to its inclusion in the first instance.
32. From a public sector perspective, the inclusion of verifiability may not necessarily be negative. However, a possible issue which could also be applicable to the private sector, could develop with respect to the potential breadth of information within a financial report and the potential differing degrees of verifiability. This being said, it is noted above that verifiability has a focus on ‘economic

⁷ IASB-DP para BC 2.27-28.

⁸ IASB-DP para QC 23.

phenomena’. Verifiability could be a matter worthy of further consideration from a public sector perspective.

Comparability and Understandability

33. Both comparability and understandability appear within both the IASB-DP and IPSAS 1 though the proposed placement by the IASB as enhancing characteristics does differ to their current placement in IPSAS 1 as principle QCs. For the purposes of this paper, placement is not considered to raise a significant issue. Both the IASB and IPSAS 1 discussions of comparability and understandability appear to be conceptually consistent with similar emphasis for comparability on comparison between different entities and financial statements for the same entity. For understandability, similar emphasis is given on users assumed to have a reasonable knowledge of the entity’s activities and the environment in which it operates, and to be willing to study the information as well as complex matters not being excluded from the financial statements.

Materiality

34. For both the IASB and IPSAS 1, discussions relating to materiality appear conceptually consistent focusing on omission or misstatement that could influence the decisions of users, the nature or size of the item, and materiality providing some form of threshold/cut-off. Similar with other discussions above, the differing placement of materiality, for the purposes of this paper, is not considered a significant public sector issue.

Benefit that Justify Costs

35. Discussions relating to benefits justifying costs by the IASB-DP and IPSAS 1 are conceptually consistent with the emphasis on the fact that benefits that are derived from information should exceed the cost of providing it.

Prudence/Conservatism

36. An existing component of reliability within the existing QCs of both the IASB Framework and the IPSAS 1 is prudence/conservatism. The IASB-DP proposes removal of this component. The reasoning is due essentially to the existence of the proposed component ‘neutrality’ (neutrality is already a component of QC reliability in IPSAS 1). As discussed in the IASB-DP:

Neutrality is incompatible with conservatism, which implies a bias in financial reporting information. Neutral information does not colour the image it communicates to influence behaviour in a particular direction.⁹

37. The IPSAS 1 QC definition of neutrality appears conceptually similar to that proposed in the IASB-DP. The suggested incompatibility with

⁹ IASB-DP para QC 28.

prudence/conservatism seems reasonable, and does not seem to be problematic from a public sector perspective.

Balance Between Qualitative Characteristics

38. IPSAS 1 provides discussion about the need for balancing, or trade-off, between qualitative characteristics with the aim achieving an appropriate balance among the characteristics in order to meet the objectives of financial statements. The IASB-DP does not contain a similar paragraph. As a user works through each of the IASB-DPs, they will supposedly need to take each QC into consideration and intuitively factor the need for trade-off. For the purposes of this paper, this would not appear to raise any significant public sector issues.

Specific matters for comment

IPSASB would welcome comments on the following:

- (Q1) Do the proposed revisions to the QCs by the IASB raise significant public sector issues in particular with respect to the emphasis on cash-flows, faithful representation replacing reliability or verifiability?

Issue 2: Conceptual realism of having converged QCs

39. There is popular argument that differing objectives and scope of financial reporting (and even differently defined users) between the public and private sectors automatically translates into QCs which also cannot be consistent – ie: convergence is not possible. It is considered that given the role of QCs, they must address the unique attributes of the objective(s) of the framework for which they are designed to complement. As such, they will differ from any QCs which are formulated to complement a non-identical objective.
40. The existing QCs of the IASB Framework and IPSAS 1, while exhibiting many aspects of similarity could successfully be argued as not being converged as many differences exist between them. Those differences would seemingly be driven by their respective reporting objectives.
41. In relation solely to scope, some may consider that given the myriad of activities that governments are involved with, coupled with the diverse range of constituents impacted by the actions of government, it is necessary to develop tailored QCs specifically from a public sector perspective. Examples of scoping considerations, some of which have more of a public sector connotation (though not necessarily unique to the public sector) include:
- Performance reporting;
 - Budget reporting;
 - Prospective financial information;
 - Long term sustainability of government programmes (fiscal sustainability);

- Sustainability (cultural, environmental, social and financial); and
 - Management commentary.
42. Alternatively, it is also considered that despite some differences in reporting objectives, scope and even defined users, convergence of QCs at least to some extent, is a realistic outcome. It may be believed that in a sense convergence between the existing QCs of the IASB Framework and IPSAS 1 already exists given the strong degree of conceptual similarity.
43. As such, given the objectives of this paper, it is considered necessary to have some discussion about convergence in particular building some realistic parameters as to its intended meaning.
44. In its purest sense, and arguably most certainly in an accounting standard setting context, the notion of convergence has a meaning revolving around the idea of an exact replication of, or complete adoption of a standard or requirement without amendment. The adoption would be in entirety including both the higher level principles right through to supporting discussion, explanatory application guidance and detailed examples.
45. As considered in opening discussions in this paper, the role of QCs is to ensure that information which is developed within a reporting framework, possesses the qualities that meet that reporting framework’s objective(s) – that is, they assist in ensuring the resulting information can be used for the purposes for which it is designed to be useful for.
46. As such, to a certain extent, the ability to have QCs which are truly converged will arguably be impacted by the degree of similarity or difference of the objectives of the respective reporting frameworks under which they are created. As such, unless there is a very strong alignment of reporting objectives, the potential for full convergence would be seemingly not only very difficult, but potentially inappropriate.
47. Therefore, for the purposes of this paper, in discussing the term convergence, it is proposed to reflect a situation where at the very least the following aspects of the QCs would be identical between the respective reporting frameworks of the IASB and IPSASB - the:
- defined role of QCs;
 - number, name and ordering of principle QCs;
 - number, name and ordering of components of each principle QC;
 - number, name and ordering of constraints; and
 - Definitions for each principle QC, component and constraint.
48. Any convergence beyond this (eg: application guidance), while welcome, would realistically seem to be at the mercy of aspects of the reporting framework beyond the influence of the QCs.

49. With respect to arguments supporting the potential for convergence as defined, a possible key factor could be that a general purpose financial report is in the end, a general purpose financial report. All general purpose financial reports should embody basic qualitative characteristics whether it be prepared in the private sector or the public sector. Further, the information contained in each of the individual statements comprising that report should again embody those same qualitative characteristics.
50. A review of simply the names/terms of QCs of numerous standard setting bodies internationally who have varying standard setting mandates highlights the conceptual similarities that already exist.
51. At a more detailed level, an interesting example which on face value may not appear to support convergence, though arguably does in fact support possible convergence, is recent work of the Canadian Public Sector Accounting Standard's Board (PSAB) in developing their Statements of Recommended Practice (SORP) 1: *Financial Statement Discussion and Analysis* and SORP 2: *Public Performance Reporting*. While neither guidance constitutes a component of Canadian GAAP, they are considered authoritative statements within the Canadian public sector on their respective topics.
52. Each SORP has its own discussion of respective QCs (reproduced in attached appendix 3). While on face value the QCs are not identical¹⁰ (having been customized to the scope of the information to which they relate), overall, at a conceptual level, there is much more similarity than difference between not only them but also both the existing IPSAS 1 QCs and those of the IASB-DP.
53. While the Canadian example is an isolated situation, it does highlight the potential for conceptually aligned QCs despite scoping considerations. ie: the over-riding principle being that whatever the type of information it is that is being produced, a general purpose financial report is a general purpose financial report and as such should be prepared encompassing the same basic qualities.

Specific matters for comment

IPSASB would welcome comments on the following:

- (Q2) Is it a realistic expectation for QCs to be converged to the extent described in this paper irrespective of differences in objectives and/or scope of financial reporting? What reasons should result in the QCs of a public sector reporting framework not converging with those of the private sector reporting framework?

¹⁰ For example, "fairness" needed to be included as an explicit part of the QCs in SORP-2. It was believed the QCs in SORP-1 did not sufficiently address the risk that a report could present information about performance in an unfair way (i.e. minimize the bad news). However, fairness appears to bear a resemblance to neutrality.

Issue 3: 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?

54. One further matter to contemplate is whether different considerations and implications may apply to QCs dependent upon the level or type of public sector entity - for example, 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).
55. Another matter to consider is possible implications to QCs in relation to ‘differential reporting’ requirements. Differential reporting essentially provides relief/alternatives to financial reporting requirements to those entities who meet specified criteria. Differential reporting regimes are based on an under-pinning similar to that discussed in the existing QCs of both IPSAS 1 and the IASB Framework – the need to balance ‘benefits and costs’ - of financial reporting requirements.
56. With respect to the different levels or types of public sector entity, if working on an assumption that each entity would be preparing general purpose financial reports within the same or materially consistent reporting framework as other entities within the public sector, then the QCs of the resulting financial reports should arguably be no different. The information contained in those reports, which should meet the objectives of the reporting framework under which they were produced, should seemingly be subject to the same benchmark of quality as other entities developing their general purpose financial reports within that same framework.
57. Similarly, with respect to those entities that satisfy criteria to take advantage of differential reporting allowances - working on an assumption that differential reporting allowances still result in the production of general purpose financial reports, then again it would arguably seem appropriate that the resultant information in those financial reports should have the same QCs as those entities preparing general purpose financial reports who do not qualify for differential reporting allowances.
58. Bottom line, so long as the entity is preparing what constitutes general purpose financial reports within the same reporting framework, those reports should possess the same QCs as all other entities reporting within that framework.
59. Explanatory material relating to QCs may however make special mention of the circumstances discussed above, where it is considered such discussion may assist in the application of the QCs in those circumstances.

Specific matters for comment

IPSASB would welcome comments on the following:

- (Q3) Do you think that at a principles level QCs should be different dependent upon the individual entities vs financial reporting at the whole of government level? Similarly, do you think at a principles level the QCs should differentiate between those entities that qualify for differential reporting allowances and those that do not?

Appendix 1

Comparative table of existing IPSASB and IASB QCs (emphasis added to aid discussion)

IPSASB QCs	IASB QCs	Notes
Role of QCs		
Qualitative characteristics are the attributes that make the information provided in financial statements useful to users. The four principal qualitative characteristics are understandability, relevance, reliability and comparability.	Qualitative characteristics are the attributes that make the information provided in financial statements useful to users. The four principal qualitative characteristics are understandability, relevance, reliability and comparability.	Both Boards have an identical role for QCs.
Ordering of QCs		
<p>Understandability</p> <p>Relevance</p> <p>Materiality</p> <p>Reliability</p> <p>Faithful Representation</p> <p>Substance Over Form</p> <p>Neutrality</p> <p>Prudence</p> <p>Completeness</p> <p>Comparability</p> <p><u>Constraints on relevant and reliable information</u></p> <p>Timeliness</p> <p>Balance between benefit and cost</p> <p>Balance between qualitative characteristics</p>	<p>Understandability</p> <p>Relevance</p> <p>Materiality</p> <p>Reliability</p> <p>Faithful Representation</p> <p>Substance Over Form</p> <p>Neutrality</p> <p>Prudence</p> <p>Completeness</p> <p>Comparability</p> <p><u>Constraints on Relevant and Reliable Information</u></p> <p>Timeliness</p> <p>Balance between Benefit and Cost</p> <p>Balance between Qualitative Characteristics</p> <p>True and fair view/fair presentation</p>	<p>Identical expect that IASB includes some discussion of true and fair view/fair presentation within discussion of QCs.</p> <p>IPSASB provides similar discussion within the body of IPSAS 1 (para1.27).</p>

IPSASB QCs	IASB QCs	Notes
Understandability		
Information is understandable when users might reasonably be expected to <u>comprehend its meaning</u> . For this purpose, users are assumed to have a <u>reasonable knowledge</u> of the entity’s activities and the environment in which it operates, and to be <u>willing to study</u> the information. Information about <u>complex matters should not be excluded</u> from the financial statements merely on the grounds that it may be too difficult for certain users to understand.	An essential quality of the information provided in financial statements is that it is <u>readily understandable by users</u> . For this purpose, users are assumed to have a <u>reasonable knowledge</u> of business and economic activities and accounting and a <u>willingness to study</u> the information with reasonable diligence. However, information about <u>complex matters</u> that should be included in the financial statements because of its relevance to the economic decision-making needs of users <u>should not be excluded</u> merely on the grounds that it may be too difficult for certain users to understand.	Materially similar notions emphasized– namely: <ul style="list-style-type: none"> • Ability to comprehend; • Users having a reasonable knowledge; • Users doing due diligence; • Not excluding complex matters because they are complex.
Relevance		
Information is relevant to users if it can be used to assist in <u>evaluating past, present or future events</u> or in <u>confirming, or correcting, past evaluations</u> . In order to be relevant, information must also be timely.	<p>To be useful, information must be relevant to the decision-making needs of users. Information has the quality of relevance when it influences the economic decisions of users by helping them <u>evaluate past, present or future events or confirming, or correcting, their past evaluations</u>.</p> <p>The <u>predictive and confirmatory roles</u> of information are interrelated. For example, information about the current level and structure of asset holdings has value to users when they endeavour to <u>predict</u> the ability of the entity to take advantage of opportunities and its ability to react to adverse situations. The same information</p>	<p>Similar emphasize of evaluating past, present or future events or in confirming, or correcting, past evaluations.</p> <p>Greater discussion in IASB QCs on the predictive and confirmatory aspects roles of information.</p> <p>More exemplification within IASB QC of relevance.</p>

IPSASB QCs	IASB QCs	Notes
<p>Materiality - The relevance of information is affected by its <u>nature and materiality</u>. Information is material if its omission or misstatement <u>could influence the decisions of users or assessments</u> made on the basis of the financial statements. Materiality depends on the <u>nature or size of the item</u> or error judged in the particular circumstances of its omission or misstatement. Thus, materiality <u>provides a</u></p>	<p>plays a <u>confirmatory</u> role in respect of past predictions about, for example, the way in which the entity would be structured or the outcome of planned operations.</p> <p>Information about financial position and past performance is frequently used as the basis for <u>predicting</u> future financial position and performance and other matters in which users are directly interested, such as dividend and wage payments, security price movements and the ability of the entity to meet its commitments as they fall due. To have <u>predictive</u> value, information need not be in the form of an explicit forecast. The ability to make <u>predictions</u> from financial statements is enhanced, however, by the manner in which information on past transactions and events is displayed. For example, the <u>predictive</u> value of the income statement is enhanced if unusual, abnormal and infrequent items of income or expense are separately disclosed.</p> <p>Materiality - The relevance of information is affected by its <u>nature and materiality</u>. In some cases, the nature of information alone is sufficient to determine its relevance. For example, the reporting of a new segment may affect the assessment of the risks and opportunities facing the entity irrespective of the materiality of the results achieved by the new segment in the reporting period. In other cases,</p>	<p>Both QCs express similar notions relating to materiality:</p> <ul style="list-style-type: none"> • nature and size of the item; • could influence the decisions of users or assessments; • nature or size of the item;

IPSASB QCs	IASB QCs	Notes
<p><u>threshold or cut-off point rather than being a primary qualitative characteristic</u> which information must have if it is to be useful.</p>	<p><u>both the nature and materiality are important</u>, for example, the amounts of inventories held in each of the main categories that are appropriate to the business.</p> <p>Information is material if its omission or misstatement <u>could influence the economic decisions of users</u> taken on the basis of the financial statements. Materiality depends on the <u>size of the item</u> or error judged in the particular circumstances of its omission or misstatement. Thus, materiality <u>provides a threshold or cut-off point rather than being a primary qualitative characteristic</u> which information must have if it is to be useful.</p>	<p>and</p> <ul style="list-style-type: none"> • provides a threshold or cut-off point rather than being a primary qualitative characteristic. <p>More examples provided in IASB discussion of materiality.</p>
Reliability		
<p>Reliable information is <u>free from material error and bias</u>, and can be depended on by users to <u>represent faithfully</u> that which it purports to represent or could reasonably be expected to represent.</p>	<p>To be useful, information must also be reliable. Information has the quality of reliability when it is <u>free from material error and bias</u> and can be depended upon by users to <u>represent faithfully that which it either purports to represent or could reasonably be expected to represent</u>.</p> <p>Information may be relevant but so unreliable in nature or representation that its recognition may be potentially misleading. For example, if the validity and amount of a claim for damages under a legal action are disputed, it may be inappropriate for the entity to recognise the full amount of the claim in the balance sheet, although</p>	<p>Both QCs place emphasis on:</p> <ul style="list-style-type: none"> • free from material error and bias; and • represent faithfully. <p>IASB then provides exemplification of how relevance taken in isolation can impact reliability to the point of producing misleading information.</p>

IPSASB QCs	IASB QCs	Notes
	it may be appropriate to disclose the amount and circumstances of the claim.	
<p>Faithful Representation - For information to represent faithfully transactions and other events, it should be presented in accordance with the <u>substance of the transactions and other events</u>, and not merely their legal form.</p>	<p>Faithful representation - <i>To be reliable, information must represent faithfully the transactions and other events it either purports to represent or could reasonably be expected to represent.</i> Thus, for example, a balance sheet should represent faithfully the transactions and other events that result in assets, liabilities and equity of the entity at the reporting date which meet the recognition criteria.</p> <p>Most financial information is subject to some risk of being less than a faithful representation of that which it purports to portray. This is not due to bias, but rather to inherent difficulties either in identifying the transactions and other events to be measured or in devising and applying measurement and presentation techniques that can convey messages that correspond with those transactions and events. In certain cases, the measurement of the financial effects of items could be so uncertain that entities generally would not recognise them in the financial statements; for example, although most entities generate goodwill internally over time, it is usually difficult to identify or measure that goodwill reliably. In other cases, however, it may be relevant to recognise items and to disclose the risk of error surrounding their recognition and measurement.</p>	<p>IPSASB discussion of faithful representation focuses on the importance of substance over form.</p> <p>IASB discussion of faithful representation re-emphasizes and loops back into discussion relating to when information has the quality of reliability - <i>To be reliable, information must represent faithfully the transactions and other events it either purports to represent or could reasonably be expected to represent.</i> This is supported by exemplification.</p>

IPSASB QCs	IASB QCs	Notes
<p>Substance Over Form - <u>If information is to represent faithfully</u> the transactions and other events that it purports to represent, it is necessary that they are accounted for and presented in accordance with their <u>substance and economic reality</u> and not merely their legal form. <u>The substance of transactions or other events is not always consistent with their legal form.</u></p>	<p>Substance over form - <u>If information is to represent faithfully</u> the transactions and other events that it purports to represent, it is necessary that they are accounted for and presented in accordance with their <u>substance and economic reality</u> and not merely their legal form. The substance of transactions or other events is not always consistent with that which is apparent from their legal or contrived form. For example, an entity may dispose of an asset to another party in such a way that the documentation purports to pass legal ownership to that party; nevertheless, agreements may exist that ensure that the entity continues to enjoy the future economic benefits embodied in the asset. In such circumstances, the reporting of a sale would not represent faithfully the transaction entered into (if indeed there was a transaction).</p>	<p>Both QCs materially the same as they:</p> <ul style="list-style-type: none"> • acknowledge that to faithfully represent, substance over form is essential; • emphasise economic over legal form; and • acknowledge substance of transactions is not always consistent with legal form. <p>The IASB discussion provides exemplification.</p>
<p>Neutrality - Information is neutral if it is <u>free from bias</u>. Financial statements are not neutral if the information they contain has been selected or presented in a manner designed to influence the making of a decision or judgment in order to achieve a predetermined result or outcome.</p>	<p>Neutrality - To be reliable, the information contained in financial statements must be neutral, that is, <u>free from bias</u>. Financial statements are not neutral if, by the selection or presentation of information, they influence the making of a decision or judgement in order to achieve a predetermined result or outcome.</p>	<p>Both discussions materially the same focusing on ‘free from bias’</p>
<p>Prudence - Prudence is the <u>inclusion of a degree of caution</u> in the exercise of the judgments needed in making the estimates required under conditions of uncertainty, such <u>that assets or revenue are not overstated and liabilities or expenses are not</u></p>	<p>Prudence - The preparers of financial statements do, however, have to contend with the uncertainties that inevitably surround many events and circumstances, such as the collectability of doubtful receivables, the</p>	<p>Both discussions materially the same focusing on:</p> <ul style="list-style-type: none"> • inclusion of a degree of caution; • that assets or revenue are

IPSASB QCs	IASB QCs	Notes
<p><u>understated</u>. However, the exercise of prudence does not allow, for example, the creation of <u>hidden reserves</u> or <u>excessive provisions</u>, the <u>deliberate understatement</u> of assets or revenue, or the <u>deliberate overstatement</u> of liabilities or expenses, because the financial statements would not be neutral and, therefore, not have the quality of reliability.</p>	<p>probable useful life of plant and equipment and the number of warranty claims that may occur. Such uncertainties are recognised by the disclosure of their nature and extent and by the exercise of prudence in the preparation of the financial statements. Prudence is the <u>inclusion of a degree of caution</u> in the exercise of the judgements needed in making the estimates required under conditions of uncertainty, such that assets or income are not overstated and liabilities or expenses are not understated. However, the exercise of prudence does not allow, for example, the <u>creation of hidden reserves or excessive provisions</u>, the <u>deliberate understatement</u> of assets or income, or the <u>deliberate overstatement</u> of liabilities or expenses, because the financial statements would not be neutral and, therefore, not have the quality of reliability.</p>	<p>not overstated and liabilities or expenses are not understated; and</p> <ul style="list-style-type: none"> creation of hidden reserves or excessive provisions, the deliberate over/understatement of items. <p>IASB provides exemplification.</p>
<p>Completeness - The information in financial statements should be complete within the bounds of <u>materiality and cost</u>.</p>	<p>Completeness - To be reliable, the information in financial statements must be complete within the bounds of <u>materiality and cost</u>. An omission can cause information to be false or misleading and thus unreliable and deficient in terms of its relevance.</p>	<p>Both discussions materially the same focusing on materiality and cost.</p> <p>IASB provides some additional discussion.</p>
Comparability		
<p>Information in financial statements is comparable when users are able to identify similarities and differences between that information and</p>	<p>Users must be able to <u>compare the financial statements of an entity through time</u> in order to identify trends in its financial position and</p>	<p>Both discussions materially the same focusing on:</p> <ul style="list-style-type: none"> comparison of financial

IPSASB QCs	IASB QCs	Notes
<p>information in other reports.</p> <p>Comparability applies to the:</p> <ul style="list-style-type: none"> • <u>comparison of financial statements of different entities</u>; and • <u>comparison of the financial statements of the same entity over periods of time</u>. <p>An important implication of the characteristic of comparability is that users need to be <u>informed of the policies employed</u> in the preparation of financial statements, <u>changes to those policies</u> and the <u>effects of those changes</u>.</p> <p>Because users wish to compare the performance of an entity over time, it is important that financial statements show <u>corresponding information for preceding periods</u>.</p>	<p>performance. Users must also be able to compare the financial statements of <u>different entities</u> in order to evaluate their relative financial position, performance and changes in financial position. Hence, the measurement and display of the financial effect of like transactions and other events must be carried out in a consistent way throughout an entity and over time for that entity and in a consistent way for different entities.</p> <p>An important implication of the qualitative characteristic of comparability is that users be <u>informed of the accounting policies employed</u> in the preparation of the financial statements, any <u>changes in those policies</u> and the <u>effects of such changes</u>. Users need to be able to identify differences between the accounting policies for like transactions and other events used by the same entity from period to period and by different entities. Compliance with International Accounting Standards, including the disclosure of the accounting policies used by the entity, helps to achieve comparability.</p> <p>The need for <u>comparability should not be confused with mere uniformity</u> and should not be allowed to become an impediment to the introduction of improved accounting standards. It is not appropriate for an entity to continue accounting in the same manner for a transaction or other event if the policy adopted is not in keeping with the qualitative characteristics of</p>	<p>statements of different entities;</p> <ul style="list-style-type: none"> • comparison of the financial statements of the same entity over periods of time; • users need to be informed of the policies employed, changes to those policies and the effects of those changes; and • information for preceding periods. <p>The IASB material provides additional discussion relating to the above points. Further, IASB discusses ‘comparability not being confused with mere uniformity’.</p>

IPSASB QCs	IASB QCs	Notes
	<p>relevance and reliability . It is also inappropriate for an entity to leave its accounting policies unchanged when more relevant and reliable alternatives exist.</p> <p>Because users wish to compare the financial position, performance and changes in financial position of an entity over time, it is important that the financial statements show <u>corresponding information for the preceding periods</u>.</p>	
Constraints on Relevant and Reliable Information		
<p>Timeliness - If there is an <u>undue delay in the reporting of information it may lose its relevance</u>. To provide information on a timely basis it may <u>often be necessary to report before all aspects of a transaction are known, thus impairing reliability</u>. <u>Conversely</u>, if reporting is delayed until all aspects are known, the information may be highly reliable but of little use to users who have had to make decisions in the interim. In achieving a balance between relevance and reliability, the <u>overriding consideration is how best to satisfy the decision-making needs of users</u>.</p>	<p>Timeliness - If there is <u>undue delay in the reporting of information it may lose its relevance</u>. Management may need to balance the relative merits of timely reporting and the provision of reliable information. To provide information on a timely basis it may <u>often be necessary to report before all aspects of a transaction or other event are known, thus impairing reliability</u>. <u>Conversely</u>, if reporting is delayed until all aspects are known, the information may be highly reliable but of little use to users who have had to make decisions in the interim. In achieving a balance between relevance and reliability, the <u>overriding consideration is how best to satisfy the economic decision-making needs of users</u>.</p>	<p>Both discussions materially the same focusing on:</p> <ul style="list-style-type: none"> • undue delay in the reporting of information may lose its relevance; • to be timely, often be necessary to report before all aspects of a transaction are known, thus impairing reliability (and the converse); and • overriding consideration is how best to satisfy the decision-making needs of users. <p>The IASB material provides additional discussion relating to the above points.</p>

IPSASB QCs	IASB QCs	Notes
<p>Balance between Benefit and Cost - The balance between benefit and cost is a <u>pervasive constraint</u>. The <u>benefits derived from information should exceed the cost of providing it</u>. The evaluation of benefits and costs is, however, substantially a <u>matter of judgment</u>. Furthermore, the costs do not always fall on those users who enjoy the benefits. Benefits may also be enjoyed by users other than those for whom the information was prepared. For these reasons, it is <u>difficult to apply a benefit-cost test in any particular case</u>. Nevertheless, <u>standard-setters</u>, as well as those responsible for the preparation of financial statements and users of financial statements, should be aware of this constraint.</p>	<p>Balance between Benefit and Cost -The balance between benefit and cost is a <u>pervasive constraint</u> rather than a qualitative characteristic. The <u>benefits derived from information should exceed the cost of providing it</u>. The evaluation of benefits and costs is, however, substantially a <u>judgemental process</u>. Furthermore, the costs do not necessarily fall on those users who enjoy the benefits. Benefits may also be enjoyed by users other than those for whom the information is prepared; for example, the provision of further information to lenders may reduce the borrowing costs of an entity. For these reasons, it is <u>difficult to apply a cost-benefit test in any particular case</u>. Nevertheless, <u>standard-setters in particular</u>, as well as the preparers and users of financial statements , should be aware of this constraint.</p>	<p>Both discussions materially the same focusing on:</p> <ul style="list-style-type: none"> • pervasive constraint; • benefits should exceed the cost of providing it - substantially a matter of judgment; and • difficult to apply a benefit-cost test in any particular case. <p>The IASB material provides additional discussion relating to the above points.</p> <p>Further, the IASB appears to give greater focus to standard setters needing to be aware of the constraint.</p>
<p>Balance between Qualitative Characteristics - In practice a balancing, or trade-off, between qualitative characteristics is often necessary. Generally <u>the aim is to achieve an appropriate balance among the characteristics in order to meet the objectives of financial statements</u>. The relative importance of the characteristics in different cases is a matter of <u>professional judgment</u>.</p>	<p>Balance between Qualitative Characteristics - In practice a balancing, or trade-off, between qualitative characteristics is often necessary. Generally the <u>aim is to achieve an appropriate balance among the characteristics in order to meet the objective of financial statements</u> . The relative importance of the characteristics in different cases is a matter of <u>professional judgement</u>.</p>	<p>Both Boards have an identical discussion regarding the balance between qualitative characteristics with a focus on:</p> <ul style="list-style-type: none"> • the aim is to achieve an appropriate balance among the characteristics in order to meet the objectives of financial statements; and

IPSASB QCs	IASB QCs	Notes
		<ul style="list-style-type: none"> the need for professional judgement.
True and Fair View/Fair Presentation		
<p>IPSAS 1.27:</p> <p>“Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue and expenses set out in IPSASs. <u>The application of International Public Sector Accounting Standards, with additional disclosures when necessary, is presumed to result in financial statements that achieve a fair presentation.</u>”</p>	<p>Financial statements are frequently described as showing a true and fair view of, or as presenting fairly, the financial position, performance and changes in financial position of an entity. Although this <i>Framework</i> does not deal directly with such concepts, <u>the application of the principal qualitative characteristics and of appropriate accounting standards normally results in financial statements that convey what is generally understood as a true and fair view</u> of, or as presenting fairly such information.</p>	<p>IPSAS 1 does not include true and fair view/fair presentation within discussion of QCs. However - see para’s 27-37 of IPSAS 1 for entire discussion of Fair Presentation and Compliance with International Public Sector Accounting Standards.</p> <p>IPSAS 1.27 raises a similar point in relation to ‘true and fair view’ as IASB QC discussion - the application of the principal qualitative characteristics and of appropriate accounting standards normally results in financial statements that convey what is generally understood as a true and fair view.</p>

Appendix 2

Comparative Table of Existing IPSASB QCs and IASB-DP QCs (emphasis added to aid discussion)

IPSASB QCs	IASB DP-QCs	Notes
Ordering of QCs		
<p>Understandability</p> <p>Relevance</p> <p>Materiality</p> <p>Reliability</p> <p>Faithful Representation</p> <p>Substance Over Form</p> <p>Neutrality</p> <p>Prudence</p> <p>Completeness</p> <p>Comparability</p> <p><u>Constraints on relevant and reliable information</u></p> <p>Timeliness</p> <p>Balance between benefit and cost</p> <p>Balance between qualitative characteristics</p>	<p>Relevance</p> <p>Faithful Representation</p> <p>Substance Over Form</p> <p>Neutrality</p> <p>Completeness</p> <p><u>Enhancing Characteristics</u></p> <p>Timeliness</p> <p>Verifiability</p> <p>Comparability</p> <p>Understandability</p> <p><u>Pervasive constraints</u></p> <p>Materiality; and</p> <p>Benefits that justify costs</p> <p>For comparative purposes below, the ordering of IPSAS 1 QCs has been followed.</p>	<p>For IPSAS 1, ‘faithful representation’ appears as a component of reliability. For the IASB-DP, faithful representation has replaced reliability.</p> <p>For IPSAS 1, understandability and comparability are QCs but for the IASB-DP, these QCs are classified as enhancing characteristics.</p> <p>For IPSAS 1, timeliness is classified as a constraint but for IASB-DP is an enhancing characteristic.</p> <p>For IPSAS 1, materiality is a component of QC relevance, but is a constraint for the IASB-DP.</p> <p>Prudence and balance between QCs does not appear in IASB-DP.</p>

IPSASB QCs	IASB DP-QCs	Notes
Understandability		
Information is understandable when users might reasonably be expected to comprehend its meaning. For this purpose, <u>users are assumed to have a reasonable knowledge of the entity’s activities and the environment in which it operates, and to be willing to study the information.</u> Information about <u>complex matters should not be excluded from the financial statements merely on the grounds that it may be too difficult</u> for certain users to understand.	<p>... is the quality of information that <u>enables users who have a reasonable knowledge of business and economic activities and financial reporting, and who study the information with reasonable diligence, to comprehend its meaning....</u> Relevant information should <u>not be excluded solely because it may be too complex</u> or difficult for some users to understand.</p> <p>Understandability is enhanced when information is classified, characterised, and presented clearly and concisely. Comparability also enhances understandability. QC 39</p> <p><u>IASB Re-liberations: Understandability to be considered an enhancing characteristic.</u></p>	<p>Both discussions materially the same focusing on:</p> <ul style="list-style-type: none"> • users are assumed to have a reasonable knowledge of the entity’s activities and the environment in which it operates, and to be willing to study the information; and • complex matters should not be excluded from the financial statements. <p>However, IASB-DP places emphasis on presentation and comparability as enhancing understandability.</p>
Relevance		
Information is relevant to users if it can be used to <u>assist in evaluating past, present or future events or in confirming, or correcting, past evaluations.</u> In order to be relevant, information must also be timely.	<p>To be useful in making investment, credit, and similar resource allocation decisions, information must be relevant to those decisions. <i>Relevant</i> information is <u>capable of making a difference in the decisions of users by helping them to evaluate the potential effects of past, present, or future transactions or other events on future cash flows (predictive value) or to confirm or correct their previous evaluations (confirmatory value).</u></p> <p>QC8</p>	<p>Both discussions materially the same focusing on the notion of assisting with evaluating past, present or future events or in confirming, or correcting, past evaluations.</p> <p>IASB-DP places an emphasis on future cash flows with</p>

IPSASB QCs	IASB DP-QCs	Notes
<p><i>Timeliness</i> (appears as a constraint to relevant and reliable information –see ‘constraints’ below)</p>	<p><i>Timeliness</i>—making information available to decision makers before it <u>loses its capacity to influence decisions</u>—is another aspect of relevance.</p> <p><u>IASB Re-liberations</u>: June 2007 the IASB made the tentative decision that timeliness be removed be as a component of relevance and instead be described as an ‘enhancing characteristic’</p>	<p>respect to predictive value.</p> <p>IASB-DP focuses on capable of making a difference in the decisions of users while IPSAS 1 discusses ‘if it can be used to assist’.</p> <p>IASB initially was similar to IPSASB by viewing timeliness as an aspect of relevance. June re-deliberations have resulted in the IASB describing timeliness as an ‘enhancing characteristic’. However, discussion about timeliness does focus on similar notions of timeliness influencing the capacity to make decisions.</p> <p>For the IPSASB, timeliness as appears as constraint to relevance and reliable information. Not considered to raise a significant issue.</p>

IPSASB QCs	IASB DP-QCs	Notes
<p><i>Materiality</i> - The relevance of information is affected by its nature and materiality. Information is <u>material</u> if its <u>omission or misstatement could influence the decisions of users</u> or assessments made on the basis of the financial statements. Materiality depends on the <u>nature or size of the item</u> or error judged in the particular circumstances of its omission or misstatement. Thus, <u>materiality provides a threshold or cut-off point</u> rather than being a primary qualitative characteristic which information must have if it is to be useful.</p>	<p><i>Materiality</i> (<u>appears as a constraint for the DP</u>) Information is material if its <u>omission or misstatement could influence the resource allocation decisions</u> that users make on the basis of an entity’s financial report. Materiality depends on the <u>nature and amount of the item</u> judged in the particular circumstances of its omission or misstatement. A financial report should include all information that is material in relation to a particular entity—<u>information that is not material may, and probably should, be omitted</u>. To clutter a financial report with immaterial information risks obscuring more important information, thus making the report less decision-useful. QC 49</p>	<p>While for the IASB, materiality appears as a pervasive constraint, both discussions materially the same focusing on:</p> <ul style="list-style-type: none"> • omission or misstatement could influence the decisions of users; • nature or size of the item; and • materiality providing some form of threshold/cut-off.
<p>Reliability</p>		
<p>Reliable information is free from material error and bias, and can be depended on by users to represent faithfully that which it purports to represent or could reasonably be expected to represent.</p>		<p>Reliability does not appear as a qualitative characteristic for the IASB-DP. Instead, IASB-DP proposes ‘faithful representation’.</p>
	<p>Faithful Representation</p>	
<p>For information to represent faithfully transactions and other events, it should be <u>presented in accordance with the substance of the transactions and other events, and not merely their legal form</u>.</p>	<p>To be useful in making investment, credit, and similar resource allocation decisions, <u>information must be a faithful representation of the real-world economic phenomena that it purports to represent</u>. The phenomena represented in financial reports are economic resources and</p>	<p>Both discussions materially the same focusing on portraying the substance it represents. However, faithful representation is a component of reliability for IPSAS 1 as</p>

IPSASB QCs	IASB DP-QCs	Notes
<p><i>Substance Over Form</i> - If information is to represent faithfully the transactions and other events that it purports to represent, it is necessary that they are accounted for and presented in accordance with their <u>substance and economic reality and not merely their legal form</u>. The substance of transactions or other events is</p>	<p>obligations and the transactions and other events and circumstances that change them. To be a faithful representation of those economic phenomena, information must be <i>verifiable</i>, <i>neutral</i>, and <i>complete</i>. QC 16</p> <p><i>Verifiability</i> implies that different knowledgeable and independent observers would reach general consensus, although not necessarily complete agreement, either:</p> <p>(a) that the information represents the economic phenomena that purports to represent without material error or bias (by direct verification); or</p> <p>(b) that the chosen recognition or measurement method has been applied without material error or bias (by indirect verification). QC 23</p> <p><u>IASB Re-deliberation:</u> Separate verifiability from faithful representation and describe it as an enhancing qualitative characteristic, rather than a component of a necessary qualitative characteristic.</p> <p><i>Substance Over Form</i> - Information cannot be a faithful representation of an economic phenomenon unless it depicts the <u>economic substance of the underlying transaction or other event</u>, which is often, but not always, the same as its legal form. Thus, to include what has often been termed <i>substance over form</i> as a separate</p>	<p>opposed to a principle QC for the IASB-DP.</p> <p>IPSASB does not consider verifiability for its QCs.</p> <p>Both discussions materially the same focusing on the economic reality of the event.</p>

IPSASB QCs	IASB DP-QCs	Notes
<p>not always consistent with their legal form.</p> <p><i>Neutrality</i> - Information is neutral if it is <u>free from bias</u>. Financial statements are not neutral if the information they contain has been selected or presented in a manner designed to influence the making of a decision or judgment in order to achieve a predetermined result or outcome.</p> <p><i>Prudence</i> - Prudence is the inclusion of a degree of caution in the exercise of the judgments needed in making the estimates required under conditions of uncertainty, such that assets or revenue are not overstated and liabilities or expenses are not understated. However, the exercise of prudence does not allow, for example, the creation of hidden reserves or excessive provisions, the deliberate understatement of assets or revenue, or the deliberate overstatement of liabilities or expenses, because the financial statements would not be neutral and, therefore, not have the quality of reliability.</p> <p><i>Completeness</i> - The information in financial statements should be complete within the <u>bounds of materiality and cost</u></p>	<p>qualitative characteristic is unnecessary because faithful representation is incompatible with information that subordinates substance to form. QC 17</p> <p><i>Neutrality</i> is the <u>absence of bias</u> intended to attain a predetermined result or to induce a particular behavior. QC 27</p> <p>IASB observation that <u>neutrality is incompatible with conservatism</u> – affirmed in IASB re-deliberations. QC 28</p> <p><i>Completeness</i> means including in financial reporting all information that is necessary for faithful representation of the economic phenomena that the information purports to represent. Therefore, completeness, within the</p>	<p>Both discussions materially the same focusing on free from bias.</p> <p>IASB-DP diverges from IPSASB as it considers the notion of prudence /conservatism is incompatible with the concept of neutrality.</p> <p>Both discussions materially the same both considering the boundaries of materiality and cost. IASB-DP gives greater focus to faithful</p>

IPSASB QCs	IASB DP-QCs	Notes
	<u>bounds of what is material and feasible, considering the cost</u> , is an essential component of faithful representation. QC 32	representation.
Comparability		
<p>Information in financial statements is comparable when <u>users are able to identify similarities and differences between that information and information in other reports</u>. Comparability applies to the:</p> <ul style="list-style-type: none"> • comparison of financial statements of <u>different entities</u>; and • comparison of the <u>financial statements of the same entity over periods of time</u>. <p>An important implication of the characteristic of comparability is that users need to be informed of the policies employed in the preparation of financial statements, changes to those policies and the effects of those changes. Because users wish to compare the performance of an entity over time, it is important that financial statements show corresponding information for preceding periods.</p>	<p>Comparability, including consistency, is the quality of information that enables users to <u>identify similarities in and differences between two sets of economic phenomena</u>. <i>Consistency</i> refers to use of the <u>same accounting policies and procedures, either from period to period within an entity or in a single period across entities</u>. Comparability is the goal; consistency is a means to an end that helps in achieving that goal. QC 35</p> <p><u>IASB Re-liberations: Comparability to be considered an enhancing characteristic.</u></p>	<p>Both discussions materially the same with emphasis on comparison between different entities and financial statements for the same entity.</p> <p>IPSASB provides more discussion relating to practical application with respect to accounting policies.</p>
Constraints: Timeliness		
If there is an undue delay in the reporting of information it may lose its relevance. To provide information on a timely basis it may often be necessary to report before all aspects	<i>Timeliness</i> (originally appeared as a component of ‘relevance’. Re-deliberations have now placed timeliness as an enhancing characteristic – see above)	See timeliness above.

IPSASB QCs	IASB DP-QCs	Notes
<p>of a transaction are known, thus impairing reliability. Conversely, if reporting is delayed until all aspects are known, the information may be highly reliable but of little use to users who have had to make decisions in the interim. In achieving a balance between relevance and reliability, the overriding consideration is how best to satisfy the decision-making needs of users.</p>		
<p>Constraints: Benefit/Cost</p>		
<p>The balance between benefit and cost is a pervasive constraint. The <u>benefits derived from information should exceed the cost of providing it</u>. The evaluation of benefits and costs is, however, substantially a matter of judgment. Furthermore, the costs do not always fall on those users who enjoy the benefits. Benefits may also be enjoyed by users other than those for whom the information was prepared. For these reasons, it is difficult to apply a benefit-cost test in any particular case. Nevertheless, standard-setters, as well as those responsible for the preparation of financial statements and users of financial statements, should be aware of this constraint.</p>	<p>The <u>benefits of financial reporting information should justify the costs of providing and using it</u>. The benefits of financial reporting information include better investment, credit, and similar resource allocation decisions, which in turn result in more efficient functioning of the capital markets and lower costs of capital for the economy as a whole. However, financial reporting and financial reporting standards impose direct and indirect costs on both preparers and users of financial reports, as well as on others such as auditors or regulators. Thus, standard-setters seek information from preparers, users, and other constituents about what they expect the nature and quantity of the benefits and costs of proposed standards to be and consider in their deliberations the information they obtain.</p> <p>QC 53</p>	<p>Both discussions materially the same with emphasis on benefits derived from information should exceed the cost of providing it.</p>

IPSASB QCs	IASB DP-QCs	Notes
Constraints: Balance Between Qualitative Characteristics		
<p>In practice a balancing, or trade-off, between qualitative characteristics is often necessary. Generally the aim is to achieve an appropriate balance among the characteristics in order to meet the objectives of financial statements. The relative importance of the characteristics in different cases is a matter of professional judgment.</p>		

Appendix 3

Comparative Table of Canadian SORP 1 and SORP 2 QCs

SORP – 1 FINANCIAL STATEMENT DISCUSSION AND ANALYSIS	SORP – 2 PUBLIC PERFORMANCE REPORTING
Ordering of QCs	
<ul style="list-style-type: none"> • Understandability • Relevance • Reliability • Comparability • Qualitative characteristics trade-off 	<ul style="list-style-type: none"> • Reliability and validity • Relevance • Fairness • Comparability and consistency • Understandability • Practical trade-off between characteristics <p>For comparative purposes below, the ordering of SORP 1 QCs has been followed.</p>
Understandability	
<p>For information to be useful, it must be capable of being understood by users. Excessive detail, vague or overly technical descriptions, and complex presentation formats, result in confusion and misinterpretation. Users need information presented clearly and simply. Users are assumed to have a reasonable understanding of economic activities and financial reporting, together with a willingness to study the information with reasonable diligence.</p> <p>Narrative explanations that are too detailed or technical, or that use jargon, make it difficult for users to understand and assess the financial position and changes in financial position of a government. Information would be presented in simple, plain</p>	<p>For performance information to be useful, it must be capable of being understood by users. Explanatory narratives would be precise and clearly stated in plain, non-technical language that focuses on critical facts and matters to enable users to obtain reasonable insights or draw reasonable conclusions. Care would be taken to avoid oversimplifying or omitting relevant details, since this may result in misleading forms of presentation.</p> <p>A variety of media and methods would be used to help enhance users' understanding. For example, graphs and charts help illustrate the narrative discussion and highlight the progress or shortcomings of current performance against planned performance. Other factors that affect ease of reading and</p>

<p>SORP – 1 FINANCIAL STATEMENT DISCUSSION AND ANALYSIS</p>	<p>SORP – 2 PUBLIC PERFORMANCE REPORTING</p>
<p>language that focuses on critical facts and matters to enable users to draw a reasonable conclusion.</p>	<p>understanding are the organization and sequencing of information.</p>
<p>Relevance</p>	
<p>Information is relevant by its nature when it can influence the decisions of users and assist them in assessing accountability. For the information to be relevant, it must be of a nature, and presented in such a manner, that helps users make decisions and assess the accountability of the government for its administration of public resources and financial affairs. Relevant information helps users evaluate the financial impact of past, present or future transactions and events, or confirm or correct previous evaluations. It addresses only the significant matters that will likely affect the judgments and decisions of users.</p> <p>For information to be relevant for decision making and assessing accountability, it must be timely. It must be provided before it loses its capacity to assist in making decisions. It should be provided such that users can assess the information in the context of other current information. The usefulness of information for decision making and assessing accountability declines as time elapses. Reports issued long after the financial statement date are of historical interest only.</p>	<p>Performance information is relevant when it is linked to what was stated in the plan, enables users to assess performance and contributes to decision making. Relevant performance information helps users to appreciate those aspects of performance that are seen as key.</p> <p>For performance information to be relevant, it must be timely. The usefulness of performance information declines as time elapses and, therefore, performance information would be provided in time to be of value in assessing performance and making decisions.</p>
<p>SORP 1 = Reliability / SORP 2 = Reliability and Validity</p>	
<p>Information is reliable when it is capable of independent verification, fair and reasonably free from error and bias, and in</p>	<p>Reliable performance information is based on data that can be replicated by independent observers to produce similar results</p>

<p>SORP – 1 FINANCIAL STATEMENT DISCUSSION AND ANALYSIS</p>	<p>SORP – 2 PUBLIC PERFORMANCE REPORTING</p>
<p>agreement with the actual underlying transactions and events. Reliability is achieved through representational faithfulness, verifiability and neutrality.</p> <p>Representational faithfulness and validity are achieved when the information presented in the report is in agreement with the information in the financial statements and from other sources. The information would be presented in a manner that conveys its substance. The determination of substance is a matter of professional judgment in the circumstances.</p> <p>The information is verifiable if knowledgeable and independent observers would concur that it is in agreement with the underlying information in the financial statements with a reasonable degree of precision.</p> <p>Information is neutral, balanced and fair when it is free from bias that may lead users toward making decisions that are influenced by the way the information is measured or presented. Bias may occur when the selection of information to be presented is made with the interests of particular users or with particular economic or political objectives in mind. Information that does not include everything necessary for a neutral and fair representation would be incomplete and, therefore, potentially biased.</p>	<p>and be independently verified. Information is verifiable if knowledgeable and independent observers would concur that it is in agreement with the underlying data with a reasonable degree of precision.</p> <p>Performance measures are valid when they are in agreement with the sources used to prepare them and faithfully represent what they claim to represent.</p>
<p>SORP 1 = Comparability / SORP 2 = Comparability and Consistency</p>	
<p>Comparability is a characteristic of the relationship between two pieces of information rather than of a particular piece of</p>	<p>Comparability is a characteristic of the relationship between at least two pieces of information. It enables users to identify</p>

<p>SORP – 1 FINANCIAL STATEMENT DISCUSSION AND ANALYSIS</p>	<p>SORP – 2 PUBLIC PERFORMANCE REPORTING</p>
<p>information by itself. It enables users to identify similarities in and differences between the information provided. Comparability is important, for instance, when comparing the information of two different entities and when comparing the information of the same entity over two periods or at two different points in time.</p> <p>Comparability is enhanced when the same policies and practices are used consistently from period to period. Consistency helps prevent misconceptions that might result from the application of different policies or ratio calculations in different periods. Formulae for calculating ratios would be clearly defined and consistently applied. When a change is deemed appropriate, disclosure of the effects of the change may be necessary to maintain comparability.</p>	<p>similarities in and differences between the information provided. Comparative information provides a clear frame of reference for users to assess performance in a broader context, thereby enhancing its usefulness. It helps them to judge the appropriateness of performance objectives and the significance of achievements, and to use reported information effectively. Information about past performance shows users whether performance is improving, stable or deteriorating, and may help project into the future. Comparability is also important when discussing or contrasting the performance information of two different entities.</p> <p>For comparisons to be valid, the information must be prepared on a consistent basis or differences in circumstances between comparisons being made must be clearly articulated. Consistency in the use of reporting policies and practices from period to period is important since this allows users to have a basis for comparing performance over time and helps prevent misconceptions that might result from the application of different reporting policies, computations or presentations of information in different periods. For example, consistent definitions of terms and calculations for performance measures enhance comparability.</p>
<p>Fairness = SORP 2 Only</p>	
	<p>Performance information is fair when it is free from bias that may lead users to make assessments or decisions that are influenced by the way performance is measured or information is presented. In other words, fair information avoids leading users to false conclusions. Bias may occur when the information</p>

<p>SORP – 1 FINANCIAL STATEMENT DISCUSSION AND ANALYSIS</p>	<p>SORP – 2 PUBLIC PERFORMANCE REPORTING</p>
	<p>presented is chosen with particular interests in mind or because of particular economic or political objectives. Likewise, performance information is not fairly presented when the information emphasizes successes in an unbalanced way and minimizes discussion of matters that did not unfold as planned. In order for reporting to be fair, it must be complete, i.e., key information must not be omitted.</p>
<p>SORP 1 = Qualitative characteristics trade-off / SORP 2 = Practical trade-off between characteristics</p>	
<p>In practice, a trade-off between qualitative characteristics is often necessary, particularly between relevance and reliability. For example, there is often a trade-off between the timeliness of producing financial reports and the reliability of the information presented in the report. Generally, the aim is to achieve an appropriate balance among the basic characteristics to meet the objective of providing the information. The relative importance of the characteristics in different cases is a matter of professional judgment.</p>	<p>As a practical matter, a trade-off between various aspects of these characteristics is often necessary. For example, there is often a trade-off between the timeliness of producing a public performance report and the reliability of the information presented in it. however, there is a point below which trade-offs are untenable. For example, it would not be appropriate if, in the course of making trade-offs, the performance was no longer fairly presented.</p>

The Reporting Entity: Specific Issues for Consideration at IPSASB Meeting

Members are requested to provide input on any aspects of the paper. In addition to any other matters that members wish to raise, the author (Ahmad Hamidi), his colleague (Jim Paul) and IPSASB staff would particularly welcome input from members on the following matters.

The current structure of the paper

As staff move to develop the composite Consultation Paper, members are requested to confirm whether the current structure/flow of the paper is appropriate. The current structure is as follows:

- 1 What is an entity?
- 2 Should the reporting entity component of the IPSASB conceptual framework provide guidance on which public sector entities should prepare general purpose financial reports?
- 2A What are the characteristics of public sector entities that should prepare general purpose financial reports?
- 3 How should the boundaries of a reporting entity, including a group reporting entity, be determined?

Differential reporting (brief mention)

Boundaries of an individual reporting entity (paragraphs 53-57 and 64-111)

To be complete, an analysis of the possible bases for determining the boundaries of a reporting entity needs to address individual reporting entities. However, discussing these possible boundaries involves complexity because they depend on the definition of the elements of financial statements, as well as other factors. The Consultation Paper on the elements of financial statements is not part of this phase of the project.

Members are requested to confirm whether the paper should discuss possible bases for determining the boundaries of an individual reporting entity and, if so, whether they agree with:

- (a) the scene-setting discussion in paragraphs 53-57; and
- (b) the description and analysis of those possible bases each being combined for individual and group reporting entities, in paragraphs 64-111.

Common control (paragraphs 77-84 and 104)

In the *reporting entity* component of their conceptual framework project, the IASB and FASB have expressed a tentative view that using common control to determine the boundaries of reporting entities may be useful in some instances. Because those Boards’ work is being used as a point of reference for the IPSASB’s conceptual framework project, discussion of common control has been included in the paper. However, paragraphs 79-82 suggest that the common control basis seems unlikely to be particularly useful in the public sector. In addition, because common control is a variant of control, arguably it should not be canvassed at a Consultation

Paper stage. Members’ views are sought on whether, to simplify the analysis and focus on the key issues, it would be preferable to omit the discussion of common control from the paper.

Differential reporting (paragraphs 112-113)

The draft paper notes the differential reporting issue but does not include any analysis of it. The author regards the characteristics of entities that should prepare general purpose financial reports to be a different issue from the different types of general purpose financial reports that might be prepared, although cost/benefit factors affect both issues. Members’ views are sought on whether they agree with the approach taken to differential reporting in the paper, and the position of the discussion.

Specific matters for comment

The author and staff would welcome members’ input on whether the specific matters for comment, as currently drafted, are appropriate and suitably formulated and whether there are any additional specific matters that should be put to readers for comment.

Appendices

As noted in the covering memoranda, members are requested to review the appendices to determine whether they are necessary and, if so, to ensure they include appropriate references from each member jurisdiction.

The author and staff observe that the concept of control is discussed in considerably more detail than other concepts, particularly in relation to how it may be applied. This reflects the greater usage of control in the accounting literature and the wider range of implementation experiences (compared with those for other concepts). In addition, if application issues in relation to control were not included, the paper might be criticised for glossing over the difficulties that can be encountered in applying control. Members’ views are sought on whether any or all of Appendices B-D should be omitted from the paper.

In addition, the author and staff observe that Appendix A, regarding Australian Concepts Statement SAC 1, may have become less useful as the drafting of paragraphs 41-46 has evolved in response to comments from Subcommittee members and staff. Therefore, members’ views are sought on whether Appendix A merits inclusion in the paper.

The implications of the concept of control for controlling entity-only financial reports

The version of the paper considered by the Subcommittee in July 2007 included a section on the implications of the concept of control for controlling entity-only financial reports. Considerable debate exists about whether preparing controlling entity-only financial reports is compatible with adopting a concept of control, and that issue has been considered at length by the IASB and FASB in their conceptual framework project. That section of the paper was subsequently omitted, mainly because it can be regarded as discussing an application issue, and including it may imply the Board has pre-judged the issue of which concept(s) is (are) appropriate for determining the boundaries of a reporting entity. The author considers that this issue should be raised in the Board’s subsequent exposure draft, and requests the views of members on whether they agree with this view.

Draft IPSASB Consultation Paper: “The Reporting Entity”

prepared by Ahmad Hamidi, member of AASB staff

Introduction

1. The purpose of the *reporting entity* component of the IPSASB’s conceptual framework project is to develop a concept of a reporting entity for the purposes of general purpose financial reports¹ prepared in accordance with IPSASs, and to establish the basis (or bases) on which the boundaries of reporting entities are determined.
2. Both the accrual and cash basis IPSASs include references to a ‘reporting entity’, indicating recognition of the concept. However, IPSASs do not define the concept of a reporting entity.
3. This component of the IPSASB’s conceptual framework may be affected by other components, such as the “objectives” and “scope” of financial reporting, and may influence other components, such as the definitions of the elements of financial statements.
4. This paper discusses the key issues identified by the IPSASB in relation to the concept of a reporting entity, and asks readers various questions about those issues. It does not contain preliminary views of the IPSASB. The IPSASB’s goal is to canvass constituents’ views on the key issues before formulating proposals for inclusion in an omnibus exposure draft of its entire conceptual framework.

Key Issues to Be Addressed

5. Establishing the concept of a reporting entity will involve consideration of:
 - (a) What constitutes an entity;
 - (b) Whether the reporting entity concept should indicate that:
 - (i) all public sector entities should prepare general purpose financial reports;
 - or
 - (ii) some public sector entities should prepare general purpose financial reports, and, if so, what are the characteristics of those entities;
 - (c) How the boundaries of a reporting entity, including a group reporting entity, should be established.

¹ General purpose financial reports are financial reports prepared for users that are unable to demand financial information to meet their specific information needs (consistent with the definition of “general purpose financial statements” in the Preface to International Public Sector Accounting Standards, paragraph 15). Financial reports prepared for parties (such as governing bodies, the legislature and other parties who perform an oversight function) who can demand financial reports tailored to meet their specific information needs are special purpose financial reports (consistent with the definition of “special purpose financial statements” in the Preface to IPSASs, paragraph 17).

Inter-relationship Between the Objectives of Financial Reporting and the Reporting Entity Concept

6. Decisions made in the Objectives component of the IPSASB’s conceptual framework project could affect the Reporting Entity component. In particular, if the IPSASB’s conceptual framework is to identify characteristics of entities that should prepare general purpose financial reports and those characteristics are related to the existence of users dependent on financial reports for decision-making and accountability purposes, it is relevant that the draft Consultation Paper on the Objectives notes that the existing literature identifies a wide range of potential users of financial reports of public sector entities.
7. This potential inter-relationship between the Reporting Entity and Objectives components is illustrated in Australia’s Statements of Accounting Concepts, SAC 1 *Definition of the Reporting Entity* and SAC 2 *Objective of General Purpose Financial Reporting*, as follows:

“Reporting entities are all entities (including economic entities) in respect of which it is reasonable to expect the existence of users dependent on general purpose financial reports for information which will be useful to them for making and evaluating decisions about the allocation of scarce resources” (SAC 1, paragraph 40)

“...the objective of general purpose financial reporting is to provide information to users that is useful for making and evaluating decisions about the allocation of scarce resources” (SAC 2, paragraph 26)
8. The definition of a reporting entity in SAC 1 has regard to those users who intend to use information about the entity for making the resource allocation decisions referred to in the objective of general purpose financial reporting, and therefore does not identify reporting entities merely on the basis of parties with a casual interest in the entity’s activities. Under this approach, the identification of entities that should prepare general purpose financial reports depends on the identified objective(s) of financial reporting, and any change in the latter could affect the users to which general purpose financial reports are targeted (and therefore whether an entity should prepare general purpose financial reports).

Issue #1 What is an entity?

9. Any concept of a reporting entity is, by definition, restricted to a type of “entity”.² Therefore, is it important to consider the meaning of an entity before proceeding further. Paragraphs 10-19 discuss the meaning of an entity.

² This would be so, even if a reporting entity were to be defined very broadly as any entity that prepares a GPFR (either by choice or under a requirement to do so).

10. While the term ‘entity’ is used frequently in much of the accounting literature, including IPSASs, IFRSs and many national standards and some conceptual frameworks, the term is not defined, except in rare cases.³ However, in some circumstances, the literature lists structures that, as a minimum, are regarded as entities.
11. The term ‘entity’ in everyday use denotes distinct existence. Such distinct existence often arises from legal recognition. Under the “legal entity” notion, an organization must have some form of legal structure or legal standing that separates its identity from parties that have an interest in it. Private sector examples are corporations that are legally distinct from their shareholders, and trusts that are legally distinct from trustees and beneficiaries. A public sector example is the distinct existence of a statutory authority with the power to transact and enter contracts in its own right.
12. Accounting literature in different jurisdictions differs regarding whether an entity must have legal status. For example, GASB Concepts Statement No. 4, *Elements of Financial Statements* describes an entity as having separate legal identity, and distinguishes reporting entities from reporting units (such as government departments). In contrast, Australian SAC 1 does not require an entity to have separate legal identity. This is illustrated in the following brief summary of the literature on the meaning of an entity.

Coverage in accounting literature

13. There are various approaches in the accounting literature to providing guidance on the meaning of an entity, with most sources providing descriptions rather than definitions, the exceptions to this being the Australian SAC 1 (see Table 1).

³ For example, Australia’s Statement of Accounting Concepts SAC 1 *Definition of the Reporting Entity* (see paragraph 7).

Table 1: Guidance on the meaning of an entity	
Source	Quote
Australian Statement of Accounting Concepts SAC 1, paragraph 6	“entity means any legal, administrative or fiduciary arrangement, organisational structure or other party (including a person) having the capacity to deploy scarce resources in order to achieve objectives”
GASB Concepts Statement No. 4, <i>Elements of Financial Statements</i> , paragraph 3	“The <i>entity</i> to which the definitions are to be applied is a governmental unit (a separate legal entity, which is an organization created, for example, as a body corporate or a body corporate and politic).” ⁴
IASB	<p>The current IASB <i>Framework</i> does not define an entity. Examples of what constitutes an entity are given at the standards level, for example:</p> <ul style="list-style-type: none"> • IAS 32 <i>Financial Instruments: Presentation</i>, paragraph 14, notes that “In this Standard, ‘entity’ includes individuals, partnerships, incorporated bodies, trusts and government agencies.” • IAS 31 <i>Interests in Joint Ventures</i>, paragraph 24, notes that “A jointly controlled entity is a joint venture that involves the establishment of a corporation, partnership or other entity in which each venturer has an interest.”

Analysis

14. Some commentators support using legal status to identify the existence of an entity because:
- recognition at law removes doubt about of the separate existence of the organization or other structure in question; and
 - the existence of many assets and liabilities stems from having legal rights and obligations.

⁴ GASB Concepts Statement No. 4 also says: “A set of financial statements for a reporting entity may include more than one governmental unit and may include presentations for one or more reporting units. Certain inherent characteristics of elements of financial statements (for example, control over resources and obligations to sacrifice resources) are manifested only at the governmental unit level. Financial statements of reporting units present the elements of the legally separate governmental unit(s) that have been assigned to that reporting unit for control, management, or financial reporting purposes. As used in the definitions of elements of financial statements, *government* refers to a legally separate governmental unit.” (paragraph 3)

15. However, the term *legal entity* may have different meanings in different jurisdictions with their different legal systems. Moreover, organizations with distinct existence may have users with an interest in their status and activities and to whom their managements should be held accountable but might also lack legal status. For example, many administrative units (such as government departments, in some jurisdictions) may be organizations or structures that are separately accountable to parliament and the community, but do not have separate legal status (for example, they cannot enter contractual arrangements with third parties). Restricting “entities” that may prepare general purpose financial reports to organizations or other structures with legal status would preclude those users from receiving general purpose financial reports about the above-mentioned types of other structures.
16. In their deliberations on the concept of reporting entity in their Conceptual Framework project, the IASB and FASB tentatively agreed that what constitutes an entity for financial reporting purposes should not be limited to legal entities, irrespective of how they are defined. In other words, they view legal status as a sufficient but unnecessary condition for the existence of an entity.

IASB-FASB Conceptual Framework Project

17. In their conceptual framework project, the IASB and FASB consider whether to define an entity as “an economic unit that has the capacity to deploy resources”. The capacity to deploy resources is consistent with definition given by Australian SAC 1 and with the comment in the UK Accounting Standards Board’s *Statement of Principles for Financial Reporting: Interpretation for Public Benefit Entities* that an entity that is the subject of financial statements needs to be a cohesive economic unit (paragraph 2.3). However, the IASB and FASB are concerned that some organizations might not meet the proposed definition and thus be precluded from being the subject matter of general purpose financial reports. For example, a special purpose entity with a narrowly-defined purpose and predetermined policies that might have limited capacity to deploy resources might fail such a definition. The Boards tentatively decided that it is unnecessary to define an entity in the conceptual framework. In effect, the Boards have tentatively decided that an entity is a circumscribed⁵ area of business activity (such as a sole proprietorship, branch, corporation, trading trust or partnership). This is noted in the discussion of the Boards’ tentative definition of a reporting entity in paragraphs 24-26.
18. That notion of an entity is linked to the notion of a “business”, which is defined in IFRS 3 *Business Combinations* as:
“An integrated set of activities and assets conducted and managed for the purpose of providing:
(a) a return to investors; or
(b) lower costs or other economic benefits directly and proportionately to policyholders or participants.

⁵ “Circumscribed” means something with a line drawn around it. Synonyms for circumscribed are “limited” and “distinct”.

A business generally consists of inputs, processes applied to those inputs, and resulting outputs that are, or will be, used to generate revenues. ...” (Appendix A)

19. This definition of a business could be renamed and adapted to not-for-profit entities/public benefit entities. In a general sense, then, the notion of “a circumscribed area of business activity” (adapted for public sector entities) seems consistent with the principle in the UK Accounting Standards Board’s *Statement of Principles for Financial Reporting: Interpretation for Public Benefit Entities* that an entity that is the subject of financial statements needs to be a cohesive economic unit (paragraph 2.3).

Specific matters for comment

The IPSASB would welcome comments on the following questions:

Question 1(a)

Should the IPSASB *Framework* define, or provide guidance on, the meaning of an “entity”? Please give your reasons.

If so, please answer Questions 1(b) and 1(c).

Question 1(b)

Should it be necessary for an “entity” to have legal status? Please give your reasons.

Question 1(c)

Should an “entity” be described as either a “cohesive economic unit” or some other not-for-profit equivalent to the notion of a “circumscribed area of business activity”? Please give your reasons.

Issue #2 Should the reporting entity component of the IPSASB Conceptual Framework provide guidance on which public sector entities should prepare general purpose financial reports?

Coverage in conceptual frameworks

Existing frameworks

20. The existing IASB *Framework* describes a “reporting entity” as “an entity for which there are users who rely on the financial statements as their major source of financial information about the entity” (paragraph 8). However, it does not provide guidance on which entities should prepare GPFRs. Similarly, the CICA’s Public Sector Accounting Board’s (PSAB’s) Handbook, Section PS 1300, *Government Reporting Entity*, does not provide guidance on which public sector entities should prepare GPFRs. Instead, it defines the scope of the government reporting entity in terms of the organizations whose financial affairs and resources would be included in a government’s financial statements and recommends how to account for those organizations in the government’s financial statements (paragraph .01).
21. The UK Accounting Standards Board’s (ASB’s) *Statement of Principles for Financial Reporting: Interpretation for Public Benefit Entities* (June 2007) states that:

“It is essential that entities that ought to prepare and publish financial statements⁶, do so. ...” (paragraph 2.1)

“For the preparation of financial statements to be justified in any particular case, there needs to be a legitimate demand for the information that the financial statements would provide. That means, inter alia, that the information provided by the financial statements will need to be useful and that the benefits to be derived by providing the financial statements will need to exceed the costs of doing so.” (paragraph 2.2)

Beyond saying that, subject to cost/benefit considerations, entities with a legitimate demand for their financial information ought to prepare financial statements, the ASB’s Interpretation does not provide guidance on which entities should report.

22. As shown in paragraph 7, the Australian SAC 1 provides conceptual guidance on which entities should prepare GPFs, and describes those entities as “reporting entities”. According to SAC 1:

“Reporting entities are all entities (including economic entities) in respect of which it is reasonable to expect the existence of users dependent on general purpose financial reports for information which will be useful to them for making and evaluating decisions about the allocation of scarce resources” (paragraph 40).

The New Zealand *Statement of Concepts for General Purpose Financial Reporting*⁷ adopts the same reporting entity concept as SAC 1 (paragraph 2.1).

23. SAC 1 notes that the identification of an entity as a reporting entity is linked to the information needs of users of general purpose financial reports and the nature of general purpose financial reports (paragraph 12), and provides guidance for identifying whether such users are likely to exist.

IASB-FASB joint Conceptual Framework project

24. In their joint Conceptual Framework project, the IASB and FASB tentatively decided to define a reporting entity as:

“a circumscribed area of business activity of interest to present and potential investors and creditors”.⁸

25. In effect, the Boards have tentatively decided to regard an entity as “a circumscribed area of business activity” and to regard a reporting entity as an entity “of interest to present and potential investors and creditors”. (In their work on the Objective of Financial

⁶ For the purposes of this paper, it is assumed that the ASB would express the same view about financial reports.

⁷ Institute of Chartered Accountants of New Zealand

⁸ *IASB Update*, September 2007, page 1; and Information for Observers, *Conceptual Framework—Reporting Entity: comments on pre-ballot draft*, September 2007 IASB Board meeting, paragraph 9.

Reports, the Boards have tentatively decided that present and potential investors and creditors should be regarded as the primary users of financial reports.) This meaning of a reporting entity is designed to link the definition of a reporting entity to the objective of financial reporting, and thus to potentially assist legislators and regulators in deciding which particular entities should prepare GPFRs. The Boards’ tentative definition of “reporting entity” is not intended to preclude any entity from preparing a GPFR and applying the reporting entity concepts they develop (such as defining the boundaries of a reporting entity).

26. The IASB and FASB tentatively decided not to define a reporting entity as an entity that, based on specified characteristics, should prepare GPFRs, because they were concerned that identifying the characteristics of a reporting entity could preclude entities without those characteristics from preparing financial statements that purport to be GPFRs prepared in accordance with IFRSs or US GAAP for nongovernmental entities. However, the IASB proposes to specify the *nature* of general purpose financial reports that IFRS-adopting reporting entities can apply, according to the characteristics of those entities. That is, the IASB proposes, in its *Exposure Draft of a Proposed IFRS for Small and Medium-sized Entities* (SMEs),⁹ that entities that publish GPFRs for external users and do not have “public accountability” would be permitted to apply the IFRSs for SMEs.

Analysis

27. Some commentators argue that conceptual frameworks should neither define a reporting entity as an entity that should prepare GPFRs, nor specify in another way which entities should prepare GPFRs, because that would usurp the authority of legislators in each jurisdiction to specify which entities should prepare GPFRs.
28. Some other commentators agree that the definition of a reporting entity should not be limited to an entity that is required to prepare GPFRs. Nonetheless, they support providing guidance in the IPSASB Conceptual Framework on the characteristics of public sector entities that should prepare GPFRs, although only at a very high level, to cater for inter-jurisdictional differences in the legal structures that exist in the public sector. They also note that, whilst in many jurisdictions, independent regulators stipulate which private sector entities should prepare GPFRs, the same does not apply in the public sector. They argue that this difference in regulatory regimes in the private and public sectors justifies the provision of high level guidance on the characteristics of public sector entities that should prepare GPFRs.

⁹ February 2007.

29. These commentators argue that the advantages of providing guidance on the characteristics of public sector entities that should prepare GPFRs that comply with IPSASs are that:
- (a) the IPSASB, as a global standard setter, can provide the conceptual basis to inform legislative decisions made at a jurisdictional level. This should reduce the likelihood of each jurisdiction “reinventing the wheel”; and
 - (b) doing so facilitates taking a flexible approach to determining the boundaries of reporting entities,¹⁰ as explained below:
 - (i) the boundaries of reporting entities with the characteristics of entities that should prepare GPFRs would, in concept, be determined according to the concepts in the reporting entity component of the IPSASB’s conceptual framework; and
 - (ii) the boundaries of other reporting entities that are components of a group reporting entity and prepare GPFRs despite not possessing those characteristics could largely¹¹ be chosen at the discretion of the preparers of the entity’s GPFR.
30. In relation to (b) above, reporting entities with the characteristics of public sector entities that should prepare GPFRs may include component entities without those characteristics. Reporting information about those component entities would effectively be equivalent to providing note disclosure about those components within the group financial report (e.g., for a segment). Just as the boundaries of items included in note disclosures can be prepared on a different basis than those of the reporting entity, so the boundaries of a component entity could be determined on a different basis to the boundaries of the group entity to which it belongs. Therefore, the approach described in paragraph 29 provides a free choice whether a component of a group reporting entity is reported on in a GPFR separate from that of the group or is reported on by way of notes in the GPFR of the group, provided that the component entity does not separately possess the identified characteristics of an entity that should prepare GPFRs.
31. If a component entity *does* separately possess the identified characteristics of an entity that should prepare GPFRs, it should apply any concepts developed for determining the boundaries of a reporting entity. For example, if it were concluded that a government and its government departments with particular characteristics each possess the characteristics of an entity that should prepare GPFRs, it would be inappropriate for those government departments to have a free choice of the basis for determining their boundaries simply because they are components of a group reporting entity.
32. Allowing complementary bases of determining the boundaries of reporting entities in these instances reduces the importance of the decision about whether a component of a group reporting entity should be treated as a reporting entity or reported by note, and removes a disincentive to preparing a separate GPFR for that component. This approach

¹⁰ This applies if the IPSASB’s conceptual framework project were to provide guidance on how the boundaries of a reporting entity should be determined (see paragraphs 47-111 and Question 3(a)).

¹¹ “Largely” refers to the qualifications discussed in paragraph 35.

accommodates determining the boundaries of a component entity as a reporting entity on a different basis from any group entity to which it belongs. For example:

- (a) if the boundaries of a component entity are determined on the basis of encompassing resources used in similar functions, that would not preclude identifying a group reporting entity on a basis that includes dissimilar functions; and, conversely,
 - (b) if the boundaries of a group reporting entity were, for example, determined on the basis of control (i.e., they included all resources and entities controlled by the controlling entity in that group), component reporting entities could be identified on other bases (e.g., similar functions, the scope of the public budget (if any), or the items owned by each individual entity).
33. If an entity prepares a GPFR even though it does not separately possess the identified characteristics of an entity that should prepare GPFRs, but is not a component of a group reporting entity that is the subject of a GPFR,¹² the rationale for its optional identification of its boundaries set out in paragraph 30 does not exist. Arguably, therefore, the boundaries of such an entity should be determined using the concepts in the reporting entity component of the IPSASB’s conceptual framework.
34. Arguably, for these reasons it is necessary to distinguish entities that should prepare GPFRs from those that need not, if the flexibility described in paragraph 32 is to be provided whilst retaining a discipline on the boundaries of those entities that should prepare GPFRs.
35. Under the approach described in paragraph 29(b)(ii), the boundaries of reporting entities that are components of a group reporting entity and prepare GPFRs despite not possessing the characteristics of entities that should prepare GPFRs could *largely* be chosen at the discretion of the preparers of the GPFR. The qualifications are that:
- (a) the purported entity meets any definition of an entity;¹³
 - (b) the purported entity meets any additional criteria specified for an entity to qualify as a reporting entity (e.g., the IASB and FASB have tentatively decided, in effect, that a reporting entity is an “entity” of interest to the primary users of financial reports. If a similar notion were adopted in the IPSASB’s conceptual framework, the boundaries of any reporting entity would need to be drawn at a level that provides information useful for decision making and accountability purposes); and
 - (c) the boundaries are consistent with those purported in their GPFRs. For example, if a GPFR purports to be that of an individual reporting entity within a group reporting entity, it is necessary that the GPFR excludes resources and obligations of other entities within that group.

¹² For example, such an entity might be a small statutory body funded by user charges (rather than taxes) in a jurisdiction in which whole of government GPFRs are not prepared.

¹³ Questions 1(a) and 1(c) ask whether the IPSASB’s conceptual framework should provide guidance on the meaning of an *entity* and, if so, what that guidance should be.

36. Some commentators argue that it would be confusing and unnecessary to develop a different concept of a “reporting entity” from the concept of a public sector entity with characteristics of an entity that should prepare GPFRs. They consider that a “reporting entity” should be defined as an entity with those characteristics, consistent with SAC 1. In contrast, commentators who support providing guidance in the IPSASB’s conceptual framework on the characteristics of public sector entities that should prepare GPFRs, but not defining “reporting entities” as entities with those characteristics, argue that:
- (a) it would also be confusing to define a reporting entity with the restricted meaning in SAC 1 when, in common parlance, a “reporting entity” is the entity that is the subject of a particular GPFR (in contrast to other entities with which it transacts);
 - (b) the approach they advocate would encourage, but not require, particular public sector entities to prepare GPFRs and, thus, would not usurp the role of legislators in jurisdictions to specify which entities must prepare GPFRs;¹⁴ and
 - (c) the approach they advocate would be closer to the approach being considered by the IASB and FASB in their conceptual framework project (which the IPSASB is using as a point of reference for developing its conceptual framework), although it would depart from the IASB-FASB approach to provide guidance they consider necessary for the public sector.

Specific matters for comment

The IPSASB would welcome comments on the following questions:

Question 2(a)

Should a “reporting entity” be defined as an entity that, because it possesses particular characteristics, should prepare general purpose financial reports?

If not, should the IPSASB conceptual framework nevertheless provide guidance on the characteristics of public sector entities that should prepare general purpose financial reports?

Please give your reasons.

Question 2(b)

Should the definition of a “reporting entity” make specific reference to primary and/or other users of financial reports? Please give your reasons.

¹⁴ In contrast, they argue, defining a “reporting entity” as an entity with the characteristics of an entity that should prepare GPFRs would, at a conceptual level, usurp the role of legislators in jurisdictions to specify which entities must prepare GPFRs (although those legislators could elect not to follow the concepts in the IPSASB Framework).

Issue #2A What are the characteristics of public sector entities that should prepare general purpose financial reports?

37. This issue is addressed if it is concluded that the IPSASB’s conceptual framework should provide guidance on the characteristics of public sector entities that should prepare GPFRs.

Accountability

38. One possible characteristic of a public sector entity that should prepare GPFRs is accountability. The term accountability is often used in the public sector to refer to the obligation of a government or other governmental organization to report to its constituency and/or elected officials on its stewardship of the resources entrusted to it, including how resources have been applied and consumed in providing services.¹⁵ Similarly, accountability has been described as follows:

“Accountability requires governments to answer to the citizenry—to justify the raising of public resources and the purposes for which they are used.”¹⁶

39. In a general sense, all public sector entities are accountable to their constituents and/or to elected officials (such as government ministers). Some commentators argue that, accordingly, all public sector entities should prepare GPFRs. They observe that the IASB has proposed (in its *Exposure Draft of A Proposed IFRS for Small and Medium-sized Entities* [February 2007]) that, in respect of business entities, an entity has “public accountability” if (among other things) “it holds assets in a fiduciary capacity for a broad group of outsiders, such as a bank, insurance entity, securities broker/dealer, pension fund, mutual fund or investment banking entity”, and argue that all public sector entities would exhibit this characteristic.
40. Other commentators argue that, even though all public sector entities may be publicly accountable, not all public sector entities should prepare GPFRs. For example, a small sub-unit of a governmental organization, with distinct activities, might qualify as an “entity” but be so insignificant, financially, that the preparation of GPFRs is of little use to resource allocation decisions or assessments of accountability by parties other than those who can demand financial reports tailored to meet their specific information needs. Some of them argue that for some public sector entities, the costs of preparing and presenting separate GPFRs exceed the related benefits.¹⁷ The following section discusses

¹⁵ This description is derived from the quote from CICA Public Handbook Accounting Handbook Section PS 1000, *Financial Statement Concepts* (paragraph .28(b)) used in the draft IPSASB Consultation Paper on *The Objectives of Financial Reporting* (Agenda Paper 2.2, paragraph 37).

¹⁶ GASB Concepts Statement No. 1, *Objectives of Financial Reporting*, May 1987, paragraph 56.

¹⁷ SAC 1, *Definition of the Reporting Entity*, includes a similar argument. It gives the following public sector example:

“(M)edical centres established and controlled by a hospital (which) may not be considered to be (entities that should prepare GPFRs) where, individually, the amount of resources allocated to each is very low relative to

how one might determine which public sector entities should prepare GPFRs, under an approach that is compatible with treating accountability as a key driver for identifying those entities.

Specific characteristics

41. If some, but not all, public sector entities should prepare GPFRs, it would be necessary to identify possible characteristics of them. Various commentators argue that these characteristics might include any, or a combination, of:
- (a) economic significance (based on size thresholds such as total assets, total income, number of employees, and nature and extent of borrowings), political importance or influence;
 - (b) coercive powers to:
 - (i) compulsorily acquire resources from the public (or particular members thereof); or
 - (ii) regulate the behaviour of the public (or particular members thereof, including industries);
 - (c) monopoly powers conferred by legislation or regulation; or
 - (d) jurisdiction-specific characteristics.
42. In relation to paragraph 41(b) [coercive powers], some commentators argue that only powers to compulsorily acquire resources from the public (or particular members thereof), such as rates, taxes and levies, are relevant to whether a public sector entity should always prepare GPFRs. They argue that bodies that possess coercive powers other than to acquire resources but lack the other characteristics mentioned in paragraph 41, such as a small statutory board that regulates the behaviour of industry participants, might be accountable for the exercise of their regulatory powers but not for their financial resources. In other words, their accountability might be discharged by non-financial reporting.
43. Some of the possible characteristics of a public sector entity that should prepare GPFRs set out in paragraph 41 are also found in Australian Concepts Statement SAC 1. SAC 1 focuses on whether, in respect of an entity (either in the public or private sector), it is reasonable to expect the existence of users who are dependent on general purpose financial reports for information useful for making and evaluating resource allocation decisions and assessing the entity’s accountability. This focus of SAC 1 is similar to approaches in which accountability is specified as the primary characteristic of public sector entities that should prepare GPFRs. For example, GASB Concepts Statement No. 1, *Objectives of Financial Reporting*, notes:

“A second requisite of accountability is that there be some individuals or organizations, outside receivers and/or discoverers of the information, who are able

the total resource allocation to the hospital and, because of that and other factors, there do not exist users dependent on general purpose financial reports relating to each centre.” (paragraph 24)

and willing to examine it, investigate it if necessary, digest it, and report it or initiate appropriate action based upon it.” (Appendix A, Background Information, paragraph 80)¹⁸

44. Not surprisingly, therefore, SAC 1 identifies the primary characteristics of entities that should prepare GPFRs generally in similar terms to those identified above under an accountability focus, namely:
- (a) separation of management from economic interest;
 - (b) economic or political importance or influence; and
 - (c) financial characteristics, such as the amount of resources controlled to provide goods and services and the amount of indebtedness.
45. Its explanation of those characteristics, and of some of their implications in the public sector, are set out in Appendix A.
46. Separation of management from economic interest exists for most, if not all, public sector entities, and therefore was not included in the list of possible distinguishing characteristics in paragraph 41. The other SAC 1 characteristics in paragraph 44 are encompassed by those listed in paragraph 41.

Specific matters for comment

The IPSASB would welcome comments on the following question:

Question 2A(a)

If the IPSASB conceptual framework were to provide guidance on the characteristics of public sector entities that should prepare general purpose financial reports, what should those characteristics be? Please give your reasons. In answering this question, please indicate:

- (a) whether all public sector entities should prepare general purpose financial reports; and, if not,
- (b) which of the following specific characteristics may, individually or in combination, indicate that a public sector entity should prepare general purpose financial reports:
 - (i) economic significance, political importance or influence;
 - (ii) coercive powers to:
 - (aa) compulsorily acquire resources from the public (or particular members thereof); or
 - (ab) regulate the behaviour of the public (or particular members thereof, including industries);

¹⁸ This text is a quote from Frederick C. Mosher, in *The GAO: The Quest for Accountability in American Government*.

- (iii) monopoly powers conferred by legislation or regulation; or
- (iv) jurisdiction-specific characteristics (if so, please describe them).

Issue #3 How should the boundaries of a reporting entity, including a group reporting entity, be determined?

- 47. One possible purpose of the *reporting entity* component of the IPSASB Conceptual Framework would be to provide guidance on the basis (or bases) on which the boundaries of individual and group reporting entities should be determined.
- 48. The main purposes of providing guidance on how to determine the boundaries of a reporting entity are to ensure that the reporting entity’s GPFR:
 - (a) includes all of the resources, obligations and operations for which that entity is responsible and that are likely to be useful to users for making resource allocation decisions about that entity; and
 - (b) includes only the items mentioned in (a). For example, the GPFR of a public sector reporting entity should not include resources of organizations that receive financial support from the entity if the entity has no rights to benefit from those resources.
- 49. A reporting entity may be an individual or group entity. A group reporting entity exists when a reporting entity (the boundaries of which are determined in accordance with a particular basis) encompasses two or more separate entities, because either:
 - (a) that reporting entity cuts across legal or administrative structures; and/or
 - (b) that reporting entity incorporates entities that are reporting entities in their own right.

Thus, accrual-basis group or consolidated financial reports (or combined financial reports)¹⁹ prepared by a group reflect the financial position, performance and cash flow of two or more separate entities as if they are a single reporting entity.

- 50. Under an economic approach to determining the boundaries of a reporting entity (i.e., an approach that is not constrained by legal or administrative structures), the fact that a reporting entity is either an individual entity or a group entity does not of itself determine the basis on which its boundaries should be determined.²⁰ In other words, a group reporting entity is a group only because of the existence of separate legal or administrative structures. Therefore, there is a logical presumption that a consistent basis

¹⁹ The reporting entity component of the IPSASB’s conceptual framework will not deal with the issue of whether financial reports for a group of entities should be presented as consolidated financial reports or combined financial reports. This issue should be addressed at the standards level.

²⁰ This is the case even though the “common control” basis (a modification of the “control” basis; see paragraphs 77-84) can only be applied to group reporting entities. This is because it is possible for other bases, such as control, to be applied both to individual and group reporting entities.

would be used to determine the boundaries of both individual and group reporting entities.

Possible Bases for Determining the Boundaries of a Reporting Entity

51. Possible bases for determining the boundaries of a reporting entity include:

- (a) accountability;
- (b) operations covered by a public budget;
- (c) control and/or, for group reporting entities, common control;
- (d) the majority of risks and rewards; and
- (e) similar functions.

52. In general terms, the resources for which that entity should be held accountable are those that it can deploy in pursuing its service-delivery or other objectives. Different views exist about which set of resources an entity should be regarded as deploying. These can range from resources the entity either owns, controls or otherwise might obtain some benefits from. The choice between these criteria for identifying resources deployed by the entity will be considered in detail in the Elements component of the IPSASB’s conceptual framework.

53. The boundaries of individual reporting entities are generally expressed in terms of the definitions of, and recognition criteria for, the elements of financial statements (for example, control²¹ or the majority of risks and rewards). However, the boundaries of individual reporting entities may be drawn more narrowly than indicated by those definitions and recognition criteria.²² For example, those boundaries may be drawn in terms of similar functions (because, arguably, such boundaries are more useful for making resource allocation decisions) or the resources that are the subject of a public budget (because, arguably, such boundaries are more useful for assessing accountability), and thus particular items that satisfy the definition of, and recognition criteria for, an element of financial statements may be excluded from the individual reporting entity. In relation to individual reporting entities, this paper focuses on whether their boundaries should be drawn more narrowly than to include all of the items that satisfy the definitions of, and recognition criteria for, the elements of financial statements. Possible bases for doing so are also applicable to group reporting entities; therefore, possible bases are evaluated below in respect of individual and group reporting entities together.

54. The bases for determining the boundaries of group reporting entities are generally expressed in terms of the relationship between an entity’s management or governing body and other entities that arises from legislation, contractual arrangement or ministerial responsibility. For some of these bases, the relationship can be another form of the concepts used to define the elements of financial statements. For example:

- (a) in relation to individual reporting entities, assets may be defined as resources directly controlled by the entity; and, in relation to group reporting entities, the

²¹ Control is one of the possible concepts for operationalising the concept of accountability.

²² This is also true for the boundaries of group reporting entities, which are discussed below.

- boundary may be extended to include resources indirectly controlled by the entity through its control of other entities;²³ and
- (b) in relation to individual reporting entities, assets may be defined as resources for which the entity bears the majority of risks and rewards; and, in relation to group reporting entities, the boundary may be extended to include resources of other individual entities when the entity bears the majority of risks and rewards of the other entities (that is, the risks and rewards are assessed at an entity level).
55. The potential bases for determining the boundaries of individual and group reporting entities are not grouped, because sometimes they will be compatible with each other and sometimes not (for example, some commentators regard accountability and control as being virtually synonymous, whilst others argue that accountability can and should lead to different notions than control being used to determine the boundaries of a reporting entity). Nevertheless, links between them are noted in the following discussion.
56. Issue#2 includes discussion of an approach in which, in limited circumstances, the boundaries of reporting entities could be chosen at the discretion of the preparers of the entity’s GPFR. The following discussion does not apply to those limited circumstances.

Coverage in existing International Public Sector Accounting Standards (IPSASs) and other literature—Individual Reporting Entities

57. In the accounting literature, the boundaries of individual reporting entities are effectively determined by the definitions of, and recognition criteria for, the elements of financial statements. (The literature does not provide a precedent for drawing the boundaries of individual reporting entities more narrowly than indicated by those definitions and recognition criteria.) IPSAS 1 *Presentation of Financial Statements* specifies the components of a complete set of financial statements and defines assets, liabilities, net assets/equity, revenues and expenses. It defines assets as resources controlled by the entity and defines liabilities as present obligations of the entity (which need not be legally binding obligations). The IASB *Framework*, IFRSs, and the conceptual frameworks and accounting standards applicable to public and private sector entities in various national jurisdictions are generally consistent with IPSAS 1 in this regard. In effect, they generally use control to define the boundaries of individual reporting entities, although sometimes the majority of risks and rewards is used instead of control (for example, in relation to finance leases). This paper does not examine the abovementioned literature, which will be examined in the Elements component of the IPSASB’s conceptual framework project.

²³ In this context, the UK Accounting Standards Board’s *Statement of Principles for Financial Reporting: Interpretation for Public Benefit Entities* explicitly distinguishes direct and indirect control.

Coverage in existing International Public Sector Accounting Standards (IPSASs) and other literature—Group Reporting Entities

International Public Sector Accounting Standards (IPSASs)

58. IPSAS 6 *Consolidated and Separate Financial Statements* describes a group reporting entity as an ‘economic entity’. It defines ‘consolidated financial statements’ as “the financial statements of an economic entity presented as those of a single entity” and an ‘economic entity’ as “a group of entities comprising a controlling entity and one or more controlled entities” (paragraph 7). Thus, IPSAS 6 uses control as the basis for determining which entities are included in financial statements for a group reporting entity.

Accounting Standards in some other Jurisdictions

59. IFRSs and standards in Australia, Canada, New Zealand and the United Kingdom²⁴ adopt similar principles to those in IPSAS 6.

Conceptual frameworks

Existing frameworks

60. The existing IASB *Framework* does not provide guidance on the basis (or bases) for determining the boundaries of group reporting entities.
61. The UK Accounting Standards Board’s *Statement of Principles for Financial Reporting: Interpretation for Public Benefit Entities* states:

“Direct plus indirect control is used to determine the boundary of the reporting entity that prepares consolidated financial statements.” (paragraph 2.5)

62. Australian SAC 1 also adopts control as the basis for determining the boundaries of group reporting entities, which, like IPSAS 6, it terms ‘economic entities’. It defines an ‘economic entity’ as “a group of entities comprising a controlling entity and one or more controlled entities operating together to achieve objectives consistent with those of the controlling entity” (paragraph 6). Similarly, Section PS 1100 of the CICA Handbook, *Financial Statement Objectives*, adopts control as the basis for determining the boundaries of group reporting entities.

IASB-FASB joint Conceptual Framework project

63. In their joint Conceptual Framework project, the IASB and FASB tentatively decided that:

²⁴ IAS 27 *Consolidated and Separate Financial Statements*, AASB 127 *Consolidated and Separate Financial Statements*, Canadian CICA Handbook (Section 1590), *Subsidiaries*, NZ IAS 27 *Consolidated and Separate Financial Statements*, and UK FRS 2 *Accounting for Subsidiary Undertakings*. Instead of referring to a *controlled entity* and its *controlled entities*, those Standards refer to a *parent* and its *subsidiaries*.

- (a) control should be used to determine the composition of a group reporting entity; but
- (b) general purpose financial reports might also be prepared for a group of entities under common control in some circumstances, such as combined financial statements for two or more entities under the control of a single investor or family; and, therefore,
- (c) a broad control model should be adopted at the concepts level.²⁵

Outline of possible bases for determining the boundaries of a reporting entity

Accountability

- 64. Some commentators argue that the boundaries of a reporting entity should be based on the concept of accountability. As noted in paragraph 38, “accountability” is often used in the public sector to refer to the obligation of a government or other governmental organization to report to its constituency and/or elected officials on its stewardship of the resources entrusted to it, including how resources have been applied and consumed in providing services.
- 65. An example of using accountability to define the boundaries of a reporting entity is GASB Statement No. 14, *The Financial Reporting Entity*. GASB Statement No. 14 defines the financial reporting entity as consisting of:
 - “(a) the primary government;²⁶
 - (b) organizations for which the primary government is financially accountable; and
 - (c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity’s financial statements to be misleading or incomplete.” (paragraph 12).²⁷
- 66. GASB Statement No. 14 specifies that elected officials are accountable for an organization if they appoint a voting majority of the organization’s governing board (paragraph 21). It “uses the term *financial accountability*, rather than *accountability*, to describe the kind of relationship warranting the inclusion of a legally separate organization in the reporting entity of another government” (paragraph 21). Thus, a primary government is financially accountable for an organization if:

²⁵ *IASB Update*, May 2007, page 2.

²⁶ GASB Statement No. 14 describes primary governments as state governments, general purpose local governments, and special purpose governments with specified characteristics (paragraph 13). A primary government includes all funds, organizations, institutions, agencies, departments and offices that are not legally separate (paragraph 14).

²⁷ GASB Statement 39 *Determining Whether Certain Organizations Are Component Units—an amendment of GASB Statement 14* (May 2002) amended GASB Statement No. 14 to provide additional guidance to determine whether certain organizations for which the primary government is not financially accountable should be reported as component units based on the nature and significance of their relationship with the primary government. Generally, it requires reporting, as a component unit, an organization that raises and holds economic resources for the direct benefit of a governmental unit.

- (a) it appoints the number of members of the governing body necessary to approve financial decisions (e.g., a simple majority)²⁸ and (1) it is able to impose its will on that organization,²⁹ or (2) there is a potential for the organization to provide specific financial benefits to, or directly or indirectly impose specific financial burdens on, the primary government (paragraphs 21(a) and 22); and
- (b) the organization is fiscally dependent on the primary government, regardless of whether the organization has (1) a separately elected governing board, (2) a governing board appointed by a higher level of government, or (3) a jointly appointed board (paragraphs 21(b) and 34).

Operations covered by a public budget

- 67. Some commentators argue that a reporting entity exists in respect of the operations covered by a budget used to raise resources from the public (either directly, in the form of rates or taxes, or indirectly, in the form of grants or appropriations). This reporting entity exists separately from any operations of the organization (such as those funded from the sales of goods or services)³⁰ that are not encompassed by the entity’s public budget. For example, a local government (funded from rates and taxes included in its general budget) that controls a business entity that operates outside its budget would exclude the business entity from its separate GPFR, even though it might also prepare a consolidated GPFR that includes the business entity.
- 68. Those commentators argue that a public sector entity’s accountability for operations covered by a public budget is greater than for its other operations because:
 - (a) the operations covered by a public budget are the primary reasons for the entity’s existence; and
 - (b) resources are provided (sometimes involuntarily) to the entity on the basis of representations made in its public budget, unlike other resources provided to the entity (which may often be provided in exchange transactions, where the resource provider is satisfied by receiving approximately equal value directly in exchange).
- 69. Determining the boundaries of a reporting entity on the basis of a public budget is mainly regarded as applying a notion of accountability. However, it can also be used in conjunction with applying control to determine those boundaries (when control is used to determine which resources are treated as assets).

²⁸ A primary government that creates an organization is financially accountable for that organization if the primary government can unilaterally abolish it (GASB Statement No. 14, paragraph 24).

²⁹ It has this ability “if it can significantly influence the programs, projects, activities, or level of services performed or provided by the organization” (GASB Statement No. 14, paragraph 26).

³⁰ Services include the use of the organization’s assets.

Control

70. Under this approach, the entity reports resources that it controls. Some commentators argue that if the information provided by the financial report is to be useful, the reporting entity needs to be accountable to users of its financial reports (such as funders and other financial supporters) and that the reporting entity should only be held to account for the resources it can control.
71. As noted in paragraphs 58-59, IPSAS 6 and most private sector accounting standards currently use the notion of control to define the boundaries of a group reporting entity. A group reporting entity includes the controlling entity and the entities it controls.
72. In relation to the preparation of consolidated financial statements for a group reporting entity, IPSAS 6 currently defines control as:

“the power to govern the financial and operating policies of another entity so as to benefit from its activities.” (paragraph 7)

This definition is identical to that included in IAS 27 *Consolidated and Separate Financial Statements*.

73. More recently, a new proposed definition has been discussed in the IASB-FASB Conceptual Framework project:
- “Control of an entity is the ability to direct the financing and operating policies of an entity, so as to access benefits flowing from that entity (and/or to reduce the incidence of losses) and increase, maintain or protect the amount of those benefits (and/or reduce the amount of those losses).”

74. Common to each of these definitions of control are the ‘power’ and ‘benefits’ elements, namely:
- (a) *The power* element is the ability of the controlling entity (whether exercised or not) to direct the operating and financing policies of the controlled entity; and
 - (b) *The benefit* element is the ability of the controlling entity to access benefits flowing from the controlled entity.

75. Appendix B discusses the *power* and *benefits* elements of control. In addition, to assist assessments of the practicality of applying control in the public sector, Appendix B various application issues. The purpose of considering these issues is not to develop standards-level guidance on control, but, rather, to assess whether practical issues are likely to be surmountable.
76. Other definitions of control, each of which includes the *power* and *benefits* elements, are set out in Appendix C.

Common control

77. Common control can be used to determine the boundaries determined on group reporting entities. A group reporting entity with boundaries based on common control has the same composition as a group reporting entity determined on the basis of control, except that (unlike with control) the controlling entity is excluded from the group. Using such an approach to determine the boundaries of a group reporting entity is a modification of a control-based approach, and can be used as a complement to using control to determine the boundaries of other reporting entities (e.g., using control to determine the boundaries of individual reporting entities within the group, or to determine the boundaries of a government that includes a group reporting entity [i.e., a sub-group of the government] based on common control).
78. A group reporting entity with boundaries based on common control might be identified where either:
- (a) the operations of the controlled entities are not integrated with those of the controlling entity (for example, the controlling entity is a passive investor);
 - (b) the controlling entity of each of them would not ordinarily prepare GPFRs (for example, it is an individual that is not required to prepare GPFRs);
 - (c) the controlled entities are controlled by the same government minister, but that minister does not control resources separately from the resources held by his or her controlled entities (i.e., there is no controlling entity to include in the group GPFR); or
 - (d) identifying the immediate controlling entity is difficult, although the identity of the ultimate controlling entity is clear. For example, for entities clearly controlled by a government, it might be unclear whether the government minister with authority over them is an intermediate controlling entity.
79. In the circumstances described in paragraph 78(a), some commentators argue that group GPFRs are more useful if they exclude the controlling entity, particularly if the amounts of the controlling entity’s assets, liabilities, revenues and expenses are large compared with all of those of the controlled entities. Other commentators argue that governments and government departments tend not to be passive investors in controlled entities. They also argue it is not apparent that users of public sector GPFRs would have information needs that are not met by GPFRs of individual entities and group entities that include controlling and controlled entities but would be met by GPFRs of group entities determined on the basis of common control.
80. Some commentators note that, in the circumstances described in paragraph 78(b), information about the controlling entity might not be available. Preparing a GPFR that includes its controlled entities might be the next best alternative, and would provide information that arguably is more useful than the separate GPFRs for each of its controlled entities. Other commentators argue that those circumstances tend to arise mainly (if not exclusively) in the private sector, and therefore are not relevant to determining the boundaries of public sector reporting entities.

81. In the circumstances described in paragraph 78(c), it would make no difference whether the controlling entity were included in the group reporting entity.
82. The circumstances described in paragraph 78(d) are relevant to the public sector. However, some commentators argue that, in those circumstances, it would be impossible to determine the boundaries of a group reporting entity that is a sub-set of a government because, in a control-based approach (whether control or common control), it is necessary to identify the controlling entity (regardless of whether the controlling entity is included in the group reporting entity).
83. If the boundaries of group reporting entities were to be based on the concept of common control, it would also be necessary to determine which combinations of entities are appropriate for the purposes of general purpose financial reporting. Issues that would need to be dealt with are:
 - (a) whether a group reporting entity should encompass all entities under the control of the ultimate controlling body or be limited to those that have a common immediate controlling body;
 - (b) whether a group reporting entity should encompass entities that do not have a common immediate controlling body but have a common ultimate controlling body; and
 - (c) whether the group reporting entity should encompass all entities under common control or can encompass a subset of them.
84. In their joint conceptual framework project, the IASB and FASB concluded that, overall, the control approach is more consistent with the objective of financial reporting than the common control approach and should be regarded as the primary basis for determining the composition of group reporting entities. However, the Boards noted there are occasions when group financial reports of commonly controlled entities would provide decision-useful information to investors and creditors and the conceptual framework should, therefore, include a discussion of the common control approach, while leaving discussion of the circumstances in which it may be applied to standards level guidance.

Majority of risks and rewards

85. The boundaries of a reporting entity could include all items that give rise to financial risks to that entity and, when applicable, related rewards. This could provide useful information to users of the reporting entity’s GPFRs for assessing that entity’s future possible resource flows. However, including any items that may give rise to risks and rewards may overstate the value of the resources that the entity may deploy. For example, a group reporting entity may include other entities in which the entity possesses neither a residual interest and that make only a small proportion of their transactions with the entity. Therefore, some commentators argue that the boundaries of a reporting entity should include items in which that entity is exposed to the majority of risks and rewards. They note that, in respect of individual entities, this is consistent with the classification of finance leases under IAS 17 *Leases* (based on substantially all the risks and rewards incidental to ownership) and the criteria in IAS 18 *Revenue* for recognising sales of goods

by the entity (which include the transfer of the significant risks and rewards of ownership of the goods).

86. Using risks and rewards as the *concept* for determining the boundaries of a group reporting entity is conceptually distinct from using control for that purpose. A risks and rewards model does not include a power element. Under an approach that relies only on risks and rewards, the boundaries of the group reporting entity may include entities over which there is no power to direct financing and operating policies. In addition, under a control approach, no limit is set on the extent of benefits to be received.
87. Risks and rewards, may, however, be given a complementary role as a potential indicator of control, particularly in determining whether the benefit element of control is met.
88. An example of where ‘risks and rewards’ are used to complement the concept of control is in determining whether special purpose entities (SPEs) are controlled by an entity. SIC 12, paragraph 10, lists circumstances that could indicate that an SPE is controlled:
 - (a) in substance, the activities of the SPE are being conducted on behalf of the entity according to its specific business needs so that the entity obtains benefits from the SPE’s operation;
 - (b) in substance, the entity has the decision-making powers to obtain the majority of the benefits of the activities of the SPE or, by setting up an ‘autopilot’ mechanism, the entity has delegated these decision-making powers;
 - (c) in substance, the entity has rights to obtain the majority of the benefits of the SPE and therefore may be exposed to risks incident to the activities of the SPE; or
 - (d) in substance, the entity retains the majority of the residual or ownership risks related to the SPE or its assets in order to obtain benefits from its activities.

Similar functions

89. Some commentators argue that a reporting entity should only include operations that perform similar functions. Possible examples of such a reporting entity are:
 - (a) operations or component entities that collectively provide a particular service (e.g., health care services);
 - (b) the general fund (non-business operations) of a local government, as distinct from its electricity utility (business operation); and
 - (c) the general government sector of a government (in some jurisdictions, it is the sector of a government that excludes the “public non-financial corporations” and “public financial corporations” sectors).

Analysis of the Various Bases

Accountability

90. Some commentators argue that the boundaries of a reporting entity should be based on accountability because accountability is widely regarded as one of the objectives (if not the primary objective) of GPFs of public sector entities. They also note that

information useful for assessing accountability is generally useful for resource allocation decisions by users of GPFRs.

91. GASB Statement No. 14 includes the following reasons for using accountability to define a reporting entity:

“GASB Concepts Statement No. 1, *Objectives of Financial Reporting*, states that ‘accountability is the cornerstone of all financial reporting in government’ and ‘financial reporting plays a major role in fulfilling government’s duty to be publicly accountable in a democratic society’ It follows that an accountability perspective should provide the basis for defining the financial reporting entity. Financial reporting based on accountability should enable the financial statement reader to focus on the body of organizations that are related by a common thread of accountability to the constituent citizenry.” (paragraph 2)

“... elected officials are accountable to those citizens³¹ for their public policy decisions, regardless of whether those decisions are carried out directly by the elected officials through the operations of the primary government or by their designees through the operations of specially created organizations. This broad-based notion of accountability by elected officials leads to *the underlying concept of the governmental financial reporting entity*: Governmental organizations are responsible to elected governing officials at the federal, state, or local level; therefore, financial reporting by a state or local government should report the elected officials’ accountability for those organizations.” (paragraph 8, emphasis added)

92. Under some notions of accountability, the boundaries of a reporting entity should be determined on the basis of control, because an entity is accountable for the resources it controls. Using control to determine the boundaries of a reporting entity is evaluated separately in paragraphs 102-104.
93. Some other notions of accountability are not limited to control. For example, applying the concept of accountability in GASB Statement No. 14 may result in a broader reporting entity than a reporting entity with boundaries based on control, because a primary government would be financially accountable for an organization if the organization is fiscally dependent on the primary government. Fiscal dependency could exist in the absence of a control relationship—this is said, for example, in CICA Handbook Section PS 1300, *Government Reporting Entity* (paragraph 24), and Australian standard AAS 31 *Financial Reporting by Governments* (paragraph 9.1.7(c)).³²
94. Some commentators observe that practical difficulties can arise in applying the control concept in the public sector (see Appendix B, paragraphs B20-B36), and argue that applying a broader concept for determining the boundaries of a reporting entity can avoid many of these difficulties. Furthermore, they argue that applying a broader concept provides citizens and other users with a broader overview of the resources deployed to achieve outcomes for the citizenry and holds elected officials more accountable for the outcomes of their public policy decisions.

³¹ That is, the citizens they serve and by whom, collectively, they were elected.

³² (This reference needs updating for the recent revision of AAS 31.)

95. Other commentators argue that practical difficulties can also arise in applying the accountability concept in the public sector. They consider that a spectrum of accountability relationships can exist for different entities, and therefore that the concept of accountability does not of itself provide a clear basis for identifying which entities should be included in a group reporting entity. For example, Ball commented that:

“The accountability aspect implies that reporting entities be identified by reference to the need to demonstrate accountability. In the private sector, the issue of to whom ... entities are accountable is not clear-cut, in the sense that there are alternatives, with business entities being held accountable by shareholders (controlling or non-controlling), creditors, the wider community, and by special interest groups. The situation is even less clear for non-business entities in the private sector (e.g., associations, trade unions, partnerships). In the public sector, accountability bonds and accountability links are both more numerous and complex. Accordingly, the issue of which entities should report is even more problematic. For Commonwealth and state governments, there are accountability relationships linking departments, Ministers, the Government, Parliament and the electorate as well as other indirect relationships, for example, between departments and service recipients. These relationships are further confused by the number and variety of intergovernmental arrangements.”³³

96. Similarly, the Canadian experience has been that accountability has been problematic to apply as a concept for determining the boundaries of a reporting entity,³⁴ and therefore the Canadian PSAB adopted control as the only concept for that purpose (CICA Handbook Section PS 1300, paragraph .07).

97. Some commentators disagree with using accountability to determine the boundaries of a group reporting entity because an organization may qualify for inclusion in two or more unrelated entities.³⁵ For example, GASB Statement No. 14 notes that:

“In some instances, the financial accountability criteria of paragraph 21a indicate that an organization is a component unit of a particular primary government. However, that organization may also be fiscally dependent on another state or local government In these situations, the organization meets the benchmark for inclusion in more than one reporting entity. However, an organization should be included as a component unit of only one reporting entity.” (paragraph 38).

98. GASB Statement No. 14 notes that judgment needs to be exercised to determine which reporting entity a component unit belongs to, and provides guidance on factors to take into account when exercising that judgment (paragraph 38). However, some

³³ Dr Ian Ball, *Definition of the Reporting Entity*, Accounting Theory Monograph No. 8, Australian Accounting Research Foundation, 1988, page 7.

³⁴ Accountability was used together with ownership and control.

³⁵ “Unrelated entities” are mentioned to contrast with circumstances in which an entity is included in the group financial report of a parent entity and also the financial report of a larger group that includes an ultimate parent entity.

commentators argue that practical solutions to this issue cannot compensate for the overlap, in concept, between different group reporting entities (i.e., the dual inclusion of an entity or unit in different reporting entities). They argue that this potential for overlap exists because accountability is such a broad concept.

99. Some commentators also disagree with identifying fiscal dependency as a basis for inclusion in a group reporting entity because:
- (a) some private sector charities are heavily dependent on government funding to pursue their mission; and
 - (b) some intermediate governmental entities (e.g., state government entities, such as particular educational institutions) are fiscally dependent on funding from a senior level of government (e.g., a federal government) to pursue their mission although their financial and operating policies are directed by the intermediate government [this is an example of potential dual inclusion, in concept, of an entity or unit in different group reporting entities, discussed in paragraphs 97-98].

Operations covered by a public budget

100. As noted in paragraph 68, some commentators argue that a public sector entity’s accountability for operations covered by a public budget is greater than for its other operations because:
- (a) the operations covered by a public budget are the primary reasons for the entity’s existence; and
 - (b) resources are provided (sometimes involuntarily) to the entity on the basis of representations made in its public budget, unlike other resources provided to the entity (which may often be provided in exchange transactions, where the resource provider is satisfied by receiving approximately equal value directly in exchange).
101. Other commentators argue that a public sector entity should be accountable both for resources obtained on the basis of a public budget *and* for resources funded from the sales of goods or services that are not encompassed by the entity’s budget. They argue that:
- (a) omitting resources that are not encompassed by the entity’s budget can result in omitting a significant proportion of the resources deployed to achieve the entity’s objectives and related obligations, which would impede effective oversight of the entity and resource allocation decisions about the entity; and
 - (b) it is possible to discharge accountability for operations covered by a public budget without treating those operations as a separate reporting entity, by presenting budget and actual amounts for a period by note or otherwise within a financial report for all of an organization’s activities.

Control

102. Some commentators argue that determining the boundaries of a reporting entity on the basis of control would help meet the objectives of financial reporting, because it would

provide useful information for making resource allocation decisions and assessing accountability. It would provide this information by reporting the resources and obligations of the controlling and controlled entities that operate together to achieve common objectives, whether to generate net cash inflows and/or provide goods and services. In addition, these commentators contend that an entity should be held accountable for the resources it controls and the results of their deployment, and not be held accountable for resources it does not control.³⁶ In contrast, some commentators argue that this presents a view of a government’s accountability that is too narrow (see the discussion of accountability above).

103. As noted in Appendix B (paragraphs B20-B36), a number of issues arise in applying the concept of control to determine the boundaries of a public sector reporting entity. Different views have been argued in respect of some of those issues, and some readers may consider that those issues detract from the usefulness of applying control for this purpose. As is noted in paragraphs 95-99 and 106-107, respectively, some commentators have identified issues with using accountability or the majority of risks and rewards for this purpose. In addition, as is noted in paragraphs 101 and 110, respectively, using operations covered by a public budget or operations with similar functions for this purpose can result in omission of significant resources and obligations of the entity. Therefore, it is likely that determining the boundaries of public sector reporting entities in a manner that is most useful for achieving the objectives of financial reporting will necessarily entail some problematic application issues.
104. The advantages and disadvantages of determining the boundaries of reporting entities based on common control are similar to those for using control for that purpose. For the reasons given in paragraphs 79-82, in respect of public sector reporting entities, it is not readily apparent how using common control would be more useful than using control.

Majority of risks and rewards

105. Some commentators argue that using the majority of risks and rewards to determine the boundaries of a reporting entity would provide useful information for assessing the entity’s future possible resource inflows and outflows, and that this information may be broader than that provided when the concept of control is used for this purpose (for example, it may include the effects of some or all economic dependency relationships). Some commentators also argue that, in some circumstances (such as special purpose entities), the existence of the majority of risks and rewards can be identified more readily than the existence of control.
106. However, other commentators argue that such thresholds may be arbitrary and lack conceptual justification. In addition, assessing a threshold amount of risks and rewards may involve considerable judgement. In a commercial arrangement, an array of different risks and rewards can be shared between contracting parties, which may make the overall assessments difficult.

³⁶ This argument was made by F. Micallef, P. Sutcliffe and P. Doughty in *Financial Reporting by Governments*, Discussion Paper No. 21, Australian Accounting Research Foundation, 1994, page 42.

107. Some commentators argue that using risks and rewards to determine the boundaries of a group reporting entity in the public sector:
- (a) may have little (if any) meaning for not-for-profit entities, which compose a significant component of government. This is because they lack the pervasive characteristic of for-profit entities that resources are deployed to generate net cash inflows as a reward for bearing risk; and
 - (b) may not be workable for governments because, through their coercive powers, they can obtain rewards without exposure to corresponding risks.

Similar functions

108. Some commentators argue that GPFRs that include assets, liabilities and activities of entities with similar functions are more user-friendly, for example because they make comparisons of the financial position and performance of entities engaged in similar activities easier. They note that an important use of public sector entity GPFRs is to compare the performance of similar service-delivery organizations in different jurisdictions. They also argue that users would find GPFRs for reporting entities confusing if they include dissimilar activities, because different types of assets, liabilities, revenues and expenses are aggregated despite their heterogeneous nature.
109. Another advantage of basing the boundaries of public sector reporting entities on similar functions is that it can avoid some of the difficulties, at the sub-group level within a government, of identifying controlling entities. For example, the identity of the immediate controlling entity for legally separate postal and telecommunications authorities might be unclear but, nonetheless, consolidated or combined financial reports could be prepared for both authorities on the basis of their having similar functions.
110. Other commentators argue that, since the key objective in preparing GPFRs is to reflect the individual or group entity as a single reporting entity, it does not matter whether components of that entity are involved in dissimilar activities. They argue that excluding activities or entities that operate as part of a government results in a loss of accountability for the results of public policy decisions made by elected officials. For example, it could result in omitting a significant proportion of the resources deployed to achieve the entity’s objectives and related obligations, which would impede effective oversight of the entity and resource allocation decisions about the entity.
111. These commentators also note that, where reporting entities encompass dissimilar activities, the nature of these activities can be conveyed in GPFRs by providing disaggregated information about the various lines of activity, including segmental disclosures.

Specific matters for comment

The IPSASB would welcome comments on the following questions:

Question 3(a)

Should the IPSASB's conceptual framework provide guidance on the basis (or bases) on which the boundaries of individual and group reporting entities should be determined? Please give your reasons.

If so, please answer Questions 3(b) and 3(c).

Question 3(b)

Which of the following bases should be used to determine the boundaries of a reporting entity:

- (i) accountability?
- (ii) operations covered by a public budget?
- (iii) control and/or, for group reporting entities, common control?
- (iv) the majority of risks and rewards? or
- (v) similar functions?

If more than one of these bases should be used, please indicate which ones and the circumstances in which each of them should be used. If you support (iii), please indicate the circumstances (if any) in which you would support using common control.

Please give your reasons.

Question 3(c)

Are there any application issues relating to one or more of these bases that should be resolved before the IPSASB decides its concepts for the *reporting entity* component of its conceptual framework? If so, please describe the issue(s) and explain why they need to be resolved at a concepts level.

Differential Reporting

112. Some commentators argue that considering the characteristics of which public sector entities should prepare GPFRs should involve consideration of whether some form of differential reporting should be incorporated in IPSASs. They argue that some public sector entities (such as those not possessing the characteristics described in paragraph 41) should be accountable for the resources they deploy, the obligations they incur and the results of their operations (i.e., they should prepare GPFRs), but should not be required to prepare GPFRs that comply with all applicable IPSASs. They argue that requiring those

entities to comply with all IPSASs could not be justified on cost-benefit grounds, but requiring preparation of GPFRs that comply with less onerous requirements (such as some IPSASs or selected requirements of all IPSASs) could be justified. Further, they argue that standard setters should respond to this cost-benefit issue. Thresholds for making a distinction between different “classes” of public sector entities would depend on the nature of those less onerous requirements and may also depend on jurisdiction-specific considerations.

113. The nature of a differential reporting regime for entities that apply IPSASs is a project in itself, and outside the scope of this paper.

Appendix A

Extracts from Australian SAC 1 regarding factors for identifying public sector entities that should prepare GPFRs

A1. Australian Statement of Accounting Concepts SAC 1, *Definition of the Reporting Entity*, identifies the primary characteristics of entities that should prepare GPFRs as:

- (a) separation of management from economic interest;
- (b) economic or political importance or influence; and
- (c) financial characteristics, such as the amount of resources controlled to provide goods and services and the amount of indebtedness.

A2. It explains these characteristics as follows:

“Separation of management from economic interest

The greater the spread of ownership/membership and the greater the extent of the separation between management and owners/members or others with an economic interest in the entity, the more likely it is that there will exist users dependent on general purpose financial reports as a basis for making and evaluating resource allocation decisions.” (paragraph 20)

“Economic or political importance or influence

Economic or political importance/influence refers to the ability of an entity to make a significant impact on the welfare of external parties. The greater the economic or political importance of an entity, the more likely it is that there will exist users dependent on general purpose financial reports as a basis for making and evaluating resource allocation decisions. Reporting entities identified on the basis of this factor are likely to include organisations which enjoy dominant positions in markets and those which are concerned with balancing the interests of significant groups, for example, employer/employee associations and public sector entities which have regulatory powers.” (paragraph 21)

“Financial characteristics

Financial characteristics that should be considered include the size (for example, value of sales or assets, or number of employees or customers) or indebtedness of an entity. In the case of non-business entities in particular, the amount of resources provided or allocated by governments or other parties to the activities conducted by the entities should be considered. The larger the size or the greater the indebtedness or resources allocated, the more likely it is that there will exist users dependent on general purpose financial reports as a basis for making and evaluating resource allocation decisions.” (paragraph 22)

- A3. SAC 1 also identifies some implications of applying these characteristics to identify Australian public sector entities that should prepare GPFRs. These are set out below:

“An implication of applying the reporting entity concept in the public sector is that a government as a whole, whether at the Federal, State, Territorial or local government level, would be identified as a reporting entity because it is reasonable to expect that users will require general purpose financial reports to facilitate their decision-making in relation to the resource allocations made by, and the accountability of, those governments. At a lower level of reporting, a number of individual statutory authorities and departments (and the entities they control) may also be defined as individual reporting entities because of their economic or political significance and/or their financial characteristics (for example, resources controlled and level of indebtedness). In some cases, these factors may also identify a ministerial portfolio as a reporting entity.” (paragraph 25)

“For entities which operate in the public sector, the implications of the factors listed in paragraphs 20 to 22 are that most government departments and statutory authorities will be reporting entities. This arises by virtue of the separation between the parties with an economic interest in the activities undertaken in the sector and the parties responsible for the management of those activities. (Management is elected by the parties which have an economic interest in the activities, that is, members of the public, or is appointed by others who have been so elected.) It is fundamental that those who manage resources on behalf of others should account for their performance to those who have provided the resources. Thus, in the public sector, the practical use of the factors listed in paragraphs 20 to 22 will be to identify entities which are not reporting entities. For example, medical centres established and controlled by a hospital may not be considered to be reporting entities where, individually, the amount of resources allocated to each is very low relative to the total resource allocation to the hospital and, because of that and other factors, there do not exist users dependent on general purpose financial reports relating to each centre. In such circumstances, information about the medical centres controlled by the hospital would be incorporated into the general purpose financial report of the hospital. This does not mean that the hospital will not require financial information from each of the centres for making resource allocation decisions. Rather, the implication is that financial reports prepared for this purpose by the centres would not be in the nature of general purpose financial reports, but instead would be in the nature of special purpose financial reports.” (paragraph 24)

Appendix B

Guidance on “control” and related application issues

- B1. Determining whether an entity controls another entity requires the assessment of all the circumstances and there is no single circumstance that demonstrates that an entity has control over another in all cases.³⁷ A variety of factors needs to be considered in identifying control of one entity over another. The *power* and *benefits* elements of the definition of control are discussed below.

The power element

- B2. The ability to direct the financing and operating policies of another entity may arise from legal rights held by the controlling entity or through other means. The controlling entity does not necessarily require a majority of ownership interests to have the power to direct the other entity’s financing and operating policies.
- B3. A public sector entity’s power to direct the financing and operating policies of another entity usually emanates from legislation, articles of association and/or by-laws. This power is manifested in the controlling entity’s right to appoint or dismiss the majority of the voting members of the controlled entity’s management or governing body, which in turn would have the power to determine the entity’s strategic financing and operating policies. Some commentators argue that setting an entity’s budget may also be an example of where the power criterion is satisfied (they note that, for example, AAS 31 *Financial Reporting by Governments* indicates that an indicator of control of an entity is the ability to veto operating and capital budgets of that entity [paragraph 9.1.4(b)] and New Zealand standard FRS-37 *Consolidating Investments in Subsidiaries* says an indicator of the power element of control of an entity is an ability to modify or approve the entity’s budget or changes in rates or fees [paragraph 5.11(A)(10)]).
- B4. The form in which an entity exercises power over another entity (and receives economic benefits) does not necessarily determine the substance of the relationship between them.³⁸ In the absence of the right to appoint or dismiss the majority of voting members of the entity’s management or governing body, other characteristics of the relationship between the two entities would be instrumental in determining whether the power element exists. An example would be when the management or governing body of an entity is constrained by provisions in the enabling legislation, constitution or by-laws in how it directs the financing and operating policies of that entity and those restrictions cannot be altered without the consent of a second entity.
- B5. In the IASB-FASB conceptual framework project, the Boards tentatively decided that:
- (a) whether an entity has control over another entity involves an assessment of all the current facts and circumstances; and

³⁷ This point is made in SAC 1, paragraph 17, CICA Handbook Section PS 1300, paragraphs .10 and .11, and the UK Accounting Standards Board’s *Statement of Principles for Financial Reporting*, paragraphs 2.12 to 2.15.

³⁸ This point is made in CICA Handbook Section PS 1300, paragraph .11.

- (b) control encompasses circumstances that are economically similar to when legal rights exist.³⁹
- B6. Another feature of control is that the controlling entity’s power to direct is not shared with others. The capacity to act, which is at the core of the power element, cannot be shared or divided. An entity lacks this capacity and therefore power if it needs the agreement of other parties to act.
- B7. If an entity, despite its ability to exercise power, chooses not to do so, the capacity to act still exists.
- B8. Some of a government’s legislative powers establish the regulatory framework within which entities operate in both the public and private sectors. Such regulatory power does not constitute control possessed by the government or a government-controlled entity over the assets deployed by these entities. For example, although a government authority may have the power to close down the operations of entities that do not comply with emission control regulations, this power does not constitute control by that authority because it only has a regulatory power.⁴⁰
- B9. In some situations an entity is economically dependent on a public sector entity but retains discretion as to whether it will take funding from, or do business with, the public sector entity. In this case, the first entity has the ultimate power to govern its own financing or operating policies, and accordingly is not controlled by the public sector entity. An example is where a public sector entity can influence the financing and operating policies of another entity that is engaged in charitable activities because the charity is dependent on it for funding. Here, in the absence of other circumstances, the agreement to provide funding would not constitute control by the public sector entity. As CICA Handbook, Section PS 1300 indicates, if the governing body of an organization retains discretion as to whether it will take funding from, or do business with, the government, the government does not govern the financial operating policies of the organization and hence does not control it (paragraph .24).
- B10. Directing the financing and operating policies of another entity may occur in various ways. For example, a government might predetermine the financing and operating policies of another entity by defining its objectives and removing its ability to make future decisions about those policies; it might direct those policies on an ongoing basis; or it might veto, overrule or modify policies set by the entity itself. However, as is said in CICA Handbook, Section PS 1300 (paragraph .15), governing an entity’s financial and operating policies does not require daily involvement in managing the entity’s operations.

³⁹ *IASB Update*, September 2006, page 4.

⁴⁰ This point is made in CICA Handbook Section PS 1300, paragraph .23 and Exposure Draft 112, *Proposed Application Guidance for NZ IAS 27 ‘Consolidated and Separate Financial Statements’ to Assist in Determining Whether a Public Benefit Entity Controls Another Entity*, New Zealand Financial Reporting Standards Board, June 2007, paragraph NZ AG12(a).

The benefit element

- B11. The benefits flowing from a controlled entity (the benefit element of control) that a controlling entity is able to access are not restricted to particular types and may take various forms. They may be in the form of dividends, interest, fees, royalties from the controlled entity, or they may be in the form of access to research and development or synergies arising from the relationship with the controlled entity. Particularly in a not-for-profit entity context, benefits accessed may be in the form of the delivery of goods or services to the controlling entity or to the public on behalf of the controlling entity. A controlling entity may derive both financial and/or non-financial benefits from a controlled entity (see IPSAS 6, paragraph 29, and CICA Handbook Section PS 1300, paragraph .16). For example, a government business enterprise may provide a controlling entity with a dividend and also enable it to achieve some of its social policy objectives.

Linkage of power and benefit elements

- B12. In the IASB-FASB conceptual framework project, the Boards tentatively decided that the definition of control should require both the power and benefit elements to exist.⁴¹ If an entity is unable to benefit from its power, its interest in, or relationship with, the other entity is unlikely to have a significant effect on its resources, claims to those resources, and the transactions and other events that affect those resources and claims. In addition, it would be inappropriate to consolidate or combine the resources and obligations of the two entities as if the entities operate together to achieve common objectives.
- B13. When power is exercised by a trustee but benefits are received by beneficiaries, the trustee does not control the trust; rather, it is acting as an agent. The benefits the trustee enjoys, such as fees, are not sufficient to give it control of the trust itself. The UK ASB’s *Statement of Principles for Financial Reporting: Interpretation for Public Benefit Entities* states:

“In some circumstances, a public benefit entity may be the trustee of charitable funds. Depending on the circumstances of the case, the charitable funds may form part of the reporting entity, particularly if the trustee both controls the charitable funds and has objectives that are concurrent.”⁴²

Application of control, and related indicators

- B14. The following paragraphs discuss various issues regarding the application of the concept of control in the public sector, including possible indicators of control (which are discussed first).

⁴¹ *IASB Update*, April 2006, page 1.

⁴² June 2007, paragraph 2.12.

Indicators of control

- B15. The statistical literature includes a number of indicators of control. For example, the Task Force on Harmonization of Public Sector Accounting (TFHPSA)—Final Report⁴³ noted that the Advisory Expert Group on National Accounts of the Inter-Secretariat Working Group on National Accounts (ISWGNA)⁴⁴ agreed, at its January/February 2006 meeting, with the Task Force’s recommendations:
- (a) to use a list of indicators to determine when a government controls an entity; and
 - (b) that those indicators should be used collectively rather than any of them necessarily being definitive in its own right (paragraph 16).
- B16. The TFHPSA considered a paper entitled *The General Government and Public Sectors* (John Pitzer and Jean-Pierre Dupuis) at its March 2006 meeting. The paper summarized the results of extensive discussions and decisions of the TFHPSA and served as an input into the revision of the 1993 SNA. This paper described control as the ability to determine the general policy of an entity and, in relation to corporations, said:
- “The expression ‘general corporate policy’ as used here is understood in a broad sense to mean the key financial and operating policies relating to the corporation’s strategic objectives as a market producer.” (paragraph 28)⁴⁵
- B17. It included the following proposed indicators of when a government controls a corporation or a non-profit institution:

⁴³ The purpose of the Task Force (TFHPSA) was to examine ways of minimising unnecessary differences between accounting and statistical bases of financial reporting and to make recommendations to the IPSASB, International Monetary Fund (IMF) and various groups involved in providing input to the update of the *System of National Accounts 1993* by 2008. The TFHPSA was chaired by the IMF and comprised representatives of the European Central Bank, Eurostat, International Accounting Standards Board, IPSASB, Organisation for Economic Co-operation and Development (OECD), United Nations (UN) and World Bank, together with representatives of statistical bodies in various countries. The TFHPSA Report was presented at the final meeting of the TFHPSA held in March 2006.

⁴⁴ The ISWGNA prepares the update of the System of National Accounts, at the direction of the UN Statistical Commission. Its membership comprises the European Commission, IMF, OECD, UN, World Bank and other international organizations.

⁴⁵ This description and explanation of control are consistent with the definition of control in the *System of National Accounts 1993*, namely, “the ability to determine the entity’s general corporate policy, by appointing directors if necessary” (paragraph 4.30). They are also consistent with the power element of both the definition of control in IPSAS 6 and the draft definition of control tentatively decided by the IASB and FASB in their joint conceptual framework project (see paragraph 73). In addition, the explanation of general corporate policy mentions *strategic* objectives, whereas *strategic* is not used explicitly in the definitions in IPSAS 6 and the IASB-FASB framework project.

No.	Corporation	Non-Profit Institution
1	Ownership of the majority of the voting interest	
2	Control of the board or other governing body	
3	Control of the appointment and removal of key personnel	The right to appoint the officers managing the institution
4	Control of key committees of the entity	
5	Golden shares and options that currently confer on the government the ability to determine the entity’s general corporate policy	The enabling instrument contains provisions (other than the appointment of officers) that effectively allow the government to determine significant aspects of the institution’s general policy or programme
6	Regulation that is so tight that it effectively dictates how the entity performs its business	The existence of a contractual agreement between the government and the institution that allows the government to determine key aspects of the institution’s general policy or programme
7	The government is a dominant customer of the entity	
8	Controls through lending or issuing guarantees that are more than would be typical when a healthy private sector entity borrows from a bank	The institution is mainly financed by the government
9		The government openly allows itself to be exposed to all, or a large proportion of, the financial risks associated with the institution’s activities

B18. The paper says: “Although a single indicator could be sufficient to establish control, in other cases, a number of separate indicators may collectively indicate control. A decision based on the totality of all indicators must necessarily be judgmental in nature. Of course, there has to be consistency in classification decisions for such judgments.” (paragraph 34)

B19. The text of the paper’s discussion of indicators of control of a corporation or non-profit institution is set out in Appendix D.

Application issues

Identifying the controlling entity

- B20. In the public sector, generally unlike the private sector, it is sometimes difficult to identify the controlling entity (which is essential for determining the boundary of reporting entities identified on the basis of control). This is generally not a problem at the whole of government level, but can be problematic for identifying economic entities within governments. For example, does a government Minister control groups of entities separately from the economic entity that composes the whole of government? Or is such control exercised by the Executive? These issues would need to be resolved if all of the economic entities that exist within governments are to be identified on a consistent basis.

Governments’ ability to change legislation

- B21. The ability of governments to change legislation raises the question of whether governments possess the capacity to direct the financing and operating policies of a wide range of private sector entities such as charities, other not-for-profit entities and even private sector for-profit entities. This control-related issue is unique to governments. Not only does it affect the potential boundaries of a governmental reporting entity, but it also affects the identification of the assets and liabilities of a government (an issue for the Elements component of the IPSASB Conceptual Framework project). For example, if a government’s ability to change legislation were to be taken into account, it could be concluded that, in particular circumstances, a government has the power to expropriate assets of other entities and to cancel its debts.
- B22. In many countries, the capacity of governments to change legislation is subject to various processes and checks and balances. Therefore, some commentators argue, in those instances a government’s capacity to change legislation is not assured and should be disregarded for financial reporting purposes. In other countries, the government’s ability to change legislation might be essentially unrestricted, in which case different conclusions might be considered appropriate.
- B23. Presently, the general convention in governmental accounting is that any assessment of control should be based on current legislation.⁴⁶ Under that convention, the capacity to legislate nationalisation of certain private sector entities or expropriation of certain assets does not amount to control.
- B24. The abovementioned convention is consistent with the tentative decision of the IASB and FASB (in their joint Conceptual Framework project) that “when an option holder holds sufficient options that, if exercised, would place it in control of another entity, that is not sufficient, in itself, to establish that the option holder has present control over that other entity”.⁴⁷

⁴⁶ For example, see CICA Handbook, Section PS 1300, paragraph .09.

⁴⁷ IASB Update, September 2006, page 4.

- B25. However, some commentators argue that, if there is no impediment to an entity exercising such options, it is substantively in the same position as an entity that has the power to direct the financing and operating policies of another entity but has yet to exercise that power (i.e., it has “passive control” of the other entity). In respect of the latter instance, it is generally accepted that it is unnecessary to exercise that power in order to possess control of the other entity.

‘Golden shares’

- B26. An instance in which it might be unclear whether a public sector entity controls another entity is when it holds a ‘golden share’ in that other entity. A golden share is a nominal share which is able to outvote all other shares in certain specified circumstances. It gives the holder a right of veto in a general meeting. Sometimes, a provision is included in an entity’s constitution to prevent other entities acquiring an ownership interest exceeding a certain level, or to give a government veto powers over any major action, such as the sale of a major asset. Sometimes, a golden share is retained only for a defined period to allow a newly privatised company to become accustomed to operating in a different environment. This holding would not be temporary if ownership of the entity is deemed to be of ongoing importance to the national interest, for example for reasons of national security. As is said in the indicators of control proposed to the TFHPSA (see Appendix D), whether a golden share conveys control over the investee will depend on the circumstances.

Special purpose entities

- B27. Some commentators argue that using control to determine the boundaries of a group reporting entity is problematic when investees have narrow and predetermined objectives. These entities are often referred to as special purpose entities (SPEs).
- B28. For many SPEs, policies are predetermined under agreements made when the SPEs were established. It can sometimes be difficult to determine if another entity has control over an SPE in these circumstances. Sometimes, other notions are used to supplement control as a basis for determining whether a SPE should be treated as part of a group reporting entity. For example, under Interpretation SIC-12 *Consolidation—Special Purpose Entities*⁴⁸, control is supplemented by assessing risks and rewards.
- B29. This issue is not specific to the public sector, but it does arise in it. For example, in some jurisdictions a research institute or a regulatory body may have predetermined strategic financial and operating objectives. Some commentators argue that the fact that an entity has predetermined objectives does not of itself preclude another entity controlling it. This issue is being examined by the IASB and FASB, in a private sector context, in parallel with their consideration of reporting entity issues in their conceptual framework project. Depending on the proposed concepts it chooses, the IPSASB may monitor the work of those Boards on SPEs and assess whether their proposals are appropriate for public sector entities.

⁴⁸ SIC-12 was originated by the Standing Interpretations Committee of the IASC, the predecessor to the IFRIC.

Entities with statutory or constitutional independence

- B30. A public-sector-specific issue is whether defining control of an entity to require the ability to direct the financing and operating policies of that entity would lead to a conclusion that particular public bodies are not controlled by the government in their jurisdiction. For example, some argue that the operating policies of courts and supreme audit institutions with statutory or constitutional independence of decision-making cannot be directed by another party, and therefore that these public bodies would not form part of the government reporting entity. They argue that this is inappropriate because those bodies provide services to the community, are funded by parliamentary appropriation, and therefore the government should be held accountable for the financial aspects of their operations. Some of them argue that, to overcome this problem, the reference, in the power element, to “directing the financing and operating policies” of another entity should be amended to “directing the *strategic* financing and operating policies” of another entity. They note this would be consistent with the statement in CICA Handbook, Section PS 1300, that:

“The ability to govern [an organization’s financial and operating policies] ... establishes the fundamental basis for the conduct of the organization’s operations and the achievement of its mission and mandate.” (paragraph .13)

- B31. The tenth Simpkins Report⁴⁹ refers to the work in New Zealand at the time on this issue proposing a specific requirement that “autonomous and independent” public sector entities be consolidated into the financial statements of the government. The report notes that one aspect of the then-proposed New Zealand definition of these entities is that the entity provides services consistent with the Government’s ongoing core responsibilities which, without the existence of the entity, would have to be provided by the Government itself. The report disagrees that this is an adequate reason for considering an entity to be controlled, and argues that existence of control should derive solely from the relationship between the two entities.
- B32. Since that Report was issued, the New Zealand FRSB issued Exposure Draft 112, *Proposed Application Guidance for NZ IAS 27 ‘Consolidated and Separate Financial Statements’ to Assist in Determining Whether a Public Benefit Entity Controls Another Entity* (June 2007). That exposure draft includes the following comment related to this issue:

“... in the public sector, the Government may exercise power over an entity through legislation which establishes the entity and requires the operation of that entity to have regard to the Government’s policies, even though the Government may not have day-to-day responsibility for the activities of that entity.”
(Paragraph NZ AG 23)

⁴⁹ IASB/FASB Conceptual Framework Project, Review of Implications for Public Benefit Entities, 10th Report, 20 September 2006, page 14.

- B33. Like the FRSB exposure draft, Australian Accounting Standard AAS 31 *Financial Reporting by Governments* says:

“... a government’s capacity to dominate the financial and operating policies of another entity does not require it to have responsibility for management of (or involvement in) the day-to-day operations of the other entity” (paragraph 9.1.1)

- B34. Based on this, AAS 31 also says:

“... the legislation governing the establishment and operation of an independent statutory office (such as that of the Auditor-General) sets out the broad parameters within which the office is required to operate, and enables the office to operate in a manner consistent with the objectives set by Parliament for the operation of government. Similarly, notwithstanding the operational independence of the judiciary from the Parliament, the legislative framework within which the judiciary operates is established in a manner consistent with the objectives set by Parliament for the administration of justice. In addition, the government retains the right to the residual assets of statutory offices and judicial entities.” (paragraph 9.1.9)

- B35. Similarly, CICA Handbook, Section PS 1300, says “a government does not need to manage an organization’s activities on a day-to-day basis to control the organization. It is the government’s existing authority to determine the policies governing those activities that is important.” (paragraph .15)
- B36. Thus, FRSB Exposure Draft 112, AAS 31 and CICA Handbook, Section PS 1300, disagree with the abovementioned view that the operating policies of courts and supreme audit institutions with statutory or constitutional independence of decision-making cannot be directed by another party. Therefore, under their views, it would be unnecessary to add “strategic” to the definition of control.

Appendix C

Definitions of ‘Control’ in Various Other Jurisdictions

<p>Former New Zealand standard FRS-37, <i>Consolidated Investments in Subsidiaries</i> (paragraph 4.13)</p>	<p>“Control” by one entity over another entity exists in circumstances where the following parts (a) and (b) are both satisfied:</p> <ul style="list-style-type: none"> (a) the first entity has the capacity to determine the financing and operating policies that guide the activities of the second entity, except in the following circumstances where such capacity is not required: <ul style="list-style-type: none"> (i) where such policies have been irreversibly predetermined by the first entity or its agent; or (ii) where the determination of such policies is unable to materially impact the level of potential ownership benefits that arise from the activities of the second entity. (b) the first entity has an entitlement to a significant level of current or future ownership benefits, including the reduction of ownership losses, which arise from the activities of the second entity.
<p>Canadian CICA Handbook, Section 1590, <i>Subsidiaries</i> (paragraph .03 and 04)</p>	<p>Control of an enterprise is the continuing power to determine its strategic operating, investing and financing policies without the co-operation of others.</p> <p>The right and ability of the parent to obtain future economic benefits from the resources of an enterprise that it controls and the parent’s exposure to the related risks are necessary characteristics of a parent-subsidiary relationship. Future economic benefits include cash flows generated by the subsidiary that the parent may receive in such form as dividends, interest, fees, royalties or profits on intercompany sales. Risks include exposure of the subsidiary’s resources to business losses or direct exposure of the parent to loss.</p>

Canadian CICA Public Sector Accounting and Auditing Handbook (Public Sector Accounting Board), Section PS 1300, <i>Government Reporting Entity</i> , paragraph 8	Control is the power to govern the financial and operating policies of another organization with expected benefits or the risk of loss to the government from the other organization’s activities.
UK FRS 2, Accounting for Subsidiary Undertakings (paragraph 6)	The ability of an undertaking to direct the financial and operating policies of another undertaking with a view to gaining economic benefits from its activities.
UK Statement of Principles (paragraph 2.11)	An entity will have control of a second entity if it has the ability to direct that entity’s operating and financial policies with a view to gaining economic benefit from its activities.

Appendix D

Indicators of Control of a Non-Profit Institution or Corporation Proposed to the Task Force on Harmonization of Public Sector Accounting (TFHPSA)

D1. The indicators of control of a non-profit institution or corporation, and related discussion, proposed in the final report of the TFHPSA were:

“Government control of non-profit institutions”⁵⁰

26. Control of a NPI is defined as the ability to determine the general policy or programme of the NPI. ... To determine if a NPI is controlled by the government, the following five indicators of control should be considered:
- The appointment of officers. The government may have the right to appoint the officers managing the NPI either by the NPI’s constitution, its articles of association or other enabling instrument.
 - Other provisions of enabling instrument. The enabling instrument may contain provisions other than the appointment of officers that effectively allow the government to determine significant aspects of the general policy or programme of the NPI. For example, the enabling instrument may specify and/or limit the functions, objectives and other operating aspects of the NPI, thus making the issue of managerial appointments less critical or even irrelevant, give the government the right to remove key personnel or veto proposed appointments, require prior approval of budgets or financial arrangements by the government, or prevent the NPI from changing its constitution, dissolving itself, or terminating its relationship with government without government approval.
 - Contractual agreements. The existence of a contractual agreement between the government and an NPI may allow the government to determine key aspects of the NPI’s general policy or programme. As long as the NPI is ultimately able to determine its policy or programme to a significant extent, such as by being able to renege on the contractual agreement and accepting the consequences, by being able to change its constitution or dissolving itself without requiring government approval other than that required under the general regulations, then it would not be considered controlled by government.
 - Degree of financing. An NPI that is mainly financed by government may be controlled by that government. Generally, if the NPI remains able to determine its policy or programme to a significant extent along the lines

⁵⁰ “Criteria developed for non-profit institutions (NPIs) apply also to other kinds of non-profit units like extra-budgetary agencies.”

mentioned by the previous indicator, then it would not be considered controlled by government.

- Risk exposure. If a government openly allows itself to be exposed to all or a large proportion of the financial risks associated with a NPI’s activities, then the arrangement constitutes control. The criteria are the same as in the previous two indicators.

27. Totality of all indicators. A single indicator could be sufficient to establish control in some cases, but in other cases, a number of separate indicators may collectively indicate control. A decision based on the totality of all indicators will necessarily be judgmental in nature.

Government control of corporations

28. A corporation is a public corporation if a government unit, another public corporation, or some combination of government units and public corporations controls the entity; where control is defined as the ability to determine the general corporate policy of the corporation. The expression “general corporate policy” as used here is understood in a broad sense to mean the key financial and operating policies relating to the corporation’s strategic objectives as a market producer.
29. Because governments exercise sovereign powers through legislation, regulations, orders and the like, care needs to be applied in determining whether the exercise of such powers amounts to a determination of the general corporate policy of a particular corporation and therefore control of the corporation. Laws and regulations applicable to all units as a class or to a particular industry should not be viewed as amounting to control of these units.
30. The ability to determine the general corporate policy does not necessarily include the direct control of the day-to-day activities or operations of a particular corporation. The officers of such corporations would normally be expected to manage these in a manner consistent with and in support of the overall objectives of the particular corporation.
31. The ability to determine the general corporate policy of a corporation also does not include the direct control over any professional, technical or scientific judgments, as these would normally be viewed as part of the core competency of the corporation itself. For example, the professional or technical judgments exercised by a corporation set up to certify aircraft airworthiness would not be considered controlled in respect of the individual approvals and disapprovals, though its broader operating and financial policies, including the airworthiness criteria, may well be determined by a government unit as part of the corporation’s corporate policy.
32. Determining the general corporate policy of a corporation while acting as a fiduciary would not imply control. This is because the trustee, in executing its

fiduciary obligations, would be obliged to act strictly in accordance with the trust deed. The trustee would act in the interests of the beneficiaries and not at the behest of its controlling entity. Two examples where this may apply relate to autonomous government employee pension funds and public trustees.

33. Because the arrangements for the control of corporations can vary considerably, it is neither desirable nor feasible to prescribe a definitive list of factors to be taken into account. The following eight indicators, however, will normally be the most important and likely factors to consider:

- Ownership of the majority of the voting interest. Owning a majority of shares will normally constitute control when decisions are made on a one-share one-vote basis. The shares may be held directly or indirectly, and the shares owned by all other public entities should be aggregated. If decisions are not made on a one-share one-vote basis, the classification should be based on whether the shares owned by other public entities provide a majority voice.
- Control of the board or other governing body. The ability to appoint or remove a majority of the board or other governing body as a result of existing legislation, regulation, contractual, or other arrangements will likely constitute control. Even the right to veto proposed appointments can be seen as a form of control if it influences the choices that can be made. If another body is responsible for appointing the directors, it is necessary to examine its composition for public influence. If a government appoints the first set of directors but does not control the appointment of replacement directors, the body would then be part of the public sector until the initial appointments had expired.
- Control of the appointment and removal of key personnel. If control of the board or other governing body is weak, the appointment of key executives, such as the chief executive, chairperson, and finance director, may be decisive. Non-executive directors may also be relevant if they sit on key committees such as the remuneration committee determining the pay of senior staff.
- Control of key committees of the entity. Sub-committees of the board or other governing body could determine the key operating and financial policies of the entity. Majority public sector membership on these sub-committees could constitute control. Such membership can be established under the constitution or other enabling instrument of the corporation.
- Golden shares and options. A government may own a golden share, particularly in a corporation that has been privatized. In some cases, this share gives the government some residual rights to protect the interests of the public by, for example, preventing the company selling off some categories of assets or appointing a special director who has strong powers in certain circumstances. A golden share is not of itself indicative of control. If,

however, the powers covered by the golden share do confer on the government the ability to determine the general corporate policy of the entity in particular circumstances, and those circumstances currently existed, then the entity should be in the public sector from the date in question. The existence of a share purchase option available to a government unit or a public corporation in certain circumstances may also be similar in concept to the golden share arrangement discussed above. It is necessary to consider whether the circumstances in which the option may be exercised currently exists, the volume of shares which may be purchased under the option and the consequences of such exercise means that the government currently has “the ability to determine the general corporate policy of the entity” by exercising that option. An entity’s status in general should be based on the government’s existing ability to determine corporate policy exercised under normal conditions rather than in exceptional economic circumstances such as wars, civil disorders or natural disasters.

- Regulation and control. The borderline between regulation that applies to all entities within say a class or industry group and the control of an individual corporation can be difficult to judge. There are many examples of government involvement through regulation, particularly in areas such as monopolies and privatized utilities. It is possible for regulatory involvement to exist in important areas, such as in price setting, without the entity ceding control of its general corporate policy. Choosing to enter into or continues (*sic*) to operate in a highly regulated environment suggests that the entity is not subject to control. When regulation is so tight as to effectively dictate how the entity performs its business, then it could be a form of control. If an entity retains unilateral discretion as to whether it will take funding from, interact commercially with, or otherwise deal with a public sector entity, the entity has the ultimate ability to determine its own corporate policy and is not controlled by the public sector entity.
- Control by a dominant customer. If all the sales of a corporation are to a single public sector customer or a group of public sector customers, there is clear scope for dominant influence. The presence of a minority private sector customer usually implies an element of independent decision-making by the corporation; and the entity would not be considered controlled. In general, if there is clear evidence that the corporation could not choose to deal with non-public sector clients because of the public sector influence, then public control is implied.
- Control attached to borrowing from the government. Lenders often impose controls as conditions of making loans. If the government imposed controls through lending or issuing guarantees that are more than would be typical when a healthy private sector entity borrows from a bank, control may be indicated. Similarly, control may be implied if only the government was prepared to lend.

34. Totality of all indicators. Although a single indicator could be sufficient to establish control, in other cases, a number of separate indicators may collectively indicate control. A decision based on the totality of all indicators must necessarily be judgmental in nature. Of course, there has to be consistency in classification decisions for such judgments.”
- D2. In relation to government control of corporations, a previous report of the TFHPSA⁵¹ recommended the following additional indicators:

“Other controls associated with the entity’s constitution and other rules

There are often a number of formal legal documents underpinning an entity. These need to be examined for indications of control although it is difficult to cover all eventualities. The following list suggests points to watch for to check whether under the existing arrangements the government can:

- determine aspects of how the body delivers its outputs
- have a final say in the disposal or acquisition of fixed assets
- be entitled to share of proceeds of asset disposals that goes beyond the repayment of previous government support for capital formation
- close or restructure the body
- prevent the body from ending its relationship with government
- change the constitution of the body
- decide what sort of financial transactions the body can undertake, or limit them
- prevent the body from receiving certain types of income from other sources
- exert numerous minor controls over how the body is run
- exert financial control as part of a system of controlling public expenditure (this may require more frequent and more detailed financial reporting than would be the case more generally)
- control dividend or other distribution policy
- set pay or remuneration rates
- approve mergers or acquisitions (other than for regulatory reasons provided for under existing arrangements).” (paragraph 64)

⁵¹ Task Force on Harmonisation of Public Sector Accounting, *Government/Public Sector/Private Sector Delineation Issues*, Update of the 1993 SNA – Issue No. 36 (Issues Paper for the July 2005 AEG Meeting), 18 May 2005.

**CONCEPTUAL FRAMEWORK – Group 2 Projects
Elements – Definition and Recognition**

OBJECTIVE OF THIS SESSION

To update members on the current status, draft schedule and resourcing of Group 2 projects of the conceptual framework project.

ACTION REQUIRED

- This Agenda Paper is presented for information only. No action is required.

CURRENT STATUS

You will recall that Group 2 of the Conceptual Framework project addresses definition and recognition of elements as well as any issues arising out of the scope in the Group 1 papers. Leadership on Group 2 is being provided by the Public Sector Accounting Board (PSAB) of the CICA with support provided by Ministries of Finance and Budget in China and France. Tim Beauchamp, Director of the PSAB is coordinating efforts and liaising regularly with the IPSASB Technical Director on progress.

To date the following has been undertaken:

- Work has been completed on compiling the various definitions of the elements by a number of public and private sector standard setters.(see Appendix for source documents used)
- The relevant IASB/FASB papers have been collected for issue identification.
- Preparation of an preliminary “Introduction” paper to the Elements has been prepared that:
 - sets out the fundamental characteristics of an element;
 - suggests that the elements of a public sector entity should have the same characteristics of those of a private sector entity and why;
 - identifies and compares the elements used by other standard setters;
 - assesses the differences between those elements identified by others; and
 - proposes “element” uncertainty be addressed in the recognition criteria and not within the definitions themselves.
- The purpose of the paper is to determine if divergence from the IASB elements, as currently identified, is warranted. Preliminary findings are that the five elements identified by the IASB appear appropriate for the public sector: assets, liabilities, net assets, revenues and expenses.
- The approach that will be taken throughout the project is to assess the applicability of the work being done in the IASB/FASB Joint Conceptual Framework project and considering the comments made by the Kevin Simpkins group.

SCHEDULE

This schedule is currently being reviewed among the Group participants to determine whether it is achievable.

Conceptual Framework Development DRAFT Schedule – Group 2 Projects

(Follow up from July IPSASB Meeting and July subcommittee meeting)

Date	Objectives	Status
August 2007	Group 2- Staff confirms Group 2 authors and establishes schedule for Group 2 paper development on Elements – Definition & Recognition. Authors confirmed are: CICA – Tim Beauchamp – Group leader China Ministry of Finance Weidong Feng France Ministry of Finance Patrick Soury	Completed.
September 2007	Group 2 leader to confirm project schedule with other participants and coordinate process for development of issues analysis and consultation papers.	Agreement on schedule underway. Process completed.
October 2007	Teleconference with group 2 authors.	Preliminary paper developed on assessing IASB element identification and sent to Group 2 members in late October for comment. Call proposed for November 20-24.
November 2007	November 26 - IPSASB Subcommittee meeting, Beijing update on group 2 schedule provided.	Update on Group 2 activities included in this agenda item.
December 2007	Teleconference of Group 2 Authors. Development of papers identifying issues commences.	Responsibilities assigned to Group members for various components and the approach to be used. Sent with preliminary paper.
February 2008	Authors of Elements – Definition & Recognition provide first drafts to staff for review. Staff work with authors to finalize for distribution to subcommittee	
February 2008	Elements papers distributed to subcommittee	
March 2008	March 9 – Subcommittee (Toronto) reviews and discusses issues related to Elements –Definition & Recognition	
April 2008	Authors develop Elements & Recognition Papers to reflect subcommittee comments during March and April. Provide revised Elements – Definition & Recognition papers for IPSASB staff review.	

May 2008	Staff work with authors to finalize the Elements –Definition & Recognition Papers for IPSASB review	
June 2008	June 16 IPSASB meeting Moscow – Elements – Definition & Recognition Papers reviewed by IPSASB.	
July 2008/August 2008	Staff work with authors to draft Elements Consultation Papers to reflect IPSASB comments. Updated draft Elements Consultation Papers sent to subcommittee and IPSASB for review out of session – comments requested by mid September.	
September 2008	Mid September - Receive comments from subcommittee and IPSASB members on updated Elements –Definition & Recognition Papers. Staff work with authors to revise Elements Papers for distribution to IPSASB for October meeting End September/early October – distribute revised Elements & Recognition Papers to IPSASB.	
October 2008	27 th IPSASB approves Elements Consultation Papers for issue – for four month comment period.	
November 2008	Elements Consultation Paper issued	
2009	February/March – - Responses to Elements Consultation Paper considered by subcommittee May/June – - Responses to Elements Consultation Papers by IPSASB at June meeting and ED “build” commences.	
2010+	ED issued and Framework approved.	

RESOURCES

Canada	Tim Beauchamp, Director Public Sector Accounting, CICA
China	Weidong Feng, Ministry of Finance
France	Patrick Soury, Ministère du Budget, des comptes publics et de la fonction publique Direction du Budget Mission des normes comptables

APPENDIX

Standard Setter	Date of Issue	Source
International Accounting Standards Board	2007	IFRS Framework
International Public Sector Accounting Board	2006	IPSAS 1, Presentation of Financial Statements
Public Sector Accounting Board, Canada	2006	PS 1000, Financial Statement Concepts
Accounting Standards Board, Canada		Section 1000, Financial Statement Concepts
Federal Accounting Standards Advisory Board, United States	2007	Exposure Draft, Definition and Recognition of Elements of Accrual-Basis Financial Statements
Financial Accounting Standards Board, United States	1985	CON 6, Elements of Financial Statements
Governmental Accounting Standards Board, United States	2007	CON 4, Elements of Financial Statements
Accounting Standards Board, Australia	2004	Framework for the Preparation and Presentation of Financial Statements
Accounting Research Standards Board, New Zealand	1993	Statement of Concepts for General Purpose Financial Reporting
Accounting Standards Board, United Kingdom	1991	Statement of Principles for Financial Reporting
Accounting Standards Board, Germany	2002	Interpretation of Draft Paper
Accounting Standards Board, Japan	2006	Discussion Paper, Conceptual Framework of Financial Accounting
Accounting Standards Board, South Africa	2006	Framework for the Preparation and Presentation of Financial Statements

December 2006

**International Public Sector Accounting Standards
Board**

Public Sector Conceptual Framework

**Project Brief: Collaborative project of the IPSASB and
National Standards Setters and similar organizations.**

Introduction

When it first actioned its standards setting program, the PSC (subsequently reconstituted as the IPSASB in November 2004) determined that it would initially develop a credible core set of IPSASs, and build its knowledge of concepts in conjunction with the development of specific standards.

Many of the IPSASs currently on issue are based on IASs/IFRSs to the extent that the requirements of the IASs/IFRSs are relevant to the public sector. The current IPSASs therefore draw on concepts and definitions in the IASB Framework with modifications where necessary to address public sector circumstances. The IASB is proposing changes to the concepts and definitions in its Framework as part of a joint project with the Financial Accounting Standards Board of the USA.

The IPSASB is of the view that it is now timely to develop a framework for general purpose financial reporting by public sector entities to make explicit the concepts that underpin financial reporting in the public sector.

At its meeting in Paris in July 2006, the IPSASB met with representatives of a number of National Standards Setters and similar organizations (NSSs) from Argentina, Australia, Canada, France, Israel, Malaysia, Italy, the Netherlands, New Zealand, Spain, South Africa, Switzerland, the United Kingdom and the United States of America to discuss working collaboratively on the development of a public sector conceptual framework. Also participating in the discussion were members and/or staff of the Public Sector Committee of the Fédération des Experts Comptables Européens (FEE), the International Accounting Standards Board (IASB), the Task Force on Harmonization of Public Sector Accounting (TFHPSA) and Eurostat.

At that meeting, it was agreed that the IPSASB would lead a collaborative project to develop a public sector conceptual framework in conjunction with a number of participating NSSs. Accordingly, this project brief was developed in conjunction with the NSS and establishes the major characteristics of the project and the proposed process for its development. 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. This applies to timing of key milestones and the contents of individual consultation papers. Any comments on this project brief, including the components of the framework, and its proposed authority and scope, or other aspects of the project may be directed to IPSASB staff and will be considered by the IPSASB and/or its sub-committee as the project progresses.

The project will be coordinated by a sub-committee comprising IPSASB and NSS members. A broad based group of NSSs will monitor project development on an ongoing basis. NSS participants will have primary responsibility for preparing first drafts of consultation papers. The subcommittee will review first drafts of consultation papers and other documents developed as part of this project and provide input for their further development. The consultation papers and other documents will then be provided to the IPSASB for review and, approval in accordance with the IPSASB’s due process.

Membership of the subcommittee and monitoring group is included as Attachment 2 of the project brief.

Preliminary work on certain components (for example, objectives and qualitative characteristics, which are common components of most, if not all, frameworks) will commence in early 2007.

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

BACKGROUND

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

Many concepts, definitions and principles are embedded in specific IPSASs. However, a document which draws together and makes explicit these concepts, definitions and principles, and identifies, explains and tests their interrelationships has not been articulated and issued.

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

PROJECT OBJECTIVE

The objective of this project is to develop a Public Sector Conceptual Framework which is applicable to the preparation and presentation of general purpose financial reports of public sector entities, including but not necessarily limited to financial statements and notes thereto. In developing this Conceptual Framework, the IPSASB and its subcommittee will consider the information that may be included within general purpose financial reports in addition to financial statements and notes thereto, and the implications of any such information for each component of the Framework as appropriate.

PROJECT FOCUS

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

The operating/performance objectives of profit seeking entities in the private sector focus on sustainable long run profit maximization within operating parameters established by legislation and legal and social norms and, in most cases, with the objective of being good corporate citizens. However, the performance objectives of GBE’s often also include the achievement of certain non-profit/social policy objectives imposed on them by governments. Their operations are therefore subject to, and conditioned by, the achievement of these service delivery objectives. In the development of the Public Sector Conceptual Framework and the revised IASB Framework, the IPSASB and the IASB will need to consider whether the social policy/service delivery objectives that GBE’s may be subject to will influence the objectives of financial reporting by GBE’s and/or other components of the conceptual Framework that applies to them.

IPSASB DUE PROCESS

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

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

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

COLLABORATIVE PROJECT

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

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

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

RELATIONSHIP OF THE PUBLIC SECTOR FRAMEWORK DEVELOPED BY IPSASB TO THE IASB FRAMEWORK AND FRAMEWORKS IN IPSASB MEMBER JURISDICTIONS

Many of the IPSASs currently on issue are based on IASs/IFRSs to the extent that the requirements of the IASs/IFRSs are relevant to the public sector. The current IPSASs therefore draw on concepts and definitions in the IASB Framework with modifications where necessary to address public sector circumstances.

Attachment 1 summarizes the result of a brief survey of IPSASB members (in February 2006) regarding the existence, nature and contents of Frameworks in place in their jurisdictions. It indicates that Frameworks are in place or under development in a number of member jurisdictions. It also indicates that those Frameworks have a similar coverage in respect of scope, nature and content.

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

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

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

RESOURCE REQUIREMENTS AND PROJECT DEVELOPMENT

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

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

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

The project development process and IPSASB meeting time allocation proposed in this project brief is intended to deliver key outcomes of the project (initial consultation papers, an exposure draft of the proposed Framework and the final Framework) in a timely and efficient manner within the resource capabilities of the IPSASB and of the participating NSS. It envisages that the participating NSS provide staff resources for the project on a “per task” basis, and that the IPSASB:

- (a) Allocate one half day of each meeting during 2007, 2008, 2009, 2010 and 2011 as necessary to progress the project. (The IPSASB meets three times a year for 3 to 4 days.);
- (b) Use a subcommittee (comprising IPSASB members and members of the NSS) to undertake initial review of papers and other materials being prepared for IPSASB consideration;
- (c) Allocate the equivalent of approximately .333 of a full time IPSASB staff member to the project - including the time of the IPSASB Technical Director and other IPSASB staff to oversee development of the project and to work with the subcommittee and NSS staff in the capacity of project co-ordinator. The IPSASB staff will:
 - Support the subcommittee chair in co-ordinating materials for subcommittee meetings, in reporting progress to the IPSASB, in providing IPSASB feedback to the subcommittee and to the authors of the consultation papers;
 - Raise specific technical matters for consideration by the subcommittee and the IPSASB as appropriate; and
 - Assist NSS staff and others in presenting materials to the subcommittee and the IPSASB; and
- (d) Make use of additional consultants as the project demands and resources allow.

The IPSASB subcommittee

The IPSASB subcommittee will operate to implement the directions of the IPSASB and to ensure that documents prepared for IPSASB consideration are balanced and identify viable options and approaches to different concepts. In this context, it will undertake initial review of materials being prepared by NSS staff for discussion at IPSASB

meetings, and provide input to the further development of those materials as appropriate. The subcommittee will also ensure that papers for IPSASB review are prepared on a timely basis, are circulated to the NSS who are party to the collaborative project as subcommittee or monitoring group members and, through the subcommittee chair, will report to each IPSASB meeting on progress.

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

- (a) Composition of the subcommittee – the subcommittee will be broadly based, representing the wide IPSASB constituency to the extent possible. It will comprise 4 to 5 IPSASB members and representatives of the national standards setters who provide staff resources to lead development of specific components of the project. (Technical advisors to subcommittee members, including the NSS staff responsible for specific project tasks, will also be welcome to participate.) The subcommittee will be chaired by the IPSASB chair if possible, or other IPSASB member if not. The subcommittee membership is identified at Attachment 2. This is a long term project and membership of the subcommittee may change over time;
- (b) Working procedures – the IPSASB will establish broad parameters for each stage of the project based on a key decisions or similar issues paper prepared by an NSS member as agreed. That NSS will then be responsible for preparation of drafts of key documents which will be subject to initial review by the subcommittee. The subcommittee chair and/or the responsible NSS will then present papers, together with subcommittee comments thereon, to each IPSASB meeting. The subcommittee chair will also provide a report on progress on other papers at each IPSASB meeting;
- (c) Subcommittee materials – papers for subcommittee review will be developed by an NSS consistent with directions of the IPSASB as per above. All subcommittee papers will also be made available to all IPSASB members and a designated member of other of the participating NSS with an interest to monitor developments. These papers will be made available through the IPSASB web page;
- (d) Subcommittee meeting arrangements - the subcommittee will conduct its business primarily by electronic means, but will retain the option of meeting to ensure some discussion occurs on a face to face basis. These meetings may take place at a time convenient for subcommittee members, including immediately before or following each IPSASB meeting. (Travel, accommodation and other costs to be met by subcommittee participants);
- (e) Publication of consultation papers, exposure drafts and other materials - the issuance of documents for comment (consultation papers, exposure drafts and/or other documents) will be subject to the usual voting rules of the IPSASB. Once approved by the IPSASB for release at the international level, documents may also be released by the NSS for domestic review together with any contextual commentary considered necessary by the NSS in each jurisdiction.

MATTERS TO BE DEALT WITH IN THE PROJECT

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

The Framework of the IASB deals with only one basis of accounting – the accrual basis. This approach is reflected in the Frameworks of standards setters in IPSASB member jurisdictions – see Attachment 1. It reflects that those standards setters issue standards for financial reporting under the accrual basis of accounting.

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

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

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

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

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

Components of the Framework – accrual basis

As illustrated in Attachment 1, Conceptual Frameworks have been developed and/or are being developed and improved in many jurisdictions currently represented on the IPSASB. In some cases those Frameworks have been developed to apply to public sector entities.

Frameworks in member jurisdictions deal with objectives, qualitative characteristics, assets, liabilities, revenue (currently under development in Canada), expenses, equity/net assets, recognition criteria, measurement bases (descriptive only in Australia) and

financial statements (Australia and Canada have requirements outside the Framework). A number, but not all, also deal with characteristics of the reporting entity and the scope of financial reporting. In some jurisdictions, Frameworks may also address concepts of capital and capital maintenance, non-financial performance reporting (service efforts and accomplishments), management analysis and discussion, communication, and accounting for interests in other entities.

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

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

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

Reporting Entity

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

Scope of Financial Reporting

The following matters may well be included within the scope of financial reporting in the public sector, may extend that scope beyond that conventionally considered as applicable to private sector for-profit entities in many jurisdictions and may have implications for such matters as the objectives of financial reporting and the elements of financial reports beyond those elements reflected in financial statements.

Performance Reporting

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

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

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

Budget Reporting

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

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

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

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

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

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

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

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

Governments are already responding to this potential information need of users of their financial statements. For example, in some jurisdictions government entities are required to disclose forecasts of long range cash inflows and outflows for major classes of social benefits, information about the present value of future benefits to be provided to current and anticipated beneficiaries and key assumptions underlying those forecasts and estimates. In addition, some governments provide “whole of government” information useful as input to assessments of the extent to which current social policies are sustainable in the medium and long term, including the projected impact of those policies on taxation, debt and the government’s overall financial condition. Such information may be included in “generational reports” which are presented as part of the budget process; or as separate reports and papers on projected revenues, expenses and cash flows under existing policies.

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

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

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

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

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

Purpose and Authority of the Framework

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

Establishing authoritative requirements for recognition, measurement and disclosure of particular transactions in specific IPSASs will ensure that these requirements are subject to due process. It allows potential differences in legal and institutional conventions in different jurisdictions and different practices and policies 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.

DUE PROCESS

Consultation Papers and Exposure Drafts

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

At the international level, the IASB commenced its original Framework project with the issuance of a series of EDs in the early 1980’s. The IASB process for finalization of its Framework is evolving in the light of experience with recent developments including the issue of discussion papers as the first step in the due process, with an exposure draft to draw all the components together at a later stage in the project, and a recent interim agreement to issue chapters of the IASB revised Framework progressively as finalized.

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

Consultation Paper Development

The components of the Framework are interconnected - decisions about the objectives and scope of financial reporting will influence the elements of financial statements and other information which may be included in notes to general purpose financial statements or as part of general purpose financial reports. There is then a sound argument that, in

principle, consultation papers of all the components should be developed together and issued for comment prior to the full Framework being issued as an exposure draft. However, on practical grounds, it is not possible to deal with all components at the one time. As such, it will be necessary to move forward on some components of the Framework before others. This will also provide constituents and the IPSASB and NSS with the opportunity to review and comment on components as the Framework develops, and for later stages of project development to be informed by responses to prior consultation papers.

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

First group of Consultation Papers

- (a) Objectives of financial reporting - this Consultation Paper will identify and justify the objectives of financial reporting by public sector entities. It will also draw out the relationship of the objectives to information provided by general purpose financial statements and the wider notion of general purpose financial reporting. As the draft of the objectives Consultation Paper is developed, it will be used as the basis for “focus group discussions” and/or similar public hearings, to facilitate additional input on users and user needs. Other components of the Framework may also be included in focus group discussions.
- (b) The scope of financial reporting – this Consultation Paper will identify the matters that may be included within financial reporting in addition to the financial statements. This paper will explore and make recommendations on whether such matters as performance reporting, budget disclosures, and reporting on fiscal sustainability of government programs should form part of general purpose financial reports and should fall within the mandate of the IPSASB. This paper could also usefully consider whether, and in what circumstances, these additional matters would be subject to audit as part of the general purpose financial report.
- (c) Qualitative characteristics of financial information – these are characteristics that all information included within the general purpose financial reports will need to possess. This Consultation Paper will identify and explain the qualitative characteristics and their relationship to each other. Consideration of the qualitative characteristics will illuminate notions of what will be included in primary financial statements and in notes thereto. This will also guide/influence consideration of the scope of financial reporting and whether financial reporting

in the public sector may encompass additional information in supplementary statements and reports.

- (d) Characteristics of the reporting entity - this Consultation Paper will explore such matters as the:
- criteria for determining which groups of activities, whether legal or administrative units or other organizational arrangements, are in the nature of reporting entities and should prepare and present financial reports; and
 - types of reporting entities for which the IPSASs should be developed.

This component will also explore the basis on which the boundaries of a reporting entity should be established and therefore which assets, liabilities, revenues, expenses and other elements should be reported in the financial statements of a reporting entity.

Second group of Consultation Papers

- (e) Definition and recognition of the elements of financial statements – this Consultation Paper will identify and define the elements that are reported in financial statements and the criteria that will need to be satisfied for their recognition. These will include assets, liabilities, revenues, expenses and notions of net assets/equity. They may also include other notions such as gains and losses which are included in the IASB Framework and the Frameworks of many national standards setters.
- (f) The consequences of conclusions/recommendations on the scope of financial reporting (considered at consultation paper (b) above) for the elements of general purpose financial reports (in addition to those reflected in the financial statements) and other matters that might be addressed in general purpose financial reports.

Third group of Consultation Papers

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

matters as budget/prospective financial information, compliance with budgets, and disclosures about the achievement of service objectives in financial reports.

Fourth group of Consultation Papers

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

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

The timing of the definition of the reporting entity and initial consideration of the scope (boundaries) of financial reporting in the public sector has been elevated in this plan because:

- (a) Notions of the reporting entity are less well developed for financial reporting in the public sector than in the private sector. Consequentially, they may raise issues that need to be considered in the development of the elements of financial statements/financial reporting.
- (b) The scope of general purpose financial reporting has the potential to impact on the objectives that financial reporting may reasonably be directed at achieving. Consequentially, the scope and objectives of financial reporting should be developed together during the first phase of the program. Staff of the NSS that are dealing with these components will need to liaise on the development of their respective papers.

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

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

TIMING AND KEY MILESTONES

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

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

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

Responses to Group 1 Consultation Paper(s) reviewed and objectives, 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.

ATTACHMENT 1

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

Country	ARG	AUS	CAN	FRA	IND	ISRL	ITAL	JAPN	MAL	MEX	NETH	NZ	NOR	S.AFR	SWIT	UK	USA
1. In your country is there a conceptual framework (CF) for accounting standards?	Y	Y	Y	Y		Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
2. If Yes, does it:																	
a) apply to public sector?	N	Y	Y	Y		N	Y	N	Y	N	N	Y		N	N	N*	Y
b) also apply to private sector?	Y	Y	N	N		Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Are there separate CFs for the public and private sectors?		N*	Y	N		N	Y	N	Y		Y	N	N	Y	n/a	N*	Y
3. Are there plans for further developments which impact the public sector? Please attach a brief overview.	Y	Y*	Y ¹	N		Y	Y	N	N	Y	N	Y		N	Y	Y	Y
4. Is the CF (A) authoritative or (B) a guide only?		B*	B	A		A	B	DP	A		guide	A*	A	A	A	A	A**
5. Does the CF deal with:																	
a) the cash basis?		N		N		N		N	Y		b)	b)	N	N		N	
b) the accrual basis?		Y	b)	Y		Y		Y	Y		accrual	accrual	Y	Y	b)	Y	Y
c) both cash and accrual bases		N		N		N	C	N	N				N	N/A		N	***
6. Does the CF deal with:																	
a). Reporting Entity		Y	N3	Y		N	Y	N	Y		Y	Y		N	N	Y	N
b). Objectives		Y	Y	Y		Y	Y	Y	Y		Y	Y		Y	Y	Y	Y
c). Qualitative Characteristics		Y	Y	Y		Y	Y	Y	Y		Y	Y		Y	Y	Y	Y
d). Definitions of:								-									
Assets,		Y	Y	Y		Y	Y	Y	Y		Y	Y		Y	Y	Y	Y*
Liabilities,		Y	Y	Y		Y	Y	Y	Y		Y	Y		Y	Y	Y	Y*
Revenues,		Y	N1	Y		Y	Y	Y	Y		Y	Y	Y	Y	Y	Y	Y*
Expenses,.		Y	Y	Y		Y	Y	Y	Y		Y	Y	Y	Y	Y	Y	Y*
Equity/net assets		Y	Y			Y	Y	Y	Y		Y	Y		Y	Y	Y	Y*
Other terms (indicate in notes)		N	Y4			N	Y	N	N			Y				Y	Y*
e) Recognition criteria		Y	Y	Y		Y	Y	Y	Y		Y	Y	Y	Y	Y	Y	
f) Measurement bases		N*	Y	Y		Y	Y	Y	Y		Y	Y	Y	Y	Y	Y	Y
g) Financial statements		N	N5	Y		Y	Y	N	Y		Y	Y		Y	Y	Y	Y
h) Scope of financial reporting		N	Y			N	Y	N	Y		Y	Y		Y	N	Y	Y
i) Frequency of presentation		N	N			N	Y	N	N		Y	N		Y	(Y)	N	N
7. Are other Matters addressed		Y*	Y6			Y	N	N	N		*)	Y		N	Y	Y	Y
									A								

*Summary Table of result from survey IPSASB members
Public Sector Conceptual Framework Project Brief (December 2006)*

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

ARG – Argentina (2002 comment)

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

AUS – Australia (2006 Comment)

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

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

However, the following Statements of Accounting Concepts were retained:

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

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

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

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

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

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

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

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

CAN – Canada (2006 Comment)

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

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

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

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

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

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

ISRL – ISRAEL (2006 Comment)

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

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

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

JAPN – Japan (2006 Comment)

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

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

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

Malaysia (2006 comment)

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

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

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

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

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

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

MEX – Mexico (2002 comment)

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

NETH – The Netherlands

Public sector:

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

Consequently, there is not one overriding conceptual framework for financial reporting by all Dutch public sector entities. There is, however, one conceptual framework in the public sector: the accounting standards developed by the Ministry of Internal Affairs for

the provinces and municipalities are based on a conceptual framework. I answered the questions in the survey table for this conceptual framework.

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

Companies and non-profit organizations:

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

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

NZ – New Zealand (2006)

*The Conceptual Framework is authoritative but not legally enforceable.

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

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

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

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

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

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

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

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

Projects to revise the Framework

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

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

NOR – Norway (2006 Comment)

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

SWIT – Switzerland (2006 Comment)

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

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

SAFR – South Africa (2006 comment)

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

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

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

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

UK – United Kingdom (2006 Comment)

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

The UK ASB has developed, but has not issued in final form, guidance on how the private sector Statement of Principles should be applied to non-profit or ‘public benefit’ entities. After a discussion paper released in 2003, a full exposure draft “Statement of

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

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

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

US – United States of America (2006 comment)

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

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

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

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

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

The statements currently on issue are:

SFFAC 1 Objectives of Federal Financial Reporting;

SFFAC 2 Entity and Display;

SFFAC 3 Management’s Analysis and Discussion – Concepts;

GASB Concepts Statement No. 1 Objectives of Financial Reporting;

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

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

ATTACHMENT 2

**CONCEPTUAL FRAMEWORK SUBCOMMITTEE
PROPOSED MEMBERSHIP (updated June 2007)**

Country	Member	Contact
<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
New Zealand	G. Schollum	G. Schollum
Norway	T. Olsen	T. Olsen, H. Brandis
USA	D. Bean	D. Bean
<i>NSS</i>	<i>NSS Member</i>	<i>NSS</i>
Australia - AASB	D. Boymal	D. Boymal, J. Paul
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, Sagé De Clerck, Cor Gorter
Italy - Ministry Economica/Finance	P. Pepe	M. Bessone
South Africa - ASB	E. Swart	E. Swart
UK- ASB	I. Mackintosh	I. Mackintosh, D. Loweth
<i>Monitoring Group</i>	<i>Monitoring Group Member</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>		<i>IPSASB Staff</i>
		S. Fox, P. Sutcliffe

Public Sector Conceptual Framework

History Sheet (Updated October 2007)

IPSASB/PSC MEETING	ACTION
2002	<p>At its November meeting, the IPSASB (then PSC) note staff papers summarizing the status of conceptual frameworks in member jurisdictions, and a paper identifying matters raised in the IAS <i>Conceptual Framework</i> which are also raised in part or total in the IPSASs, and an executive summary of the FEE <i>Comparative Study on Conceptual Frameworks in Europe</i>.</p> <p>The IPSASB determine that there is insufficient staff resources to action such a project at this point in time but that this situation should be reviewed in one year’s time. IPSASB also direct staff to prepare for consideration at the next meeting a document which identifies relevant concepts, definitions and guidance in the existing IPSASs that may form the basis or outline of a conceptual framework and compare this with the framework developed by the IASB.</p>
2003	<p>IPSASB (then PSC) considers staff papers which identify concepts embedded in existing IPSASs, and their relationship to matters dealt with in the IASB framework- and any differences in key definitions.</p>
2004	<p>IPSASB (then PSC) at its March meeting notes that resource constraints mean that the conceptual framework project cannot be actioned.</p> <p>At its July meeting considers report of the PSC Externally Chaired Review Panel. Agrees with large majority of Recommendations but notes it does not agree with the recommendation that it not initiate a project to develop its own conceptual framework, but rather only interpret the IASB framework. Members express view that it is important for the credibility of the IPSASs that the PSC develop its own conceptual framework. However, agrees that as part of developing its own framework the IPSASB should consider the IASB’s existing framework, learn from that framework and interpret and incorporate it in a PSC framework where appropriate. Members also agreed to monitor further developments in the IASB framework and public sector standard setters in this area. Resource constraints still limit capacity to progress project aggressively.</p>
JULY- SEPTEMBER 2005	<p>IPSASB advised that a group of national standards setters (Australia, Canada, New Zealand and UK: referred to as NSS-4), are monitoring the IASB-FASB conceptual framework project for possible public sector implications and had invited the IPSASB to</p>

IPSASB/PSC MEETING	ACTION
	<p>participate.</p> <p>IPSASB agrees to participate as observer and establishes subcommittee comprising UK (chair), Australia, France, Norway, and South Africa.</p> <p>National Standards Setters meet in London in September to discuss a range of projects including the conceptual framework project. The Technical Director attends that meeting as an observer.</p>
NOVEMBER 2005	<p>IPSASB agrees that at its next meeting (March 2006), it would discuss its strategy for the development of its own conceptual framework (Framework) project. That discussion to include consideration of how to resource such a project and the potential to co-ordinate development work with, and draw on the resources of, national standards setters.</p>
January-May 2006	<p>Survey on Conceptual Frameworks in IPSASB member jurisdictions updated.</p> <p>At March meeting, IPSASB notes a report on the work of the national standards setters (NSS) who are considering the implications of the IASB-FASB conceptual framework project for the public sector (and not-for-profit entities).</p> <p>IPSASB considers a staff paper which proposes that a collaborative projects with national standards setters and similar organizations be actioned and agrees to action such a project, subject to resource availability and no unfavourable impact on the IPSASB’s IAS/IFRS convergence program.</p> <p>IPSASB agrees to invite the national standards setters and other relevant bodies to discuss a collaborative approach with the IPSASB in conjunction with the next IPSASB meeting in July 2006. Invitations are issued and the Chairs of the IASB and the TFHPSA also advised of this initiative and invited to attend.</p> <p>The IPSASB Subcommittee directed to work with staff to develop a detailed project brief which, subject to the approval of IPSASB members, would be made available to national standards setters and similar bodies for discussion with the IPSASB at the July 2006 meeting.</p>
July 2006	<p>In conjunction with its Paris meeting, the IPSASB met with representatives of a number of National Standards Setters and similar organizations from Argentina, Australia, Canada, France, Israel, Malaysia, Italy, the Netherlands, New Zealand, Spain, South Africa, Switzerland, the United Kingdom and the United States of</p>

IPSASB/PSC MEETING	ACTION
	<p>America to discuss the potential for collaborative project. Also participating in the discussion were members and/or staff of the Public Sector Committee of the Fédération des Experts Comptables Européens (FEE), the International Accounting Standards Board (IASB), the Task Force on Harmonization of Public Sector Accounting (TFHPSA) and Eurostat.</p> <p>The IPSASB notes a further report on the work of the national standards setters (NSS-4) who are considering the implications of the IASB-FASB conceptual framework project for not-for-profit entities (including the public sector), and discusses with the NSS a project brief which outlines strategic issues to be dealt with in actioning and pursuing a collaborative project.</p> <p>It is agreed that the IPSASB will lead a collaborative project in conjunction with participating national standards setters and similar organizations (NSSs). The draft project brief and tentative development program was also agreed subject to processing amendments identified, review by NSS and IPSASB out of session, and final approval at the November 2006 IPSASB meeting.</p>
August – December 2006	<p>Project brief updated and circulated to NSS and IPSASB members for comment and nominations for membership of subcommittee and wider monitoring group sought and confirmed.</p> <p>IPSASB considers at its November meeting a revised draft project brief, which had been circulated for comment to NSS participants. IPSASB approves project brief subject to final confirmation by NSS.</p> <p>Post November meeting, project brief, proposed development schedule, responsibility for key tasks and membership of subcommittee circulated to IPSASB and NSS members.</p> <p>Final Project Brief made available for inclusion on IPSASB website in mid December.</p>
January 2007	<p>Staff follow-up with NSS to confirm project responsibilities and project development schedule.</p> <p>NSS from Australia, Norway, South Africa and UK agree to lead preparation of first group of Consultation Papers on Objectives of Financial Reporting, Scope of Financial Reporting, Qualitative Characteristics of Information Included in General Purpose Financial Reports and The Concept of the Reporting Entity</p>
March 2007	<p>IPSASB briefed on current status of project at Accra meeting.</p> <p>Subcommittee holds its first meeting in Hong Kong and reviews issues papers on Group 1 project: Objectives – author UK-ASB;</p>

IPSASB/PSC MEETING	ACTION
	Scope – author South Africa ASB; Qualitative Characteristics – author Norway Institute; and Reporting Entity – author Australia AASB.
July 2007	Subcommittee meets and reviews first draft Consultation Papers on Objectives, Reporting Entity and Scope. IPSASB reviews first draft Consultation Papers on Objectives and Scope at its Montreal meeting.
Sept 2007	Subcommittee and NSS-4 meet and review second draft paper on Reporting Entity and first draft Paper on Qualitative Characteristics.
November 2007	Subcommittee will meet prior to IPSASB meeting to review updated papers on Objectives, Scope, Reporting Entity and Qualitative Characteristics. IPSASB will review updated papers on Objectives, Scope, Reporting Entity and Qualitative Characteristics at its Beijing meeting.