



**INTERNATIONAL FEDERATION
OF ACCOUNTANTS**

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Agenda Item
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DATE: February 23, 2008
MEMO TO: Members of the IPSASB
FROM: Paul Sutcliffe
SUBJECT: Public Sector Conceptual Framework

OBJECTIVE OF THIS SESSION

To review the first draft of the Consultation Paper dealing with the Scope of General Purpose Financial Reporting, the Objectives of General Purpose Financial Reporting, Qualitative Characteristics of Information included in General Purpose Financial Reports and The Reporting Entity.

AGENDA MATERIAL

Agenda Papers

- 2.1 Conceptual Framework subcommittee meeting notes - fourth subcommittee meeting in Beijing in November 2007;
- 2.2 Overview of changes to papers considered in Beijing in November 2007;
- 2.3 Draft Consultation Paper – Chapters 1 - 5;
- 2.4 Bibliography and other material for inclusion on the IPSASB web page;
- 2.5 Report on Group 2 papers;
- 2.6 The Conceptual Framework Project Brief; and
- 2.7 Project History Sheet.

ACTION REQUIRED

- Review and provide directions to staff for further development of the Consultation Paper;
- Note the Bibliography and reference material prepared as a separate web document, and confirm and update jurisdictional coverage therein;
- Note the report of the fourth meeting of the Conceptual Framework subcommittee; and
- Note progress on development of Group 2 papers.

BACKGROUND

In mid 2006, the IPSASB agreed to lead a collaborative project with national standards setters and similar bodies (NSS) to establish a public sector conceptual framework. The IPSASB Conceptual Framework Project Brief was issued in December 2006 and the subcommittee and

monitoring group membership, and responsibility for preparation of Group 1 issue papers, was confirmed by end January 2006.

During 2007, the IPSASB reviewed issues papers prepared by authors from NSS in the UK and Australia and IPSASB staff on: “The Objectives of General Purpose Financial Reporting”; “The Scope of Financial Reporting”; “The Qualitative Characteristics of Information Included in General Purpose Financial Reports”; and “The Reporting Entity”. The papers had been prepared with input from other NSS members participating in the framework project, the IPSASB subcommittee and IPSASB staff.

At its November 2007 meeting, the IPSASB directed staff to update the four papers and prepare a composite Consultation Paper (CP) for review at this meeting.

The Conceptual Framework Subcommittee - meetings and activities

Subcommittee meeting in Beijing (November 2007)

The subcommittee held its fourth meeting in Beijing on November 26, 2007 - immediately prior to the IPSASB meeting. At that meeting the subcommittee reviewed the four Group 1 papers and provided input on each paper. A verbal report on that meeting, including the recommendations of the subcommittee, was considered by the IPSASB at its meeting in Beijing on 27 November 2007. The meeting notes from the subcommittee meeting are included at Agenda item 2.1.

A subcommittee meeting will not be held prior to the forthcoming (March 2008) IPSASB meeting. However, the draft CP included in the agenda materials for this IPSASB meeting is also being provided to subcommittee members. Comments received from subcommittee members will be made available to IPSASB members at the meeting.

GROUP 1 CONSULTATION PAPER (CP)

It is proposed that following this meeting, and subject to the directions of the Board, staff will revise the CP for review and approval at the next IPSASB meeting in July 2008.

It is intended that an executive summary, contents page, listing of the specific issues for comment and other introductory material will be included in the document when published. This material will be prepared when the contents and substance of each chapter has been agreed by the IPSASB.

The first draft of the CP is included at Agenda item 2.3. It has been developed to reflect the decisions of the IPSASB at its November 2007 meeting, but is still subject to further development to apply a consistent style to all chapters.

An extract of the draft minutes from the IPSASB meeting in Beijing in November, 2007 identifying directions of the IPSASB and actions taken is included at Agenda item 2.2.

The decisions made by the IPSASB at the November 2007 meeting that have had the most significant effect on the style and content of individual chapters and the structure of the CP are:

- an introductory chapter was to be prepared to explain the role of the IPSASB Framework and the process being adopted for its development. It was also to explain that differential reporting was a matter for consideration in application of the Framework once approved, consequently differential reporting issues were not to be raised in each chapter;
- the chapter on scope of financial reporting was to precede the chapter on objectives of financial reporting;
- the objectives chapter was to be restructured to commence with a consideration of users and user needs;
- the detailed appendices in each chapter were to be deleted, merged or reconstituted as a web document that members would then update; and
- the identification of individual standards-setters and quotations from their document was to be removed from the text as far as possible, but their views may be retained in a generalized form.

Staff has attempted to retain the content, flavor and style of the issues papers reviewed at the November 2007 meeting, subject to specific directions of the Board for revision. However, this has not always been possible. This is perhaps most noticeable in Chapter 3 where the restructuring of the chapter to initially focus on users and their information needs has resulted in significant change.

Issues

In addition to other matters that arise during review of the CP, a number of specific issues that members are requested to consider are identified below.

Preliminary Views – Objectives of Financial Reporting

In mid 2007 the IPSASB directed that the papers under development were not to include IPSASB or staff preliminary views, rather they were to identify possible approaches and related issues, and seek input from constituents on those approaches and issues. However, the IPSASB also agreed that it would revisit this decision as it finalized the papers to determine whether it should identify its preliminary view on any matter.

While this approach works well in most cases, the lack of a preliminary view on the objectives of financial reporting makes drafting of sections of the scope and reporting entity chapters “awkward” - because both the scope of financial reporting and the characteristics of a reporting entity will be responsive to the objectives of financial reporting. Agreement on the IPSASB’s preliminary view on the objectives of financial reporting could sharpen the focus of discussion in these chapters (and is likely to assist in the development of papers for the next phase of the framework project). In addition, and more importantly, it is likely that readers’ response to a number of the specific matters for comment in the CP will be influenced by, or conditional on, the objectives the IPSASB is likely to establish for financial reporting.

Staff therefore encourages the IPSASB to explore the potential for including in the CP, the IPASB’s preliminary view on the objectives of financial reporting. Staff is of the view that Chapter 2 builds a strong case for identifying the objectives of financial reporting as being for

accountability and decision making purposes – such an objective responds to users’ information needs as considered in the CP and reflects the position of many national standards-setters and commentators.

Contents of Chapter 1

Chapter 1 outlines the purpose of the Framework and its authority and explains such matters as: the relationship of this project to the Framework of the IASB; the nature of general purpose financial reports (GPFRs); and the due process being adopted by the IPSASB for development of this project. It also refers to the survey of Frameworks in place or under development in IPSASB member jurisdictions. That survey is included in Attachment 1 to the Conceptual Framework Project Brief (included as agenda Item 2.6).

Members are requested to advise of any additional matters to be dealt with in Chapter 1 and to review Attachment 1 to the Project Brief and provide staff with updates as necessary.

Sequence of Chapters dealing with the “Scope” and the “Objectives” of Financial Reporting

At its November 2007 meeting, the papers reviewed by the IPSASB had been structured such that the paper dealing with the objectives of financial reporting preceded the paper dealing with the scope of financial reporting. The scope paper reflected that the boundary of financial reporting should evolve to respond to the objectives of financial reporting, subject to certain constraints.

In broad terms, members were supportive of the contents and direction of the scope paper but directed that it precede the objectives chapter. Members also agreed that the factors to be considered in determining the scope should be reconstituted into matters of principle and limiting factors, and that the specific reporting issues should be retained and tested against the matters of principle.

These amendments have been processed and changes have been made to the scope and objectives chapters to reflect the re-sequencing of them.

Staff remain concerned that the placement of the scope chapter before the objectives chapter diminishes the effectiveness of the relationship proposed between scope and objectives – that is, the core principle in determining the scope of financial reporting is whether disclosure about the activity, transaction or event is consistent with achievement of the objectives of financial reporting.

Members are requested to review the sequencing of the chapters and confirm or otherwise the approach.

References to objectives of financial reporting in member jurisdictions

The Appendix B to Chapter 3 “Objectives of General Purpose Financial Reporting” includes extracts from standards-setters in IPSASB Member jurisdictions which identify the objectives of financial reporting applicable to public sector entities. These were drawn from the appendices which accompanied the papers considered by the IPSASB in 2007. (Those appendices are reproduced in the Bibliography and resource material at item 2.4.) Members are requested to review the extracts at Appendix B of Chapter 3 to confirm that the references are up to date and

appropriate. Staff would welcome input from members on literature which identifies the objectives of financial reporting of public sector standards-setters or other authoritative body, such as a ministry of finance, in jurisdictions not yet included in the appendix.

Chapter 5 Reporting Entity - “Balancing” the Discussion of Control and other Approaches

At its November 2007 meeting, members directed that the discussion of problems in application of control in the appendix of the paper on reporting entity be simplified and, more generally, that the appendices be condensed. Chapter 5 “The Reporting Entity” has been redrafted to respond to these directions, and a brief discussion of common/likely responses to public sector specific issues has been included in the text itself.

The chapter also includes discussion of one of the subcommittee recommendations that was not specifically discussed - namely that the paper should acknowledge that if control was adopted, implementation issues would need to be dealt with at the standards level. Members are requested to confirm, or otherwise, the approach adopted and provide directions for any further revisions.

Members directed that the section on common control be deleted. This has largely been done. However, staff has retained two paragraphs on common control. This is because it does respond to an issue that was raised at the November 2007 meeting and may be encountered in some jurisdictions in establishing the boundary of a reporting entity- for example, where there is a case that users dependent on GPFR’s about a Ministry of Health exist, but it is not clear that there is an entity which controls all components of that Ministry. Members are requested to review the paragraphs and provide directions on their retention, deletion or modification.

Bibliography and References (item 2.4)

As agreed at the November meeting, many of the detailed appendices previously included with each chapter have been removed and, subject to confirmation by members, will be included in a separate web document, together with the Bibliography. This document is included at Agenda item 2.4. (The appendices relating to objectives of financial reporting at the whole government and department levels have also been merged, because there was significant common ground in each.)

Staff request that members confirm or otherwise that each of the items should be included in the web document. Members from jurisdictions not yet reflected in the appendices are requested to provide input on such matters as the users and objectives of general purpose financial reporting identified in authoritative and/or influential guidance/publications in their jurisdictions.

**MEETING NOTES
PUBLIC SECTOR CONCEPTUAL FRAMEWORK SUBCOMMITTEE
FOURTH MEETING - BEIJING, 26 NOVEMBER 2007**

MEMBERS ATTENDING

<i>IPSASB</i>	<i>Attending</i>
UK	M Hathorn (Chair), I. Carruthers
Argentina	C Palladino
Japan	T Sekikawa, K Izawa
New Zealand	G Schollum, A Davis
Norway	Didrik Thrane-Nielsen*, (T.Olsen- apology)
USA	D Bean
Australia - AASB	Ahmad Hamidi-Ravari, J Paul
China - Ministry Finance	Yun Huang, (W. Feng - apology)
France - Ministry of Finance	Apology
IMF Statistics Dep't and Fiscal Affairs Dep't	
Italy - Ministry Economica/Finance	M. Bessone
South Africa - ASB	Apology
UK- ASB	D Loweth, (Ian Mackintosh - apology)
<i>Observers/Guests/Staff</i>	
IASB Staff	I Hague*
NSS-4 Consultant	K Simpkins*
IPSASB Staff	S Fox, P Sutcliffe, B Naik

**Link in via conference call*

Introductions and opening remarks

Mr Mike Hathorn, the IPSASB Chair and Subcommittee Chair, welcomed all participants at the meeting and via the conference call. He noted that comments had recently been received from Ian Hague and Kevin Simpkins and had been distributed to the authors and technical director and that Ian and Kevin would participate via the conference call. The Chair also thanked the authors for preparing materials for consideration at this meeting.

Meeting Agenda and process for completion of Group 1 papers

Members noted and agreed the meeting agenda and the proposed process for completion of Group 1 papers. In this context members noted that:

- the IPSASB would review the four papers, and subcommittee recommendations thereon, at its meeting on November 27, 2007;

- the papers would then be revised and combined into a single “composite” Consultation Paper by staff for review by the IPSASB in March 2008; and
- the subcommittee would not review the composite paper before the IPSASB meeting in March 2008, but a subcommittee meeting may be scheduled to review the paper and any Board directions for further development after the March 2008 IPSASB meeting.

Members also confirmed the report of the third meeting of the subcommittee held in conjunction with the NSS-4 group in London on September 24, 2007 and received a report from the Technical Director on arrangements for progressing Group 2 projects.

Draft consultation papers

Members reviewed and discussed each of the consultation papers.

Objectives of financial reporting

Members agreed to recommend to the IPSASB that the paper/chapter should:

- be restructured to commence with a discussion of likely users and their information needs;
- retain the section exploring the need for identification of a narrow primary user group, notwithstanding that there were differing views amongst members on the need for identification of such, or how narrowly the groups should be defined;
- re-title specific matter for comment 1 to ask “what should be the objective(s) of general purpose financial reporting in the public sector?” and raise accountability and decision usefulness as sub-components of that question;
- use the term accountability rather than stewardship, but explain that in some jurisdictions stewardship may be used with the same meaning as accountability;
- if possible, include additional explanation of the nature of decision making by users of GPFRs in the public sector and reflect that some were of the view that it may well be wider than in the private sector;
- initially identify likely public sector users of GPFRs in paragraph 49, and then indicate how that list could be interpreted to align with the list of users identified in the IASB-DP;
- elaborate on the meaning of inter-period equity and its relationship to accountability, and note that it has potential implications for other components of the Framework as appropriate. Members noted that GASB Statement 34 may be useful for this purpose as it built on previous explanations in GASB material and additional experience and research. Some members noted that it would be useful to note that while the conventional statement of financial performance might be an useful starting point for such presentation, it was only a starting point;
- limit/reduce the number of specific matters for comment – some members expressed concern that when the four chapters/papers were put together there would be too many matters for comment;
- be refocused on the public sector only – members noted that at times the paper included discussion from a not-for-profit (or even business entity) in the private sector source/focus, particularly in discussion of the nature of stewardship.

Members noted that while the observations may be appropriate, the focus of the paper and related terminology should be on the public sector;

- reduce/eliminate the jurisdictional reference/justification if possible – the comments made in the paper were appropriate but attribution to particular sources tended to reinforce a view that a narrow reference source had been used as input. Reduction/generalization of attribution should be considered as a mechanism to reduce this perception. Some members suggested that the quotes and related attribution should be eliminated as far as possible and the point generalized;
- the approach of “bouncing off” the IASB-DP, to explain public sector positions should be revisited because it made the paper look more dependent on IASB than it was/should be; and
- the appendices should be removed from the paper but may usefully be established as a web document provided their reach was extended and they were updated, with a cross reference from the Consultation Paper itself. Members agreed to review and further develop the Appendices as appropriate. Members also agreed that separate appendices for objectives and users of government and government departments/agencies was not necessary.

Members also agreed to provide additional input to staff on any work undertaken in their jurisdiction on the identification of user needs, and the outcome of that work.

The scope of financial reporting

Subcommittee members agreed that the following recommendations should be made to the IPSASB, the:

- paper/chapter should continue to use the term “scope” rather than “boundary” of financial reporting because this had been used throughout the project brief and project development. It was agreed that IASB staff would note this for consideration when IASB considered development of that component of its project;
- approach in the paper/chapter was appropriate and that the paper/chapter should not deal with the frequency of financial reporting, the contents or nature of reports, or communication mechanisms. Members raised alternate approaches, including simply proposing that the scope would encompass particular matters, varying those matters and seeking a response from readers on what those matters should be. However, it was agreed that this approach should not be pursued;
- paper/chapter should explain that a firm scope or boundary of GPFR would not be established, but rather that the scope could evolve in response to a number of principles or key factors;
- criteria identified by staff and the interpretation thereof and conclusions thereon, were appropriate but that the criteria could usefully be reconstructed to:
 - identify the principles that should be referred to in determining whether an item should be addressed by the standards setter – those principles being the objectives of GPFRs, user needs and the nature of the reporting entity (in para 21);

- identify constraining factors that may limit the actioning or development of an IPSAS on a particular topic at a particular time (in para 25); and
 - Some members were of the view that practical considerations such as availability of skills, standards setting resources and existing work programs should not be raised in a concepts document, but this view did not prevail;
- audit issue (whether all the matters included in a GPFR would be subject to audit) should be raised earlier in the paper/chapter;
- term operating and financial review or similar should be used, rather than management discussion and analysis or management review or similar;
- appendices should be deleted;
- approach to neutralizing jurisdictional references adopted in the text of this paper/chapter was appropriate and could usefully be adopted in other chapters;
- chapter/paper should note that there is a case that the Framework should clarify that at a minimum budget reporting, performance reporting, compliance reporting and long term fiscal sustainability is within the scope; and
- chapter/paper should make it very clear that the scope may well (and was likely to) move well beyond financial statements and notes thereto – some members noting it was important to sever the limitations of the scope to just financial statements.

The qualitative characteristics of financial information

Members reviewed the chapter/paper and agreed to recommend to the IPSASB that:

- the style of the paper/chapter in respect of its relationship to the QCs identified in the IASB – DP should be supported. Members noted that the paper drew more heavily on material from the IASB than the other 3 papers and discussed whether this was appropriate. Members agreed it was both efficient and necessary to build upon the extensive work already performed by the IASB, and the IPSASB chapter should draw out the similarities and differences between the QCs proposed by the IASB in its DP and the existing QCs in IPSAS 1;
- the IASB and IPSASB QCs be converged as far as possible. Some members noted it may prove challenging, particularly if differences in the scope of GPFRs were to emerge between the reporting models of the two sectors;
- at a broad concepts level it was likely that all information within a financial report should possess the attributes of, for example, understandability, relevance, faithful representation, etc. Albeit that the explanation of the application of an individual QC may be related to the different types of information presented within that report. As such, the concept of IASB and IPSASB having identical QCs as ‘building blocks’ was raised with the eventual construction of the set of QCs being influenced by any public sector specific issues;
- analysis of the benefits or otherwise of moving from the QCs in the existing IPSASs to the new (and still evolving) IASB formulation should be strengthened, including in respect of any public sector specific concerns. Members raised concerns/issues with the following matters which should be further developed for inclusion in the composite Consultation Paper:

- Placement/Hierarchy: the paper could usefully raise whether “understandability” might be of the highest priority from a public sector perspective because of the financially unsophisticated nature of many users of public sector financial reports. Similarly, whether timelines may be at least as, if not more, important than completeness. There was then a case to ask whether from a public sector perspective, a hierarchy of QCs needed to be established and if so to consider what that hierarchy might be;
 - Materiality – members noted the paper should explore whether “legislative compliance” in the public sector had an impact on the nature and role of materiality, which might result in a difference from the private sector;
 - Faithful Representation – identify any issues/benefits of the IASB proposal to replace ‘reliability’ with faithful representation, including what impact verifiability might have on the information included in GPFRs and whether this might be different for the public and private sectors; and
 - Qualitative vs. Enhancing characteristics – explain the difference between qualitative characteristic and enhancing characteristic, including how their roles differed and whether this raised significant public sector or other issues; and
- Appendices 1 and 3 could be deleted.

Some members also noted that the style of discussion in the paper should be reviewed as there was a risk that as currently written, some aspects could be interpreted as offering a preliminary view when this was not the intention.

Reporting entity

Members reviewed the chapter/paper and agreed that the following recommendations should be made to the IPSASB:

- separate questions should not be asked about the definition or meaning of an entity (Issue 1). Rather, it would be less confusing for constituents if the discussion of an entity were to become a subsection of the section on the reporting entity definition (Issues 2 & 2A) and that any questions on Issue 1 that are also relevant to Issues 2 and 2A should be merged with the questions in Issues 2 & 2A;
- paragraph 36 of the draft paper should be clarified and simplified and the Chapter should present the following three choices on whether, and how to, define or provide guidance on the concept of a reporting entity, and the arguments for each of them:
 - a. define a reporting entity as a public sector entity that should prepare general purpose financial reports (GPFRs), and provide guidance on the characteristics of such an entity;

- b. provide guidance on the characteristics of a public sector entity that should prepare GPFRs, but *not* to define a reporting entity as a public sector entity that should prepare GPFRs; and
- c. follow the IASB & FASB approach of neither defining a reporting entity as an entity that should prepare GPFRs nor providing guidance on the characteristics of entities that should prepare GPFRs. As with approach (b), a reporting entity might then be explained in terms broadly reflective of the approach of the IASB and FASB - namely, as “a circumscribed area of business activity of interest to present and potential investors and creditors” - but modified to reflect the public sector, non-business environment.

Subcommittee members noted that they supported approach (b) and that this should be recommended to the IPSASB;

- the characteristics of public sector entities that should prepare GPFRs are as set out in paragraph 41 of the draft paper, except for “(d) jurisdiction-specific characteristics”. The subcommittee considered that jurisdiction-specific characteristics should not be included in the list because they reflect that jurisdictions can legally require particular public sector entities to prepare GPFRs when the general characteristics are not present. Instead, Subcommittee members agreed that the lead paragraph in Issue 2A should acknowledge that legislators will specify which public sector entities should prepare GPFRs, and the conceptual characteristics in paragraph 41 should be described as guidance that may assist legislators in making such decisions;
- the discussion of how to determine the boundaries of public sector reporting entities should jointly discuss individual and group reporting entities without canvassing the possibility of allowing the boundaries of some individual reporting entities to be determined at the discretion of preparers;
- the discussion of all the approaches identified for determining the boundaries of a reporting entity should be retained, except for the common control approach. One Subcommittee member also argued that “operations covered by a public budget” are not a conceptual basis for determining the boundaries of a reporting entity, because the boundaries of those operations are jurisdiction-specific and imposed upon the entity.
- in relation to the concept of control, developments in the IASB project on Consolidation, including a discussion paper expected to be issued in the first quarter of 2008, should be monitored. Some subcommittee members expressed the view that the IASB’s tentative decisions to date may call into question whether the concept of control is adequate for defining the boundaries of all group reporting entities, particularly those involving special purpose entities (SPEs), and/or whether the power and benefit criteria is expressed appropriately or should be amended in some way – and it may be useful to note this in the IPSASB paper. One subcommittee member observed that the FASB has effectively concluded that a pure control-based model does not work in relation to variable interest

- entities in its requirements in FIN 46(R) *Consolidation of Variable Interest Entities*, which are based on a broader accountability notion, and the draft paper fails to acknowledge that the concept of control is being expanded to deal with SPEs – it was agreed it would be useful to note this in the paper;
- the paper/chapter's discussion of control should be restricted to conceptual issues, and should exclude the extensive discussion of issues regarding application of the concept of control. Therefore concept of control on which comment is sought should not be limited to the current definition in IPSAS 6 *Consolidated and Separate Financial Statements* or the draft definition developed by the IASB and FASB in their conceptual framework project, but should seek input on other definitions that respondents might propose. Subcommittee members also agreed that any application issues regarding control which might be noted, should be restricted to public sector specific issues, and should be articulated more succinctly (in just a few paragraphs);
 - the revised draft paper/chapter should present control in a more balanced light compared with the other possible bases for determining the boundaries of a reporting entity. One member noted this principle should be applied generally, noting that paragraph 99 of the draft paper makes a straw man of fiscal dependency as a basis for including an entity in a group reporting entity and fails to reflect the distinction made in GASB Statement No. 14, *The Financial Reporting Entity*, between special purpose governments and general purpose governments;
 - the discussion of the concept of control should include a few paragraphs on the implications of the power of governments to change legislation;
 - a section on controlling-entity-only financial reports should not be included in the Consultation Paper;
 - differential reporting is not an issue for the conceptual framework but, rather, a standards-level issue based on applying the cost-benefit constraint in the conceptual framework. However, the "Introduction" to the Stage 1 composite Consultation Paper should include this view of the differential reporting issue and note that a separate project may need to be actioned to deal with it; and
 - the Appendices in the draft paper need to be condensed to remove overlaps.

Some members also noted they were of the view that it would be useful for the paper to develop a definition of control that clarifies how the power criterion should be applied to autonomous and semi-autonomous public sector entities – in particular to clarify that meeting the concept of control does not require power over (or responsibility for) the day-to-day activities of an entity. They also noted that the paper could usefully identify problems with applying the current definition of control to public sector entities (especially not-for-profit public sector entities) and identify the need for the IPSASB to develop a public sector definition of control as a standards-level project – that is the points made in paragraphs B32 – B35 of Appendix B could be further developed and included much earlier in the paper. However, other members noted that these matters

were more in the nature of definitions and/or standards level projects than a concepts level discussion of reporting entity concept and that further development of these issues in the reporting entity consultation paper was not consistent with the agreed view that there was already too much discussion of control in the paper and the narrative on control should be reduced to rebalance the paper and better reflect that it was a concepts rather than a standards level paper. On balance members agreed that the concepts level consultation paper would not deal with these matters in any detail, but could note that concerns had been identified with the control approach and would need to be dealt with if a control approach was adopted. Readers could then be asked to respond with any concerns they had on this matter.

OVERVIEW OF AMENDMENTS TO GROUP 1 FRAMEWORK PAPERS
EXTRACT OF DRAFT MINUTES
IPSASB MEETING – BEIJING NOVEMBER 2007

Conceptual Framework

Members reviewed the agenda papers and:.....

- agreed that the introductory material to the draft Paper would:
 - clarify that the Framework would focus on public sector entities other than GBEs; **Done, but noted may be relevant to GBEs in respect of service delivery objectives of GBE's**
 - include explanations of general purpose financial reports (GPFRs), the purpose and proposed authority of the Framework, the due process being adopted in its development, and the relationship of the IPSASB Framework to the IASB Framework and current developments thereof; and **Done.**
 - explain that differential reporting will be considered as an application issue of relevant components of the Framework. **Done.**

Members also agreed that the Paper would note that input from constituents on these matters was welcomed; **Done – raised a series of specific matters for consideration.**

- agreed the draft Paper for review in March 2008 would be updated for developments in the IASB Framework project as at the end of 2007 (or early in 2008 if documents were available in time to be referred to in the draft), where appropriate; **No additional ED or DP issued as at Jan 1, 08. Watch for developments 2008.**
- agreed it was appropriate to delete/neutralize jurisdictional references in the text as much as possible, and that the current appendices in each paper/chapter should be deleted or merged as far as possible; **Done progressively.**
- agreed that members would provide additional input on experience in their jurisdictional with a view to increasing the spread of jurisdictions referred to in the bibliography. Members also noted that because of translation issues the bibliography would be “narrow” and agreed to consider whether the bibliography should be included as a web document independent of the Consultation Paper itself; **Input received on scope but further input welcome.**
- directed that the “scope” chapter would be the first chapter of the draft Paper for review at the next meeting, rather than the objectives chapter – however members also agreed that this direction was subject to major unanticipated sequencing issues that might be identified in preparation of the draft for review at the next meeting. Members also noted that within the parameters agreed at this meeting, decisions regarding the coordination, composition and revision of the papers for inclusion in first draft of the Paper would be left to staff; **Done–scope first. However, Staff not convinced sequence works all that well. Members to confirm sequencing at March meeting.**

- noted that the draft Paper would not be prepared in time to allow for a review by the subcommittee prior to its distribution to the IPSASB for the March 2008 meeting and agreed that:
 - the subcommittee would be provided with the draft Paper when it was distributed to the IPSASB; and **Done – any comments received will be made available.**
 - a subcommittee meeting may be arranged following the March 2008 IPSASB meeting - to review the draft Paper and any amendments agreed by the IPSASB at that meeting; **No action yet.**
- agreed that a revised draft Paper would be reviewed by the IPSASB at its July 2008 meeting with a view to its approval to issue; and **draft prepared, additional work likely.**
- noted the proposed schedule for development of Group 2 projects and an update on NSS participants leading its development.

Members received presentations from David Loweth (UK-ASB) on “Objectives of Financial Reporting”, Paul Sutcliffe (IPSASB- staff) on “The Scope of Financial Reporting”, Barry Naik (IPSASB staff) on Qualitative Characteristics of General Purpose Financial Reporting” and Ahmad Hamidi Ravari on “The Reporting Entity”. Members thanked the NSS staff and IPSASB staff for their work in preparing the papers and noted that comments on each paper/chapter had recently been received from Ian Hague (IASB staff) and Kevin Simpkins (NSS-4 staff) and are available on the intranet.

Members also agreed that as part of the review of the draft Paper in March 2008 they will consider whether:

- to specify a 6 or 7 month comment period to allow for its translation from English; **Consider at March meeting.**
- it is possible to identify IPSASB preliminary views on at least some of the issues identified, to inform readers of IPSASB current thinking; and **Consider at March meeting. Staff encourage identification of IPSASB preliminary view on objectives of fin. reporting.**
- the list of the matters for comment may be reduced to focus on key public sector issues. However, members agreed that it may be appropriate to have a lengthy list of specific matters for comment given this is the first Framework Consultation Paper issued by the IPSASB. **Consider at March meeting – Still a long list of comments in paper.**

Members then noted the recommendations of the subcommittee on each paper/chapter, discussed each paper/chapter in detail and provided input to staff for development of the draft Paper for review at the March 2008 IPSASB meeting.

In respect of the paper/chapter “Objectives of Financial Reporting”, members agreed that the paper/chapter should:

- be restructured to commence with a discussion of likely users and their information needs; **Done – has prompted substantial change – members to confirm appropriate.**
- retain the section exploring the need for identification of a narrow primary user group, notwithstanding that members had differing views on the need for identification of such; **No change.**
- re-title specific matter for comment 1 to ask “what should be the objective(s) of general purpose financial reporting in the public sector?” with a consequential redrafting of questions 1 and 2 (para 27 in the November 07 draft); **Done, but substantial relocation.**
- use the term accountability rather than stewardship, but explain what accountability may encompass and that in some jurisdictions stewardship may be used with the same meaning as accountability. Some members expressed the view that there was a case that accountability was more important than decision making as the objective of financial reporting for public sector entities; **Some commentary included – members to confirm whether appropriate or not.**
- draw out the nature of decision making by users of GPFRs in the public sector and reflect that it may well be wider than in the private sector; **Done**
- note that while the focus of GPFRs may be on financial accountability, “financial” could be interpreted very broadly as explained in the scope paper/chapter; **Done – refer to scope.**
- initially identify likely public sector users of GPFRs in paragraph 49, and then interpret and compare that list with the list of users identified in the IASB-DP; **Done**
- elaborate on the meaning of inter-period equity and its relationship to accountability, and draw out its potential implications for other components of the Framework; **under development** and
- make clear that information provided in the general purpose financial report would contribute to the discharge of financial accountability, but it was likely that additional information outside the scope of financial reporting would also be necessary for the discharge of political accountability. **Broad comment included**

Members also agreed to provide additional input to staff on any work undertaken in their jurisdiction on the identification of user needs, and the outcome of that work.

In respect of the paper/chapter “The Scope of Financial Reporting”, members agreed that the:

- paper/chapter should continue to use the term “scope” rather than “boundary” of financial reporting; **No Change**
- paper/chapter should not deal with the frequency of financial reporting, the contents or nature of reports and communication mechanisms - but would indicate that such matters may be considered in other components of the framework which consider presentation and display, or by specific standards; **No Change.**

- paper/chapter should explain that a firm scope or boundary of GPFR would not be established, but rather that the scope could evolve in response to a number of factors; **No Change**
- criteria identified by staff and the interpretation thereof and conclusions thereon were appropriate, but directed that the criteria should be reconstructed to:
 - identify the principles that should be referred to in determining whether an item should be addressed by the standards setter - being the objectives of GPFRs, user needs and the nature of the reporting entity; and **Principles identified as Objectives, which encompasses user needs, interpretation of “financial” which encompasses nature of entity and extent of “prospective financial information” to link with LT fiscal sustainability project.**
 - identify factors that may limit the actioning or development of an IPSAS on a particular topic at a particular time - being the meaning of “financial” in GPFR, the skills that could be brought to bear at any time, the value added by dealing with the issue as an IPSAS, the qualitative characteristics (including cost benefit) and a range of practical considerations including the resources available to the standard setter and the relative priority of the issue; **Done – however note financial identified as “principle” because likely to be a constant.**
- specific reporting issues discussed in the chapter should be retained and that the paper/chapter should seek input on whether, as a minimum, the scope should include prospective financial information, budget reporting (or some aspects thereof), performance reporting, operations review (MDA or management review), long term fiscal sustainability; **Done.**
- paper/chapter should acknowledge that in some jurisdictions the standards setter may have the capacity to determine whether the disclosures should be subject to audit or be outside the components of the financial report that are subject to audit. Some members noted that whether or not disclosures should be subject to audit might turn on the reliability and verifiability of the data, and this was as much an issue for the preparer as it was for the auditor or the standards setter. Members agreed this matter should be raised early in the paper/chapter; **Acknowledgement of location in the fin. Reporting package.**
- the paper/chapter should acknowledge where the IPSASB had already commenced to move on areas identified as potentially with the scope; and **Done.**
- appendices should be deleted, but members would provide input on how broadly the scope was identified in their jurisdiction for inclusion in the bibliography (which may be included as a separate web document). **Done.**

In respect of the paper/chapter “The Qualitative Characteristics of Financial Information”, members agreed that:

- it was desirable that the qualitative characteristics of financial information identified by the IPSASB and those identified by the IASB be the same. However, some members noted that there may be some public sector reasons to differ including for example that:

- “prudence” is more important in the public sector given the political sensitivity of some disclosures; **Broader public sector context considered**
- while the QCs themselves may not differ between the private and public sectors, the relative priority of certain of those QCs may differ – that is, while the “building blocks of the QCs” may be the same for the IASB and the IPSASB Frameworks, the relationship between those blocks may differ to reflect the different operating environments; **Further development required**
- the notion of whether “undue cost and effort” should replace, or be built into assessments of, cost-benefit analysis should be raised in the paper/chapter; **Cost-Benefit analysis broadened – further development may be required** and
- the interpretation and/or application of, for example, QCs dealing with reliability/faithful representation and verifiability may differ if applied to reporting of non-financial performance indicators and prospective financial or other information **Done**;
- the importance of QCs in promoting reliability/faithful representation of future cash flow projections should not be overly downplayed – particularly in respect of whole of government GPFRs; **Discussed - further development required**
- the explanation of whether there were public sector reasons to differ from the IASB QCs should be further developed – members agreed to provide staff with additional input on their views on public sector reasons to differ; and **Discussed**
- the appendix identifying differences between the current qualitative characteristics identified in IPSAS 1 and those proposed in the IASB-DP (and subsequent developments thereof) should be retained but, subject to staff views to the contrary when developing the Paper, the other appendices should be deleted or substantially reduced. **Done**

In respect of the paper/chapter “Reporting Entity”, members agreed that:

- the paper/chapter should focus on the reporting entity, and discussion of the nature of the entity could be a subsection of the reporting entity discussion; **Done**.
- the paper/chapter should not attempt to define the reporting entity but rather identify the characteristics that a reporting entity which prepared GPFRs was likely to possess - each jurisdiction would then determine which of their entities satisfied those characteristics and should prepare GPFRs. Some members noted that the overwhelming criteria was that a reporting entity had an obligation to be publicly accountable and the paper/chapter was directed at identifying the characteristics that such entities may possess; **Done – additional commentary on role of relevant authority in the each jurisdiction**.
- jurisdictional specific characteristics should not be identified in the paper. Some members expressed the view that it was not appropriate that the paper/chapter reflect/acknowledge that in a particular jurisdiction an entity may be required to prepare a GPFR when it did not possess the characteristics of such as identified by the IPSASB; **Done**.

- if possible, the paper/chapter should jointly discuss the boundary of the individual and group reporting entity – rather than discuss each separately; **Acknowledgement that boundary of individual entity driven by definition of elements, but notions adopted for group entity may also be relevant.**
- the discussion of each of the approaches to determining the boundary of the reporting entity should be retained but the discussion of control and common control should be simplified – in particular, the discussion of common control may be dealt with in terms of a general observation or request for input on whether additional approaches, such as common control, should also be considered by the IPSASB as it considers the basis on which the boundary of the reporting entity should be determined; **Done – a paragraph on common control retained.**
- the discussion of problems in application of control should be simplified. A number of members expressed concern that the discussion, particularly in the appendices, was too lengthy and detailed and was more appropriate for a paper dealing with the development of a standard, rather than one dealing with concepts to be reflected in a Framework; and **Done – limited discussion of public sector specific issues included in text also.**
- the discussion in the appendices needed to be condensed. **Done.**

Members also noted that the subcommittee had recommended that the:

- section on “controlling-entity-only” financial reports should not be included in the Consultation Paper;
- paper/chapter should note that if control was adopted as the criteria for establishing the boundary of the reporting entity, the IPSASB would need to action a standards level project to deal with a number of implementation/application issues identified in the appendices, including its application to autonomous and semi-autonomous public sector entities **Done**; and
- discussion of the concept of control should include a few paragraphs noting the implications of the power of governments to change legislation. **Done**

However, there was insufficient time for the IPSASB to discuss these matters.

Chapter 1

The Public Sector Conceptual Framework Project

INTRODUCTION

- 1.1 This is the first of a series of Consultation Papers being issued by the International Public Sector Accounting Standards Board (IPSASB) as part of its project to establish the Conceptual Framework for Financial Reporting by Public Sector Entities (the Framework).
- 1.2 The Framework will deal with general purpose financial reporting (financial reporting) under the accrual basis of accounting. It is applicable to the preparation and presentation of general purpose financial reports (GPFRs) of public sector entities, including but not necessarily limited to financial statements and notes thereto. The Framework comprises a number of components as identified in paragraphs 1.3 and 1.4 below. The Consultation Papers will identify, and seek input on, key issues that will be dealt with in the development of each of those components.
- 1.3 This Consultation Paper deals with the:
- scope of financial reporting – that is, the transactions and events, and attributes of them, that are considered to fall within the mandate of the IPSASB and therefore may be the subject of an IPSAS or other guidance issued by the IPSASB;
 - objectives of financial reporting – the objectives will establish the goals or purpose of financial reporting by public sector entities and provide the mechanism for the IPSASB to make the selection of appropriate financial reporting requirements from a number of possible alternatives;
 - qualitative characteristics of financial information – these are characteristics that all information included within GPFRs will need to possess; and
 - reporting entity – that is, the characteristics to be considered in determining which groups of activities may constitute a separate reporting entity and which entities may be expected to prepare and present a GPFR in accordance with International Public Sector Accounting Standards (IPSASs).
- 1.4 Other Consultation Papers will deal with:
- the definition and recognition of the elements of financial statements, and any definition and recognition issues that may apply in respect of additional matters that may be presented within the GPFR, but outside the financial statements;
 - the measurement basis or bases that may validly be adopted for the elements of financial statements and other transactions and other events that may be presented in the GPFR; and

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- presentation and disclosure – that is, the nature and content of the financial statements and notes thereto, and methods of presentation of other information that may be included within the GPFR.
- 1.5 The IPSASB encourages public sector entities to adopt the accrual basis of accounting, but acknowledges that many public sector entities do not yet do so. Many public sector entities currently adopt the cash basis of accounting (or a near cash basis), and seek guidance in strengthening and developing that basis as a first step in the transition to the accrual basis of accounting. To support these constituents, the IPSASB has issued, and continues to develop and maintain, a comprehensive IPSAS which establishes requirements for financial reporting under the cash basis of accounting. As the final stage of its Framework project, the IPSASB intends to issue a Consultation Paper which deals with concepts which underpin the cash basis of financial reporting.
- 1.6 In the development of this paper the IPSASB has reviewed, and received input on, the concepts and principles in place and under development by national standards setters and similar authoritative bodies in a number of jurisdictions. It has also noted the views expressed in professional and research literature and received input on practices in a number of jurisdictions. A selective bibliography of relevant reference material is included as a web document at www.IPSASB.org/conceptsbibliography. That web document also includes relevant extracts from the authoritative literature of a number of standards-setters in IPSASB member jurisdictions which deal with key issues.

THE ROLE OF THE FRAMEWORK

- 1.7 The Framework establishes the concepts that are applied by the IPSASB in the development of IPSASs. The Framework will primarily be of use to the IPSASB and its subcommittees in guiding decisions and deliberations in the standards-setting process. The benefits of development and application of the Framework to the IPSASB will include:
- the development of IPSASs that are consistent, because they are based on application of a coherent and orderly set of interrelated concepts;
 - a more efficient and effective standards development process, as all Board members will debate issues from the same explicit conceptual basis; and
 - the IPSASB being more accountable for its decisions, because the concepts that underpin the Board's decisions are transparent.
- 1.8 The Framework can also:
- enhance communication between the IPSASB and its constituents, because the conceptual underpinnings of IPSASB decisions, and the parameters within which the standards-setter operates, will be apparent. This will assist members of the financial reporting community to better participate in the standards setting process - whether user, preparer or auditor;

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- provide guidance to preparers when faced with establishing accounting policies for matters not specifically dealt with by IPSASs; and
- assist users in interpreting the information included in financial reports.

The Framework may also be of use to national standards-setters and other authoritative bodies in developing national standards for financial reporting by public sector entities.

GENERAL PURPOSE FINANCIAL REPORTS (GPFRs)

- 1.9 This Framework establishes concepts which underpin GPFRs. GPFRs are financial reports intended to meet the common information needs of a potentially wide range of users who are unable to demand financial reports tailored to meet their specific information needs.
- 1.10 Some users of financial reports may have the authority to command the preparation of reports tailored to meet their specific information needs – for example: governing bodies, the legislature and, in some cases, lending institutions and providers of development and other assistance. These users have the authority to specify the principles and rules they wish preparers to apply. Therefore, they are not reliant on an independent standards-setter to establish appropriate principles and rules for such matters as the nature, measurement and presentation of the information they require. Financial reports prepared to meet the specific information needs of these users are termed special purpose financial reports (SPFRs). This Framework, and the IPSASs developed consistent with it, are not developed specifically for application to SPFRs, but may be applied to such reports.
- 1.11 GPFRs may not meet all the information needs of all users. The information needs of some users may encompass matters that are outside the scope of GPFRs. In these cases, the GPFR may be supplemented by other reports and additional information disclosures – the Framework is not prepared to deal with the recognition, measurement or disclosure of matters outside the scope of GPFRs.
- 1.12 GPFRs will encompass financial statements and notes thereto and other reports and disclosures required by IPSASs. They may also encompass disclosures made on a voluntary basis by management consistent with disclosures encouraged in IPSASs or other guidance issued by the IPSASB and, in some jurisdictions, disclosures required by a national standards-setter or other authoritative body. The annual, or other periodic, report issued by a government or government entity may include a GPFR comprising financial statements and other disclosures prepared in accordance with IPSASs and national requirements, as well as other reports and disclosures outside the GPFR. For example, in addition to a GPFR, the annual report may include detailed reports on such matters as compliance with terms and conditions of external assistance, the outcome of assessments of internal control procedures, government tendering processes and government policies in respect of particular operating objectives.

PROJECT FOCUS – PUBLIC SECTOR ENTITIES OTHER THAN GOVERNMENT BUSINESS ENTERPRISES

- 1.13 The Framework is being developed for financial reporting by 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* (IPSASB Handbook 2007, paragraph 12), 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).
- 1.14 The performance objectives of GBE's often include the achievement of certain service delivery and social policy objectives imposed on them by governments. Subject to the outcome of the IPSASB's deliberations on matters such as whether GPFRs might encompass the disclosure of information about the achievement of service delivery objectives, the nature of that information, mechanism for its presentation and the qualitative characteristics that might apply to such disclosures, this Framework or certain aspects of it may also be relevant for GBE's.

PROJECT DEVELOPMENT

Background

- 1.15 When it first actioned its standards-setting program, the Public Sector Committee (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 reflects the approach of many accounting standards-setters - that is, to initially focus on establishing a set of core accounting standards that could be adopted by their constituents, and to develop their knowledge of concepts in conjunction with the standards before formally articulating and publishing a conceptual framework.
- 1.16 Many concepts, definitions and principles are embedded in the IPSASs currently on issue. However, a Framework which draws together and makes explicit those concepts, definitions and principles, and explains and tests their interrelationships has not yet been articulated and issued.

Project Partners

- 1.17 The IPSASB has agreed to lead the development of the Framework as a collaborative project with other national standards-setters and similar bodies, such as Ministry's of Finance, 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.)
- 1.18 Developing the Framework as a joint project with a number of NSSs provides the opportunity for the development of a substantially harmonized Framework across a number of jurisdictions. It also 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.

- 1.19 Readers should note that documents developed as part of this project and issued by the IPSASB may also be issued by NSS participants in this project, and be subject to national due process in a number of jurisdictions.

Relationship to the IASB Framework and Frameworks in IPSASB Member Jurisdictions

- 1.20 Many of the IPSASs currently on issue are based on IASs/IFRSs to the extent that the requirements of those 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 circumstances¹. The concepts in the current IPSASs, like the concepts in the current IASB Framework, focus on general purpose financial statements prepared to respond to the information needs of external users.
- 1.21 The IASB is currently reviewing its Framework in a joint project with the USA Financial Accounting Standards Board (FASB) to develop a common Framework that both Boards can use in developing new and revised accounting standards. The initial focus of the joint project is on financial reporting by profit oriented entities in the private sector. The IASB and FASB have indicated that, in a later phase of the project, they will consider the applicability of their Framework to financial reporting by other entities, such as not-for-profit entities in the private sector and business entities in the public sector.
- 1.22 The IPSASB Framework will apply in respect of GPFRs, which are potentially broader than general purpose financial statements. The IASB-FASB joint project is also directed at developing a Conceptual Framework that will apply in respect GPFRs. Given the relationship between the IPSASs currently on issue and the concepts and definitions in IASs/IFRSs, and the IPSASB's ongoing IFRS convergence policy, potential developments in the IASB Framework are being monitored and, where relevant, are identified in this paper. In this context, it is appropriate to note that as part of its joint project with the FASB, the 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* in July 2006 (IASB-DP, July 2006). (In the remainder of this paper, this IASB Discussion Paper is referred to as IASB-DP, July 2006.)
- 1.23 Conceptual Frameworks are in place or under development in a number of IPSASB member jurisdictions. A survey undertaken by the IPSASB in 2006 indicated that those Frameworks have a similar coverage in respect of scope,

¹ 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.)

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nature and content to the IASB Framework (see Attachment 1 to the IPSASB Project Brief issued in December 2006).

- 1.24 As part of the Framework development process, the IPSASB and its NSS partners will consider the extent to which the matters dealt with by the IASB Framework (and proposed amendments thereto) and in Frameworks of national standards-setters and other similar bodies are appropriate for the IPSASB Framework. However, readers should note that 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 NSS participants as appropriate.

Authority of the Framework

- 1.25 Authoritative requirements for recognition, measurement and disclosure of particular transactions and events are specified in IPSASs which have been subject to the IPSASB's extensive due process. Each IPSAS includes transitional provisions where necessary to respond to the practicalities of implementation in different jurisdictions, and thereby provide a mechanism to support the orderly adoption of the IPSAS.
- 1.26 The Framework will not establish new authoritative requirements for financial reporting by public sector entities which adopt IPSASs, nor will it override the requirements of existing IPSASs. If an IPSASs on issue conflicts with the Framework when it is completed, the IPSASB may review that IPSAS and, through application of the due process, revise it. However, until that occurs the requirements of the existing IPSASs will apply.
- 1.27 While the Framework will be of lesser authority than that of an IPSAS developed to deal with a specific transaction or event, it may be a relevant source of guidance to management in selecting accounting policies to deal with circumstances not specifically dealt with in an IPSAS.

DUE PROCESS

- 1.28 The IPSASB intends to issue Consultation Papers on the key components of the Framework and, after consideration of responses and other appropriate consultation, an exposure draft of the full Framework. This will enable the IPSASB to benefit from the views of constituents who respond to the Consultation Papers. It will also allow the development process to be informed by recent and current work being undertaken by the IASB in its joint project with the FASB and by NSS in IPSASB member jurisdictions. Such an approach will build and maintain momentum for the project and provide for appropriate participation and consultation. However, readers should be aware that the Framework development process may evolve and develop as progress is made and in the light of resource needs and availability.

Consultation Papers

1.29 The components of the Framework are interconnected – for example, decisions about:

- the scope of financial reporting, will establish the information spectrum that may be presented in financial statements and other components of the GPFR and, consequently, will influence the extent to which GPFRs can respond to users information needs; and
- the objective(s) of financial reporting will influence the definition of the elements of financial statements, the basis on which those elements and individual transactions and events may be measured and what additional information should be presented in GPFRs to respond to users information needs;
- decisions about the qualitative characteristics of financial information will influence what information may be disclosed in GPFRs and how that information may be measured and presented; and
- identification of the characteristics that a reporting entity is likely to possess and how the boundaries of a reporting entity are to be established, will be influenced by the objectives of financial reporting and, in turn, will determine what activities and transactions are included within the GPFRs of a reporting entity.

1.30 There is then merit in the view that, in principle, consultation papers of all the components of the Framework 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, the IPSASB will issue Consultation Papers on some components of the Framework before others. This will also provide constituents, and the IPSASB and its NSS partners, 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.

DIFFERENTIAL REPORTING

1.31 In the development of each of Chapters 2, 3, 4 and 5 of this Consultation Paper, the IPSASB explicitly considered whether the scope or objectives of financial reporting, the qualitative characteristics of financial information or the characteristics of a reporting entity and the basis for determining its boundary would be different depending on whether the:

- reporting entity was a government or an individual government department, agency or other governmental entity; or
- government or government department, agency or other governmental entity in respect of which a GPFR was prepared was a large or small entity.

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- 1.32 Factors considered by the IPSASB included whether at the conceptual level the:
- objectives of financial reporting for governments and for individual government entities are different, or whether they would differ dependent on whether the government or government entity is larger or smaller - and how to establish demarcations between entities based on size;
 - obligation of a public sector reporting entity to be accountable differs dependent on whether the reporting entity is a government or a government entity, or on the size of the government or government entity;
 - qualitative characteristics that information included in GPFRs should possess will differ dependent on whether the GPFR is prepared in respect of a government or an individual government entity, or on the size of the government or government entity.
- 1.33 The requirements of any “new” IPSAS is likely to impose an additional financial reporting burden on most reporting entities² – in some cases, that additional burden may be significant. As reflected in the qualitative characteristics of financial information outlined in Chapter 4 of this Consultation Paper, in developing an IPSAS, the IPSASB may determine that on a cost/benefit considerations, it is not in the public interest that certain requirements be imposed on all reporting entities, consequently differential reporting requirements may be developed in respect of the application of particular IPSASs during the IPSAS development process.
- 1.34 Having considered these matters in the concepts development phase, the IPSASB has formed the view that issues of differential reporting are more appropriately addressed as matters of application of the concepts at the standards-setting level, rather than matters which should shape those concepts themselves. As such they are not explicitly discussed in the following chapters.

Specific Matters For Comment

- 1.1 The IPSASB would welcome comment on the following:
- Q1.1 Do you agree with the following – if you have a different view please explain that view:
- (i) that the primary focus of the Framework should be on public sector entities other than GBEs, but the Framework should note that GBE’s may find certain components of the Framework useful;
 - (ii) that the IPSASB should not simply interpret the IASB Framework for the public sector, but should develop its own Framework using the work of the IASB and other standards-setters and similar bodies as appropriate;

² In some cases, the transactions and events dealt with in a particular IPSAS may not be applicable to all reporting entities. The applicability clauses of the standard will make that clear.

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- (iii) the proposed authority of the Framework – that is, that it will be of lesser authority than an IPSAS, but is a useful source of guidance in selecting accounting policies to deal with circumstances not specifically dealt with in an IPSAS;
- (iv) the proposed due process for development of the Framework – in particular, the proposal to issue an exposure draft of the proposed complete Framework after review of responses to all Consultation Papers, rather than issue separate exposure drafts of each component after consideration of responses to each Consultation Paper;
- (v) that issues that might impact on differential reporting should be addressed as matters of application of the concepts, rather than matters that will shape those concepts.

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Chapter 2

The Scope of General Purpose Financial Reporting

INTRODUCTION

- 2.1 This Chapter is concerned with identifying the activities, transactions and other events that may be considered the subject matter of general purpose financial reporting, and the information about them that may be disclosed in GPFRs. This will determine what matters the IPSASB considers to be legitimately within its mandate and potentially the subject of an IPSAS, or other IPSASB documents.
- 2.2 The chapter initially identifies the factors that are likely to be considered by the IPSASB in establishing the scope of financial reporting by public sector entities. It then “tests” a number of potential financial reporting issues against those factors to determine whether they would qualify for inclusion within the IPSASB’s standards setting work program.
- 2.3 There is a particularly strong interaction between the scope and the objectives of financial reporting, for example:
- what activities, transactions and events, and attributes thereof, are encompassed within the scope of general purpose financial reporting, can significantly influence the extent to which GPFRs will respond to user information needs and, therefore, satisfy the objectives of financial reporting. For example, establishing the scope 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 disclosed to support objectives which encompass assessments of the achievement of the entity’s service delivery objectives and the ongoing sustainability, and likely financial consequences, of current long term government programs, and
 - what is specified as the objectives of financial reporting can influence the activities, transactions and events that may be encompassed within the scope of financial reporting. For example, establishing the objectives of financial reporting as the disclosure of financial information to assist present and potential resource providers in making decisions about the allocation of their economic resources in the future, can influence the extent to which GPFRs will report information about the achievement of service delivery objectives and compliance with budget or other legislatively imposed constraints - particularly, if such disclosures are judged not to enhance assessments of the amount, timing, and uncertainty of an entity’s future cash flows. Similarly, establishing the objectives of financial reporting as the disclosure of information to confirm management’s stewardship of resources during the reporting period may impact on the extent to which the GPFR presents future oriented information and the measurement bases considered appropriate for financial reporting purposes.

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- 2.4 Given the potential for what is encompassed within the scope of financial reporting for public sector entities to have a significant impact on the achievement of the financial reporting objectives established for such entities and vice versa, it is important that readers consider the scope of financial reporting in conjunction with, and by reference to, the objectives of financial reporting as dealt with in Chapter 3 of this Consultation Paper.

Current IPSASs and developments in the IASB framework

- 2.5 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 general purpose 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
- 2.6 The current IASB Framework deals with objectives and concepts underpinning general purpose financial statements prepared to respond to the information needs of external users. As noted in Chapter 1, the IASB is 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 IASB-DP, July 2006 explains that the need to consider this broader scope arises “...because some types of both financial and non-financial information may best be communicated by means other than traditional financial statements” (IASB-DP July 2006 paragraph OB16).
- 2.7 The IASB-FASB will consider the boundary (or scope) of financial reporting in conjunction with presentation issues at a later stage in the development of their Framework - following consideration of the elements of financial statements, measurement and the reporting entity.

ESTABLISHING THE SCOPE OF FINANCIAL REPORTING – IMPACT ON THE BOUNDARIES OF FINANCIAL REPORTING

- 2.8 There may be an expectation that specifying the scope of financial reporting will give rise to a clearly identifiable boundary beyond which the standards-setter will not go in its consideration of matters that may need to be the subject of a standard, or how those matters may be presented in GPFRs. That is, matters outside that scope will not be addressed by the standards-setter, at least not without first revisiting and, if necessary, recalibrating the boundary of financial reporting.
- 2.9 However, it can be argued that attempting to establish specific and firm boundaries for financial reporting is:
- unlikely to be possible given the changing operating environment faced by entities which prepare GPFRs, the changing information needs of users of

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GPFRs and, consequently, the demands on standards-setters that work in their interest to respond to these changes; and

- is likely to be counterproductive – that is, it may stifle the potential for standards-setting to develop and evolve in response to user needs, and this will not serve the public interest.

2.10 This Chapter notes and seeks comments on a view that the scope 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 GPFRs 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 at a particular point in time, is to some extent subjective, arbitrary and flexible. It develops and evolves in response to a number of factors - not the least of which is users’ need for reliable and relevant information about new and innovative transactions that impact such matters as the financial position and performance of the entity and the discharge of its accountability obligations.

2.11 A review of the standards development work programs and background research projects of standards-setters in IPSASB member jurisdictions and in other jurisdictions tends to support this view. Students of these work programs will have noted their movement and expansion into new areas over the years as new financial reporting issues are identified, community expectations develop, standards setting resources and priorities change, and the need for accountants to embrace additional skills and move into new areas of competency are recognized.

2.12 Recent developments in the work programs of standards-setters in the public and private sectors 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 of extractive industries. In the public sector, they encompass better reporting of liabilities arising from social policy obligations, employee entitlements and the recognition and measurement of non-exchange transactions including taxes and transfers. They also encompass a response to new economic phenomena and service delivery mechanisms – for example, accounting for special purpose entities and public, private partnerships (PPP), which impact the work programs of both private and public sector standards-setters.

2.13 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 increasingly accepted as being within the ambit of GPFRs of both private and public sector entities that adopt accrual based financial reporting standards if not

disclosed elsewhere in the annual report, and the incidence of standards-setters providing guidance on management discussion and analysis is increasing.

Impact on the standards-setting work program

- 2.14 Acknowledging that guidance on the treatment of particular transactions and events or activities may be within the scope of financial reporting, or more appropriately not excluded from its scope, does not mean that it is inevitable that an IPSAS will be developed to regulate reporting on the matter. IPSASB work programs are developed after wide consultation and consideration of the need and relative priority of dealing with any particular issue. 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 matter should be contemplated.
- 2.15 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 may be influenced by a range of factors including such matters as, for example, whether:
- other authoritative or persuasive guidance is already in place to assist preparers in dealing with the issue, and whether such guidance is consistent with the objectives of financial reporting – in particular, whether the matters have been addressed in IFRSs or statistical financial reporting requirements and, therefore, whether there is a need for the IPSASB to deal with the issue as a matter of priority;
 - information is disclosed in other reports issued in conjunction with, or at the same time as, the GPFR and the nature of such information – therefore, whether there is a need for additional guidance by the standards-setter and the nature of that guidance; and
 - the IPSASB perceives there is merit in encouraging particular disclosures to be made but is concerned whether financial reporting methodologies have currently been developed in all jurisdictions such that the disclosures will satisfy the qualitative characteristics of information included in the GPFR - including the reliability or verifiability of those disclosures. In such cases, certain disclosures may be encouraged rather than required to be made in the GPFR or to be included as a component of the “financial reporting package” which is supplementary to the GPFR and need not be subject to audit.

Need for the “scope” component of the Framework

- 2.16 If one accepts that the scope of financial reporting can evolve, it is valid to question the need for the inclusion of a scope component in the Framework –

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apart from the convention that Frameworks include such a component and there is a need for the IPSASB to respond to this convention.

2.17 This Chapter reflects the view that there are important reasons for inclusion of a “scope” component in the Framework – namely, for the IPSASB to acknowledge, and make transparent:

- whether it is of the view that the scope of GPFRs will and should develop; and, it if is of that view
- the factors that it will consider in determining whether particular activities, transactions or events should be the subject of its deliberation and potentially the subject of authoritative guidance.

Frequency of reporting and presentation issues

2.18 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 of information to users, or the nature and types of financial statements or presentations that may be encompassed within GPFRs; or
- whether a single general purpose financial report could or should encompass all the matters that are to be disclosed to satisfy the objectives of financial reporting, or whether separate reports and/or a hierarchy of presentation formats distinguishing between required and encouraged disclosures and primary and supporting financial statements may better achieve that end.

These matters may well be addressed at the presentation and display level of the framework and in the development of specific standards.

Specific matter for comment

2.19 The IPSASB would welcome comment on the following:

Q2.1 Do you agree that the scope of financial reporting:

- (i) can, and should, develop and evolve over time; and
- (ii) 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”?

If not, please explain how you would establish the scope of financial reporting and whether you are of the view that the scope may evolve over time.

FACTORS TO CONSIDER IN ESTABLISHING THE SCOPE

2.20 At any point in time, the standards-setters conclusions about what is included within the scope of financial reporting will have been determined after consideration of a wide range of factors which can usefully be categorized as:

- matters of principle, which will be “constants” in determining whether particular activities, transactions and events, and which attributes thereof, are appropriately encompassed by financial reporting and may be the subject of an IPSAS or other guidance; and
- limiting factors at the standards development or implementation level, that may act as a constraint on the development of an IPSAS, or other guidance, at a particular point in time. The impact of these factors and their relative significance may change over time, and from issue to issue.

Potential matters of principle and limiting factors are identified and considered below.

Matters of principle

2.21 Arguably, the IPSASB’s resolution of the following matters of principles should serve as constants in determining whether particular activities, transactions and events fall within the scope of financial reporting:

- the objectives of financial reporting – what is identified as the objective(s) of financial reporting is likely to have the most fundamental impact on what the standards-setter perceives to be within its purview. This is because the activities, transactions and events encompassed within the scope of financial reporting, and the information presented about them in a GPFR will reflect, and be consistent with the achievement of, the objective(s) of GPFRs;
- presentation of future oriented information – the extent to which GPFRs can present information about the likely financial and other consequences of past transactions and events and those that are anticipated to occur in the future, will determine whether GPFRs can encompass the disclosure of future oriented information. The location of any such disclosures in the reporting package, and their relationship to the financial statements will be considered in other components of the Framework (for example, the definition and recognition of the elements of financial statements and their measurement. These matters will be considered in later in the Framework development process); and
- the meaning of “financial” as it is applied in GPFR s – how “financial” is interpreted will influence what attributes of particular activities, transactions and events may be reflected in GPFRs. The IPSASB’s resolution of this matter will determine the extent to which GPFRs of public sector entities, can disclose information about the achievement of service delivery objectives.

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Matters of Principle - Objectives of GPFRs and user needs

- 2.22 Chapter 3 considers the objectives of financial reporting and notes that many standards-setters and other commentators explain that the objectives of financial reporting should be developed to respond to users' information needs. That principle is adopted throughout this CP and, as appropriate, is reflected in each Chapter as a basis from which to consider the potential resolution of a number of conceptual issues.
- 2.23 Chapter 3 also reviews the potential information needs of users of GPFRs as identified by national standards-setters, authoritative bodies and in other literature from IPSASB member jurisdictions and notes that users of GPFRs require the disclosure of information about such matters as: sources and uses of financial and other resources; financial performance including the costs of service delivery; qualitative and quantitative aspects of service accomplishments; financial position and changes therein; financial condition including the sustainability of government operations and programs; compliance with budget and other authoritative regulations; and additional information as necessary to support assessments of the efficiency and effectiveness of operations during the reporting periods, interperiod equity and the discharge of accountability.
- 2.24 This provides the IPSASB with a potentially wide information spectrum that may fall within the scope of financial reporting, and therefore may be presented in GPFRs prepared to respond to users' information needs.¹ That information spectrum encompasses the disclosure of non-financial information and information about the consequences of transaction and events that may occur in the future, as well as information about the financial consequences of past transactions and events. At the principles level, the potential of financial reporting to respond to such a broad spectrum will be limited by the extent to which the IPSASB considers it appropriate that a GPFR include disclosure of future oriented information and the notion of "financial" that the IPSASB imposes on itself.

Matters of principle – presentation of future oriented information

- 2.25 The IPSASB Framework will apply in respect of IPSASs developed for financial reporting by governments and their entities, other than GBE's. Governments and their entities operate primarily for the delivery of goods and services, including provision of social benefits and other goods and services over the long term. The activities of these entities are generally substantially funded from taxes, rates, levies and/or by transfers from other levels of government, rather than from the voluntary transfer of funds in an exchange transaction.
- 2.26 Decisions made in a particular period about programs for the delivery of goods and services over the long term can have significant consequences for the financial position of the government or government entity in the future, and the

¹ As noted in Chapter 1, GPFRs may not meet all the information needs of all users. The information needs of some users may encompass matters that are outside the scope of GPFRs and may be addressed by special purpose reports or in other aspects an annual or other periodic report.

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taxes, rates and levies to be raised from citizens in future periods to support these programs. It is not clear that the long term financial consequences of these programs, and the amount and sources of resources to be generated in the future to fund them, will be adequately captured by existing concepts of assets, liabilities, revenues and expenses which are constructed to ensure that the economic consequences of past transactions and events are reported on a reliable and consistent basis in financial statements². This is particularly so where, for example:

- firm commitments are made in one period for services to be provided to constituents in future periods, but transactions have not yet occurred and contracts remain “executory”; or
- where the taxation base is to be expanded, or additional revenues sources are to be accessed, to fund the programs in the future.

2.27 Taxpayers and ratepayers, whether current or future generations of taxpayers and ratepayers, cannot avoid participating in the funding of those programs. There is then a case that disclosure of prospective financial information, including the likely impact of current decisions on the future financial position of the entity, its future resource needs, and likely sources of such resources is consistent with objectives of financial reporting which encompass the provision of information for accountability and decision making purposes, and responds to users’ information needs. Where such disclosures are not captured by definitions of, or measurement models applied to, the elements of the financial statements assets, liabilities, revenues and expenses, the disclosure of future oriented information outside the financial statements may be a necessary adjunct to the information recognized in the financial statements.

2.28 There may also be a case that extending the scope of financial reporting to encompass the disclosure of transaction and events that may occur in the future will:

- align with financial forecasting undertaken by a government or government entity;
- is reflective of the role a prospectus can play for a private sector entity; and
- would be consistent with objectives of financial reporting which focus on the disclosure of information useful for assessing potential future cash in-flows and out-flows.

² The definitions of the elements of financial statements, and the recognition criteria and measurement models applied in respect of them will determine the extent to which the financial statements will reflect a measure of the full cost consequences of current programs – including where the number of participants in existing programs and/or the level and cost of the benefits to be provided are anticipated to increase in the future.

Matters of principle - meaning of financial in general purpose financial reporting

- 2.29 The meaning of “financial” in financial reporting may exert a significant influence on what might be encompassed within the scope of financial reporting. If interpreted as limiting the contents of GPFRs to information expressed in numeric financial terms, the scope of GPFRs will be drawn narrowly - arguably narrower than is reflected by current practice.
- 2.30 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 performance, financial position and cash flows reflected in the financial statements. The disclosure of such non-financial information is widely accepted as a necessary and valid component of GPFRs of both for-profit and not-for profit entities.
- 2.31 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 service delivery (or non-financial) outputs and outcomes. For such entities, financial accountability involves the consideration of, for example, the economy, efficiency and effectiveness of operations in achieving those service delivery objectives, including any objectives related to volume, frequency and quality of service.
- 2.32 For such entities, the case for including within the scope of financial reporting the disclosure of non-financial performance indicators, 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. Arguably, however articulated, the objectives of financial reporting will not be achieved if the non-financial and financial characteristics of performance are disengaged and presented independently.
- 2.33 Consistent with this view, it can be argued that the impact of “financial” is only to require that information be relevant to the discharge of accountability for financial performance, financial position and the raising and use of financial resources, and as input to decision making made in response to financial information³ - not that it be derived from, or be limited to explaining, the information included in financial statements. Consequently, “financial” may not have as significant a limiting effect on what standards-setters might include within the scope of financial reporting as may be expected.
- 2.34 There also appears to be a growing acceptance amongst public sector standard-setters and similar authority bodies in IPSASB member jurisdictions, and in other jurisdictions, that financial reporting objectives for public sector entities pertain to

³ Which may of course manifest itself in decisions about the allocation of resources, or in political or other decisions.

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more than the financial statements and notes thereto, and that the broader notion of financial reporting can encompass the inclusion of non-financial and narrative information.

Limiting factors - standards level constraints

2.35 The following limiting factors are consistent with its “due-process” and therefore are likely to be considered by the IPSASB in determining whether it will action development of an IPSAS or other guidance on issues that fall within the scope of GPFRs:

- the relative priority/importance of the issue;
- whether the consequences of dealing with the issue is likely to have commercial, political, or other outcomes such that it is not in the public interest to deal with the issue;
- whether the resultant disclosures are likely to satisfy the qualitative characteristics of information included in GPFRs;
- whether the benefits of dealing with the issue is anticipated to justify any increase in preparation, audit and other costs;
- the standards-setting resources that are available to pursue a potentially demanding work program; and
- the availability of relevant expertise and experience to deal with the issue, whether reflected in the membership of the IPSASB or in the form of independent expert advice⁴.

2.36 The impact that each limiting factor has on whether a specific issue will be pursued by the standards-setter is likely to be greater or less at any point in time. Ultimately, the IPSASB’s decision on whether to pursue a particular project will be based on professional judgment, after weighing the merits of each factor.

2.37 The IPSASB issues IPSASs to enhance financial reporting in the public interest and encourages the adoption of IPSASs and the harmonization of national requirements with IPSASs. There is a case that in determining whether to deal with particular issues, the IPSASB should consider other international and national guidance that relates to the matter, the effectiveness of that guidance and where it can add greatest value with its scarce standards-setting resources. This may well encompass assessments of whether the issue is one in which its authority as an accounting standards-setter will be recognized by the financial reporting community such that its standards will be applied and will be effective in enhancing financial reporting practice.

⁴ The skill range of accountants continues to develop with accountants increasingly playing a prominent role in developing financial reporting and operational areas. In addition, standards-setters have access to a wide range of skills and knowledge from allied professions, including actuarial, valuation and legal professions and a wide range of industry.

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Specific matter for comment

- 2.38 The IPSASB would welcome comment on the following:
- Q2.2 Do you agree with the matters of principle and the limiting factors as proposed for consideration by the IPSASB in determining whether particular transactions, events and activities, and which attributes thereof, may be included within the scope of financial reporting. Please identify any other factors to be considered in establishing the scope of financial reporting?
- Q2.3 Do you agree with the explanation of the matters of principle and the relationship between principles and limiting factors? If not please outline your views on the relationship between the factors to be considered in determining the scope of financial reporting.

SPECIFIC REPORTING ISSUES

- 2.39 The Basis for Conclusion to the IASB-DP, July 2006 notes that the nature of information that might be included in a GPFR in addition to financial statements, including environmental sustainability, prospective information and cash flow forecasts or other features will be considered at a later phase of the project (IASB-DP paragraphs BC1.3 – 1.7).
- 2.40 A number of standards-setters with responsibility for establishing financial reporting standards for public sector entities have acknowledged in their Frameworks and work plans that the scope of financial reporting for public sector entities may encompass the disclosure of prospective financial information, information about compliance with budgets and indicators of service achievement, together with explanation, analysis and comment on operations and achievement during the reporting period – for example in⁵:
- New Zealand concepts statements 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;
 - the USA, concepts statements issued by the Government Accounting Standards Board (GASB), note 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;
 - Japan, the Ministry of Internal Affairs and Communications draft guidelines propose that Independent Administrative Agencies disclose some non-financial performance information and narrative analysis on financial and non-financial information;

⁵ The Bibliography (see ..web reference to be updated) cites references to relevant documents from each of these jurisdictions.

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- France, Central Government accounting standards embrace comparison of costs with non-financial indicators of performance including indicators of the quality of the services provided, disclosure of achievements against key budget targets and explanatory material to place the operations in context. Annual performance reports attached to the budget bill include explanatory materials relating to each program, together with actual results and projections for future years;
- Australia, concepts statements note that non-financial measures of performance may also be relevant to users, particularly in relation to non-business entities. Inclusion of such indicators in financial reports is permitted, but not required. The usual practice is to include such information in a directors' report, or management report of operations, outside of the audited financial report; and
- Argentina, professional requirements include disclosure of information about the budget and execution thereof and commentary and analysis on objectives and achievements as well as other basic financial statements.

(Staff note - Members are requested to add to this list in respect of their jurisdiction if relevant.)

- 2.41 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.
- 2.42 As noted above, a number of public sector standards-setters have already acknowledged the need for the scope of financial reporting to evolve to deal with at least some aspects of these issues.
- 2.43 The IPSASB has also recently actioned projects which may broaden the scope of financial reporting to encompass disclosure of information outside the financial statements which is useful as input to assessment of the long term fiscal sustainability of government programs and has agreed to the preparation of a project brief on management commentary. It has also issued requirements for the disclosure of information about compliance with publicly available budgets⁶. Determining whether these issues would satisfy the matters of principle identified above will provide useful feedback on whether the principles themselves are appropriate benchmarks to be applied in determining where the boundaries of financial reporting should be drawn.

⁶ For example, the IPSASB will issue a Consultative Paper on aspects of fiscal sustainability in 2008: "Social Benefits: Key issues in Recognition and Measurement". IPSAS 24 "Presentation of Budget Information in Financial Statements" was issued in 2006.

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- 2.44 Reflective of increased interest and/or activity by standards-setters, this Chapter also considers whether sustainability reporting (triple bottom line reporting) may be encompassed within the scope of financial reporting.

Performance Reporting – Semi and Non Financial Performance Indicators

- 2.45 The focus of Conceptual Frameworks for financial reporting by profit seeking entities in the private sector is primarily on the disclosure of information about the current financial position and immediate past financial performance of the reporting entity as input to better enable users to form views about the likely future financial performance of the 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 and position, and changes therein, as input for economic analysis and decision making.
- 2.46 This focus is largely reflected in the current IASB Framework and the preliminary views emerging from the IASB-FASB joint Framework project. However, it is pertinent to note the IASB-DP, July 2006 explains that GPFR's encompass information that might be reported outside financial statements – this may include non financial data that supports the achievement of the objectives of financial reporting.
- 2.47 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. Information about the financial resources that have been raised and deployed for the achievement of service delivery objectives and the outcome of that deployment is likely to be necessary for accountability and decision making purposes. There is, then a strong case that GPFRs prepared in respect of these entities will need to encompass the disclosure of information that reflects the achievement of its financial and its non-financial (or service delivery) objectives.
- 2.48 The current IPSASs include requirements relating to the presentation of information in the financial statements and the disclosure of additional information that strengthens the reporting of certain aspects of financial performance. However, the current IPSASs do not include specific or detailed requirements to report on the achievement of service delivery objectives, or identify the disclosures that are consistent with such reporting.
- 2.49 Standards dealing with the disclosure of information on the achievement of service delivery objectives have been issued by some 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.

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- 2.50 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.
- 2.51 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 information presented in the financial statements and is well within the expertise of accountants. The challenge facing the IPSASB at this level of the Framework is whether to acknowledge that its responsibility can encompass the development of an IPSAS or other guidance on the disclosure of non-financial performance indicators, and the nature of such guidance.
- 2.52 Subject to decisions of the IPSASB on the objectives of GPFR's and its acceptance of a broad interpretation of "financial" in the context of GPFR, the disclosure of semi and non-financial performance indicators appear to satisfy the principles proposed for determining matters that may be included within the scope of financial reporting. 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

- 2.53 The IPSASB would welcome comment on the following:
- Q2.4 Should the disclosure of semi-financial and non-financial performance indicators be encompassed within the scope of financial reporting? Please explain your view.

Management Commentary

- 2.54 Inclusion in the GPFR of management commentary⁷ will provide users 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 discussion and 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

⁷ Various referred to as management discussion and analysis (MDA), management commentary, operating and financial review, or review of operations in different jurisdictions.

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- entities discharge of accountability. *(Staff note –terminology to be updated to reflect IPSASB project)*
- 2.55 The importance of management commentary in adding value to financial data is well recognized by preparers of financial statements. The extent and nature of commentary included in, issued with and/or intended to support financial statements continues to develop and evolve. In recognition of the potential for such commentary to enhance (or degrade, if compiled inappropriately) the value and usefulness of information included in financial reports that conform with accounting standards, accounting standards-setters are increasing acknowledging the merits of establishing guidance on the principles that should be applied in the presentation of such commentary. As such, guidance on discussion and analysis to be included in, or issued with, the GPFR has been developed by some national standards-setters in both the public and private sectors, and is making its way up the priority list of standards-setters in other jurisdictions.
- 2.56 This appears an appropriate response to developing reporting practices, an acknowledgement of the power of management commentary to enhance financial data and confirmation of the need for the standards-setter to provide guidance to ensure that the “quality” and content of such commentary is appropriate. As noted above, the IPSASB is itself considering whether or not to include on its work program a project on “management commentary”. *(Staff note – terminology to be updated as appropriate.)*
- 2.57 The current IASB Framework focuses on financial statements and explains that financial statements do not include such matters as for example management discussion and analysis (MDA) – albeit such may be included in a financial report. The IASB is also currently considering whether to include on its work program a project on management discussion and analysis (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, that is the MDA may be considered to form an integral part of the financial statements⁸. *(Staff note – developments in this area will be monitored and updated.)*
- 2.58 Arguably, the role and importance of management commentary increases as the scope of financial reporting extends beyond financial statements into the other areas of financial reporting such as those considered in this Chapter – 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 to explain circumstances impacting on the achievement of budget outcomes.

⁸ IASB Project update, 2nd quarter 2007 – *staff will monitor and update.*

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- 2.59 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

- 2.60 The IPSASB would welcome comment on the following:
- Q2.5 Are you of the view that management commentary (however described) should be included within the scope of financial reporting and, therefore, is potentially the subject of a standard or other document issued by the IPSASB?

Prospective financial information

- 2.61 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 the likely resources required in the future to maintain current programs. Such disclosures may be made voluntarily or in response to encouragements or directions of standards-setters and other authoritative bodies.
- 2.62 General purpose financial statements prepared in accordance with IPSASs present financial information about past transactions and events. As noted in IPSAS 1, historical based financial statements may 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.)
- 2.63 In some cases, IPSASs 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 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 – 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 also require recognition in the financial statements of amounts based on projection of future cash flows.
- 2.64 The current suite of IPSASs does not define prospective financial information or include requirements or guidance on the nature and characteristics of prospective information that may be included in a GPFR. Some standards setters identify the conditions that should be complied with when an entity presents general purpose prospective financial information and prescribe disclosures that need to be made about such information to better enable users to understand and evaluate any prospective financial information that might be disclosed in the form of GPFR⁹.

⁹ See for example, New Zealand Financial Reporting Standard 42 – Prospective Financial Statements (2005)

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However, few if any standards-setters define prospective financial information and require its disclosure.

- 2.65 Interpreted broadly prospective financial information may be read as encompassing one or all of:
- projected financial information based on anticipated future financial consequences of past transactions and events which are not reflected in the financial statements;
 - financial information based on transactions, events and actions which have not yet occurred and may occur;
 - presentation of annual or medium term government budgets and related medium term expenditure frameworks and forecast financial information in accordance with financial reporting standards; or
 - other forecast information useful in assessment of, for example, the sustainability of government programs.
- 2.66 Some commentators, analysts and standards-setters may be of the view that the credibility, comparability and transparency of budget and other forecast financial information disclosed by governments and other public sector entities would be reinforced, if not improved, if prepared in accordance with an IPSASs. Others are likely to hold the view that the standards-setter should deal with the reporting of the consequences of only past transactions and events and prospective and budget information is appropriately the domain of the “budgeteer”. They may also note that, in many jurisdictions, prospective or forecast financial information prepared in accordance with an accounting standard and presented as a GPFR is 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.
- 2.67 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-DP, July 2006 advises that the disclosure of prospective information or forecasts will be explicitly considered in the Framework development process. (IASB-DP - BC 1.5)
- 2.68 The acknowledgement that GPFRs may include the disclosure of prospective financial information, including information about transactions and events that had not yet occurred but were anticipated, would provide a potential link to government budgets and allow the disclosure of additional information useful in assessments of, for example, financial condition and interperiod equity – matters that may well be encompassed by the objectives of GPFR. It may also provide the mechanism for the IPSASB to respond to public sector specific issues that can

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- arise when firm commitments are made to provide goods and services in the future in a non-exchange transaction.
- 2.69 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 accountability purposes and for making decisions about the allocation of resources in the future - that is, it enhances the transparency of reporting about the financial consequences of current and past decisions and this enhances the discharge of accountability and the information provided by the GPFR as input to the decision making process.
- 2.70 Extending the scope of financial reporting to encompass the potential disclosure of information about transactions and events which may occur in the future does not mean that the IPSASB is compelled to develop guidance on them – rather it means it is not precluded from doing so. 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 made¹⁰, 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.
- 2.71 Clearly, the decision of the IPSASB on whether the disclosure of prospective financial information, and the nature of such information, is within the scope of financial reporting will have consequences for the development of IPSAS or other guidance on such matters as reporting on long term fiscal sustainability and budget presentation as part of a general purpose financial report. 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

- 2.72 The IPSASB would welcome comment on the following:
- Q2.6 Are you of the view that the scope of GPFR may encompass the disclosure of prospective financial information, when such disclosures are consistent with the objectives of GPFR's? Please give your reasons.
- Q2.7 Should the extent of any prospective financial information included within the scope be limited to the future consequences of past transactions and events, or should it encompass transactions and events that might occur in the future? Please give your reasons.

¹⁰ 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.

Budget Reporting

- 2.73 Most governments prepare and make publicly available their financial budgets. The budget documents are widely distributed and promoted.
- 2.74 The Research Report *Budget Reporting* issued by the PSC (the IPSASB's predecessor) in 2004 included recommendations that IPSASs should be issued on presentation of ex-ante and ex-post budgets and reporting on 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.
- 2.75 The Research Report was prepared with input from a steering committee which included accountants and "budgeteers" from finance ministries of a number of jurisdictions and from international organizations. The Report noted that while 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.
- 2.76 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 – that is on the same basis as adopted for presentation of the budget rather on the IPSAS basis if different. Standards-setters and authoritative bodies in a number of IPSASB member and other jurisdictions require that government budgets of the entities within their jurisdiction be made public and that disclosures of compliance with those budgets be included in GPFRs or reports issued in conjunction with those reports. IPSASs do not require that the budgets of public sector entities 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 coverage.
- 2.77 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.
- 2.78 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 accountability, decision making and other purposes that might be identified by the IPSASB as appropriate objectives of financial reporting. That is, they are widely distributed and therefore

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qualify as general purpose in nature, represent key input for decision making, and reporting against budget is a key component of the government's discharge of its accountability obligations. This is particularly so if 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 possess. If persuaded by these arguments 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 explanation¹¹.

- 2.79 However, some members of the financial reporting community 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 (or other public sector entity that is the subject of the budget). Central to an understanding of these 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, Budget or other 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.
- 2.80 In many jurisdictions, the government budget is presented within the parameters established by the System of National Accountants (SNA), and consistent with a comprehensive statistical reporting framework such as the Government Finance Statistics Manual 2001 (GFSM 2001) issued by the IMF or the European System of Accounts (ESA95) and the ESA95 Manual of Government Deficit and Debt (EMGDD) issued by the European Commission. These reporting frameworks include extensive requirements relating to the recognition, measurement and presentation of budget data. 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 standard-setting resources.
- 2.81 The IPSASB Conceptual Framework 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

¹¹ 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.

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boundary of financial reporting 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.

- 2.82 As with other matters identified in this Chapter, whether the IPSASB deals with budget presentation, what aspects it deals with 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.
- 2.83 The case for inclusion within the scope of GPFR disclosure of information about compliance with budgets appears not to be at issue – reporting against budget is a key component of the discharge of accountability. This has been accepted by a wide range of standards-setters and authoritative bodies and is reflected in the suite of IPSAS's.

Specific matters for comment

- 2.84 The IPSASB would welcome comment on the following:
- Q2.8 Do you believe the publicly available budget of a government or public sector entity has the characteristics of a general purpose financial report and that the presentation of budget information is within the scope of GPFR?

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

- 2.85 In this Consultative 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 government's 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 particular programs, and the outputs or outcomes of those programs.
- 2.86 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 for, and fiscal sustainability of, government programs over the long term as jurisdiction demographics change and evolve.
- 2.87 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/cultural and economic 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

- 2.88 Many governments initiate social benefit programs intended to provide benefits to constituents in the future and over the long term. These programs are funded predominantly by revenues raised from constituents in the future in the form of taxes and government charges, by debt that will ultimately be met from taxes and charges, and/or by transfers from other levels of government.
- 2.89 As noted above, it can 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 only the financial consequences of past transactions and events that have occurred as a result of initiation and operation of those programs during the reporting period. 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 the tax revenues and other resources that will need to be generated in the future to fund them. Such information will also provide input to decisions about future resource needs to support such programs, and whether to support or advocate changes to a government's priorities.
- 2.90 GPFRs 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. Financial statements can report the present value of future cash flows related to anticipated provision of services in the future to current participants, but may not capture the present value of cash flows related to participants that may enter the program 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.
- 2.91 Disclosure of historical trend data identifying key financial data and financial ratios can provide valuable input to assessments of the sustainability of particular programs. However, by their 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.
- 2.92 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 objectives of financial reporting that encompass accountability and decision making purposes. In addition, subject to the IPSASB's acceptance that GPFR's may present information about future transactions and events, it may satisfy the principles for inclusion within the scope of financial reporting.

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2.93 Such disclosures may well involve inclusion in GPFRs of financial and non-financial forecast data generated by economic and other modeling techniques that are not conventionally within the skill set of accountants. 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.

2.94 Governments and standards-setters in many jurisdictions are already responding to this potential information need of users through the disclosure of medium and long term expenditure frameworks which draw out the cost and revenue implications of particular programs, and intergenerational reports. 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 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 (or other indicator of aggregate economic activity) 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 in this area can be developed – input from members on guidance in their jurisdiction is requested for this purpose*
- as noted above, the IPSASB will issue a Consultative Paper on aspects of fiscal sustainability in 2008 as the first stage of a potential project to provide guidance on the disclosure of information about fiscal sustainability. That paper explains that fiscal sustainability involves an assessment of the extent

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to which governmental obligations under existing legal frameworks can be met in the future. (*Staff note- to be updated to align with IPSASB progress.*)

- 2.95 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

- 2.96 The IPSASB would welcome comment on the following:
- Q2.9 Do you agree that reporting on long term fiscal sustainability may be encompassed within the scope of financial reporting? Please explain your reasons.

Sustainability Reporting

- 2.97 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)).
- 2.98 A related PAIB Information Paper, notes 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*).
- 2.99 While not necessarily driven by an “Enron” experience, public sector entities within the purview of the IPSASB are also subject to the same “environment that is placing greater emphasis on accountability”.
- 2.100 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.

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- 2.101 The Global Reporting Initiative (GRI)¹² is responding to this need. The GRI has developed sustainability reporting Guidelines for voluntary use by organizations. 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.
- 2.102 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 a range of non-financial performance indicators 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).
- 2.103 Certain of the information appropriate for inclusion in sustainability reports may be derived from the financial statements. However, sustainability reporting also involves the disclosure of non-financial information and financial information on an entity’s economic, social and environmental performance which is not recognized in, or derived from, the general purpose financial statements.
- 2.104 Sustainability reporting is not currently on the active work programs of accounting standards-setters. However, there is an argument that:
- sustainability reports are general purpose in nature;
 - there is an increasing expectation that the reporting of information on sustainability is necessary to place the financial characteristics of performance in context – therefore it does have a financial reporting dimension and, subject to the IPSASB’s acceptance of a broad interpretation of the meaning of “financial” in GPFRs, may be included within the scope of financial reporting;
 - it does relate to the consequences of past transactions and events, albeit that those consequences may not be reflected in financial statements; and
 - disclosure of information about sustainability is consistent with the discharge of a broad notion of accountability and provides valuable input for decision making purposes - and is increasingly being recognized as a necessary adjunct to (or even part of) financial reporting.

¹² 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).

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- 2.105 There is then a case that sustainability reporting should be encompassed within the scope of general purpose financial reporting. Whether the IPSASB might provide guidance on such reporting, and the nature of that guidance, is likely to be influenced by factors such as the consistency and quality of current reporting practices, the extent to which narrative reporting in any management commentary or operations review would deal with relevant factors, whether there is demand for guidance from IPSASB constituents and the relative priority ranking of such a project on the IPSASB work program.
- 2.106 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, July 2006 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

- 2.107 The IPSASB would welcome comment on the following:
- Q2.10 Are you of the view that “sustainability reporting” and the disclosure of information about sustainability results should be encompassed within the scope of financial reporting? Please provide the reasons for your response.

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Chapter 3

The Objectives of General Purpose Financial Reporting

INTRODUCTION

- 3.1 The objectives of general purpose financial reporting (financial reporting) by public sector entities is at the core of the Framework. Subject to the constraint imposed by the scope of financial reporting, considered in Chapter 2, the objectives provide the basis for agreeing the other components of the Framework. They also provide the basis for the IPSASB to make clear, consistent and unambiguous selection of appropriate financial reporting requirements from a number of potential alternatives.
- 3.2 Financial reporting is not an end in itself. The purpose of financial reporting is to provide information useful to the users of the financial reports. Therefore, the objectives of financial reporting will be determined by reference to the standards-setter's perception of the information needs of users. The components of the IPSASB Framework, and the IPSASs themselves, will then be developed to respond to those objectives.
- 3.3 The key issues to be addressed in establishing the objectives of financial reporting are:
- identifying the likely users of general purpose financial reports (GPFRs) of public sector entities, and what are their information needs? In some cases standards-setters may identify a subgroup of users as the primary users and develop the objectives of GPFR by reference to the needs of this subgroup. Therefore, it is appropriate to also consider whether a primary group of users should be identified and the objectives of financial reporting developed to respond to the needs of that primary group of users.
 - determining how the objectives should be specified. The way in which the objectives are specified can influence the transactions and events that are considered the primary focus of the IPSASB, and the attributes of them that are presented in GPFRs. Responses to the IASB and FASB's preliminary views on the objectives of financial reporting for profit seeking entities in the private sector as proposed in the IASB discussion paper [IASB-DP, July 2006] indicated that many respondents were of the view that whether the objectives were expressed as the provision of information in one or other of the forms below could have an impact on the contents of GPFRs:
 - (a) for making decisions about the allocation of resources; or
 - (b) for both decision-making and accountability/stewardship purposes.
 - what is the role of accountability/stewardship in the context of financial reporting by public sector entities?

USERS OF GPFRS OF PUBLIC SECTOR ENTITIES AND THEIR INFORMATION NEEDS

- 3.4 To ensure that GPFRs are directed at the disclosure of information which is useful, it is necessary to consider the potential users of GPFRs, the types of judgements and decisions they are likely to make and the information needs common to those judgements and decision. The likely users of GPFRs and their information needs have been considered by standards setters in establishing the objectives of financial reporting, and by the academe and many commentators.
- 3.5 The potential users of general purpose financial statements are currently identified in IPSAS 1 (paragraph 3) as including 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. These users are similar to the users identified by many national standards-setters and other authoritative bodies with responsibility for establishing financial reporting standards for public sector entities. Figure 3.1 below summarizes the users identified by standards-setters and a number of other commentators in IPSASB member jurisdictions. (The IPSASB web page includes a detailed listing of the potential users of GPFRs identified in the Conceptual Frameworks of national standards-setters and similar authoritative bodies (NSS) from IPSASB member jurisdictions with responsibility for developing public sector accounting standards and related guidance.)
- 3.6 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-DP, July 2006 identifies the potential users of financial reports as including equity investors, creditors, suppliers¹, employees, customers, governments and their agencies and regulatory bodies and members of the public (paragraph OB6-OB10).

¹ The DP explains that 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.

Figure 3.1: Potential Users of GPFRs – from Standards Setters and other literature

(in alphabetical order)

Auditors – General (or similar monitoring agencies).
 Capital markets - investors in traded debt securities and government equity securities.
 Citizens and their representatives – including taxpayers, voters, service recipients, the general news media and trade journals, public interest and other advocacy groups, state and local legislators, analysts the academe.
 Competitors – where public sector entities compete with those in the private sector.
 Corporate users.
 Customers and suppliers.
 Donors, grantors and sponsors.
 Economic and financial analysts.
 Elected members, including government ministers and staff and the executive branch.
 Employees and other constituents.
 Fee-paying service recipients.
 Governments and Government bodies – including other national governments who provide assistance and other levels of government who receive/provide assistance.
 International bodies – such as the IMF, the European Commission and the OECD.
 Investors and creditors or business partners and their advisors - including individual and institutional investors and creditors, municipal security underwriters, bond rating agencies, bond insurers, and financial institutions.
 Legislators and legislative and other oversight bodies – at the national, state provincial, city/local or other levels of government.
 Managers within governmental organisations and public sector agencies.
 Media and other analysts
 Members of the public.
 Oversight bodies - including higher-levels governments.
 Policy analysts, makers and administrators.
 Recipients of goods or services or those who otherwise benefit from the activities of government and their departments.
 Regulators.
 Resource providers.
 Taxpayers and those who act on their behalf, such as academies, and financial.
 The public – including taxpayers, electors, voters, special interest groups and recipients of goods, services or benefits provided by the government.
 Those that impose constraints on providers of resources and decision makers.
 Those that make resource allocation decisions - legislative bodies, management.
 Those who perform oversight or review services on behalf of members of the community - including regulators, community groups and the media.
 Voters

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3.7 The identification of likely users of GPFRs is to some extent a matter of judgement. As reflected in Figure 3.1, many different potential users of GPFRs of public sector entities has been identified by standards-setters and other commentators. However, common themes in the users can be identified and users identified in Figure 3.1 may be grouped into a number of different broad categories for analytical purposes. Given the significance of the IPSASB's IFRS convergence program, and the potential impact that the identification of different users can have on the focus and content of IFRSs in the future, the grouping below provides a basis of comparison with the users identified by the IASB in its IASB-DP, July 2006 – the users identified in the IASB-DP, July 2006 are in brackets.

- taxpayers, ratepayers and similar “involuntary” resource providers (*equity investors and customers* - albeit that investors and creditors provide resources on a voluntary basis);
- other citizens and recipients of goods and services from government (*members of the public*);
- donors and other providers of resources on a voluntary non-exchange basis (no equivalent category, specifically identified)
- Present and potential institutional and individual lenders, including purchasers of government bonds and other debt instruments (*creditors*);
- “fee-for-service” customers (*customers*);
- suppliers (*suppliers*);
- employees (*employees*);
- elected officials and their staff; (*governments and their agencies*)
- legislative and oversight bodies and other representatives of, or advisors to, the user groups identified above including the media (*governments and their agencies and regulatory bodies*);

3.8 The role of intermediaries, advisors and representatives of user groups (such as legislators, citizen research organisations, rating agencies and the media) as users who review the financial reports and then disseminate their assessment of key information to a wider population of users is also well recognised by standards-setters and other commentators.

3.9 These categories are not mutually exclusive – for example, voters may be included in each category in their capacity as, for example, a taxpayer, recipient of goods and services, potential creditor, supplier, employee or a representative of the media and different categories may be identified.

3.10 These groupings could be further merged to facilitate the identification of common information needs – for example, the broad categories of recipients of services, providers of resources and other parties performing a review service is

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adopted for such purposes later in this Chapter. However, other broad categories such as citizen, legislative and other oversight bodies, and investors and creditors have also been adopted by standards-setters from IPSASB member jurisdictions for similar purposes and, arguably, similar outcomes.²

3.11 There are many similarities in the users of financial reports of public sector entities as summarized in paragraph 3.7, and users of financial reports of profit seeking entities in the private sector as identified in the IASB-DP, July 2006. The relationship of some of those users to, and their interest in, the reporting entity is also similar - particularly in the case of lenders, suppliers, employees and purchasers of government services. However, the relationship of many of the other potential users of GPFRs of public sector entities (and their representatives), is different from their private sector equivalent, because for example:

- taxpayers and rate payers provide resources on an involuntary basis, rather than on a voluntary basis as do equity investors;
- donors and providers of development and other assistance provide resources on a voluntary basis, but do not expect goods and services of approximately equal value in return, or a financial return on the resources they provide, as do customers of profit seeking entities and equity providers; or
- taxpayers, rate payers and other recipients of benefits receive goods and services from the government or a government entity but (except for fee-for-service consumers) not as a result of an exchange transaction – that is, rarely would the provision of taxes and receipt of services be classified as an exchange transaction as conventionally defined in accounting standards. Similarly, customers of many private sector for profit entities have the discretion of whether or not to purchase goods and services provided by the entity and often have a choice of the service provider. Recipients of goods, services and other benefits provided by public sector entities often do not have such discretion or similar choice of service provider.

3.12 In addition, in many, though not all jurisdictions, there may be a valid expectation that while governments may change they will never be liquidated, and monies lent to a government will always be repaid. The risk that creditors of public sector entities face is therefore a price, rather than credit risk.

3.13 There is then an argument that while the information needs of users of public and private sector entities will be similar in many respects, there may be differences that arise as a consequence of the different relationship between user and reporting entity. It may also be argued that those differences are, or should be, reflected in the nature of the reporting obligation of public sector entities and the objectives of financial reporting by them – for example, given that the majority of funding is provided on an involuntary basis by taxpayers and rate payers (or similar) who do not have the option to withdraw these funds or to not “invest” in

² See for example GASB Concepts Statement No 1 “Objectives of Financial Reporting”

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the future, the public sector entity has an obligation to be accountable to resource providers and this should be reflected in the objectives. The purposes for which users are likely to require information from a GPFR, and the nature of that information is explored later in this chapter.

Identification of a Primary Group of Users

- 3.14 There is an argument that the Framework should identify a primary group of users and respond to the information needs of that group. This is because it may not be possible to identify a common set of information needs of a large group of potential users such as that represented in Figure 3.1 above. In addition, grouping those users into categories such as in paragraph 3.7 will not overcome this difficulty (because those categories themselves reflect a wide range of users with potentially diverse information needs.)
- 3.15 Some have also argued that members of a primary user group are more likely to have a reasonable knowledge of the entity's activities and its operating environment, and to be prepared to study the information presented in financial reports. They note that:
- this is anticipated by the qualitative characteristic of “understandability” included in IPSAS 1 and the current IASB Framework, and the Frameworks of other standards-setters; and
 - preparers must be able to assume that users have a reasonable knowledge if financial reports are to be useful in dealing with complex transactions and events.
- 3.16 IPSAS 1 and the Preface to IPSASs consider the likely users of GPFRs in the public sector - they do not specify a primary group of users. The existing IASB Framework notes that all of the information needs of potential users cannot be met by financial statements, but there are information needs common to all users that financial statements can respond to. The IASB Framework identifies investors as the primary user group and notes:
- “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” (paragraph 10).
- 3.17 The IASB-DP, July 2006 (paragraph OB12) identifies present and potential investors and creditors (and their advisors) as the primary users of GPFRs, noting that information that meets the needs of investors and creditors is also likely to be useful to other potential users who are interested in the entity's ability to generate cash inflows. The IASB-DP 2006 (paragraph BC1.15) also explains 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”.

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- 3.18 A group of Chairs and senior staff of the national standard-setters of Australia, Canada, New Zealand and the UK (the NSS-4 Group) is monitoring the applicability of the IASB-FASB Framework project to not-for-profit entities in the public and private sectors (public-benefit entities, PBEs). A report from that group issued in July 2006³ (the Simpkins Report) noted that public sector not-for-profit entities have additional and sometimes different users from profit seeking entities and:

“In the case of public sector not-for-profit entities both funders and financial supporters and legislators should be encompassed within the primary user group”. (Appendix B, paragraph B1.5)

- 3.19 The conceptual frameworks of some national standards-setters with responsibility for not-for-profit entities in the public and/or private sectors have also identified present and potential funders and financial supporters⁴ as the primary or defining user groups.
- 3.20 Specifying a particular sub-group of user as the primary focus in establishing the objectives of financial reporting means that information that is not directed at satisfying the information needs of the primary group need not be included in the GPFR. As noted in Chapter 1, GPFRs are reports intended to meet the common information needs of a wide group of users. Whether or not identifying a primary group of users and responding to their information needs would satisfy the objectives of a GPFR of a public sector entity is dependent on whether the information needs of the primary users are common to all potential users.
- 3.21 Arguably, it will be necessary for the IPSASB to classify the wide and diverse range of potential users of GPFRs of public sector entities (such as identified in Figure 3.1) into groups to identify their common information needs. However, it can be argued that a focus on only “voters”, only “service recipients”, only “present and potential funders and financial supporters” or on other subsets of the potential users of public sector GPFRs as the primary user group may exclude some legitimate users, and undermine the role of GPFRs in providing financial information relevant to the common information needs of a wide range of potential users. Reflective of this concern, some standards-setters adopt broad groupings of potential users for analytical purposes, and to draw out common information needs – for example:
- those to whom government is primarily accountable (the citizenry), those who directly represent the citizens (legislative and oversight bodies); and

³ *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* (The Simpkins Report, July 2006).

⁴ See for example the UK ASB in its *Statement of Principles for Financial Reporting – Interpretation for Public Benefit Entities*. The SoP-POBE explains 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.

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those who lend or participate in the lending process (investors and creditors); or

- resource providers (for example, taxpayers, donors, employees, lenders, creditors), recipients of goods and services, and parties performing a review or oversight function.⁵

3.22 How the IPSASB classifies potential users as it identifies the common information needs that GPFRs should be directed at satisfying, and whether it identifies a primary user group can impact on how the objectives of financial reporting are framed and the transactions, events and activities that are reflected in GPFRs. For purposes of analysis in the remainder of this Chapter a potentially broad group of users, reflective of those identified in paragraph 3.21, above is adopted. However readers should note this does not necessarily reflect the classifications of users that will be adopted by the IPSASB as it considers the user information needs that GPFRs should respond to.

Specific matters for comment

3.23 The IPSASB would particularly welcome comments on the following:

Q3.1 Do you agree with the potential users of GPFRs of public sector entities as identified in Figure 3.1 and paragraph 3.7 above? Please identify any additions, deletions or amendments?

Q3.2 Are you of the view that, in determining the users information needs that GPFRs are to respond to, the IPSASB should identify:

- (i) a primary group of users such as identified in paragraphs 3.17 – 3.19; or
- (ii) broad categories of users such as identified in paragraph 3.21.

Please identify the categories of users you think should be adopted in developing the objectives of GPFRs.

THE LIKELY INFORMATION NEEDS OF USER

3.24 As noted in paragraph 3.11 above, while the information needs of users of profit seeking entities in the private sector are likely to be similar in many respects there are also likely to be difference because of differences in the manner in which public and private sector entities raise substantial of their funds, and the nature and range of decisions that can be made by many funders and consumers of the goods and services provided by governments and other public sector entities. For example:

- while present and potential investors in business entities have the discretion of whether to invest in the entity, taxpayers, rate payers and certain other resource providers to government entities do not – they provide funds on an

⁵ See for example GASB Statement 1 “Objectives of Financial Reporting” (1987), and AARF (1990) Statement of Accounting Concepts (SAC) 2 ‘Objective of General Purpose Financial Reporting’.

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involuntary basis and cannot choose to “disinvest” in the government or government entity; and

- recipients of goods, services and other benefits provided by public sector entities often do not have the choice of whether or not to “consume” those goods and services or the discretion to select an alternative service provider.

- 3.25 Government can make decisions about the resources they allocate to support the delivery of particular goods and services, and the “investment” they make in the government departments, agencies or other administrative structures used for such purposes. However decision making for taxpayers, rate payers and many consumers of the goods and services provided by public sector entities is limited to decisions about their voting preferences and or representations they made to elected or other officials and their representatives and oversight bodies.
- 3.26 In addition, the operating objectives of public sector not-for-profit entities differ from those of profit seeking entities. Public sector entities that are subject to the IPSASB’s Framework are constituted to achieve service delivery as well as financial objectives. Therefore, their performance in achieving their operating objectives during any reporting period is unlikely to be adequately captured or reflected in a bottom line profit figure or other financial measures. Rather their performance will be assessed by reference to achievement of both the service delivery as well as financial characteristics of operations.
- 3.27 Arguably, these differences impose a greater obligation on a government or other public sector entity to be accountable to those that provide it with resources and those that depend on it to use those resources for delivery of necessary goods and services. This greater obligation, together with a focus on the achievement of service delivery as well as financial objectives, can influence the information that will need to be provided by GPFRs of public sector entities to satisfy user needs. It is not contentious to suggest that it is widely accepted, at least amongst standards-setters and many commentators, that the obligation of governments and other public sector entities to be accountable to the public for their collection and use of taxes, rates and similar charges and other sources of finance is fundamental in public sector financial reporting. For some, accountability is “the cornerstone of all financial reporting in the public sector”⁶.
- 3.28 How that view manifests itself in the expression of the objectives of financial reporting, the nature and content of accounting standards and the relative priority of dealing with particular financial reporting issues can differ in different jurisdictions. However, in all cases those objectives and the accounting standards are developed to respond to the perceived needs of users of the GPFR. In

⁶ See for example, GASB Concept Statement 1, “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.”

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- determining how to express the objectives of financial reporting in its Framework, the IPSASB will also consider the information needs of potential users of GPFRs.
- 3.29 The following broad groups are identified as a mechanism for focusing on the common information needs of a diverse group of potential users of GPFRs of public sector entities:
- recipients of goods and services (or other benefits), or their representatives (includes consumers, taxpayers, rate-payers);
 - providers of resources, or their representatives (includes “involuntary resource providers” such as taxpayers and ratepayers, “voluntary resource providers” such as donors, lenders, investors, fee-for-service consumers, and those acting on their behalf such as elected officials, central agencies, oversight bodies and advisors); and
 - other parties performing a review service of relevance to all or particular sections of the community (includes analysts, media, special interest community groups and their representatives).
- 3.30 These user categories have been identified after consideration of the wide range of potential users of GPFRs of public sector entities and appear sufficiently broad to accommodate all citizens of a particular jurisdiction and other users identified in the literature. Their likely information needs are considered below. (As noted above, readers should note this classification does not necessarily reflect the classifications of users that will be adopted by the IPSASB as it considers the user information needs.)
- 3.31 *Recipients of goods and services (or other benefits) or their representatives*, are likely to require the disclosure of financial information to, for example:
- identify the revenues raised by the government or other public sector entity from taxes, rates and similar charges, other sources of funding and the resources allocated to the provision of particular classes of goods and services;
 - confirm that resources have been used economically, efficiently and effectively in the provision of goods and services of the specified quantity, quality and frequency as prescribed by enabling legislation or other authority, and the cost of provision; and
 - provide input to assessments of whether, and the extent to which, goods and services or other benefits will continue to be provided in the future, at what level and at what cost.
- 3.32 Service recipients will require this information to enable them to form judgements about whether the entity is using resources as intended and prescribed, and whether such use is in their interests. It will also provide input to assessments of whether current levels of taxes, rates or other charges are sufficient to maintain the volume and quality of services currently provided, or are likely to increase.

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This may influence their voting preferences and representations they make to elected or other representatives about the amount of resources raised by the entity, how those resources were used during the reporting period and the amount of resources that should be raised and allocated to the provision of particular goods and services in the future. It may also influence their views about their own likely future dependency on provision of those goods and services by a government entity or, where such an alternative exists, a private sector supplier.

3.33 *Resource providers, or their representatives* are likely to require the disclosure of financial information to, for example:

- identify the resources raised by the government or other public sector entity and the amount of those resources allocated to the provision of particular classes of goods and services during the reporting period, the acquisition of capital assets and the nature and type of such assets, and the repayment of debt and for other purposes;
- assess the extent to which the entity is using resources economically and efficiently, and as prescribed and is achieving the objectives established as the justification for the provision of resources to the entity; and
- in respect of lenders and creditors, to confirm that the entity is liquid and that the amount and timing of repayment will be as agreed. Employees will also require information to confirm the ongoing tenure of their employment and its location.

3.34 Resource providers will require this information to enable them to form judgements about whether the entity is using resources as intended, whether it is funding current operations from revenues raised in the current period, whether its resource needs are likely to increase or decrease in the future if the current level and quality of service is to be maintained and the likely sources of those resources. Conclusions about these matters may, for example, influence:

- the voting preferences of citizens and the representations they make to elected or other representatives about the amount of resources raised by the government, the amount allocated to particular programs or entities, and how efficiently and effectively they were used during the period in providing goods and services to constituents during the period;
- decisions of donors and other voluntary resource providers about whether continued support for the activities of the program or entity is warranted;
- expectations of the capital markets about the demand for debt financing by governments, and the pricing of that debt;
- in respect of fee-for-service consumers, expectations about the likely costs of continued consumption of those goods and services and actions they may take in respect of alternate providers of such goods and services;

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- decisions elected officials, including parliaments and similar representative boards, councils or chambers who are users of the GPFR, may make about the allocation of resources to support the provision of current or additional programs for the provision of goods and services.

3.35 *Other parties, including special interest groups, performing a review service of interest to members of the community*, will have information needs which reflects those of the community interests they represent. In addition, they are likely to require the disclosure of financial information to, for example, enable them to:

- identify the resources raised during the reporting period and their sources;
- identify the extent to which individual entities, programs, broad sectors of government activity or all activities of government use public monies efficiently and effectively in the interest of the community, or sections thereof;
- identify resources raised from taxpayers and ratepayers (and/or particular sub-groups thereof) during the reporting period and confirm that those resources have been used efficiently and effectively for the benefit of those constituents during the reporting period, or invested in the provision of goods and services in the future; and
- confirm that goods and services were made available to constituents (or subgroups thereof) as anticipated and that their volume and quality was as anticipated.

Such assessments are likely to influence actions and initiatives these parties take with respect to the use of public monies by all, or particular public sector entities, and their support for government policies.

3.36 The information needs of the user groups identified above overlap since, to some extent, they are all interested in confirming that resources have been used economically, efficiently and effectively for the purposes prescribed, and in identifying future resource requirements necessary to allow the entity to continue operations. They will also be interested in assessing the extent to which revenues raised during the reporting period from taxpayers, ratepayers other consumers and donors are sufficient to fund the goods and services provided during that period – that is, the impact that current financing and other decisions made by the government or other public sector entity has on inter-period equity⁷.

⁷ As noted in the IPSASB Consultative Paper “*Social Benefits: Key Issues in Recognition and Measurement*”, the concept of inter-period equity has been developed by the US Governmental Accounting Standards Board and is a key element of its reporting model. Inter-period equity measures whether revenues in a particular reporting period are sufficient to pay for the goods and services provided in that period. The concept, which is strongly linked to accountability, is based on a view that governments generally have little earned revenue and no profit motive and are very different from profit-oriented entities.

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- 3.37 Users will require this information for accountability purposes - that is, information to assist in assessing the extent to which managers have discharged their responsibilities with respect to compliance with relevant budgetary, legislative and other controls regulating the raising, management and use of public monies, the delivery of particular goods and services and the achievement of specified objectives. They will also require the information as input for economic decision making purposes – for the purposes of this paper “economic decision making” refers to decisions based on the financial information included in the GPFR, and may encompass decisions that some users make about the allocation of resources under their control, decisions with a political consequence such as their voting preferences or representations they make to elected officials or other representative bodies, or decisions about personal circumstances such as choice of schools or health service provider.
- 3.38 GPFRs may not provide all the information users require for these purposes. In particular:
- the prediction of the nature and volume of services to be provided in the future will be influenced by governments’ assessments of community needs and the resultant allocation of resources for particular activities; and
 - public sector managers may be held accountable for the achievement of social and economic objectives which may not be reflected in GPFRs.
- 3.39 However, GPFRs can disclose information useful in identifying the sources and uses of financial resources raised and used during the reporting period and in assessing the financial position, liquidity and solvency, performance and compliance of the entity. Subject to decisions of the IPSASB about scope issues (raised in Chapter 2 above), the GPFR can also disclose information:
- about the nature, volume and quality of goods and services provided, and other characteristics of service delivery performance and achievement; and
 - useful as input to assessments of medium and long term fiscal sustainability, including likely future resource needs and the potential sources thereof.
- 3.40 Such disclosures will assist users in determining the cost of services provided and whether the entity has acquired and used resources economically, efficiently and effectively and as prescribed. In the absence of information indicating a change in relevant government policy, the disclosure of such information can provide users with a basis for assessing the entity’s ability to continue to provide services at a given level, the additional resources necessary to support that level of services and the likely costs and charges of particular types of services to be provided in the future.
- 3.41 The potential information needs users of GPFRs and the objectives of financial reporting intended to respond to those needs as identified by national standards-setters, authoritative bodies and in other literature from IPSASB member jurisdictions over the last three decades is identified in the Bibliography and

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resource material issued as a web based resource in conjunction with this Consultation Paper⁸. (*Staff note – this appendix will be circulated to members for any further updates following confirmation that it is to be retained.*) The attachment to this chapter identifies the objectives identified by standards-setters in IPSASB member jurisdictions.

- 3.42 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 across jurisdictions, across academic and authoritative body and over time. For example, they generally encompass the need for information about such matters as: economic resources available for ongoing provision of goods and services and claims against them (financial position) and changes therein; sources and uses of financial and other resources; financial performance including service costs and accomplishments; the efficiency and effectiveness of operations and compliance with budget and other authorities that regulate the raising and use of resources by public sector entities. Much of this information is already provided to some extent by GPFRS of public sector entities in many jurisdictions. The inclusion within GPFRs (or in related reports) of management commentary on the key aspects of performance during a reporting period also provides valuable input to assessments of the efficiency and effectiveness of operations.
- 3.43 However, the literature also identifies that users seek information about such matters as those identified below – matters which may not yet be encompassed in GPFRs:
- long term fiscal sustainability – that is, information about projected costs of maintaining government programs over the long term and the amount and sources of revenue to sustain those programs, including whether current programs can be maintained without increasing taxes, rates, user charges or the debt burden;
 - inter-period equity - that is, information in a form useful in assessing whether revenues in a particular reporting period are sufficient to pay for the goods and services provided in that period or whether future taxpayers will be required to assume burdens for services previously provided. In some jurisdictions⁹ it is reflected in legislation which requires governments and/or government entities to operate balanced budgets, on an annual basis or over the business cycle and is central to public administration; and
 - financial condition or financial status – which includes the disclosure of information about a public sector's dependency on particular funding sources (including a government's dependency on domestic and

⁸ The IPSASB acknowledges that this listing is by its very nature incomplete and selective, but believes it is useful in identifying common themes and the broad parameters of anticipated user information needs – the specific matters for comment invite additional input from interested parties. The IPSASB will consider this input as it moves to an exposure draft.

⁹ For example in the USA, see GASB Concepts Statement 1 *Objectives of Financial Reporting*

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international sources of funding outside its control or influence); and the capacity of an entity to increase its financial resources by expanding its revenue base or increasing its debt burden. It also encompasses the disclosure of information useful in assessing long term fiscal sustainability of existing programs (as noted above)¹⁰.

- 3.44 In a number of jurisdictions financial reporting requirements have been, or are being, developed to respond to such user information needs. A number of these user needs are also reflected in the guidance currently included in IPSASs. For example, IPSAS 1 identifies the objective of GPFR in the public sector as providing information useful in “making and evaluating decisions about the allocation of resources” and for accountability purposes:

“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” (IPSAS 1, paragraph 15).

- 3.45 IPSAS 1 (paragraphs 15-18, reproduced in Appendix A of this Chapter) also explains that to meet this objective general purpose financial statements should provide information about such matters as:

- the sources, allocations and uses of financial resources;
- how the entity finances its activities and its cash requirements;
- financial position, financial condition;
- information useful in evaluating an entity’s performance in respect of service costs, efficiency and accomplishments; and
- whether resources were obtained and used in accordance with the legally adopted budget, and with legal and contractual requirements, including financial limits established by appropriate legislative authorities.

- 3.46 IPSAS 24 ‘Presentation of Budget Information in Financial Statements’ also requires entities which make publicly available their approved budget(s) to disclose budget and actual information for accountability purposes.

- 3.47 There then does appear to be a consensus developing on the type of information to be presented in GPFRs of public sector entities to respond to common information needs of a wide range of potential users. In many respects they reflect the types of user information needs identified for profit seeking entities – that is, information about economic resources and claims against them (the entity’s financial position and changes therein), financial performance on an accruals basis, cash flows and appropriate commentary and analysis to place the financial information in

¹⁰ Financial condition or status may be explained differently by different standards setters and commentators. See for example: CICA (1997) Public Sector Accounting and Auditing Board Report of a Study Group ‘Indicators of Government Financial Condition’ for the notion as used in this Consultation Paper.

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context. However, they also introduce or give additional prominence to the potential for information about compliance with budgets and other key authority governing the raising and use of public monies; the achievement of service delivery objectives including non-financial performance indicators; and assessments of financial condition, long term fiscal sustainability and inter-period equity.

Financial Position and Financial Performance

3.48 Information about the economic resources of the entity, (its assets) claims against those resources (liabilities and other claims) and the net assets of the entity will provide input to assessments of financial position as at reporting date and changes since the last reporting date. As input to such assessments, the GPFR can disclose, for example, information about:

- the resources that are available for the provision of particular categories of goods and services at reporting date, and changes during the period, including any redeployment of resources that has occurred consistent with changing policy priorities;
- the increase or decrease in the resource base available for the provision of goods and services in the future and the extent to which any decline in the resource base arose as a consequence of consumption of service potential in the delivery of goods and services or for other reasons;
- the nature and amount of claims against the resources at period end, the increase or decrease in those claims during the reporting period and their sources, and the timing of cash flows necessary to service and repay them.

3.49 Financial performance encompasses assessments of such matters as the proficiency with which the entity has managed public monies on behalf of its constituents, and whether it has acquired and used resources economically and efficiently and been effective in achieving its objectives¹¹. Assessments of financial performance of a public sector entity will include consideration of information about financial position and changes therein, together will information about:

- the costs of service delivery and the amount and sources of cost recovery – that is, for example, whether from user charges, taxes and rates (often described as revenue) or through the issuance of debt; and
- how the entity financed its activities and met its cash requirements during the period, as well as information about the sources, use and allocation of financial resources.

¹¹ See for example FASAB (1993) Statement of Federal Financial Accounting Concepts (SFFAC) No.1 “Objectives of Federal Financial Reporting” which recognizes the role of financial reporting in providing information that will assist users in assessing the economic, efficient and effective use of resources.

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- 3.50 The disclosure of this information, will provide necessary input to assessment of such matters as:
- the capacity of the entity, whether the government or other public sector entity to continue to provide goods and services in the future and whether this capacity has increased or decreased as a consequence of operations;
 - whether the resources available have been funded by revenues generated during the period, or by increases in the level of indebtedness which will ultimately need to be met by monies raised from taxes, rates, fee-for-service charges, donor organizations or business undertakings of the entity;
 - the liquidity and solvency of the entity - it is likely that in many jurisdictions governments, particularly at the national level, are not exposed to risks of insolvency, however this may not be the case for individual public sector entities. In addition, information about the liquidity and solvency of a public sector entity will provide useful input to assessments by resource providers and analysts of the likely demand of the entity for resources to meet short term liquidity needs.
- 3.51 Subject to the structure of the reporting package adopted in any jurisdiction, such assessments draw on information disclosed in, for example, statements of financial position, financial performance and cash flows and supporting explanations and operations review. (Readers should note that the definitions of the elements of financial statements and other matters presented in the GPFR, and mechanisms for their display, will be considered in other Consultative Papers issued as part of the Framework project.)
- 3.52 Information about the revenues raised during the reporting period from taxpayers, ratepayers and other sources and the costs of service provision during the period will also provide input to assessments of inter-period equity and reinforce the role of the GPFRs in evidencing compliance with balanced budget legislation that may be in place in some jurisdictions.
- 3.53 There is also a case that the disclosure of non-financial performance indicators should also be encompassed within the scope of GPFRs of entities whose objectives are focussed on the delivery of goods and services, as well as (or rather than) of generating a financial result. For example, measuring financial aspects of performance by reference to revenues, expenses, net assets and changes in them will be of relevance to users in assessing such matters as the costs of operations, contributions from public monies necessary to finance future operations and the impact that maintenance of services and/or operations at existing levels is likely to have on taxes and government borrowing. Consideration of these matters may play an important and necessary part in the evaluation of the performance of public sector entities, but are unlikely to be sufficient to fully assess the extent to which the entity, and its management, have achieved their service delivery objectives (which may include the volume, frequency and quality of service) as well as their financial objectives. For these purposes, it is likely that the disclosure

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of financial information will need to be supplemented with additional semi- or non-financial indicators about the achievement of service delivery objectives.

Compliance

- 3.54 Governments and other public sector entities may be subject to rules and regulations imposed by constitution, legislation or other external authority which govern their operations, particularly in respect of the raising of taxes, rates and other revenues and their use of public monies. Assessments of the performance of a public sector entity are likely to encompass confirmation that relevant constitutional or other constraints relating the raising and management of public monies have been complied with, and that funds were used in accordance with any budget or other public document presented to justify the raising of monies from taxpayers and ratepayers.
- 3.55 Consequently, users are likely to expect that GPFRs will confirm, or disclose information to assist users in assessing, the entity's adherence to those rules and regulations of a financial nature which fall within the scope, and relate to the objectives, of general purpose financial reporting.

Financial Condition and Long Term Fiscal Sustainability

- 3.56 The disclosure of trend data about key components of financial position and financial performance together with key indicators of economic activity can provide valuable input to assessments of the financial condition of the entity, including its ability to meet its liabilities and commitments and the additional resources necessary to do so, and the long term fiscal sustainability of current programs.
- 3.57 The disclosure of prospective financial information about likely future costs of current and anticipated programs and the likely sources of funding for those programs would provide additional input to assessments of the long term fiscal sustainability of government programs.

Scope of financial reporting and other components of the Framework

- 3.58 The extent to which GPFRs will encompass the disclosure of such matters as non-financial performance indicators and prospective financial information useful in assessments of the fiscal sustainability of current and anticipated programs will be influenced by the IPSASB's decisions about the scope of financial reporting.
- 3.59 Other components of the Framework project and, as appropriate, specific IPSASs will provide guidance on such matters as:
- mechanisms for disclosure of information about financial performance, financial position, cash flows, compliance and inter-period equity; and
 - the basis of measurement to be adopted for particular elements of the financial statements and for presentation of any additional information about inter-period equity

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Specific matters for comment

3.60 The IPSASB would welcome comment on the following:

Q3.3 Are you of the view that users of GPFRs require the disclosure of financial information:

- (i) to identify the amount, sources and uses of financial and other resources;
- (ii) as input for assessments of the extent to which the entity is using resources economically, efficiency and effectively and as prescribed;
- (iii) to confirm compliance with budgets and other relevant rules and regulations that regulate the raising and use of resources;
- (iv) as input to assessments of inter-period equity;
- (v) to support assessment of the financial condition of the entity, including the long term fiscal sustainability of current government programs.

Please identify other user information needs that a GPFR should attempt to respond to, and the reasons that users are likely to require such information.

Q3.4 Do you agree with the proposition that this information is useful for accountability and economic decision making purposes, or would you link some information needs solely to accountability and others solely to decision making or other purposes? Please explain your response, and if applicable identify the other purposes for which information is required.

Q3.5 Are you of the view that, subject to IPSASB decisions on the scope of financial reporting, GPFRs should disclose:

- (i) information about financial position and changes therein; financial performance including information useful in assessments of inter-period equity and service accomplishment;
- (ii) information about compliance with budgets and legislation or similar authority relating to the raising and use of public monies;
- (iv) non-financial performance indicators useful in the assessment of the efficiency and effectiveness of service delivery; and
- (v) future oriented.

Please explain your views and outline other categories of information that should be encompassed in GPFRs?

THE OBJECTIVES OF FINANCIAL REPORTING IN THE PUBLIC SECTOR

3.61 As noted above, IPSAS 1 explains that the objectives of financial reporting in the public sector are to provide information that is useful for decision making and accountability purposes.

3.62 The current IASB Framework identifies the objective of financial reporting of business entities as providing input for economic decision making, but also notes

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that financial statements “show the results of stewardship or management, or the accountability of management for the resources entrusted to it” (IASB Framework paragraphs 12,14). The IASB-DP, July 2006 proposes that the objective of general purpose external financial reporting of business entities in the private sector is to provide information useful for making resource allocation decisions, and this encompasses providing information useful in assessing management’s stewardship (paragraphs OB 27-28).

3.63 The issue of the IASB-DP in July 2006 sparked much debate about whether the objectives of general purpose financial reporting for business entities in the private sector should be articulated as providing information for decision making purposes, or for both decision making and accountability. It also raised issues about the meaning of stewardship and whether it differed in concept from accountability. For example:

- two IASB members expressed an Alternative View to the view of the majority of IASB members – namely that stewardship should be identified as a separate objective of financial reporting (paragraph AV1.1);
- many respondents to the IASB-DP expressed support for this Alternative View¹²;
- in June 2007, the European Financial Reporting Advisory Group (EFRAG 2007), noted¹³ 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, and advocated that it be retained to ensure there is appropriate emphasis on company performance as a whole. It also noted that users of financial reports for not-for-profit entities usually do not have the option to make “buy, sell and hold decisions” and need information on whether to intervene in the management of the business, which is only provided if the stewardship objective is retained in the framework and
- the Simpkins Report identified two of the main concerns in application of the proposed objective of financial reporting to public benefit entities as being an insufficient emphasis on accountability/stewardship and the inappropriateness of the pervasive cash flow focus - “Accountability or stewardship is a key *objective of financial reporting* for public sector not-for-profit entities such as governments or their sub-entities” and should either be identified as a separate objective or recognised within a single objective” (paragraph B1.3).

¹² IASB (2007) Information for Observers ‘Conceptual Framework – Phase A: Objective of Financial Reporting and Qualitative Characteristics – Comment Letter Summary (Agenda paper 3A)’. It appears that 80 per cent of those who specifically responded on this issue disagreed that there should be only one objective of financial reporting and that stewardship should be subsumed within the decision-usefulness objective.

¹³ 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*’.

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- 3.64 The IASB and FASB continue to develop the objective of financial reporting in light of responses to the IASB-DP, 2006 to better accommodate the role that the disclosure of financial information about stewardship/accountability can play in providing information useful for decision making purposes. While final decisions have not been made on the wording to be included in an exposure draft it is anticipated that the proposed objective will reflect that: “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”. *(Staff note – this objective will be monitored and these paragraphs updated as the IASB/FASB move to an ED).*
- 3.65 It can be argued that whether the objective of financial reporting in the public sector is identified as the provision of information for accountability purposes or for decision making purposes or for both accountability and decision making purposes is secondary to the identification of the user information needs that GPFs will respond to. As noted earlier in this Chapter, there is a case that the information users require, and GPFs can provide, will be relevant for both accountability and decision making purposes. Indeed, in the public sector it may be argued that the disclosure of information for accountability purposes will also encompass a decision making role (and vice versa) - that is, information disclosed for accountability purposes is necessary input for, and will influence, decision making.
- 3.66 The objectives of financial reporting by public sector entities identified by standards-setters and similar authoritative bodies, and many commentators in IPSASB member jurisdictions reflect a widely accepted view that governments have an obligation to be accountable and users of GPFs of public sector entities expect, and require, the information communicated by GPFs to support the discharge of such accountability obligations, and will use the information as input for decision making purposes.
- 3.67 The objectives of standards-setters and other authoritative bodies with responsibility for establishing financial reporting requirements of public sector entities in IPSASB member jurisdictions are included at Appendix B of this Chapter. Each of these bodies identifies the objective of financial reporting as providing information for accountability or stewardship purposes, as well as some forms of decision making. The Simpkins Report (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.

Specific matters for comment

- 3.68 The IPSASB would welcome comment on the following:

Q3.8 How do you believe the objectives of financial reporting should be expressed.

For example, are you of the view that the objectives of financial reporting by public sector entities should be identified as the provision of information for:

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- (i) stewardship/accountability purposes;
- (ii) decision making purposes – including for input to economic, social and political decisions;
- (iii) both accountability and decision making purposes; or
- (iv) other purposes?

Please explain your reasons.

Terminology - accountability and stewardship

3.69 In the public sector, stewardship and accountability appear to be used interchangeably. For example, stewardship is used in the USA at the federal government level, in the UK by the UK-ASB *Statement of Principles for Financial Reporting – Interpretation for Public Benefit Entities* and by research and other reports in Canada and the UK¹⁴. Accountability is used at the state and local government in the USA by GASB, by the Canadian CICA¹⁵ and by the Australian Accounting Standards Board¹⁶. 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.

3.70 There does not appear to any implication that the use of one term implies a narrower concept than the use of the other. For public sector standards-setter in each jurisdiction what is critical is the information disclosures identified as consistent with an objective of accountability (or stewardship), for example:

“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.” (CICA, PS1000 2006, paragraph 286).

¹⁴ In the USA, the Federal Accounting Standards Advisory Board (FASAB) in its Statement of Federal Financial Accounting Concepts (SFFAC) No.1 Objectives of Federal Financial Reporting (1993) linked accountability to budgetary integrity and operating performance and stewardship to the federal government’s responsibility “for the general welfare of the nation in perpetuity” (paragraph 135). Canada: A research study commissioned by the Canadian Institute of Chartered Accountants (CICA) Financial Reporting by Government (1980) noted the role of financial statements in demonstrating stewardship and compliance with parliamentary authority; and the UK: National Audit Office – Report by the Comptroller and Auditor General Financial Reporting to Parliament (1986) noted the role of financial statements to ensure a departments’ accountability by demonstrating their stewardship of the money voted by Parliament.

¹⁵ CICA (2005) Public Sector Accounting Handbook Section PS 1100 ‘Financial Statement Objectives’ (see Objective 4 in particular).

¹⁶ AARF (1990) Statement of Accounting Concepts (SAC) 2 ‘Objective of General Purpose Financial Reporting’.

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- 3.71 The current IASB Framework (paragraph 14) also appears to use the terms interchangeably, acknowledging that the objective of financial reporting 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”.

- 3.72 In the private sector, the EFRAG paper (EFRAG 2007) also reflects that most respondents to the IASB-DP, July 2006 appear to treat “accountability” and “stewardship” as interchangeable. However, that view may not be shared universally. For example, some may have the view that stewardship reflects the concept of managers having “responsibility for” the management or administration of resources or activities which, is broader than management being “accountable to” others for the consequences of that stewardship”. A paper ‘Stewardship and the Objectives of Financial Statements’ (Lennard 2007), argues that stewardship should not be characterised simply as information to assist an assessment of the competence and integrity of ‘stewards’ (that is, the management and directors), but as the provision of information that provides a foundation for a constructive dialogue between management and shareholders.
- 3.73 It may also be argued that stewardship encompasses the notion that management, whether in the public or private sectors, should act in the best interests of stakeholders in the light of current circumstances and those that may prevail in the future¹⁷, while accountability appears to be a more backward looking and narrower concept. However, as noted in earlier sections of this Chapter, it is likely that users of GPFR will require the disclosure of information to satisfy a broad notion of accountability which includes accountability for probity, legality, efficiency, administration and for the achievement of performance standards and program objectives.
- 3.74 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 custodianship of public monies and 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.

¹⁷ For example see FASAB SSFAC No 1 (Referred to above in footnote 19).

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Specific matters for comment

3.75 The IPSASB would welcome comments on the following matters:

Q3.9 Are you of the view that the terms accountability and stewardship are interchangeable?

If not, please explain why not.

Q3.10 Are you of the view that the IPSASB framework should use the term accountability?

Are you aware of any jurisdictional issues or translation impediments to doing so?

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.

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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.

USERS INFORMATION NEEDS AND OBJECTIVES OF GPFRs – in IPSASB member jurisdictions

Appendix B

Publication	User Needs and/or Objectives of GPFRs
USA: Governmental Accounting Standards Board (GASB) Concepts Statement No.1 <i>Objectives of Financial Reporting</i> (CS1) - 1987	<p>Government Financial reporting should provide information to assist users in (a) assessing accountability and (b) making economic, social and political decisions and in assessing accountability.</p> <p>The financial reporting objectives are:</p> <ol style="list-style-type: none"> 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"> Providing information to determine whether current-year revenues were sufficient to pay for current-year services 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 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: <ol style="list-style-type: none"> Providing information about sources and uses of financial resources Providing information about how it financed its activities and met its cash requirements 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: <ol style="list-style-type: none"> Providing information about its financial position and condition 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 <ul style="list-style-type: none"> Disclosing legal or contractual restrictions on resources and the risk of potential loss of resources.
USA: Federal Accounting Standards Advisory Board (FASAB) Statement of Federal Financial Accounting Concepts (SFFAC) No.1 <i>Objectives of Federal Financial Reporting</i> -1993	<p>Categories of user needs which comprise the objectives of federal financial reporting:</p> <ol style="list-style-type: none"> Budgetary integrity – which arises from “from the responsibility of representative governments to be accountable for the monies that are raised and spent and for compliance with law” (paragraph 113). This enables users to determine – <ul style="list-style-type: none"> how budgetary resources have been obtained and used and whether their acquisition and use were in accordance with the legal authorization; the status of budgetary resources; how information on the use of budgetary resources relates to information on the costs of program operations and whether information on the status of budgetary resources is consistent with other accounting information on assets and liabilities; Operating performance – which arises from a government’s duty “to be accountable to its citizens for managing resources and providing services economically and efficiently and for effectiveness in attaining planned goals” (paragraph 123). This enables users to determine – <ul style="list-style-type: none"> the costs of providing specific programs and activities and the composition of, and changes in, these costs;

Publication	User Needs and/or Objectives of GPFRs
	<ul style="list-style-type: none"> - 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>
<p>Australia: Australian Accounting Standard (AAS) 31 <i>Financial Reporting by Governments</i>-1998</p>	<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.
<p>Canada: Public Sector Accounting Standards Handbook Section PS 1100 <i>Financial Statement Objectives</i> -2005</p>	<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.

Publication	User Needs and/or Objectives of GPFRs
UK: National Audit Office – Report by the Comptroller and Auditor General <i>Financial Reporting to Parliament -1986</i>	<p>This report focuses on the needs of one category of user, Parliament, and summarizes the objectives of financial reporting, in terms of Parliament's needs (both in general and for departmental Select Committees) as follows (these objectives appear in other publications of the MH government and relevant committees):</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, programs 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; and4. 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.
<i>Staff Note:</i> <i>Members are requested to advise on any additions to this listing.</i>	

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Chapter 4

The Qualitative Characteristics of Information Included in General Purpose Financial Reports

- 4.1 The existing suite of IPSASB Qualitative Characteristics (QCs) are set out in IPSAS 1, Presentation of Financial Statements. The four principal QCs, along with their components are:
- Understandability
 - Relevance
 - *Materiality*
 - Reliability
 - *Faithful Representation*
 - *Substance Over Form*
 - *Neutrality*
 - *Prudence*
 - *Completeness*
 - Comparability
- 4.2 IPSAS 1 also identifies constraints on the relevance and reliability of information included in financial statements as:
- Timeliness
 - Balance between benefit and cost
 - Balance between QCs
- 4.3 An explanation of each of the QCs and constraints thereon is included in Appendix 1 of this Chapter. The IPSASB QCs were adapted from the QCs of the existing IASB Framework. The IPSASB QCs can be characterized as being almost identical in many respects to those of the IASB Framework.
- 4.4 The IASB-DP, July 2006 included preliminary views on the qualitative characteristics of decision-useful financial reporting information to be included in the common Conceptual Frameworks of the IASB and the FASB.
- 4.5 While it may be argued that the current IPSASB QCs have served their intended purposes adequately, the concerns that prompt the IASB and FASB to revisit their QCs are likely to also apply in respect of the IPSASB QCs. Given the close relationship between the existing QCs of the IPSASB and the QCs identified in the current IASB Framework, and the IPSASB's ongoing IFRS convergence policy, it is appropriate to consider the extent to which developments in the QCs proposed for inclusion in the IASB Framework should also be included in the IPSASB's Framework.
- 4.6 Some may contend that it is preferable to get final (or near-final) decisions on related aspects of the IPSASB conceptual framework project before considering

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QCs – notably, aspects such as objectives, scope of general purpose financial reporting and users of those reports - these aspects are considered in earlier chapters of this paper. While final decisions could arguably assist in considering and certainly refining QCs, as will be noted through-out the chapter, the effects of these related aspects potentially impacts individual QCs to very differing extents.

Latest Deliberations of the IASB and FASB

4.7 The IASB and FASB have not yet issued an exposure draft (ED) reflecting the QCs, and explanations thereof, proposed for inclusion in their Frameworks. However, the Boards been developing and refining the QCs based on responses received to the IASB-DP, July 2006, and an ED is anticipated in 2008. Likely developments in the identity, nature, explanation and relationship of the IASB QCs are outlined below – readers should be aware that the QCs remain in the development stage and that the material presented below is subject to further development and may not necessarily reflect the material that will be presented in the ED when issued. *(Staff note: staff are monitoring progress at the IASB-FASB and will update – the following is drawn from publicly available material, observation of developments at public IASB meetings and follow ups with IASB staff).*

4.8 It is understood the IASB is likely to identify six QCs – within which there will be some degree of formal hierarchy imposed. The six QCs will be divided into two groups, and as is the case with the existing IPSASB QCs, each will be accompanied by essential components.

The six QCs (and a high level description for each) are given below:

Fundamental QCs

- Relevance - Information is relevant if it is capable of making a difference in decisions. Information about an economic phenomenon is capable of making a difference when it has *predictive value, confirmatory value* or both.
- Faithful Representation - Faithful representation is attained when the substance of an economic phenomenon is depicted in a complete, accurate, and neutral manner.

Enhancing QCs

- Comparable - Comparability is the quality of information that enables users to identify similarities in and differences between two sets of economic phenomena.
- Verifiable - Verifiability is a quality of information that may assure users that information faithfully represents the economic phenomena that it purports to represent.
- Timeliness - Timeliness means having information available to decision makers before it loses its capacity to influence decisions.

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- Understandable - Understandability is the quality of information that enables users to comprehend its meaning.

Pervasive Constraints

- Materiality - Information is material if its omission or misstatement could influence the decisions that users make on the basis of an entity's financial information.
- Cost - Financial reporting imposes costs on both preparers and users of financial reports. The benefits of financial reporting information should justify those costs.

The explanation being considered for the role of QCs is 'the attributes that make financial reporting information useful'.

- 4.9 The table below provides a listing of the six possible QCs and compares them to the existing IPSASB QCs to enable a comparison of key similarities and differences between the two. Further, appendix 1 *Comparative Table of Existing IPSASB QCs and QCs Being Considered by the IASB*, provides a more detailed analysis of the similarities and differences between the two sets of QCs.

IASB QCs (and components) Hierarchy Exists	IPSASB QCs (and components) No Hierarchy
Fundamental (hierarchy) x 1) Relevance ✓ • Predictive value ✓ • Confirmatory value ✓ 2) Faithful Representation: ✓ • Complete ✓ • Accurate x • Neutral ✓ - Enhancing (no hierarchy) 3) Comparable ✓ 4) Verifiable x 5) Timeliness ✓ 6) Understandable ✓ Pervasive Constraints • Materiality ✓ • Cost ✓	No hierarchy overall x 1) Relevance ✓ • Predictive value ✓ • Confirmatory value ✓ 2) Reliability ✓ & Faithful Representation ✓ & Substance Over Form x • Complete ✓ - • Neutral ✓ • Prudence x 3) Comparable ✓ - Timeliness (IPSASB = pervasive constraint) ✓ 4) Understandable ✓ Constraints on Relevant and Reliable Information • Materiality (Relevance) ✓ • Cost-Benefit ✓ • Balance Between QCs ✓

✓ = general agreement between the IPSASB and IASB QC

X = possible issue for further consideration

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4.10 Based on both the table above and analysis in appendix 1, the similarities between the two sets of QCs can be summarized as follows:

- Similarity as to the role of QCs - though IASB focus is on 'financial reporting' while the IPSASB QCs apply to 'financial statements';
- Identical adoption of the term relevance with similarity in meaning;
- Consistent themes expressed in IASB's faithful representation compared with IPSASB's reliability, faithful representation and substance over form;
- Identical adoption of the terms completeness, neutrality, comparability, timeliness, understandability and materiality with consistent similarity in meaning;
- Almost identical adoption for the term cost vs cost-benefit with consistent similarity in meaning; and
- Recognition of the need for trade-off/balance between QCs.

4.11 There are also many differences between the two sets of QCs. The more notable differences are:

- IASB use of a hierarchy - IPSASB not specify a hierarchy of QCs;
- IASB use of fundamental characteristics;
- IASB use of enhancing characteristics;
- Implications of applying faithful representation vs reliability;
- IASB adoption of verifiability as a QC, which is not a QC for the IPSASB;
- IASB removal of the notion of prudence/conservatism;
- Differences in classification for materiality – a pervasive constraint vs a component of relevance; and
- Differences in classification for timeliness – enhancing QC vs a pervasive constraint.
- Each of the differences above is considered further below.

Hierarchy

4.12 The IASB is considering an element of formal hierarchical structure to aspects of its QCs. Firstly, the hierarchy is started by distinguishing between the characteristics as being either 'fundamental' or 'enhancing' – depending on how they impact the usefulness of information. Regardless of classification, each QC is considered to contribute to the usefulness of financial reporting information.

4.13 Fundamental QCs are viewed as distinguishing useful financial reporting information from such information that is not useful or misleading. The two fundamental QCs being considered are relevance and faithful representation.

4.14 Enhancing QCs are viewed as distinguishing more useful information from less useful information and enhancing the decision usefulness of financial reporting

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information that is relevant and faithfully represented. There are four enhancing QCs:

- understandability;
- verifiability;
- comparability; and
- timeliness.

- 4.15 Within the fundamental QCs, a hierarchy exists. In considering the fundamental QCs, the IASB has discussed that the application of relevance will identify which economic phenomena should be depicted in financial reports and as such would be considered before the other QCs. After relevance, faithful representation would be applied to determine which depictions of those phenomena best correspond to the relevant phenomena. Enhancing QCs, either individually or in concert with each other, cannot make information useful for decisions if that information is irrelevant or not faithfully represented.
- 4.16 There is no hierarchy within the four enhancing QCs. It is believed the IASB is considering that the application of the enhancing QCs would be an iterative process that does not follow a prescribed logical order. Sometimes one or more enhancing QCs may be sacrificed to maximize another QC. Finally, there is no hierarchy within the two pervasive constraints.
- 4.17 In comparison, there is no categorization of the IPSASB QCs nor is there a formally prescribed hierarchy to their order. Arguably there could be an implied hierarchy from, for example, the order of their presentation within IPSAS 1 or in linkages between them from how each is individually defined. Any perceived hierarchy is far less explicit than what is understood to be being considered for the six IASB QCs.
- 4.18 The absence of a categorization or hierarchy has arguably not been significantly problematic for the IPSASB QCs. It seemingly has been left to the exercising of professional judgement by preparers to determine both what and how is the most appropriate depiction of transactions.
- 4.19 Stepping back from the IASB and IPSASB use of hierarchies and putting aside any possible issues arising from the actual placement or sequencing of QCs within a hierarchy, at a higher level, the idea of a hierarchy brings with it both possible benefits and possible disadvantages.
- 4.20 Some would argue the benefits of a hierarchical approach to QCs should be to assist in helping achieve improved uniformity in their application therefore assisting to increase the consistency in the selection of transactions or events and how they are depicted. As such, in considering whether and how to report a particular transaction, the presence of a hierarchy would seemingly reduce the application of professional judgment in balancing the trade-off between (conflict) QCs.
- 4.21 This could seemingly be very helpful in dealing with what have often been considered the traditional 'trade-offs' or 'balancing' of some QCs – notably, for

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- numerous national standard setters, conflicts such as between relevance and reliability. Determining the appropriate balance between relevance and reliability is subjective which arguably in theory could translate into two different preparers depicting an identical transaction or event differently.
- 4.22 Conversely, it could be viewed that the disadvantages of a hierarchy, particularly if very rigid and broad, could be to introduce a degree of uniformity that eliminates an important aspect of financial statement preparation – professional judgment. Arguably, a transaction or event could occur for which the application of a hierarchy may not result in what some judge to be the optimal solution to the treatment of that transaction or event. It could also be considered that applying a hierarchy could stifle desirable creativity and evolution of accounting practice.
- 4.23 The hierarchy of QCs being considered by the IASB has elements of both rigidity and flexibility – aided by the use of fundamental vs enhancing. The IASB hierarchy is rigid in that fundamental QCs must be satisfied before enhancing. And within the fundamental QCs, relevance must precede faithful representation. However, within the enhancing QCs there is no hierarchy on the understanding that the application of these four QCs is an iterative process. This approach would seem to be trying to achieve the benefits of both a directive hierarchy combined with an element of flexibility and exercising of professional judgment. Overall, the usefulness and appropriateness of the notion of a hierarchy in a public sector context for QCs is a matter which should receive further consideration.

Specific Matter for Comment

- 4.24 Do you consider that in a public sector context that the outcomes of applying a notional hierarchical approach to QCs would be beneficial?

Fundamental and Enhancing QCs

- 4.25 As alluded to above, fundamental QCs are viewed as distinguishing useful financial reporting information from such information that is not useful or misleading. The IASB is considering the application of QC relevance as the first QC which must be considered within the fundamental QCs. Information is relevant if it is capable of making a difference in the decisions of users in their capacity as capital providers. Information about an economic phenomenon is capable of making a difference when it has *predictive value*, *confirmatory value* or both.
- 4.26 The IASB considers information having *predictive value* if it can be used in making predictions about the eventual outcomes of past, present, or future events and/or their effects on future cash flows.
- 4.27 The IPSASB QC definition of relevance means information can be used to assist in evaluating past, present or future events or in confirming, or correcting, past evaluations. In order to be relevant, information must also be timely.
- 4.28 The IASB emphasis on being “capable of making a difference in the decision” is seemingly a refinement of the notion of ‘assisting’ users in ‘evaluating’, ‘confirming’ or ‘correcting’ as currently discussed in the IPSASB relevance. While the IASB focus on ‘capable’ is towards users in their ‘capacity as capital

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- providers' which would seemingly not be applicable in a public sector context, the concept on "capable of making a difference in the decision" in isolation does not appear to raise any significant public sector issues worthy of seeking further comment.
- 4.29 The IASB consideration of *predictive value* places emphasis on effects on future cash flows. Arguably this aspect of relevance may not be as prevalent in the public sector for the majority of users (however defined) though for some users this could be a fair depiction. The perceived greater emphasis on accountability in the public sector may add dimensions to relevance, in particular, predictive value, which go far beyond future cash-flows. This could include matters such as future continuation of government services and outputs & outcomes related to government policies. While the IASB and existing IPSASB notion of relevance does bear much resemblance, the general question of what makes information relevant in a public sector context, and in particular, if that includes predictive value, then predictive for what – should be questions for further consideration.
- 4.30 Overall, in reviewing the IASB's considerations of relevance, the need to consider that information is relevant for the purposes of users as a starting point in the hierarchy does not appear to raise any significant public sector issues worthy of seeking further comment. Arguably, determining if information is a faithful representation and with it, comparable, verifiable, timely or understandable before considering relevance could potentially be inefficient if, having considered all those aspects of faithful representation, it is later determined that such information was not even relevant to the needs of users to begin with.
- 4.31 A possible issue which does not necessarily impact the hierarchical placement of relevance will be the need to eventually define, in a public sector context, relevance to whom (who are the public sector users) and relevance for what purpose. Some would consider that despite the final answers to these questions, in the end, relevance is relevance and as such, regardless of relevance for whom or what, ultimately it still must be relevant before considering any further QCs.
- 4.32 Subsequent to relevance, the IASB is considering placing faithful representation next in the hierarchy. It is being considered that faithful representation is attained when the substance of an economic phenomenon is depicted in a complete, accurate, and neutral manner. The IASB has been contemplating that once relevance is applied to determine which economic phenomena are pertinent to the decisions to be made, faithful representation is applied to determine which depictions of those phenomena best correspond to the relevant phenomena.
- 4.33 For the IPSASB, a similar notion of faithful representation currently exists but is instead titled reliability. 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. Issues related to differences in terminology and the components of faithful representation vs reliability are considered further below. However, for the purposes of considering faithful representation as a fundamental QC, the notions being conveyed by both terms arguably have much similarity.

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- 4.34 Overall, the premise that once determined that a transaction or event is relevant, that consideration be given to it being faithfully represented/reliably presented appears to be a hierarchical approach which could also be logically applied in the public sector and be beneficial without any significant issues being created (any issues associated with the introduction of faithful representation and its components, are considered further later in this paper).
- 4.35 Once fundamental QCs are considered, it is understood the IASB is then considering introducing a second category of QCs – enhancing (comparable, verifiable, timeliness, understandable). Those QCs would be designed to complement the fundamental QCs by distinguishing more useful information from less useful information. The absence of a hierarchy would leave the application of these QCs to professional judgment dependent upon the nature of the economic phenomena. As considered by the IASB, sometimes one or more enhancing QCs may be sacrificed to maximize another QC. This notion of trade-off between QCs already exists in the IPSASB QCs as a pervasive constraint. The difference with the IPSASB QCs is that the notion of trade-off is across all QCs as the IASB seemingly limits to the enhancing QCs.
- 4.36 Comparability and understandability are existing QCs of the IPSASB and embrace notions very similar to those being considered by the IASB. Their continued recognition as QCs could therefore be viewed as not raising any significant public sector issues. However, their placement as being either subordinate to relevance and faithful representation or of equal ranking amongst the enhancing QCs could be viewed as matter requiring further consideration to some extent.
- 4.37 As alluded to in earlier discussion, decisions relating to factors such as who are the public sector users of general purpose financial reports, could for some have a significant influence on their views relating to some QCs. The relative importance of individual enhancing QCs, most seemingly, understandability (and potentially also timeliness) could be an example of this.
- 4.38 With respect to understandability, a stated assumption in the existing definition of QC understandability of the IASB, IPSASB, IASB-DP and continuing to be considered by the IASB is that all users will be assumed to have a reasonable knowledge of the entity's activities. Assuming the retention of a similar base-line knowledge threshold for users may address the concern of having to consider the hierarchical status of understandability once a user group is defined. This would be because assumingly regardless of the parameters of the user group, they would all be assumed to have a certain minimum level of understanding. A possible public sector issue flowing from this is the appropriateness of this assumption.
- 4.39 Another enhancing QC is timeliness and like comparability and understandability, is a notion present in the IPSASB QCs though categorized instead as a pervasive constraint (timeliness can be viewed by some as being ambiguous in its nature and therefore difficult to 'neatly' categorize – the categorization is considered further elsewhere in this paper). Similar to understandability, the relative importance of timeliness is considered by some to be a somewhat more significant

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- issue in a public sector context – possibly because of the added emphasis on accountability in the public sector.
- 4.40 Conversely, while there is arguably a perception of the extra focus on accountability in the public sector, it could be viewed that ideally all stakeholders, theoretically at least (public and private), are owed the same level of accountability and as such, the notion timeliness is possibly not such unique an issue in the public sector.
- 4.41 Alternatively, it could also be argued that while QCs like timeliness and understandability are not ranked higher compared to the other QCs, they are also not ranked lower – each of the four QCs may individually be sacrificed to maximize another QC. This approach to the four enhancing QCs may provide a sufficient degree of flexibility to address those circumstances that require understandability or timeliness to receive greater prominence. The respective rankings of understandability and timeliness are deserving of further comment.
- 4.42 The introduction of verifiability by the IASB arguably poses the most significant issues from a public sector perspective. As such, the issue of its introduction (aside from its placement within the hierarchy) is considered in isolation elsewhere in this paper. Assuming the inclusion of verification within the QCs, its classification as an enhancement to information which is relevant does not seem to raise significant public sector issues requiring further comment in this section of the paper.

Specific Matters for Comment

- 4.43 The IPSASB would welcome comment on the following:
- Q4.1 In considering relevance, what type(s) of information should the general purpose financial report be useful in predicting in a public sector context?
- Q4.2 Does the application of the categories 'fundamental' vs 'enhancing' raise significant public sector issues?
- Q4.3 Is the placement of understandability as a QC of equal ranking with verifiability, comparability and timeliness appropriate in a public sector context?
- Q4.4 Is the placement of timeliness as a QC of equal ranking with verifiability, comparability and understandability appropriate in a public sector context?
- Q4.5 Do you consider an assumption in the QC understandability that users will have a reasonable knowledge of the entity's activities is appropriate in a public sector context?
- Q4.6 If not supportive of the hierarchy as being considered by the IASB, what arrangement/structure for the QCs do you think would be more appropriate from a public sector perspective?

Faithful Representation vs Reliability

- 4.44 As was introduced in the IASB's DP, staff understand the IASB continues to consider introducing QC faithful representation. The definition being considered

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- for faithful representation is when the substance of an economic phenomenon is depicted in a complete, accurate, and neutral manner.
- 4.45 The IPSASB QC reliability, particularly when considered in the context of two of its five components, faithful representation and substance over form, bears a close resemblance to faithful representation as being considered by the IASB. The definition of reliability is information that 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. The components of reliability are faithful representation, substance over form, neutrality, prudence and completeness.
- 4.46 As was proposed in the IASB's DP, the introduction of faithful representation is in substance an attempt to improve constituent understanding of the intended meaning of the term reliability ie: reducing confusion. The IASB notes in its DP that in considering the issues related to reliability, as well as standard-setters' experience with assessing reliability, that there is a variety of notions of what the concept means. Some focus on verifiability to the virtual exclusion of the faithful representation. Others focus more on faithful representation, perhaps combined with neutrality. And to some, reliability apparently refers primarily to precision.
- 4.47 While the overall objective has been to reduce confusion with the term reliability, it is understood that there has been some controversy related to the adoption of faithful representation. However, in attempting to address the controversy, staff believes that constituent views considered by the IASB on this issue from the DP have further highlighted the amount of confusion with the term reliability and as such has resulted in the IASB re-affirming the need to reduce confusion by adopting the term faithful representation.
- 4.48 Arguably it is a reasonable assumption that the confusion noted by the IASB with the intended meaning of the term reliability may have some relevance in a public sector context also. As such, any attempt to reduce confusion and improve the consistent application of the QCs from a private sector perspective could also assist in the public sector as well. The need to determine the existence of confusion in a public sector context should be a matter for further consideration.

Specific Matter for Comment

- 4.49 The IPSASB would welcome comment on the following:
- Q4.7 Does the use of the term faithful representation have a clearer meaning than the term reliability?
- 4.50 A related matter possibly worthy of further consideration is that the possible adoption of faithful representation in place of reliability may also be a development which is a necessary complement to other aspects of the IPSASB conceptual framework project as they continue to be explored – notably with respect to determining the scope of general purpose financial reporting and consideration of the QC verifiability (issues related to introduction of verifiability are discussed further in the next section to this paper).

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- 4.51 If it is determined that the scoping provisions should evolve to encompass details such as projected information and non-financial performance indicators with the resulting requirement that those types of information also meet a QC of verifiability, it may, in this context, given the greater degree of estimation and subjectivity that would accompany these information types, complement the evolution away from the notion reliability towards a QC of faithful representation.
- 4.52 This could be because, while it may be questionable as to whether it may be a reasonable expectation to verify that long term sustainability numbers or qualitative measures are reliable (except where there is a common understanding that reliable means faithful representation), it may be a more realistic requirement to verify (by consideration of the processes adopted to generate those numbers/measures) that those amounts are a faithful representation of the phenomena they attempt to depict. The realism of faithful representation complementing developments related to a broadening public sector financial reporting scope and explicit requirement for verification is a matter worthy of further consideration.

Specific matter for comment

- 4.53 The IPSASB would welcome comment on the following:
- Q4.8 If the scope of the general purpose financial report encompasses projected information and non-financial performance indicators, do you consider that the use of faithful representation is a necessary or helpful complement to that broader scope?
- 4.54 While the replacement of the term reliability with the term faithful representation is designed to improve constituent understanding of its intended meaning, it has brought with it some others revisions which are briefly explained below.
- 4.55 Firstly, substance over form no longer appears as a stand-alone component as the contemplated definition of faithful representation would encompass this notion – to then include substance over form as a component would be seemingly redundant. A similar situation exists with the existing definition of faithful representation in the IPSASB QCs – as the definition emphasizes substance over form yet substance over form is also exists as a separate component. As such, in a public sector context, it could be viewed that combining the two could help to clarify its application by also reducing redundancy.
- 4.56 The IASB proposed in its DP and it is understood, continues to support, the elimination of 'prudence' as an essential component within the QCs. Prudence focuses on exercising caution in the exercise of judgment when making estimates – in general ensuring that financial statement items are not overstated or understated.
- 4.57 The IASB rationale for the removal of prudence flows from the existence of component 'neutrality'. In the existing IPSASB and IASB QCs as well as the current thinking by the IASB, neutrality focuses on the absence of bias. The IASB contends that prudence is not compatible with neutrality as prudence implies a conservative bias in reporting.

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- 4.58 From a practical perspective, if the presentation of the amount in the financial statements is free from bias (neutral), it should arguably therefore mean that it is not overstated (or understated). Based on this premise, the elimination of prudence could be seen to equally applicable to the public sector.
- 4.59 However, a possible public sector specific reason supporting the need for both prudence and neutrality in the QCs could be the increased prominence of concepts like 'accountability' in the public sector compared with the private sector. Stakeholders from a public sector perspective may be considered more risk averse than those in the private sector and as such it may be necessary/appropriate to ensure an additional degree of caution in dealing with estimates in public sector financial statements.
- 4.60 Conversely, some could argue that many users in the private sector could also be the same users in the public sector and as such both sets of users should be ideally be receiving information subjected to the same degree of consideration and care in determining estimates. A similar argument may still apply even if there are risk tolerance differences between the stakeholders – ultimately all should receive the same quality information. Further, it could be argued that if a greater element of risk is being taken by a private sector stakeholder, then the greater amount of caution should therefore be applied in developing any associated estimates, and as such, if prudence were to remain anywhere, then perhaps it should more appropriately be in a private sector context.
- 4.61 An alternative perspective for the continued co-existence of prudence and neutrality could be to re-consider their respective roles within the QCs. For example, some contend that while prudence focuses on caution with estimates, neutrality is really a focus more on preparers not taking a stance for or against a particular decision(s) of management. Any re-considering of the roles of either prudence or neutrality would seemingly need to reconcile with the defined role of QCs ie: attributes that make financial information useful. Ultimately, the issue of the compatibility of prudence/conservatism with neutrality is a matter which seemingly warrants further consideration.

Specific Matter for Comment

- 4.62 The IPSASB would welcome comment on the following:
- Q4.9 What are the public sector specific reasons that would support neutrality and prudence, as defined, comfortably co-existing within the QCs?
- 4.63 The explicit use of the term accuracy as a component of faithful representation would formalize a notion which was considered in the IASB's DP – ie: "Accuracy of estimates is desirable, of course, and some minimum level of accuracy (precision) is necessary for an estimate to be a faithful representation of an economic phenomenon." Arguably, the notion of some degree of accuracy is implied within the existing QC reliability as the definition requires information to be free from material error and bias. This seemingly implied notion combined with the IASB's flexible application of accuracy (in that does not have to be absolute), would appear to make the explicit introduction of accuracy in a public sector context a reasonable development.

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- 4.64 Finally, the introduction of completeness as a component was a notion also raised in the IASB's DP. As noted above, completeness for the IPSASB QCs is an existing component of reliability with its spirit of intent being similar to that originally proposed by the IASB's DP. It is understood the IASB has not materially changed its intended meaning of completeness and as such the similarity with that in the IPSASB QCs continues to remain. For reasons similar to those relating to the introduction of accuracy, it does not appear as if further consultation on the introduction of completeness warrants further consideration from a public sector perspective.

Verifiability

- 4.65 The role of verifiability being considered by the IASB would be to assure users that information faithfully represents the economic phenomena that it purports to represent. It implies that different knowledgeable and independent observers could reach general consensus, although not necessarily complete agreement, that either:

- The information represents the economic phenomena that it purports to represent without material error or bias (by direct verification); or
- An appropriate recognition or measurement method has been applied without material error or bias (by indirect verification).

Verification would be ranked equally with the other three enhancing QCs (timeliness, comparability and understand ability). The existing IPSASB QCs do not explicitly consider verifiability.

- 4.66 As alluded to above, the introduction of verifiability as a QC could be viewed by some as raising at least one arguably public sector specific issue. Dependent upon what the IPSASB finalizes as being the scope and objectives of financial reporting for the public sector conceptual framework, there may be concerns as to the verifiability of the information caught within that scope.
- 4.67 This would seemingly be particularly problematic if the public sector general purpose financial report were extended to encompass material such as projected info and non-financial performance indicators. Seemingly such information would not be verifiable to the same threshold as has been portrayed with traditional financial statements and therefore could make the practical application of QC verifiability difficult.
- 4.68 Arguably, this issue would potentially not be isolated to a public sector general purpose financial report. It is understood the IASB in considering its own objectives for financial reporting will consider that objective to broadly pertain to financial reporting and not just financial statements. As such it is an issue which from a private sector perspective for now at least, does not appear problematic to the extent of withdrawing verifiability as a QC.
- 4.69 While it is a feasible outcome that different types of information within a general purpose financial report could not be verified to the same threshold, such variation in verification would seemingly be a continuation of an existing reality. Variability in verification already exists within a set of accrual based financial

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statements. Estimates such as provisions, amortizations or revaluations most often will differ significantly in their degree of verifiability compared to account balances which can be more readily confirmed by reliable evidence. Having the same variability in verifiability across a GPFR would be an extension of an issue already present in financial reporting for both the public and private sector.

- 4.70 A further matter to consider in determining the appropriateness of having a QC verifiability as an IPSASB QC is that although the IPSASB QCs currently do not explicitly mention verifiability, arguably verifiability is already strongly implied – in particular within the existing QC reliability. Reliability is defined as follows:

“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.”

- 4.71 To purport that something is a faithful representation, reliable or free from material error and bias, could suggest that the representation can withstand possible examination and some degree of confirmation.
- 4.72 In this respect it is also interesting to consider that the explicit introduction of verifiability as either a QC or an essential component of a QC is not an occurrence unique to the IASB's considerations. Numerous national standard setting bodies with public sector responsibility include the notion of verifiability to varying extents within their conceptual discussions¹ - often related to 'reliability'. The possible issues associated with the explicit introduction of verifiability warrant further consideration from a public sector perspective.

Specific Matter for Comment

- 4.73 The IPSASB would welcome comment on the following:

Q4.10 Do you consider having verifiability as a QC raises significant public sector specific issues, in particular as it relates to a broadening financial reporting scope into areas such as projected info and non-financial performance indicators?

COST-BENEFIT

- 4.74 The notion of cost-benefit focuses on the benefits of financial reporting having to exceed the cost of producing it – and the challenges associated in determining that this has been satisfied. While not a new notion, a number of views exist relating to cost-benefit which should be explored.
- 4.75 A case can be made that 'cost-benefit' should be given greater consideration in the discussion of QCs. Some consider that cost-benefit considerations made earlier rather than later in the determination of whether information is useful provides a very helpful early filter which will improve efficiency in analysing

¹ 1) New Zealand Institute of Chartered Accountants – Statement of Concepts for General Purpose Financial Reporting

2) Canada – Public Sector Accounting Standards Board – PS 1000 – Financial Statement Concepts

3) USA – Governmental Accounting Standards Board – Concepts Statement No.1 – Objectives of Financial Reporting - Characteristics of Information in Financial Reporting

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if/how certain economic phenomena should be depicted within the financial statements.

- 4.76 While the determination of the true costs and benefits can be subjective, arguably a key factor in determining benefit would be whether or not that information is relevant to users? Relevance is currently being considered as a fundamental QC for the IASB and as such, would seem to default as being a necessary pre-requisite which once taken into consideration, contributes to the analyse of determining benefit. A similar relationship arguably also exists with respect to faithful representation and costs. This would appear to support having cost-benefit appearing somewhere after the fundamental QCs.
- 4.77 Another view is that cost-benefit analysis and conclusions for reporting economic phenomena can be different dependent upon whether that analysis occurs in the private or public sectors. One reason this might be the case is because a particular type of transaction or event might be prevalent to differing extents dependent upon the sector – as such, in a convergence environment such as that which the IPSASB operates, the need for thorough cost-benefit analysis becomes very important.
- 4.78 Existing discussions of the IPSASB and IASB on cost-benefit notes the need for standard setters (and others) to be aware of cost-benefit in their work. Given the convergence environment that the IPSASB operates within, it may be appropriate to question if the notion of cost-benefit needs to be amplified in a public sector context in order to highlight the potential differences in impact a particular accounting requirement can have in one sector versus another sector.

Materiality

- 4.79 The IASB staff is considering categorizing materiality as a pervasive constraint. In the IPSASB QCs, materiality appears as an essential component of relevance.
- 4.80 The IASB's re-positioning of materiality as a pervasive constraint relates to its role as providing a threshold in determining whether information is sufficiently complete, accurate, and neutral to faithfully represent the economic phenomenon it purports to represent – noting that faithful representation does not require absolute completeness, accuracy, or neutrality; however, some minimum level of each is necessary.
- 4.81 The re-positioning of materiality as a constraint vs an essential component of relevance does not appear problematic from a public sector perspective. The existing role of materiality as a form of threshold in the current IPSASB QCs would seem to suggest its placement as a constraint as being more consistent with its true nature.
- 4.82 An area which may require additional attention in supporting discussion relating to materiality could be that materiality, certainly from a public sector perspective, can be either a quantitative or qualitative threshold, or both.
- 4.83 Existing discussion in the IPSASB QCs and that being considered by the IASB arguably do not give equal weighting to both dimensions. The qualitative dimension of the materiality threshold is potentially more of a public sector

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concern particularly with respect to dealing with matters relating to such areas such as legislative compliance.

Specific Matter For Comment

4.84 The IPSASB would welcome comment on the following:

Q4.11 Do you consider that the qualitative aspects of materiality deserve additional consideration in a public sector context compared with the private sector?

Q4.12 How should those qualitative aspects be reflected in how materiality is portrayed in the QCs?

Timeliness

4.85 The IASB is considering portraying timeliness as an enhancing QC. The IPSASB QCs place timeliness as a constraint on relevant and reliable information.

4.86 Consideration by the IASB to classify timeliness as an enhancing QC is based on the notion that having information sooner can enhance its capacity to influence decisions. Conversely, receiving information later can reduce its usefulness.

4.87 A similar concept is portrayed with timeliness in the IPSASB QCs though instead as a constraint. For the IPSASB QCs, timeliness is phrased as delays in information potentially impacting relevance and the related trade-off with timeliness between relevance and reliability. In achieving a balance between relevance and reliability, the overriding consideration is how best to satisfy the decision-making needs of users.

4.88 The element of similarity in how timeliness is being viewed in the IASB's considerations and in the IPSASB QC's, could potentially support timeliness being viewed as also possessing 'enhancing properties' in a public sector context also.

4.89 Further, the IASB consideration of timeliness as an enhancement could arguably also be viewed as a complementary development to the IASB's consideration of clarifying the intended meaning of reliability with the adoption of faithful representation. As alluded to above in this paper, the adoption of faithful representation could be viewed by some as easing the traditional tension between reliability and relevance. As a result, it could be viewed that timeliness may cause less of a tension and therefore necessitate the need to re-consider timeliness as being more of a constraint with it perhaps, given its revised context, now taking on the characteristics of an enhancement.

4.90 Others may argue that despite the labels attached to reliability or relevance, the practical reality is that timeliness, while having the quality to enhance, ultimately from a practical real-world standpoint, always acts as a constraint in financial report preparation in that a very real trade-off does occur in applying relevance and reliability.

4.91 In the end, and as alluded to above, it would seem that timeliness could arguably be viewed as possessing both aspects of enhancement and constraint and as such, it may be necessary, from a public sector perspective, to determine if there any

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significant reasons for timeliness being viewed more appropriately as one or the other.

Specific Matter For Comment

4.92 The IPSASB would welcome comment on the following:

Q4.13 Do you consider that from a public sector perspective, the potential adoption of 'faithful representation' instead of 'reliability', eases the traditional timeliness constraint between the two to an extent that gives support to timeliness being more appropriately viewed as an enhancing QC?

Appendix 1

Comparative Table of Existing IPSASB QCs and QCs Being Considered by the IASB

IASB QCs	IPSASB QCs	Notes
Role of QCs		
Qualitative characteristics are the attributes that make <u>financial information useful</u> .	Qualitative characteristics are the attributes that make the information provided in <u>financial statements useful</u> to users.	Very similar notions though noted that IASB focuses on a seemingly broader notion of 'financial information' vs the IPSASB use of 'financial statements'
Ordering of QCs (IPSASB QCs listed in the order of IASB QCs to assist comparison) (italics = component)		
Fundamental (hierarchy) x 1) Relevance ✓ • <i>Predictive value</i> ✓ • <i>Confirmatory value</i> ✓ 2) Faithful Representation: ✓ • <i>Complete</i> ✓ • <i>Accurate</i> x • <i>Neutral</i> ✓ Enhancing (no hierarchy) 3) Comparable ✓ 4) Verifiable x 5) Timeliness ✓ 6) Understandable ✓	No hierarchy overall x 1) Relevance ✓ • <i>Predictive value</i> ✓ • <i>Confirmatory value</i> ✓ 2) Reliability ✓ & <i>Faithful Representation</i> ✓ & <i>Substance Over Form</i> x • <i>Complete</i> ✓ • <i>Neutral</i> ✓ • <i>Prudence</i> x 3) Comparable ✓ - Timeliness (IPSASB = pervasive constraint) ✓ 4) Understandable ✓	IASB has some degree of hierarchy. Hierarchy aided by segregation between 'fundamental' vs 'enhancing'. IPSASB QCs do not have any hierarchy. Faithful representation used in IASB. Reliability used in IPSASB though similarities in meaning – see below. Accuracy and prudence not common notions – see below. Different categorizations of timeliness – see below. Verifiability not a shared QC – see below.

IASB QCs	IPSASB QCs	Notes
Pervasive Constraints <ul style="list-style-type: none"> Materiality ✓ Cost ✓ Application of the Constraints on Financial Reporting (<u>not actual pervasive constraint</u>) ✓ 	Constraints on Relevant and Reliable Information Materiality (Relevance) ✓ Cost-Benefit ✓ Balance Between QCs ✓	Different categorizations of materiality – see below. Balance between QCs not explicitly included as part of QCs for the IASB though does appear elsewhere.
Relevance		
Fundamental QC		
Information is relevant if it is <u>capable of making a difference</u> in those decisions. Information about an economic phenomenon is capable of making a difference when it has <u>predictive value</u> , <u>confirmatory value</u> or both.	Information is relevant to users if it can be used to assist in <u>evaluating past, present or future</u> events or in <u>confirming, or correcting, past evaluations</u> . In order to be relevant, information must also be <u>timely</u> .	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. IASB focuses on capable of making a difference in the decisions of users while IPSAS 1 discusses 'if it can be used to assist'. For the IPSASB, timeliness appears as constraint to relevance and reliable information but not so explicitly mentioned for the IASB.
Faithful Representation		
Fundamental QC		
<u>Faithful representation</u> is attained when the <u>substance</u> of an economic phenomenon is depicted in a complete, accurate, and neutral manner.	<u>Reliable</u> 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. <i>Faithful Representation - For information to represent faithfully transactions and other events, it should be</i>	IASB uses the term faithful representation. IPSASB uses reliable. IPSASB's 'reliable' read in concert with 'faithful representation' and 'substance over form' conveys a similar meaning to IASB's faithful

IASB QCs	IPSASB QCs	Notes
	<p><i>presented in accordance with the <u>substance of the transactions and other events</u>, and not merely their legal form.</i></p> <p><i>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></i></p>	representation.
<i>Completeness means including in financial reports all information that is necessary for <u>faithful representation</u> of the economic phenomena that the information purports to represent.</i>	<i>Completeness - The information in financial statements should be <u>complete</u> within the bounds of <u>materiality and cost</u>.</i>	Identical terminology though IASB provides fuller definition. Intent of each Board's description appears similar.
<i>Accuracy is a function of the degree to which a representation conforms to the economic phenomenon being represented.</i>		Term unique to the IASB. Not explicitly stated in IPSASB though arguably is implied via the definition of reliability – notably the need to be <u>free from material error and bias</u> .
<i>Neutrality is the absence of bias intended to attain a predetermined result or to induce a particular behavior.</i>	<i>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.</i>	Both discussions materially the same focusing on free from bias.
Neutrality is incompatible with conservatism, which implies a bias in financial reporting information.	<i>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</u></i>	Prudence is a concept only in the IPSASB QCs. The IASB considers prudence/ conservatism to be incompatible with the intent of

IASB QCs	IPSASB QCs	Notes
	<i>overstated and liabilities or expenses are not understated. 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.</i>	neutrality.
Comparability		
Enhancing QC		
Comparability is the quality of information that enables users to <u>identify similarities in and differences between two sets</u> of economic phenomena. <i>Consistency</i> refers to the use of the same accounting policies and procedures, either from <u>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.	Information in financial statements is comparable when users are able to <u>identify similarities and differences</u> between that information and information in other reports. Comparability applies to the: <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>. 	Both discussions materially the same with emphasis on comparison between different entities and financial statements for the same entity.
Verifiability		
Enhancing QC		
Verifiability is a quality of information that may assure users that information faithfully represents the economic phenomena that it purports to represent. Verifiability implies that different knowledgeable and independent observers could reach general consensus, although not necessarily complete agreement, that either: <ul style="list-style-type: none"> • The information represents the economic phenomena that it purports to represent 		Term unique to the IASB. Not explicitly stated in IPSASB though arguably is implied via the definition of reliability – notably the need to be a ‘faithful representation’ and/or ‘free from material error’

IASB QCs	IPSASB QCs	Notes
<p>without material error or bias (by direct verification); or</p> <ul style="list-style-type: none"> An appropriate recognition or measurement method has been applied without material error or bias (by indirect verification). 		
Timeliness		
Enhancing QC		
<p>Timeliness means having information available to decision makers before it <u>loses its capacity to influence decisions</u>. Having relevant information available <u>sooner can enhance its capacity to influence decisions</u>, and a <u>lack of timeliness can rob information of usefulness</u> it might have otherwise had.</p>	<p>Timeliness (Pervasive Constraint) - 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 of a transaction are known, thus impairing reliability. Conversely, if reporting is <u>delayed</u> until all aspects are known, the information may be highly reliable but of <u>little use to users who have had to make decisions</u> in the interim.</p>	<p>The Boards categorize timeliness differently. IASB has it as an enhancing QC, as where IPSASB focuses on the constraint it can create between relevance and reliability. Despite categorization difference, overall intent of the term is similar across both Boards.</p>
Understandability		
Enhancing QC		
<p>Understandability is the quality of information that enables users to <u>comprehend its meaning</u>. Understandability is enhanced when information is classified, characterized, and presented clearly and concisely. Comparability can also enhance understandability.</p> <p>Although presenting information clearly and concisely helps users to comprehend information, the actual comprehension or understanding of financial information is dependent on the users of the financial report. Users of financial reports are assumed to have a <u>reasonable knowledge</u> of business and economic activities and be able to</p>	<p>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.</p>	<p>Very similar notions in both definitions – with a focus on:</p> <ul style="list-style-type: none"> Users being able to comprehend meaning; and Users having a reasonable knowledge.

IASB QCs	IPSASB QCs	Notes
read a financial report.		
Pervasive Constraints (IASB) / Constraints on Relevant and Reliable Information (IPSASB)		
Materiality		
Information is material if its omission or misstatement <u>could influence the decisions that users</u> make on the basis of an entity's financial information. Because materiality depends on the <u>nature and amount of the item</u> judged in the particular circumstances of its omission or misstatement, it is not possible to specify a uniform quantitative <u>threshold</u> at which a particular type of information becomes material.	<i>Materiality - (Component of relevance) 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 made on the basis of the financial statements</u>. 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 threshold or cut-off point rather than being a primary qualitative characteristic</u> which information must have if it is to be useful.</i>	The Boards categorize materiality differently. While for the IASB, materiality appears as a pervasive constraint, for the IPSASB it is presented as a component of relevance. Despite this, both definitions materially the same focusing on: <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.
Cost		
Financial reporting imposes costs on both preparers and users of financial reports. The <u>benefits of financial reporting information should justify those costs</u> . Assessment of whether the benefits of providing information justify the related costs will usually be more qualitative than quantitative. <u>Even the qualitative assessment of benefits and costs often will be incomplete</u> .	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</u>	Both discussions materially the same with emphasis on benefits derived from information should exceed the cost of providing it and the difficulties that can be encountered in making that assessment.

IASB QCs	IPSASB QCs	Notes
	<p><u>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>	
Balance Between Qualitative Characteristics (Constraint for IPSASB Only)		
<p>Application of the Constraints on Financial Reporting (not a pervasive constraint for the IASB – the material below is supporting discussion to the pervasive constraints) - The constraint of materiality is related to whether financial information is a faithful representation of the economic phenomena it purports to represents. Faithful representation does not require absolute completeness, accuracy, or neutrality; however, some minimum level of each component is necessary. Materiality should be considered when determining whether information is sufficiently complete, accurate, and neutral to faithfully represent the economic phenomenon it purports to represent.</p> <p>Application of the cost-benefit constraint involves assessing whether the benefits of reporting information are likely to justify the costs incurred. When making this assessment <u>one must consider whether some qualitative characteristics might be sacrificed to a degree</u> for lower cost. For example, when standard-setters apply the cost-benefit constraint to a proposed standard, they seek information from preparers, users, academics, and other constituents regarding the expected nature and quantity of the benefits and costs of that standard.</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>The need for trade-off within the QCs (or components) is similar in both discussions though in this instance it is formalized as a constraint by the IPSASB as where it is supporting discussion for the IASB.</p> <p>The IASB has more of an emphasis with respect to cost/benefit as where the IPSASB is broader with its discussion.</p>

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Chapter 5

The Reporting Entity

INTRODUCTION

- 5.1 If the objectives of GPFR are to be achieved, it is necessary that entities that should prepare and present GPFRs, do so. If the imposition of financial reporting requirements on public sector entities in any jurisdiction is to be rational and efficient, it is also important that those entities for which there is no justification to prepare and present a GPFR, should not be required to do so. This notion is reflected in the literature of many standards-setters and other authoritative bodies.
- 5.2 This Chapter considers and seeks views on the characteristics that a public sector entity which should prepare a GPFR is likely to possess. For the purposes of the Framework, such an entity is described as a reporting entity. This Chapter also considers the basis (or bases) on which the boundaries of reporting entities may be determined.
- 5.3 It is not possible or appropriate for an international standards-setter such as the IPSASB to identify which particular group of activities, or groups of entities, in any jurisdiction should be identified as reporting entities, and what resources and activities will be encompassed within the boundaries of those entities for financial reporting purposes. Such decisions will need to be made by relevant authoritative bodies in each jurisdiction:
- with knowledge of the characteristics of entities in their jurisdiction and the relationship between them; and
 - in the context of the institutional and administrative arrangements in place in those jurisdictions for the raising of public monies, management of public resources and the delivery of goods and services to citizens and other members of the community.
- 5.4 However, identification in the IPSASB Framework of the characteristics of a reporting entity and the criteria that might be adopted for determining its boundary will provide input to, and guide, decisions made in each jurisdiction. In making such decisions, authoritative bodies will also consider whether:
- there are users dependent on GPFRs for information to satisfy the objectives of financial reporting; and
 - from a public interest perspective, the benefits of preparing the reports will outweigh the costs.

Such assessments will involve professional judgement and will be made in the interests of ensuring that the imposition of financial reporting requirement is rational, efficient and in the public interest.

THE CHARACTERISTICS OF A REPORTING ENTITY

- 5.5 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” (IASB Framework, paragraph 8). This notion is also reflected in the literature of a number of national standards-setters.
- 5.6 Chapter 2 *Objectives of General Purpose Financial Reports* considers the users of financial reports and their potential information needs, and seeks input on how the objectives of financial reporting should be articulated. Chapter 2 notes that the purpose of financial reporting is to provide information to satisfy the common information needs of a wide range of users who are unable to demand financial reports tailored to meet their specific needs.
- 5.7 This Chapter confirms that a key characteristic of a reporting entity must be the existence of users dependant on a GPFR prepared in respect of a particular activity, organisation or group of resources for information to satisfy the objectives of financial reporting in the IPSASB Framework. (Subject to IPSASB decisions, those objectives may be specified as input for accountability and decision making purposes or for other purposes. Readers should note that, in concept, IPSASB decisions about the objectives of financial reporting could affect the users to which GPFRs are targeted, the uses to which they may be put and, therefore, which public sector organizations, activities, or resource groupings are identified as reporting entities in any jurisdiction.)
- 5.8 The greater the spread of owners of an entity, and the greater the extent of the separation between management and owners of the entity, the more likely it is that there will exist users dependent on GPFRs for information for accountability, decision making and other purposes. For most governments, government departments and agencies or other public sector organisations which manage public resources, there is a significant separation between the “owners” of those resources (taxpayers, donors and members of the community) and management.
- 5.9 As noted in Chapter 2, it is widely accepted that to justify the raising and use of public resources, governments and other public sector entities have an obligation to be accountable for their management of the resources entrusted to them, and GPFRs have a significant role to play in the discharge of that obligation. If the objectives of financial reporting identified in the IPSASB Framework encompass the discharge of accountability obligations, arguments that all public sector entities should prepare GPFRs are persuasive. (In such circumstances, the key issue in determining what constitutes a reporting entity becomes one of identifying the resources and activities that will form a separate public sector entity. This issue is considered in a later section of this Chapter– see The Boundary of a Reporting Entity below.)

- 5.10 However, it may be argued that even though all public sector entities may be publicly accountable, not all public sector entities should prepare GPFRs. For example, a small governmental organization with distinct activities and control over some economic resources might be so financially or economically insignificant that it is unlikely that there will be external users dependent on a GPFR of that sub-unit as input for assessments of accountability or for other purposes. This may occur where, for example, the amount of resources allocated to a public library established and controlled by a separate local government, or a medical centre established and controlled by a public hospital, is not significant relative to the total resource raised by, or allocation to, the local government, or public hospital. Consequently, it may not be likely that there are taxpayers, citizens or other users dependent on a separate GPFR of the library or medical centre for information for accountability purposes. In such cases, accountability for the library or medical unit may be discharged by reporting to the local government or hospital which will then include information about them in their GPFRs. It may also be likely that in these cases
- 5.11 It may also be argued that, from a public interest perspective, the costs of preparing and presenting separate GPFRs in respect of some small public sector entities will exceed the benefits of doing so.
- 5.12 There is then a case that characteristics in addition to the overarching obligation of all public sector entities to be accountable should be considered in determining whether a particular public sector entity (whether a government or a separate governmental entity) should prepare separate GPFRs – this is particularly so if the objectives of GPFRs are identified to encompass (or to be directed at) decision making or other purposes as well as, or instead of, accountability.
- 5.13 As noted above (paragraph 5.7), the key (or necessary) characteristic of a reporting entity is the existence of users dependant on a GPFR for information to satisfy the objectives of financial reporting. It is then appropriate that those additional characteristics focus on circumstances which are likely to signal that it is reasonable to expect the existence of users who are dependent on GPFRs for information for accountability purposes, or for decision making or other purposes identified as the objectives of GPFRs.
- 5.14 Arguably, the greater the impact that a government or other public sector entity can have on the financial and social well being of the community, the more likely it is that there will be users dependent on GPFRs of the entity to provide information for accountability and other purposes, and the more likely it is that the benefits of preparing a GPFR will exceed its costs. Such impact may arise as a consequence of the resources that the entity raises from and/or controls for the benefit of its constituents, the volume and nature of the services it provides, or activities it undertakes. Consequently, the following additional overlapping characteristics individually or in combination are also likely to be important in determining whether a public sector entity should prepare a GPFR:

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- economic, social or political importance or influence - the greater the potential of an entity to make a significant impact on the social or economic welfare of members of the community, including those that provide resources to it and depend on it for the provision of goods and services, the greater is its economic or social significance and its political importance. Consequently, the more likely it is that there will exist users dependent on a GPFR prepared in respect of the entity for information for accountability purposes and as input for making economic, social and political decisions - or for other purposes identified as the objective of financial reporting in the public sector.
- size and financial characteristics - the larger the size of the entity, the greater its indebtedness and the more resources it controls or is accountable for, the more likely it is that there will exist users dependent on a GPFR of the entity for information for accountability and decision making purposes. Factors to be considered in assessing the size of the entity will include, for example: the value of its assets and liabilities; the amount of taxation revenue raised by the entity, or allocated to it by the government or other parties; number of its employees; the number of properties or size of national parks or transport network it manages; and the number and size of charitable or other entities dependent on it for substantially all or most of their funding.

5.15 Which entities should prepare GPFRs consistent with those characteristics will be determined by reference to the circumstances of individual public sector entities in each jurisdiction. However, it is likely that a national, state/provincial or local/city government as a whole will qualify as a reporting entity because of its economic, social and political importance, as well as its size and financial characteristics. A number of individual government agencies and departments (and the entities they control) may also qualify as individual reporting entities because of their economic, social or political significance and/or their size and financial characteristics - for example:

- entities with coercive powers to compulsorily acquire resources from the public, to regulate the behaviour of the public, or with monopoly powers conferred by legislation or regulation may be identified as reporting entities because of their economic, social or political significance; and
- entities which control or administer significant public resources, such as a ministry or department of defence, finance or health may be identified as reporting entities because of their political significance and/or the significant financial resources they control or deploy.

5.16 Whether a particular government organization, activity or resource grouping is identified as a separate “entity” will be important in determining whether it would qualify as a “reporting entity”. The accounting literature in some jurisdictions defines an entity as having separate legal identity, but in others reflects that an entity may also encompass other organisational structures or arrangements (or

- individuals) having the capacity to deploy scarce resources in order to achieve its objectives.
- 5.17 The current IASB Framework does not define an entity but identifies examples of what constitutes an entity in some standards – for example, “...‘entity’ includes individuals, partnerships, incorporated bodies, trusts and government agencies.” and “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.” (IAS 32 *Financial Instruments: Presentation*, paragraph 14, and IAS 31 *Interests in Joint Ventures*, paragraph 24). The current IPSASs also includes these examples of what may constitute an entity.
- 5.18 To be a “legal entity”, an organization must have some form of legal structure or separate legal standing – for example, governments, public corporations, trusts that are legally distinct from trustees and beneficiaries or a statutory authority with the power to transact and enter contracts in its own right. Recognition at law removes any doubt about the separate existence of the organization or other structure in question, and ensures that the principle that underpins the notion of an entity, and therefore a potential reporting entity, is clear and can be applied consistently within any jurisdiction. Some have also noted that the existence of many assets and liabilities arises as a consequence of legal rights and obligations, and this is consistent with the adoption of the legal entity notion. (Readers should note that the definitions of assets and liabilities for financial reporting purposes will be considered in a later component of this Framework.)
- 5.19 However, organizations that lack legal status may also raise, consume, deploy or manage public monies, and have a significant economic or social influence on constituents. There is a case that GPFRs will also have a role in providing information necessary for the discharge of accountability obligations of such entities. For example, many administrative units (such as government departments) 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). Adoption of only the legal notion of an entity would preclude these other organizations and structures from preparing separate GPFRs.
- 5.20 Governments may adopt different management and administrative structures and organizational models for the management of public resources and the delivery of goods and services to, or on behalf of, the community or sections thereof. Those structures may be designated as ministries, departments, agencies, statutory authorities, regional or functional boards and/or other organisations or arrangements, and allocated responsible for particular activities. They may be subject to direct control by a minister or other executive of government, or by another government entity. Whatever the responsibilities of each of these organisations or arrangements, it is unlikely that users dependent on a GPFR

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prepared in respect of them will exist if they do not have the capacity to acquire or use government resources¹, or incur liabilities that will need to be serviced and funded by resources raised from the community. Therefore, it may be argued that to be of interest to users an entity, and therefore a potential reporting entity, is likely to be:

- a national, state/provincial, local/city government;
- a legal entity with the capacity to raise or deploy resources, and/or incur liabilities or with the responsibility to administer public assets;
- an administrative unit, organization, or structure established by the government to control, administer or otherwise be accountable for resources; or
- an arrangement reflecting an integrated or cohesive subset of activities of the government which include use or managements of government resources or capacity to raise revenues from the public or incur liabilities on behalf of the government. (*Staff note- staff will monitor developments in the IASB-FASB project and embrace notions developed therein.*)

5.21 Whether such entities are reporting entities will depend on whether there would be users dependant on their GPFRs for information as input for accountability, decision making or other purposes consistent with the objectives of GPFR.

5.22 This broad approach to identifying potential reporting entities may have appeal because it:

- extends the notion of a reporting entity beyond only a legal entity to encompass the government as a whole and administrative or other units created by the government to manage public resources and deliver government policy or components thereof;
- acknowledges that there must be an identifiable area of activity with the capacity to control, deploy, administer or otherwise manager resources for the achievement of outcomes of interest to the community, and that this may encompass groups of legal or other entities (such as those that comprise a ministry);
- reinforces the notion that to justify the preparation of a GPFR, users of that report must exist; and

¹ Use can encompass the responsibility to oversee or administer the use of government resources for the provision goods or services or undertake activities that will otherwise affect them.

- provides authoritative bodies in different jurisdictions with guidance to identify entities which possess these characteristics in their particular environment.
- 5.23 It can also be argued that while it is appropriate that authoritative bodies in each jurisdiction should determine which governmental entities should prepare GPFRs, the IPSASB Framework should include at least a rebuttable presumption that the government itself will be a reporting entity and that preparation of a GPFR for the government as a whole will satisfy any cost benefit considerations. This is because in many jurisdictions there is not an independent regulatory body to identify which public sector entities should prepare GPFRs, to monitor that they do and apply sanctions if they do not.
- 5.24 The IASB and FASB have not yet issued a Discussion Paper or Exposure Draft identifying their views on the concept of a reporting entity. However, publicly available material indicates that the Boards have tentatively decided that the Framework for private sector entities will not specify which entities should be required to prepare GPFRs. Rather the Framework will explain that a private sector entity for the purposes of financial reporting is a circumscribed area of business activity of interest to present and potential investors and creditors² - the concept of an entity is then linked to users and the objective of financial reporting, and will provide input to assist legislators and regulators in any jurisdiction in deciding which particular entities should prepare GPFRs.
- 5.25 The potential characteristics of a public sector reporting entity considered in this Chapter have similar characteristics. For example, they are also linked to the existence of users dependent on GPFRs for information consistent with the objectives of financial reporting and are intended as input to assist and inform decision making by legislators and regulators in each jurisdiction with the responsibility for determining which entities should prepare GPFRs. However, they are also responsive to the administrative arrangements governments in different jurisdictions may put in place for revenue raising and for the provision of goods and services, and attempt to identify characteristics that may be used in determining which of those arrangements are likely to qualify as reporting entities.

Specific matters for comment

The IPSASB would welcome comments on the following:

Q5.1 Are you of the view that the IPSASB Framework should:

- (i) describe a reporting entity as a public sector entity that should prepare a GPFR in accordance with IPSASs; and

² 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.

- (ii) not define a reporting entity, but should identify the characteristics that reporting entities should possess – as input to decision making by relevant authorities in each jurisdiction?

If not, please outline the approach you believe should be adopted in the IPSASB Framework.

- Q5.2** Are you of the view that a public sector reporting entity may be a legal entity or other organization or arrangement established by government which operates to raise revenue for the government or provide goods and services consistent with government policy, when users are dependent on the GPFR of that entity?

If not, please identify the characteristics that a reporting entity should possess.

- Q5.3** Are you of the view that factors such as the following should be considered in determining whether a public sector entity should prepare a GPFR:

- (i) economic, social or political importance or influence; and
- (ii) size and financial characteristics;

If you do not agree, please outline the characteristics should be considered in determining whether a public sector entity should prepare a GPFR?

- Q5.4** Are you of the view that to justify the preparation of a GPFR, an entity must have the capacity to raise or use resources or to incur liabilities that are to be repaid by public monies?

If not please explain why.

- Q5.5** Should the IPSASB Framework identify governments, whether national, state/provincial or local/city as reporting entities, or should they only be identified as reporting entities subject to cost benefit and other considerations?

Please give your reasons.

THE BOUNDARY OF A REPORTING ENTITY, INCLUDING A GROUP REPORTING ENTITY

- 5.26** As noted above, a government may adopt different administrative and institutional structures for the raising of public monies, the management of public resources and the delivery of goods and services to its constituents and the conduct of the “business” of government. For example, all government activities may be centralized and managed through an executive or inner cabinet. Alternatively, and more commonly, a range of different legal and administrative units and statutory bodies will be established with specified responsibility, authority and autonomy.

- 5.27** In some cases a complex hierarchy of units with different interrelationships and delegated authority and responsibilities will be established - for example, the delivery of health services may be overseen by the ministry or department of health and delivered by a range of independent units responsible to that health

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- ministry. Therefore, the government, the ministry of health or an individual unit may be identified as a reporting entity.
- 5.28 The purpose of providing guidance on how to determine the boundaries of a reporting entity is to ensure that the reporting entity's GPFR:
- presents information about all of the resources, obligations and operations which that entity controls or is otherwise accountable for, and that are likely to be useful to users as input for accountability, decision making or other purposes identified as the objectives of financial reporting; and
 - does not encompass resources, obligations and operations that the entity does not control or is not otherwise accountable for.
- 5.29 A reporting entity may be an individual entity or comprise a group of related entities (group entity). Subject to decisions made about the definition of the elements of financial statements (to be considered in a subsequent CP) an individual entity will encompass resources, and claims against them, which the entity directly owns, controls, incurs or is otherwise accountable for.
- 5.30 A group reporting entity exists when a reporting entity encompasses two or more separate entities. GPFRs prepared by a group entity reflect the resources, and claims against those resources, which two or more separate entities own, control or are otherwise accountable for as if they are a single reporting entity.
- 5.31 Consistent with the purpose of financial reporting, the boundaries of a reporting entity should be determined by reference to information that is useful to users and consistent with the objectives of financial reporting.

Possible Bases for Determining the Boundaries of a Reporting Entity

- 5.32 A number of alternative bases may be adopted for determining the resources, obligations and activities that should be encompassed by the GPFRs of a reporting entity. The bases that appear to be raised most commonly in respect of public sector reporting entities by standards-setters and similar authoritative bodies or influenced commentators are:
- (a) control;
 - (b) accountability;
 - (c) the majority of risks and rewards;
 - (d) operations covered by a public budget ; and
 - (e) operations with a similar functions or purposes.
- 5.33 In some cases, the bases are not mutually exclusive – for example:

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- “control” and “operations with a similar function or purpose” or “operations covered by a public budget” may be combined such that an entity includes within its GPFR only the resources it controls and which are deployed for similar purposes, or resources it controls and which are subject to a public budget; or
- the resources, obligations and activities an entity is accountable for may encompass those it controls together with other resources for which it provides substantial funding, but does not control.

5.34 For financial reporting purposes, 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, assets owned by the entity, controlled by the entity or which confer on the entity the majority of their risks and rewards, or for which the entity is otherwise accountable. The boundary will also encompass other activities, transactions and events to be reflected in the broader GPFR, outside the financial statements.

5.35 The bases for determining the boundaries of group reporting entities for financial reporting purposes are generally expressed in terms of the relationship between entities that arise from legislation, contractual arrangement or ministerial responsibility. For group reporting entities, the relationship can be another form of the concepts used to define the elements of GPFRs. For example, in relation to individual reporting entities, the boundary of a health authority may be determined by reference to resources directly controlled by the authority or for which the authority is otherwise directly accountable. For group reporting entities, the boundary of the authority may be extended to include the resources, and claims against them, of the authority and other entities which it controls or is accountable for.

5.36 IPSAS 1 *Presentation of Financial Statements* defines assets as resources controlled by the entity and defines liabilities as present obligations of the entity (which may include legal and constructive obligations). The IASB *Framework*, IFRSs, and the conceptual frameworks and accounting standards applicable to public and private sector entities in national jurisdictions generally use control to define the boundaries of individual reporting entities – although sometimes IPSASs, IFRs, and national standards use the majority of risks and rewards to identify assets and liabilities of an entity (for example, in relation to finance leases).

5.37 There is an argument that the IPSASB should adopt and interpret for the public sector the same basis and definition as that adopted by the IASB. This would have the benefit that the international public and private sector standards-setting Boards will adopt the same basis for determining the boundary of the reporting entity. Such an argument is persuasive, particularly because the IASB Framework will apply to GBE's which may themselves be included in the whole of government reporting entity, and the definitions adopted by the IASB are very influential on

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the government statistical bases of financial reporting. However, the users and objectives of financial reporting of business entities identified by the IASB may differ from those identified by the IPSASB in respect of public sector entities and, as noted above, the boundaries of the reporting entity should be developed to respond to user needs and the objectives of financial reporting. Therefore it is appropriate that the IPSASB consider the extent to which each of the bases for determining the boundary of a public sector reporting entity identified above are consistent with the achievement of the objectives of financial reporting by such entities.

- 5.38 The definition of, and recognition criteria for, assets, liabilities, revenues, expenses, net assets/equity and other elements of financial statements and the broader GPFR will be examined in the “elements” component of the IPSASB’s conceptual framework project. Consequently, the remainder of this chapter focuses on the basis on which the boundaries of a group reporting entity should be determined.
- 5.39 It can be argued that the merits of a particular base for determining the boundary of an entity is unlikely to change dependent on whether a government adopts a single entity structure to raise revenues, manage resources and deliver goods and services, or establishes a number of separate but related legal or administrative entities for the delivery of the same goods and services or the management of the same resources. Therefore, while the definition and recognition criteria for assets, liabilities, revenues, expenses, net assets/equity or other elements will establish the boundary of the reporting entity for presentation in the financial statements, the factors to be considered in determining the boundary of the group entity are also likely to be relevant in determining the boundary of the individual entity.
- 5.40 While arguments can be made in support of each basis identified in paragraph 5.32, the IPSASB’s decision of which basis (or bases) to adopt will be made after consideration of such factors as the extent to which each basis:
- is consistent with the objective of GPFR;
 - can be operationalized at the standards level;
 - can be applied on a consistent bases across different jurisdictions; and
 - will be effective in delivering the intended outcomes.
- 5.41 In this context it is appropriate to note that it is likely that each of the bases identified, will involve definitional, application and interpretation issues which the IPSASB will need to respond to by providing guidance in IPSASs which apply and give authority to that basis. It is also appropriate to note that however defined, a full assessment of the circumstances pertaining to the relationship of one entity to another will be necessary to determine whether, for example, one entity controls or is accountable for another entity, or is likely to receive (or be

exposed to) the majority of the rewards (or risks) provided by another entity. No single circumstance is likely to demonstrate that an entity has control over another entity, or is accountable for, or will be subject to the majority of the risks and rewards imparted by another entity.

- 5.42 It is not the role of the Framework to provide detailed guidance on interpretation and implementation issues which might arise in particular circumstances, that is a matter for consideration in the development of standards or other guidance. However, a consideration of potential interpretation and other issues involved with the application of each basis will inform deliberation on which basis should be adopted. The following sections then describe each basis in broad terms, identifies and outlines potential issues in their application and interpretation and seeks input on the experience and views of readers.

(a) The Control Basis

- 5.43 IPSAS 6 *Consolidated and Separate Financial Statements* defines a group reporting entity as an economic entity and explains that an “economic entity” is “a group of entities comprising a controlling entity and one or more controlled entities” (paragraph 7).
- 5.44 The existing IASB *Framework* does not provide guidance on the basis (or bases) for determining the boundaries of group reporting entities. However, IPSAS 6 and IFRSs adopt similar principles. In their joint Conceptual Framework project, the IASB and FASB have made it clear that a control basis should be adopted to determine the composition of a group reporting entity though the definition of control is still being developed.³
- 5.45 A case can be made that determining the boundaries of a reporting entity on the basis of control is consistent with objectives of financial reporting directed at providing useful information for the discharge of accountability. This is because an entity should be held accountable for the resources it controls and the results of its deployment of those resources, but should not be held accountable for resources controlled by others because it cannot determine how those resources are to be deployed. Similarly information about the resources an entity controls and therefore can deploy for the achievement of its objectives is relevant for decision making purposes. The GPFR would then present information about the resources and obligations of the controlling and controlled entities that operate together to achieve common objectives control. However, some commentators argue that discharging accountability involves presentation of information about resources and entities in addition to those that are controlled – at least when conventional definitions of control are applied. Therefore, control presents a view of a government’s accountability that is too narrow.

³ IASB Update, May 2007, page 2. The broad control notion means 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.

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5.46 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)

5.47 This definition is the same as the definition of control in IAS 27 *Consolidated and Separate Financial Statements*.⁴ Control is also adopted as the basis for determining the boundary of the group reporting entity by a number (but not all) of other public sector standards-setters from IPSASB member jurisdictions. While the definition of control in different jurisdictions may differ in their wording, they all include the common features that control encompasses the capacity to govern or determine financing and operating policies, at least at the broad or strategic level, and provides the controlling entity with access to the benefit generated by the controlled entity. Definitions of control adopted in a number of other IPSASB member jurisdictions in respect of public sector or to not-for-profit entities are identified in Appendix B of this Chapter.

5.48 IPSAS 6 explains that the definition of control encompasses both “power” and “benefits” components, namely:

- *The power* (whether exercised or not) to govern the operating and financing policies of another entity; and
- The ability of the controlling entity *to benefit* from the activities of the other entity.

Figure 5.1 identifies the power and benefits components, and indicators thereof identified in IPSAS 6.

5.49 Of the potential bases identified in paragraph 5.32, the control basis is perhaps the most widely used by standards-setters. Certainly, it is the basis that has been most subject to consideration in the accounting literature as standards-setters and preparers struggle to craft and apply a definition of control that ensures that appropriate levels of accountability are maintained, provides useful and practical guidance for preparers and is sufficiently robust to respond to emerging issues.

⁴ Readers should note – The IASB-FASB have been discussing a revised definition of control in their Conceptual Framework project, but have not yet issued a discussion paper or exposure draft identifying their view. However, public documents available in 2007 indicated a tentative view that control should be defined as “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)”.

FIGURE – 5.1 – Guidance on Establishing Control of Another Entity from IPSAS 6 *Consolidated and Separate Financial Statements* (paragraphs 39- 41)

Determining Whether Control Exists for Financial Reporting Purposes

39. In examining the relationship between two entities, control is presumed to exist when at least one of the following power conditions and one of the following benefit conditions exists, unless there is clear evidence of control being held by another entity.

Power conditions

- (a) The entity has, directly or indirectly through controlled entities, ownership of a majority voting interest in the other entity.
- (b) The entity has the power, either granted by or exercised within existing legislation, to appoint or remove a majority of the members of the board of directors or equivalent governing body and control of the other entity is by that board or by that body.
- (c) The entity has the power to cast, or regulate the casting of, a majority of the votes that are likely to be cast at a general meeting of the other entity.
- (d) The entity has the power to cast the majority of votes at meetings of the board of directors or equivalent governing body and control of the other entity is by that board or by that body.

Benefit conditions

- (a) The entity has the power to dissolve the other entity and obtain a significant level of the residual economic benefits or bear significant obligations. For example the benefit condition may be met if an entity had responsibility for the residual liabilities of another entity.
- (b) The entity has the power to extract distributions of assets from the other entity, and/or may be liable for certain obligations of the other entity.

40. When one or more of the circumstances listed in paragraph 39 does not exist, the following factors are likely, either individually or collectively, to be indicative of the existence of control.

Power indicators

- (a) The entity has the ability to veto operating and capital budgets of the other entity.
- (b) The entity has the ability to veto, overrule, or modify governing body decisions of the other entity.
- (c) The entity has the ability to approve the hiring, reassignment and removal of key personnel of the other entity.
- (d) The mandate of the other entity is established and limited by legislation.
- (e) The entity holds a “golden share”⁵ (or equivalent) in the other entity that confers rights to govern the financial and operating policies of that other entity.

Benefit indicators

- (a) The entity holds direct or indirect title to the net assets/equity of the other entity with an ongoing right to access these.
- (b) The entity has a right to a significant level of the net assets/equity of the other entity in the event of a liquidation or in a distribution other than a liquidation.
- (c) The entity is able to direct the other entity to co-operate with it in achieving its objectives.
- (d) The entity is exposed to the residual liabilities of the other entity.

⁵ “Golden share” refers to a class of share that entitles the holder to specified powers or rights generally exceeding those normally associated with the holder’s ownership interest or representation on the governing body.

5.50 In developing, interpreting and applying definitions of control a number of common themes have emerged in different jurisdictions in response to implementation issues. Examples of these issues and the responses to them are outlined in Appendix A. However it is appropriate to note here some frequent common responses to issues that are specific to, or have been particularly problematic in, the public sector. (Readers should note that subject to the particular characteristics of the definition of control in each jurisdiction these responses may vary. In addition, their appropriateness should be assessed after consideration of all the circumstances of the relationship between the entities). Those issues and common responses (in italics) include whether:

- the power of the government to change legislation to regulate public and business behaviour provides it with the capacity to control a wide range of entities which, realistically, should not be included within the government reporting entity - *an assessment of control should be based on current legislation and the capacity to legislate nationalisation of certain private sector entities or expropriation of certain assets does not normally amount to control. In many countries, the capacity of a government to change legislation is subject to various processes and checks and balances and a government's capacity to change legislation may not be assured and should be disregarded for financial reporting purposes. In other countries, the government's ability to change legislation might be essentially unrestricted, however for financial reporting purposes control is based on current legislation, rather than legislation which may, or may not, be introduced in the future;*
- “golden shares” held by a government in a public corporation and which, for example, provide the government with the capacity to outvote all other shares in certain specified circumstances or a right of veto in a general meeting will give rise to control - *whether a golden share conveys control over the investee will depend on the powers it provides to the holder and will be assessed by reference to all relevant circumstances;*
- public sector oversight bodies such as courts and supreme audit institutions (or their equivalent) are controlled. Such entities are frequently established with statutory or constitutional authority to be professionally independent and with autonomy to establish their operating processes and policies, but are fully or substantially funded by public monies and subject to budget oversight and control by the Treasury or other government department - *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. Therefore notwithstanding the operational independence of such bodies, they would satisfy the definition of control because the legislative framework within which they operate is established in a manner consistent with the objectives set by government and the government retains the right to amend those*

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policies and to their residual assets if they were discontinued.⁶ It appears to be widely accepted that such entities should be included within the governmental reporting entity and the GPFR should reflect that the government is accountable for the financial aspects of their performance; and

- special purpose entities (SPEs), including those created as part of public private sector arrangements (PPPs) are controlled by the government or a government entity – *control of an entity may exist when the capacity of management of that entity to direct financing and operating policies is severely restricted by government legislation or contractual agreement with the government, such that management of the entity has little or no capacity to make decisions in its own right, and those restrictions cannot be removed without the consent of the government or government entity. Application of this principle may assist in determining whether certain SPE's are controlled, but is unlikely to resolve all circumstances particularly where a public sector entity and private sector entity "share" authority over the SPE.*

5.51 It has also been noted that in some jurisdictions, definitions of control such as that reflected in IPSAS 6 are not effective in establishing the boundaries of a group reporting entity, because a controlling entity cannot be identified. This may arise in respect of, for example, the group of entities which have been established to deliver health or welfare services and which are controlled by a government minister or executive officer, when the minister or executive officer is not a reporting entity⁷. In these cases there is no "controlling entity". To justify the preparation of a GPFR the boundaries of a group reporting entity may need to be determined by reference to entities subject to "common control". Without the notion of "common control", a mechanism to combine the resources of the separate but related entities is not available, notwithstanding that for accountability and decision making purposes, users need an overview of the resources subject to control by the minister.

5.52 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.

⁶ Concern that such entities would "fail" any test of control that involves the capacity of the government or another entity to direct their financing and operating policies has prompted suggestions that definitions of control should require the controlling entity to possess the capacity to direct the strategic financing and operating policies of another entity or to specify that the government reporting entity includes those entities which provide core government services which, without the existence of the particular entity, would have to be provided by another government entity. It may also be argued that in these circumstances a broad notion of accountability should be invoked to ensure the GPFR is not incomplete and encompasses all entities the government should be accountable for.

⁷ For example, because the minister or executive officer does not control resources separately from the resources held by his or her controlled entities and would not qualify as a reporting entity - that is, there is no controlling entity to include in the group.

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Issues that would need to be dealt with include whether the group reporting entity should encompass all entities under common control or can encompass a subset of them – perhaps based on entities committed to support delivery of particular group of services, such as a ministry of health or welfare authority. As noted previously this would be determined by reference to assessments of whether, in any jurisdiction, there were users dependent on the GPFR.

(b) Accountability

- 5.53 As noted in Chapter 3, it is widely accepted, at least amongst standards-setters, that the obligation of governments and other public sector entities to be accountable to the public for their collection and use of taxes, rates and similar charges and other sources of finance, and their management of public resources is fundamental in public sector financial reporting. It is appealing then to establish the boundaries of the reporting entity by reference to notions of accountability, particularly if accountability is identified as an objective of financial reporting by public sector entities.
- 5.54 For financial reporting purposes, the boundaries of a reporting entity identified by reference to notions of control and accountability are likely to have similar characteristics – it is reasonable to expect that a government or government entity should be accountable for the resources, activities and entities it controls and, as appropriate, that the financial characteristics of those resources, activities and entities will be presented in GPFRs.
- 5.55 However, it can be argued that that for financial reporting purposes, establishing the boundaries of the reporting entity on the basis of only control as conventionally defined is not sufficient to acknowledge the full breadth of a government or other public sector entity's obligation to be financially accountable to constituents for the resources it raises and/or uses in the provision of goods and services. Therefore, there is a case that the boundary of the reporting entity should be expanded to encompass certain non-control relationships that a government or other public sector entity is accountable for, and to reflect the financial characteristics of those relationships in the GPFR. These relationships may arise because, for example, of the public resources provided by a public sector entity to another non-controlled entity, the potential of an entity created by the government, but is not controlled by it, to expose the government to financial risks or to provide it with financial benefits or, arguably, the political sensitivity of the financial relationship that exists between a public sector entity and some entities that it funds with public resources.
- 5.56 While the definition and explanation of the accountability basis and its consequences for determining the boundaries of a public sector entity may be expressed in different ways in different jurisdictions, its intent is consistent and clear – to encompass within the public sector reporting entity all activities and organizations for which it should be accountable and thereby to ensure that the GPFR is complete. In broad terms this will embrace the entities for which the

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government or other public sector can direct decision making⁸ – that is, entities which it controls. However, accountability definitions can also include within the boundary of the public sector reporting entity, activities, organizations and other entities which are not controlled but may provide specific benefits (usually financial in nature) to, or impose specific financial burdens on, the public sector entity and/or which are fiscally dependent on the public sector entity. (Definitions of the reporting entity when the accountability approach is adopted are identified at Appendix C of this Chapter.)

- 5.57 Those that support adoption of the accountability basis for defining the boundary of the reporting entity note that it would allow elected officials to be accountable to citizens for their public policy decisions, regardless of whether those decisions are carried out by operations of the government or entities the government controls. This may well overcome certain of the application difficulties which can arise in applying the control concept in the public sector, particularly in respect of SPEs, and would ensure that GPFRs do present sufficient information about other non controlled entities which are funded by public monies.
- 5.58 Other commentators note 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 in different jurisdictions, 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 entity⁹. This is likely to present standards-setters, particularly at the international level, with significant issues in establishing clear definitions that will be applicable on a consistent basis across a range of jurisdictions with different accountability relationships and linkages. Therefore, application of a notion of accountability is also likely to encompass implementation and application issues and require interpretation and judgement - judgement that will need to be applied at the national level by a relevant authoritative body with knowledge of accountability relationships in that jurisdiction.
- 5.59 Some commentators also express concern that under accountability approaches fiscal dependency may be identified as a basis for inclusion in a group reporting entity because, for example:

⁸ See for example USA GASB Statement No. 14, “The financial Reporting Entity” which explains this may occur if a government appoints the number of members of the governing body necessary to approve financial decisions (e.g., a simple majority) of another entity and is able to impose its will on that organization. This may encompass circumstances in which the government can abolish the entity or can significantly influence the programs, projects, activities, or level of services performed or provided by the organization.

⁹ See for example Dr Ian Ball, *Definition of the Reporting Entity*, Accounting Theory Monograph No. 8, Australian Accounting Research Foundation, 1988, page 7. “In the public sector, accountability bonds and accountability links are both more numerous and complex (than in the private sector). Accordingly, the issue of which entities should report is even more problematic...”

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- some private sector charities are heavily dependent on government funding to pursue their mission but act independently of those governments. It is therefore not appropriate that they be included in the governmental reporting entity, and
- some intermediate governmental entities (for example, state/provincial government entities, such as educational institutions) are fiscally dependent on funding from a senior level of government (for example, a federal government) to pursue their mission. However, the majority of members of those entities and/or their financial and operating policies are directed by the intermediate government (for example, the state/provincial government appoints the school board and its operating and financial policies. They express concern that in these cases it may be that the assets and liabilities of institutions would be included in financial statements of both the federal and state/provincial governments, noting that it is not appropriate that both levels of government be held accountable for the same activities.

(c) Majority of risks and rewards

- 5.60 A majority of risks and rewards approach to determining which resources and entities are encompassed within the reporting entity involves identifying those activities, items and entities that give rise to risks and rewards to the entity and reporting in the GPFR the financial consequences of those that deliver the majority of their rewards to the entity and expose the entity to the majority of their risks. This approach is adopted in respect of certain assets and liabilities in existing IPSASs, for example, it is consistent with the classification of finance leases under IPSAS 13 *Leases* (based on substantially all the risks and rewards incidental to ownership) and the criteria in IPSAS 9 *Revenue for Exchange Transactions* for recognising sales of goods by the entity (which include the transfer of the significant risks and rewards of ownership of the goods).
- 5.61 Using a majority risks and rewards approach as the basis for determining the boundaries of a group reporting entity has similarities with, but is conceptually distinct from, using a control approach. This is because a majority risks and rewards approach does not include a “power” element – that is, the boundaries of the group reporting entity may include entities over which there is no power to direct financing and operating policies. In addition, while control includes a “benefit” (or rewards) element, it does not require that the controlling entity have access to the majority of the benefits (rewards) of the controlled entity.
- 5.62 Some commentators note that in some circumstances (such as for special purpose entities), the existence of the majority of risks and rewards can be identified more readily than the existence of control, and its use will better enable the government to discharge its obligation to be accountable. Some commentators also acknowledge the potential of a majority risks and rewards approach to complement the concept of control in determining whether special purpose entities (SPEs) are controlled by an entity. The International Financial Reporting

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Interpretations Committee (IFRIC) of the IASB has adopted such an approach in Interpretation IFRIC 12 *Service Concession Arrangements*, in identifying circumstances that could indicate that an SPE is controlled.

- 5.63 There is also a case that a majority of risks and rewards approach may extend the boundaries of a reporting entity to include the effects of some or all economic dependency relationships. This would extend notions of control to better align with notions of accountability as discussed above.
- 5.64 However, it is also appropriate to note that determining the boundary of a reporting entity by reference to the majority of risks and rewards may involve considerable judgement – therefore it can be arbitrary and give rise to its own application issue. In a commercial arrangement, including with a government, an array of different risks and rewards can be shared between contracting parties, which may make the overall assessments difficult. In the public sector, additional complexity and subjectivity may be introduced because not only is it necessary to determine when the “majority” threshold is reached, but also to identify the nature of the risks and rewards that the public sector entity may be exposed to or benefit from. In the private sector, such risks and rewards may well be explained in terms of financial exposure and financial returns. However, for public sector entities, they are likely to also encompass political and social risks and non-financial service delivery benefits. These risks and benefits will have to be identified, assessed, quantified and aggregated to determine whether the majority of risks and rewards flow to the government or government entity.
- 5.65 It may also be argued that using majority risks and rewards to determine the boundaries of a group reporting entity in the public sector may have little meaning because governments, through their coercive powers, can obtain rewards without exposure to corresponding risks and because their service delivery objectives may be subject to risks without quantifiable benefits in return. In such circumstances, it may well be that a majority risks and rewards approach should be considered as an additional useful methodology to be applied in assessing whether one entity controls another entity, or one entity should be accountable for another entity.

(d) Operations covered by a public budget

- 5.66 It may be argued that the boundaries of a public sector reporting entity, whether a government or individual entity, should align with the operations covered by the budget which was prepared and made public to justify the use of resources raised from the public – that is, the boundary of the reporting entity would be the same as the public budget. This reporting entity would then exist separately from any operations of the organization (such as those funded from the sales of goods or services) that are not encompassed by the entity’s budget. For example, the GPFR of a local government (funded from rates and taxes included in its general budget) that controls a business entity that operates outside its budget, would not include the business entity in its GPFR. However if that budget reflected the investment in

Chapter 5: Reporting Entity

and returns from the business entity, the investment and returns thereon would also be reflected in the entity's GPFR.

- 5.67 At the whole of the government level, the reporting entity reflected under this approach may be termed the general government sector. It is often the focus of economic analysis concerned with assessing the impact of core government activities on the economy as a whole. IPSAS 22 *Disclosure of Information about the General government Sector* requires note disclosure of certain information about the general government sector to be made as a separate component of the GPFR.
- 5.68 Adopting this approach to determining the boundary of the reporting entity for financial reporting purposes would be consistent with a view that a government or government entity's accountability for operations covered by its "public" budget is greater than for its other business or commercial operations because:
- the operations covered by a public budget are the primary reasons for the entity's existence;
 - resources are provided (often involuntarily) to the entity on the basis of representations made in its public budget, unlike other resources provided to the entity (which may often provided in exchange transactions where the resource provider receives approximately equal value directly in exchange); and
 - the entity is accountable for its performance in achieving the financial and other outcomes reflected in that budget.
- 5.69 However, determining the boundaries of a government reporting entity on the basis of its public budget may not encompass all resources controlled by the entity, and this is not consistent with the obligation of a public sector entity to be accountable for all its resources and claims against them. Therefore, this approach can result in omitting from the GPFR of the entity a significant proportion of the resources deployed to achieve the entity's objectives and related obligations. This would impede effective oversight of the entity, and resource allocation decisions about the entity.
- 5.70 In this context, it is also appropriate to note that it is possible to discharge accountability for operations covered by a public budget without treating those operations as a separate reporting entity. For example, by presenting budget and actual amounts for a period by note or otherwise within a financial report for all of an organization's activities such as is currently required by IPSAS 23 *Disclosure of Budget Information*.

(e) Operations with similar functions or purposes

5.71 Some may see merit in identifying the boundary of a reporting entity to only include resources deployed for operations with similar functions or operations undertaken for similar purposes. This would enable comparisons of the financial position and performance of entities engaged in similar activities to be made. Possible examples of such a reporting entity are:

- operations or component entities that collectively provide a particular service (for example, health care services); or
- the general government sector of a government (for example, the sector of a government that excludes the “public non-financial corporations” and “public financial corporations” sectors).

5.72 Basing the boundaries of public sector reporting entities on similar functions or purposes can also avoid some of the difficulties of identifying controlling entities when reporting at the sub-group level of government. For example, the identity of the immediate controlling entity for legally separate postal and telecommunications authorities might be unclear. However if it was determined that there were valid users dependant on a GPFR presenting financial information about the resources devoted to the broad “communications” activities of government, consolidated or combined financial reports could be prepared for both authorities on the basis of their having similar functions.

5.73 However, it can also be argued that, if the objective of preparing GPFRs is to reflect the individual or group entity as a single reporting entity for accountability, decision making or other purposes, whether components of that entity are involved in similar or dissimilar activities is not relevant. In addition, depending on how widely “similar activities” is defined, adoption of this approach could result in omitting a significant proportion of the resources deployed and obligations incurred to achieve the entity’s objectives - such omission is likely to impede effective oversight of the entity and resource allocation decisions about the entity.

5.74 Those who express concern about drawing the boundaries of a reporting entity for financial reporting purposes to encompass only similar activities also note that information about the full range of activities undertaken by an entity, including any “dissimilar” activities, can be presented in GPFRs by providing disaggregated information about the various lines of activity, including segmental disclosures.

5.75 In assessing the merits of adopting a “similar function or purpose” bases, it should be noted that this basis does not exist in isolation from the control, accountability or majority risks and rewards bases discussed above. It is a sub group of those bases. It reflects the financial characteristics of, for example, entities the government controls or is otherwise accountable for and which perform similar functions or operate for similar purposes. It is then subject to the same

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definitional, interpretation and application problems of these bases and is likely to deliver a narrower accountability.

Specific matters for comment

The IPSASB would welcome comments on the following questions:

- Q5.6 Which basis (or bases) for determining the boundary of an individual entity and a group entity is adopted in your jurisdiction? Please identify how that basis (or bases) is defined, any implementation issues with its application, and your views on its effectiveness.
- Q5.7 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 or should that be treated as a standards level issue related to, for example, how the elements of financial statements are defined and which entities should be included in consolidated financial statements? Please give your reasons.
- Q5.8 If you answered yes to question 5.7, which, if any, of the following bases should be used to determine the boundaries of a reporting entity – please explain your reasons:
- (i) control and/or, for group reporting entities, common control?
 - (ii) accountability?
 - (iii) operations covered by a public budget?
 - (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 other bases should be adopted, please identify those bases.

Appendix A

Guidance on “control” and related application issues

In developing, interpreting and applying definitions of control a number of common themes emerge in different jurisdictions in response to implementation issues. – for example:

- control arises when a government or governmental entity has the power to direct the financing and operating policies of another entity and such power usually emanates from legislation, articles of association and/or by-laws and is reflected 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);
- control is likely to exist when one entity can set the budget of another entity or has the ability to veto or substantially modify the operating and capital budgets of another entity;
- 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, governing an entity’s financial and operating policies does not require daily involvement in managing the entity’s operations;
- control will exist when an entity has the capacity to control another entity even if chooses not to exercise that power during the reporting period (or prior periods) – that is, it chooses not to intervene in the decision making of the controlled entity.
- a government’s legislative powers to establish the regulatory framework within which entities operate in both the public and private sectors does not constitute control for financial reporting purposes;
- economic dependency does not constitute control where the entity is retains discretion as to whether it will take funding from, or do business with, the entity. In this case, the entity has the ultimate power to govern its own financing or operating policies, and accordingly is not controlled by the public sector entity. Therefore, for example, a charity which receives most of its funding from the government and may need to adopt certain agreed financing and operating policies to access that funding, is not necessarily controlled by the government. If the charity retains the discretion to determine 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;

Chapter 5: Reporting Entity

- the benefits flowing from a controlled entity (the benefit element of control) that a controlling entity is able to access may be in the form of financial or non-financial benefits – for example, they may be in the form of delivery of goods or services to the controlling entity or to the public on behalf of the controlling entity; dividends, interest, fees, royalties from a controlled GBE; access to research and development or synergies arising from the relationship with an independent research institute controlled by the government; and
- acting as an administrator or trustee of another entity, without the capacity to direct how that entity uses its funds or benefit from that use is unlikely to constitute control for financial reporting purposes. However, this needs to be assessed in the context of the objectives of the public sector entity and the controlled entity. For example where a public sector entity acts as a trustee of charitable funds, the charitable funds may form part of the public sector reporting entity, if the entity can deploy those charitable funds to achieve its own objectives.

(Staff Note: Members are requested to identify any additional circumstances they wish to see addressed here).

Appendix B

Definitions of ‘Control’ in IPSASB Member Jurisdictions

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 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.
New Zealand standard FRS-37, <i>Consolidated Investments in Subsidiaries</i> (paragraph 4.13) Now superseded by the IFRA converged financial reporting standard	<p>“Control” by one entity over another entity exists in circumstances where the following parts (a) and (b) are both satisfied:</p> <p>(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:</p> <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. <p>(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>
Task Force on Harmonization of Public Sector Accounting (TFRHPSA) – Final Report. The full text of these indicators is included in the web based reference document (Staff note - In Chapter 6 Bibliography)	<p>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:</p> <ul style="list-style-type: none"> • The appointment of officers. • Other provisions of enabling instrument. • Contractual agreements. • Degree of financing. An NPI that is mainly

	<p>financed by government may be controlled by that government.</p> <ul style="list-style-type: none">• Risk exposure. <p>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.</p>
<p><i>To be updated</i></p> <p><i>Staff Note: Members are requested to advise on any additions from their jurisdictions.</i></p>	

Appendix C

Definitions of the reporting entity under the accountability approach
IPSASB Member Jurisdictions

<p>USA Government Accounting Standards Board (GASB) Statement 14 Definition of the Reporting Entity</p>	<p>The financial reporting entity consists of: “(a) the primary government; (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).</p> <p>A primary government includes all funds, organizations, institutions, agencies, departments and offices that are not legally separate (paragraph 14).</p> <p>Additional guidance on identifying components of the reporting entity is provided in GASB Statement 39 <i>Determining Whether Certain Organizations Are Component Units—an amendment of GASB Statement 14</i> (May 2002).</p>
<p><i>To Be Updated</i></p> <p><i>Staff Note: Members are requested to advise on any additions from their jurisdictions.</i></p>	

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INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS BOARD

PUBLIC SECTOR CONCEPTUAL FRAMEWORK: CONSULTATION PAPER NO 1: SCOPE, OBJECTIVES, QUALITATIVE CHARACTERISTICS AND REPORTING ENTITY

- A. SELECT BIBLIOGRAPHY**
- B. PERSPECTIVES ON USERS AND THEIR INFORMATION NEEDS**
- C. INDICATORS OF CONTROL OF ANOTHER ENTITY - TFHPSA**

1. Selected Bibliography

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Argentina, Profession Guidance: *Accounting Conceptual Framework for the Public Administration Plan-* Argentine Federation of Professional Councils of Economic Sciences (FACPCE)

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USERS, USERS INFORMATION NEEDS AND OBJECTIVES OF GPFRs

Extract from publication of Standards Setters and similar authoritative bodies in IPSASB member jurisdictions.

USERS OF PUBLIC SECTOR FINANCIAL STATEMENTS AND FINANCIAL REPORTS (in Chronological Order)

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.
1987	USA: 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>
1991	IFAC Public Sector Committee (PSC) Financial Reporting by National Government	<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.

Date	Publication	Identified Users
		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.
1993	USA: Federal Accounting Standards Advisory Board (FASAB) – Statement of Federal Financial Accounting Concepts (SFFAC) No.1 <i>Objectives of Federal Financial Reporting</i>	SFFAC1 identifies 4 major user groups of federal government financial information: <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.
1995	UK: Resource Accounting and Budgeting (RAB) White Paper <i>Better Accounting for the Taxpayer's Money</i>	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: <ol style="list-style-type: none"> 1. Parliament 2. The public; 3. Government – for the planning, monitoring and management of public expenditure.
1996	Australia: Australian Accounting Standard (AAS) 31 <i>Financial Reporting by Governments</i>	AAS31 identifies the following user groups (as examples): <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.
1996	Australia: AAS29 <i>Financial Reporting by Government Departments</i>	AAS29 notes that Parliament is likely to be the primary user of general purpose financial reports by government departments, also other potential users include: <ol style="list-style-type: none"> 1. Those who provide the resources that departments control (eg taxpayers and creditors); 2. Those who receive goods or services or otherwise benefit from the activities of departments (eg consumers); and 3. Those who perform oversight or review services on behalf of members of the community (eg regulators, community groups and the media).

Date	Publication	Identified Users
1997 Superseded in 2005 by PS 1000 – see below	Canada: Public Sector Accounting Recommendation PS1400 <i>Objectives of Financial Statements – Federal, Provincial and Territorial Governments</i>	PS1400 identifies the following users: <ol style="list-style-type: none"> 1. The public – PS1400 states that the public is “comprised of groups with a variety of interests and views”; 2. Legislators – elected representatives of the public; 3. Investors – ie those investing in government securities and enterprises; and Economic and financial analysts – who serve legislators, investors and other interested parties.
1998	UK: HM Treasury scoping study <i>Whole of Government Accounts</i>	The WGA report identifies the following potential users: <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.
1998	UK: HM Treasury paper <i>Central Government: Financial Accounting and Reporting Framework</i>	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: <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 bodies to Ministers; 3. Auditors – to meet the objective of auditability ie enabling an independent third party to develop an informed opinion as to the accuracy of the accounting information and to ensure that adequate supporting records are maintained.
2000	IPSASB <i>Preface to International Public Sector Accounting Standards</i>	Financial statements issued for users that are unable to demand financial information to meet their specific information needs. Examples of such users are citizens, voters, their representatives and other members of the public. (paragraph 15)

Date	Publication	Identified Users
2004	France: Ministry of Finance <i>Central government accounting standards - Conceptual framework for central government accounting.</i>	This information is intended primarily for citizens and their representatives. Accounting information must naturally meet the needs of those responsible for conducting and managing the central government's tasks and activities. The information is also intended for international public institutions, capital markets and investors in debt securities. The variety of people using the information requires it to be wide-ranging and comprehensive, encompassing all elements that have an impact on the financial situation.
2005	Canada: Public Sector Accounting Recommendation PS1000	Legislators are the primary user group. Other users are investors in government securities and a broad class of general users with varied interests
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)

USERS INFORMATION NEEDS AND OBJECTIVES OF GPFRs (in Chronological Order)

Date	Publication	User Needs and/or Objectives of GPFRs
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	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 inflationary consequences. The study also notes (p.22) “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”.
1981	Drebin <i>et al</i> – <i>Objectives of Accounting and Financial Reporting for Governmental Units</i> , as reported in Jones and Pendlebury (1996, pps.118-121)	Objectives for supporting the overall goals of financial reporting and meeting users’ needs: <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.

Date	Publication	User Needs and/or Objectives of GPFRs
1986	North America: Joint Canadian/US <i>Federal Government Reporting Study (FGRS)</i>	<p>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.
1986	UK: National Audit Office – Report by the Comptroller and Auditor General <i>Financial Reporting to Parliament</i>	<p>This report focuses on the needs of one category of user, Parliament, and summarizes 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, programs 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	USA: Governmental Accounting Standards Board (GASB) Concepts Statement No.1 <i>Objectives of Financial Reporting (CS1)</i>	<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

Date	Publication	User Needs and/or Objectives of GPFRs
		<p>adopted budget, and demonstrating compliance with other finance-related legal or contractual requirements</p> <ol style="list-style-type: none"> 3. Providing information to assist users in assessing the service efforts, costs, and accomplishments of the governmental entity <p>b. Financial reporting should assist users in evaluating the operating results of the governmental entity for the year by:</p> <ol style="list-style-type: none"> 1. Providing information about sources and uses of financial resources 2. Providing information about how it financed its activities and met its cash requirements 3. Providing information necessary to determine whether its financial position improved or deteriorated as a result of the year's operations <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.
1987	UK: Committee of Public Accounts <i>Financial Reporting to Parliament</i> (8 th Report, Session 1986-87)	<p>The Committee report repeats the objectives set out in the 1986 NAO report and sets out what it sees as Parliament's information needs (pp.viii-ix):</p> <ol style="list-style-type: none"> 1. The provision of information on the aims and objectives of expenditure; 2. Indicators of output, performance and level of service; 3. Volume information – in particular clearer information on the assumptions made about incremental changes in the volume of inputs devoted to programmes and in the efficiency with which departments expect to manage their resources; 4. Use and holding of assets; 5. “Understandable and digestible” presentation of information in the Estimates and Accounts
1988	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> <ol style="list-style-type: none"> a. Accountability – the duty of those responsible for the development and implementation of policy and/or managing affairs and resources to demonstrate not only propriety but also how economic, efficient and effective their policies and/or management have been over a period of time; b. Propriety and regularity – with – <ol style="list-style-type: none"> i. Propriety being the requirement that public funds should be applied strictly to the extent and for the purposes authorised by Parliament and be financed by methods of raising revenue approved by Parliament; and ii. Regularity – the requirement for all items of expenditure and receipts to be dealt with in accordance with all the rules, regulations and delegations laid down by the appointed authority for any particular

Date	Publication	User Needs and/or Objectives of GPFRs
		<p>type of transaction; and</p> <p>c. Auditability – the requirement for sufficient evidence to establish that a transaction or item reported has been properly and accurately dealt with and reported.</p>
1991	IFAC Public Sector Committee (PSC) Financial Reporting by National Government	<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) - Statement of Federal Financial Accounting Concepts (SFFAC) No.1 <i>Objectives of Federal Financial Reporting</i>	<p>SFFAC identifies 4 broad categories of user needs which comprise the objectives of federal financial reporting:</p> <ol style="list-style-type: none"> 1. Budgetary integrity – which arises from “from the responsibility of representative governments to be accountable for the monies that are raised and spent and for compliance with law” (paragraph 113). This enables users to determine – <ul style="list-style-type: none"> - how budgetary resources have been obtained and used and whether their acquisition and use were in accordance with the legal authorization; - the status of budgetary resources; - how information on the use of budgetary resources relates to information on the costs of program operations and whether information on the status of budgetary resources is consistent with other accounting information on assets and liabilities; 2. Operating performance – which arises from a government’s duty “to be accountable to its citizens for managing resources and providing services economically and efficiently and for effectiveness in attaining planned goals” (paragraph 123). This enables users to determine – <ul style="list-style-type: none"> - the costs of providing specific programs and activities and the composition of, and changes in, these costs;

Date	Publication	User Needs and/or Objectives of GPFRs
		<ul style="list-style-type: none"> - 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>
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> <ol style="list-style-type: none"> 1. Compliance and stewardship: <ol style="list-style-type: none"> a. To provide authorities and users with the assurance that there has been conformity with legal and other mandatory requirements in the organization's use of resources. 2. Accountability and retrospective reporting: <ol style="list-style-type: none"> a. To monitor performance and evaluate management, providing a basis for looking at trends over time, achievement against published objectives and comparison with other similar organizations (if any); b. To enable outsiders to have cost information on goods or services provided and to enable them to assess efficiency and effectiveness in the use of resources made available to the organization. 3. Planning and authorization information: <ol style="list-style-type: none"> a. To provide the basis for planning future policy and activities; b. To provide supporting information for further funds to be authorized. 4. Viability: <ol style="list-style-type: none"> a. To help readers judge whether the organization can continue to provide goods and services in the future. 5. Public relations: <ol style="list-style-type: none"> a. To give the organization the opportunity to put forward a statement of its achievements to influential users, employees and the public. 6. Source of facts and figures: <ol style="list-style-type: none"> a. To provide information for the wide variety of interest groups who want to find out about the organization.

Date	Publication	User Needs and/or Objectives of GPFRs
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”.
1998	Australia: Australian Accounting Standard (AAS) 31 <i>Financial Reporting by Governments</i>	AAS31 refers to two broad objectives (paragraph 3.2): <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>	The scoping study does not fully articulate objectives and user needs, but does highlight some potential benefits from the production of WGA: <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); 3. To help effective scrutiny of fiscal policy by Parliament, taxpayers and other potential users.
1998	Australia, Australian Accounting Standard (AAS)29 <i>Financial Reporting by Government Departments</i>	AAS29 (para.3.1.1), 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>	<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 (Department)</i>	The conceptual framework 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. It provides a conceptual benchmark for rule-makers to ensure the consistency of various rules and standards. 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.

Date	Publication	User Needs and/or Objectives of GPFRs
		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.
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.

Date	Publication	User Needs and/or Objectives of GPFRs
2005	Canada: Section PS1400 of the Canadian Institute of Chartered Accountants (CICA) <i>Public Sector Accounting Recommendations</i> Federal, provincial and territorial	<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 maximizes its usefulness ie as minimum, information that is clearly presented, understandable, timely and consistent. 2. Financial statements should provide an accounting of the full nature and extent of the financial affairs and resources for which the government is responsible including those related to the activities or government agencies and enterprises. 3. Financial statements should demonstrate the accountability of a government for the financial affairs and resources entrusted to it. <ol style="list-style-type: none"> a. Financial statements should provide information useful in evaluating the government's performance in the management of financial affairs and resources. b. Financial statements should provide information useful in assessing whether financial resources were administered by the government in accordance with the limits applied by the appropriate legislative authorities. 4. Financial statements should account for the sources, allocation and use of the government's resources in the accounting period and show how government financed its activities and how it met its cash requirements. 5. Financial statements should present information to display the state of the government's finances. <ol style="list-style-type: none"> a. Financial statements should present information to describe the government's financial condition at the end of 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.

Task Force on Harmonization of Public Sector Accounting (TFHPSA)²

Indicators of Control of a Non-Profit Institution or Corporation Proposed by 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 institutions³

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.

² 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.

³ “Criteria developed for non-profit institutions (NPIs) apply also to other kinds of non-profit units like extra-budgetary agencies.”

- 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 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 TFHPSA⁴ 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)

⁴ 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**

OBJECTIVES OF THIS SESSION

1. To:
 - (a) Agree on the proposed definition of an element and their basic characteristics;
 - (b) Discuss whether equity/net assets is an element;
 - (c) Decide if there is a need to distinguish revenues from gains and expenses from losses.
2. To provide input into the revised Workplan of Group 2.

ACTION REQUIRED

- Consider the proposals offered on the elements and their characteristics.
- Provide input on whether equity/net assets is an element.
- Assess whether there is a need to separately defined revenues from gains etc.
- Agree on the revised workplan.

BACKGROUND

Group 2 acknowledges that the project is broader than just defining the elements of and recognition criteria for financial statements. This paper is focused solely on some of the fundamental questions that need to be answered for financial statements.

Group 2 believes that a definition of an element is needed, that characteristics of elements form a useful foundation for identifying the actual elements themselves, and that assets, liabilities, revenue and expenses are elements that need to be defined. Some direction is needed from IPSASB as to whether equity/net assets needs to be defined as an element or if further research is needed, and if IPSASB agrees that there is no need to distinguish between revenues and gains or expenses or losses for the purposes of defining the elements of financial statements.

At this point in the research, Group 2 is also of the view that other elements identified by various standard setters such as contributions from owners, distribution to owners, comprehensive income are matters of presentation and display. Further research is needed on understanding whether capital maintenance adjustments are elements. This is dependent upon the measurement of the attributes of certain items in the financial statements.

DEFINING ELEMENTS AND THEIR BASIC CHARACTERISTICS

International Public Sector Accounting Standard (IPSAS) 1 – PRESENTATION OF FINANCIAL STATEMENTS, was drawn primarily from International Accounting Standard (IAS) 1 – PRESENTATION OF FINANCIAL STATEMENTS, and issued in December 2006. However, there are some fundamental differences that exist.

IAS 1 paragraph 47 defines the elements of financial statements to be:

Financial statements portray the effects of transactions and other events by grouping them *into broad classes* according to their *economic characteristics* [emphasis added]. These broad classes are termed the elements of financial statements. The elements directly related to measurement of financial position (stocks) in the balance sheet:

- (a) Assets
- (b) Liabilities
- (c) Equity

The elements directly related to the measurement of financial performance (flows) in the income statement:

- (a) Income (including revenues and gains)
- (b) Expenses (including losses)

The statement of changes in financial position usually reflects income statement element and changes in balance sheet elements; accordingly, this *Framework* identifies *no elements that are unique to this statement* [emphasis added].

This paragraph contains a number of basic assumptions that need to be considered by the IPSASB. For example, IAS offers explicit guidance on:

- what are elements (a broad category of items),
- what is to be measured (economic things), and
- what types of elements are needed, (assets, liabilities etc.).

The following table is summary of research findings related to the various elements identified and defined by jurisdiction. What it shows is that beyond assets and liabilities there is no consensus on the other elements (the standard setters specific to the public sector are set in bold type).

Beyond defining what element is, the element definition issues that arise are:

1. Deferred inflows and outflows elements;
2. Equity/net assets elements; and
3. Revenue/gains and expense/losses separate elements?

Element (those in bold-faced type are the differences)	IPSASB	IASB	CanPS	Can	USFAS	USGAS	USFASB	UKA	AusASB	NZASB	GerASB	JpnASB	AfcASB
Assets	X	X	X	X	X	X	X	X	X	X	X	X	X
Deferred Outflow						X							
Liabilities	X	X	X	X	X	X	X	X	X	X	X	X	X
Deferred Inflow						X							
Equity/ Net Assets	X	X		X	X	X	X	X	X	X	X	X	X
Contributions from Owners							X	X		X			
Distributions to Owners							X	X		X			
Capital Maint. Adj.		X							X	X			
Revenues	X	X	X	X	X	X	X		X	X	X	X	X
Gains							X	X					
Expenses	X	X	X	X	X	X	X		X	X	X	X	X
Losses							X	X					
Surplus/deficit												X	
Comprehensive Income							X					X	
Notes													

*defined terms but not identified as elements.

What are elements?

- Webster's New Ninth Collegiate Dictionary lists several definitions of the term element, the relevant ones are:
 - 2** a constituent part;
 - 2 a** the simplest principles of a subject of study;
 - 2 b** (1) a part of a geometric magnitude (2) a generator of a geometric figure (3) a basic member of a mathematical or logical class or set (4) one of the individual entries in a mathematical matrix or determinant; and
 - 2 d** (1) one of the necessary data or values on which calculations or conclusions are based (2) one of the factors for determining the outcome of a process.
- The notions of what an element is, as defined above, seem to reflect the use of the term by those standard setters that have defined the term element. For example, when one considers what the purpose of a financial statement element, it is generally used to reflect a constituent part, *a logical class or set or one of the values upon which calculations are based*.
- Standards setters typically define *elements of financial statements* as:
 - IASB's *Framework*: Financial statements portray the effects of transactions and other events by grouping them into *broad classes*...

- United Kingdom's ASB *Statement of Principles*: Elements of financial statements are *building blocks* with which financial statements are constructed – the classes of items that financial statements comprise.
 - PSAB's *Financial Statements Concepts*: Elements of financial statements are the *basic categories* of items portrayed therein in order to meet the objectives of financial statements.
 - GASB *Concepts Statement 4*: Elements are the *broad fundamental components* of financial statements.
 - Africa's *Framework for the Preparation and Presentation of Financial Statements*: Financial statements portray the effects of transactions and other events by grouping them into *broad classes*...
4. These standard setters have adopted similar notions of an element (broad class, building block, basic category and broad fundamental component). As a first step, an element is something that represents a basic part or category of a group of things upon which calculations are based or conclusions are reached.
 5. Elements of financial statements are designed to provide useful categories of information for understanding the various aspects of an organization. Elements are important because they are the beginnings of grouping similar items together for the purposes of forming the basic measurements contained in the financial statements. Elements are not the individual items themselves (such as cash or accounts receivable), but the broad categories of items that share the same characteristics.
 6. Distinctions of individual items (e.g., cash, receivables, property, equipment, copyrights) that fit in the same fundamental class do not require different elements for purposes of identifying the specific items. While making further distinctions within the elements through display adds usefulness, display is a separate matter. Aggregation or combination of elements is also a matter of display (for example, combining *income* and *expense* to show a net amount).
 7. As FASB's Concepts Statement 6 explains in the context of equity:

In financial statements of business enterprises, various distinctions within equity, such as those between common stockholders' equity and preferred stockholders' equity, between contributed capital and earned capital, or between stated or legal capital and other equity, are primarily matters of display that are beyond the scope of this Statement. [Footnote 29]
 8. Using the phrase "broad category" may help clarify the difference between an element and an item separately displayed in the financial statements. For example, it will be easier to distinguish between what we call an asset and an individual item like property, plant and equipment.

9. This approach is supported by the IASB and seems appropriate for the public sector as well. The IFRS Framework paragraph 48 notes that the presentation of the elements in the balance sheet and the income statement involves a process of sub-classification. For example, assets and liabilities may be classified by their nature or function in the business of the entity in order to display information in the manner most useful to users. The IFRS Framework is distinguishing between elements and items of display for the purposes of defining elements.
10. IPSASB does not define the meaning of an element for financial statements purposes rather it offers definitions of the specific elements themselves.

Elements are *broad categories* of financial statement items.

What is to be measured?

11. Determining what elements should represent should flow logically from the determination of what financial statements are intended to measure. The definitions of the elements should reflect that measurement. For example, if Group 2 was to offer elements of financial *reporting*, those elements should be designed based on what is trying to be measured, e.g., measuring performance may result in elements such as outcomes, outputs and inputs.
12. The “*basic economic problem*” is a term used in economic theory. It asserts that there is scarcity, such that finite resources available are insufficient for satisfying all human wants. The problem then becomes determining what limited goods and services an economy is to produce, for example, more or less on public services, housing, agriculture, or manufacturing. It also may determine how the goods and services are to be produced, as capital or labour usage and the efficiency to produce as much as is consistent with limited resources. Goods and services are created by utilization of scarce resources. Free goods are available without the use of resources. For example, there is no cost for the air above the ground. An economic good [resource] is a commodity in limited supply.¹
13. The IASB notes that the objective of financial statements is to provide information ... useful to a wide range of users in making *economic* decisions. The definition of *economic resource*, as set out in IASB agenda paper 3A, November 16, 2006, is something (a resource) that has a net positive economic value because it is capable of being used (either alone or together with other economic resources) for carrying out activities such as production and exchange and, thus, producing net cash inflows or reducing net cash outflows (either directly or indirectly) without imposing a corresponding claim against the entity.

¹ Retrieved from "http://en.wikipedia.org/wiki/Economic_problem"

14. The IASB, in turn, notes that financial statements portray the financial effects of transactions and other events by grouping them into broad classes according to their *economic* characteristics.
15. But, governments² are inherently different from businesses in both their objectives and financing. In general, governments provide public services and redistribute wealth for a variety of social and economic purposes. The delivery of a service does not, however, normally give rise to revenue, and the payment of taxes does not necessarily entitle a taxpayer to any particular public service or benefit. Because governments are granted the power to tax, their revenues are not substantially dependent upon voluntary contributions similar to a not-for-profit organization or on the profitable sale of goods and services in the marketplace similar to a business.
16. While there may be these and other differences that exist between a government and a business enterprise, they do share a common trait – governments are *economic resource* processors.
17. *Governments collect economic resources* in forms of raising taxes, charging user fees, receive economic resources from grants and transfers, borrow and incur other liabilities. In turn, *governments transform and use these economic resources* to provide sovereign services such as judicial services or the military; to produce goods and services for consumption by others, such as to produce hydro-electricity or transportation services; and to redistribute wealth in terms of various social benefits such as national pension schemes and welfare payments. Although governments are not necessarily focused on generating profits and their capital assets may be used for service provision rather profit-generation, without economic resources, a government cannot continue to produce goods and services at existing levels and qualities.
18. The function of financial statements, regardless of whether they are for a business enterprise or a government, is to communicate information about the myriad of economic transactions and events that occur, and communicate them in a way that is relevant to the users of the information. One way that financial statements attempt to communicate that information is by arranging similar items such as taxation and users fees together into what is generally referred as an element - a broad class of items that share similar *economic* characteristics – a source of economic resources. From this perspective, defining elements as broad classes of *economic items* do not appear to be different depending on the sector.
19. Agreeing to this approach provides a benchmark for deciding on the basis of how the elements should be defined. Appendix A provides, among other things, a definition of an element identified by other standard setters and their characteristics. All most all of those that have defined an element agree that should be grouped according to their economic characteristics.

² The term government is also meant to include certain government organizations.

20. Building on the previous discussion:

Elements are broad categories of financial statement items that share common *economic* characteristics.

What types of elements are needed?

21. The particular elements that are defined by almost all of the standard setters can be categorized into two broad types or kinds: those economic “things” that describe things that exist at a point in time (stocks) and those economic “things” that explain changes in the stocks over a period of time. There seems to be agreement among the standard setters that *at a point in time* elements should include economic resources and claims on economic resources. Further they agree that *changes over time* elements should include increases/decreases in economic resources or increases/decreases in claims on economic resources. This is generally referred to articulation of the financial statements meaning that changes in the “at a point time elements” are explained by other elements that reflect *changes* to the “at a point time” elements.

22. This is not to make a determination of which financial statements to present or what they should they report, only to note that changes in the elements on the statement of financial position should be explained with other types of elements. For example, individual items of elements could possibly be presented on various statements depending nature.

23. Building on the previous discussion:

Elements are broad categories of financial statement items that share common *economic* characteristics. *There are two types of elements, those that describe economic resources and claims on them at a point in time, and those that describe changes in economic resources and claims on them over a period of time.*

Deferred Outflows/Deferred Inflows

24. However, in the United States, the GASB has released Concepts Statement No. 4, *Elements of Financial Statements*, that includes deferred outflows and inflows as elements of financial statements. The GASB argues that deferred outflows and deferred inflows are consumptions and acquisitions of net assets that are *applicable to future periods*. This is an additional characteristic of an element and recognizes that the definitions of elements are not solely derived from “economic” characteristics.

25. It is not entirely clear at this time what would or could be included in these elements. There are items in existing standards where the characteristic of applicable to a future period exist. For example, the receipt of non-exchange revenue could be a deferred inflow to be recognized in future period. However, the GASB has recognized that these items do not meet the economic characteristics of assets and liabilities.

Users of financial statements will better understand these items when it is made clear that they are not assets and liabilities. An item cannot meet the definition of both an asset and a deferred outflow of resources or both a liability and a deferred inflow of resources.

26. The IASB notes in its Framework that:

The application of the matching concept under this Framework does not allow the recognition of items in the balance sheet that do not meet the definition of assets or liabilities.

27. Applying this characteristic of “applicable to future periods” directly affects the measurement of financial position as it would no longer be measured as the difference between assets and liabilities. Further because these items are recognized in revenue and expenses over those periods, the measure of annual results will also be affected over the same periods of time.

Do you agree that, for the purposes of the statement of financial position, only those items that result in economic resources and claims on those resources be used to measure financial position?

IS EQUITY/NET ASSETS AN ELEMENT?³

28. The purpose of defining equity/net assets as an element varies among standard setters:

- (a) it could be used to determine whether there has been a return on capital or a return of capital;
- (b) owners’ contributions/distributions have separate economic characteristics;
- (c) it is simply a calculation – a residual;
- (d) it is used for the purposes of articulation; and
- (e) it represents the component of net assets attributable to the owners/shareholders.

29. The IASB and IPSASB both define equity/net assets as a *residual* affected by all events that increase or decrease total assets by more or less than they increase or

³ FASB CON 6 footnote 26: This Statement generally applies the term equity to business enterprises, which is common usage, the term net assets to not-for-profit organizations, for which the term equity is less commonly used. The two terms are interchangeable.

decrease total liabilities. IPSASB has not identified equity/net assets as an element but offers a definition. The basic definition of an element notes that elements should be those items used in calculating amounts, not the result of that calculation. It is recognized there is debate over whether an individual item constitutes a liability or an equity item, however, this discussion should not prevent the determination of whether equity/net assets is an element.

30. The IASB and FASB notes that for a business enterprise *equity* is an element. Equity represents the ownership “interest” and it is the accumulation of owner contributions, distributions to owners and earnings. The fact that liabilities have a priority claim on assets before owners makes equity a function of assets minus liabilities – a calculated amount or a residual – the last man standing. Owners do not have a direct claim on economic resources of the organization.
31. The definition of equity in Canada for private enterprises notes that while equity is in total a residual, it includes specific categories of items, for example, types of share capital, contributed surplus and retained earnings. Identifying these categories separately may be a function of determining whether or not there is a return on capital or a return of capital. The residual remains the representation of a calculation (a residual) representing amounts that are available to finance future operations. The separation of owner contributions/distributions and earnings may be simply a matter of display similar to separating revenues from gains.
32. In contrast, in the United States, the FASB notes a not-for-profit organization has no ownership interest or profit purpose in the same sense as a business enterprise. A not-for-profit organization’s net assets are increased by receipts of assets from resource providers who do not expect to receive either repayment or economic benefits proportionate to their contributions. Its net assets are decreased by providing goods and services. It, too, is a residual but in contrast to a business enterprise it does not represent an ownership interest and is not increased or decreased through investment by or distributions to owners – so here too, it is a residual or a calculated amount.
33. In Canada for governments, the PSAB argues that the difference between assets and liabilities is not an element but simply a residual – accumulated surplus/deficit. It was not defined as an element as it is simply a calculated amount. It represents either the net economic resources available for financing future operations or the net economic resources required from future taxpayers as a result of past transactions. However, unlike the IPSASB that recognizes minority interests as an equity item, in Canada there is no ownership interest presented on the face of the financial statements. Ownership interests are excluded from the financial statements since government organizations with an outside interest are accounted for using proportionate consolidation or proportionate modified equity.
34. Similar to a not-for-profit, the residual amount under PSAB (accumulated surplus/deficit) represents economic resources available to provide future goods and services or those economic resources needed to meet existing liabilities recognizing

the limitations of recognition and measurement. From this perspective, the net assets of not-for-profit organizations and governments share a common economic characteristic that reflects those economic resources available to finance future operations or those economic resources needed to pay for past transactions – but a residual nonetheless.

35. Recently the GASB issued Concepts Statement 4 relating to Elements of Financial Statements. Paragraph 5 notes that the net position is an element however it is defined as an element in order to maintain articulation between the statements of financial position and resource flow statements. GASB recognizes that net assets is a residual.
36. Japan's Accounting Standards Board indicated that owners' equity is *a component* of net assets attributable to the shareholders. This may have some merit from the perspective of identifying separately the net effect of contributions from and distributions to owners. What it does demonstrate is that there have been two sources of economic resources – those generated from owner contributions and those generated from operations. Even though owners are the “last man standing” there may be some merit in distinguishing this component as separate element, with “retained earnings” simply being the residual.
37. This may reflect the unique situation of governments in that not all net assets represent “ownership interests” as net assets are likely to represent both the economic resources to be used for financing future operations and “ownership interests”. This also supports the GASB's approach in that accumulated earnings represents the articulation of the financial statements from the point of view that contributions from and distributions to owners are capital transactions.
38. This approach may also reflect the notion that “other” net assets are simply the residual beyond that of ownership interest. Owners' contributions/distributions share different characteristics from that of earnings or surplus/deficit.

Do you think that “ownership interest” should be identified as an element?
--

IS THERE A NEED TO DISTINGUISH REVENUE FROM GAINS AND EXPENSES FROM LOSSES?

39. Most of the standard setters do not separate revenues from gains or expenses from losses in their element definitions.
40. The UK's ASB does not define revenue and expenses as elements rather they choose to use the phraseology gains and losses. The terms ‘gains’ and ‘losses’ include items that are often referred to as ‘revenue’ and ‘expense’, as well as gains and losses arising from, for example, the disposal of fixed assets and the remeasurement of assets and liabilities. For the purposes of element of identification, it would seem that

the UK approach is similar to others as others define revenue to include gains whereas the UK defines gains to include revenue.

41. FASB's Concepts Statement 6 acknowledges that revenues, expenses, gains, and losses were defined largely for reasons of display:

Distinctions between revenues and gains and expenses and losses in a particular entity depend to a significant extent on the nature of the entity, its operations, and its other activities. Items that are revenues for one kind of entity may be gains for another, and items that are losses for one kind of entity may be expenses for another.

Since a primary purpose of distinguishing gains and losses from revenues and expenses is to make displays of information about an enterprise's sources of comprehensive income as useful as possible, fine distinctions between revenues and gains and between expenses and losses are principally matters of display or reporting...

42. As previously discussed, elements are intended The number of specific elements of financial statements that are defined in the frameworks of other standard setters range from 5 to 7. Appendix B includes a list of the elements defined in other frameworks.
43. The IASB does not define or use elements to make further display distinctions. The *Framework* only has 2 specific elements for financial performance – income and expenses. The main reasons are noted in its paragraphs 72 and 73:

The IASB's framework notes that income and expenses may be presented in the income statement in different ways so as to provide information that is relevant for economic decision-making. For example, it is common practice to distinguish between those items of income and expenses that arise in the course of the ordinary activities of the entity and those that do not. ...

Distinguishing between items of income and expense and combining them in different ways also permits several measures of entity performance to be displayed. ... For example, the income statement could display gross margin and profit and loss.

44. Using element definitions to make distinctions of display, which are without specific limits, goes beyond the "broad classes" notion as used in both the IASB's *Framework* and FASB's Concepts Statement 6, as well as beyond the notions of "basic" or "fundamental" in Webster's dictionary.
45. The FASB notes that the distinctions between revenue and gains and expenses and losses in a particular entity depend to a significant extent on the nature of the entity, its operations, and its other activities. Items that are revenue for one kind of entity may be gains for another.

46. This thought seems appropriate for governments as well. For example, expenditures incurred resulting from a hurricane or a forest fire may be treated as a loss in one country and an expense in another that is susceptible to hurricanes or fires. Since a primary purpose of distinguishing gains and losses from revenue and expenses is to make displays that convey information about performance, these distinctions are principally matters of display and hence do not seem to merit being defined as elements.

Does IPSASB agree that separate definitions of revenue and gains; and expenses and losses are not needed?

CONCEPTUAL FRAMEWORK DEVELOPMENT SCHEDULE REVISED – GROUP 2 PROJECTS

Original Proposal		Revised Proposal
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	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
September 2007	Group 2 leader to confirm project schedule with other participants and coordinate process for development of project brief, issues analysis and consultation papers	Group 2 leader confirmed project schedule with other participants and coordinate process for development of project brief, issues analysis and consultation papers
October 2007	Teleconference with group 2 authors (to be confirmed - approximate mid month)	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 but could not be coordinated.
November 2007	November 26 - IPSASB Subcommittee meeting, Beijing update on group 2 schedule provided.	Update on Group 2 activities included in agenda items.
December 2007	Teleconference of Group 2 Authors Development of papers identifying issues commences.	
January 2008	January 25 - Authors of Elements provide first drafts to staff for review. Staff work with authors to finalise for distribution to subcommittee.	

Original Proposal		Revised Proposal
February 2008	February 8 – Elements papers distributed to subcommittee.	Elements papers under development with Group 2 authors.
March 2008	March 9 – Subcommittee (Meeting, Toronto) reviews and discusses issues related to elements	Subcommittee meeting delayed until June 2008
April 2008	Authors develop Elements Papers to reflect subcommittee comments during March and April. April 28 - provide revised Elements papers for staff review.	
May 2008	Staff work with authors to finalize the Elements Papers for IPSASB review	Authors of Elements provide first drafts to staff for review. Staff work with authors to finalise for distribution to subcommittee.
June 2008	June 16 IPSASB meeting Moscow – Elements Papers reviewed by IPSASB.	Subcommittee (Meeting, Moscow) reviews and discusses issues related to elements.
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.	Authors develop Elements Papers to reflect subcommittee comments during March and April. Provide revised Elements papers for staff review.

Original Proposal		Revised Proposal
September 2008	<p>Mid September - Receive comments from subcommittee and IPSASB members on updated Elements Papers. Staff work with authors to revise Elements Papers for distribution to IPSASB for October meeting</p> <p>End September/early October – distribute revised Elements Papers to IPSASB.</p>	Staff work with authors to finalize the Elements Papers for IPSASB review
October 2008	27 th IPSASB approves Elements Consultation Papers for issue – for three month comment period.	Elements Papers reviewed by IPSASB to reach agreement on issues.
November 2008	Elements Consultation Paper issued	<p>Staff work with authors to draft Elements Consultation Papers to reflect IPSASB comments.</p> <p>Updated draft Elements Consultation Papers sent to subcommittee and IPSASB for review out of session – comments requested by mid January.</p>
2009	<p>February/March –</p> <ul style="list-style-type: none"> - Responses to Elements Consultation Paper considered by subcommittee <p>May/June –</p> <ul style="list-style-type: none"> - Responses to Consultation Papers on Elements reviewed by IPSASB at June meeting and ED “build” commences. 	<p>Receive comments from subcommittee and IPSASB members on updated Elements Papers. Staff work with authors to revise Elements Papers for distribution to IPSASB for May meeting</p> <p>Distribute revised Elements Papers to IPSASB for May meeting with responses due in October 2009.</p>
2010+	ED issued and Framework approved.	<p>Analysis of responses, issue identification, revise and amend.</p> <p>May 2010 approve ED.</p>

Appendix A – Element definition, characteristics and identification

2006	IPSAS 1, Presentation of Financial Statements	No explanation of what an element of financial statement is. But the definition of accrual accounting notes that the elements recognized under accrual accounting are assets, liabilities, net assets/equity, revenue and expenses.
2007	IASB Framework	Financial statements portray the effects of transactions and other events by grouping them into broad classes according to their economic characteristics. These broad classes are termed the elements of financial statements. Related to measurement of financial position in the balance sheet: <ul style="list-style-type: none"> - Assets - Liabilities - Equity Related to measurement of financial performance in the income statement: <ul style="list-style-type: none"> - Income (including revenues and gains) - Expenses
2006	Canada PS 1000	Elements of financial statements are the basic categories of items portrayed therein in order to meet the objectives of financial statements. There are two types of elements: those that describe economic(financial and non-financial) resources, obligations and accumulated surplus or deficit of a government at a point in time, and those that describe changes in economic resources, obligations and accumulated surplus or deficit over a period of time. The elements of government financial statements include: assets (both financial and non-financial), liabilities, revenue and expenses.
	Canada 1000	Elements of financial statements are the basis categories of items portrayed therein in order to meet the objectives of financial statements. Two types of elements: <ul style="list-style-type: none"> - Those that describe economic resources, obligations and equity/net assets over a point in time - Those that describe changes in economic resources, obligation and equity/net assets over a period in time. - Notes are not elements of financial statements Balance sheet: <ul style="list-style-type: none"> - Assets

		<ul style="list-style-type: none"> - Liabilities - Equity/net assets <p>Income statement:</p> <ul style="list-style-type: none"> - Revenues - Expenses - Gains - Losses
2007	US FASAB ED	The term <i>element</i> refers to broad classes of items, such as assets, liabilities, revenues, and expenses that comprise the building blocks of financial statements. Components of those broad classes, such as cash, investments, and debt instruments, may meet the definitions of elements but are not elements as the term is used in this Statement. Instead, they are called <i>items</i> or by descriptive names. This Statement focuses on the broad classes and their characteristics instead of defining particular assets, liabilities, or other items. The elements of accrual-basis financial statements defined in this Statement are assets, liabilities, net position, revenues, and expenses.
2007	US GASB	Elements are the broad fundamental components of financial statements. This Statement identifies five elements of financial position – assets, liabilities, deferred outflows of resources, deferred inflow of resources and net position – and two elements of resources flows statements – outflow of resources and inflows of resources.
1985	US FASB CON 6	<p>Elements of financial statements are building blocks with which financial statements are constructed – the classes of items that financial statements comprise. The items in financial statements represent, in words and numbers, certain entity resources, claims to those resources, and the effects of transactions and other events and circumstances that result in changes in those resources and claims.</p> <ul style="list-style-type: none"> - Assets - Liabilities - Equity/net assets - Investments by owners - Distribution to owners - Comprehensive income - Revenues - Expenses - Gains - Losses

1999	UK ASB Principles	<p>Elements of financial statements are building blocks with which financial statements are constructed – the classes of items that financial statements comprise.</p> <p>In the case of the balance sheet (or statement of financial position):</p> <ul style="list-style-type: none"> - Assets - Liabilities - Ownership interest <ul style="list-style-type: none"> • Contributions from owners • Distribution to owners <p>In the case of the profit and loss account (or statement of financial performance):</p> <ul style="list-style-type: none"> - Gains (includes all forms of income and revenue as well as all recognised gains (realised and unrealised) on non-revenue items) - Losses (incorporates all forms of expenses, sometimes referred to as revenue expenditure, and all recognized losses (realised and unrealised) on non-revenue items)
IASB 9A 03/06	Australia AASB	<p>No description of an element.</p> <p>Financial measures in statement of financial position:</p> <ul style="list-style-type: none"> - Assets - Liabilities - Equity: <ul style="list-style-type: none"> Contribution by owners Distribution to owners <p>Financial measures in statement of financial performance:</p> <ul style="list-style-type: none"> - Revenues: <ul style="list-style-type: none"> Includes savings in the outflows of future economic benefits (eg forgiveness of liabilities) - Expenses
IASB 9A 03/06	NZ ARSB	<p>Financial reports portray the effects of transactions and other events by grouping them into broad classes according to their economic characteristics in order to meet their objectives specified in paragraph 3.1. These broad classes are termed elements. (para 7.1)</p> <p>Financial elements:</p> <p>Directly related to financial position:</p> <ul style="list-style-type: none"> - Assets - Liabilities

		<ul style="list-style-type: none"> - Equity - Contribution by owners and Distribution to owners - Capital Maintenance Adjustments <p>Directly related to financial performance:</p> <ul style="list-style-type: none"> - Revenues - Expenses
IASB 9A 03/06	German ASB	<p>No description of an element.</p> <p>Financial measures in statement of financial position:</p> <ul style="list-style-type: none"> - Assets - Liabilities - Equity: <p>Financial measures in statement of income and expenses:</p> <ul style="list-style-type: none"> - Income - Expenses
2006	Japan ASB DP	<p>No description of an element.</p> <p>Balance sheet:</p> <ul style="list-style-type: none"> - Assets - Liabilities - Net assets <p>Income Statement:</p> <ul style="list-style-type: none"> - Revenues/gains - Expenses/losses - Net income <p>Comprehensive income</p>
2006	African ASB	<p>Financial statements portray the financial effects of transactions and other events by grouping them into broad classes according to their economic characteristics. These broad classes are termed the elements of financial statements. The elements directly related to the measurement of financial position in the statement of financial position are assets, liabilities and net assets. The elements directly related to the measurement of financial performance in the statement of financial performance are revenue and expenses.</p>

Appendix B – Equity/Net Assets

DATE	PUBLICATION	NET ASSET/EQUITY DEFINITION
2006	IPSAS 1, Presentation of Financial Statements	Net assets/equity is the residual interest in the assets of the entity after deducting all its liabilities.
2007	IFRS Framework	Equity is the residual interest in the assets of the entity after deducting all its liabilities.
2006	Canada PS 1000	No definition offered but implied residual difference between assets and liabilities.
	Canada 1000	Equity is the ownership interest in the assets of a profit-oriented enterprise after deducting its liabilities. While equity of a profit-oriented enterprise in total is a residual, it includes specific categories of items, for example, types of share capital, contributed surplus and retained earnings.
2007	US FASAB ED	Net position or its equivalent, net assets, is the arithmetic difference between the total assets and total liabilities recognized in the federal government's or a component entity's balance sheet. Net position may be positive (assets greater than liabilities) or negative (assets less than liabilities).
2007	US GASB	Net position is the residual of all other elements presented in a statement of financial position.
1985	US FASB CON 6	Equity or net assets is the residual interest in the assets of an entity that remains after deducting its liabilities.
1999	UK ASB Principles	Ownership interest is the residual amount found by deducting all of the entity's liabilities from all of the entity's assets.
2004	Australia AASB	Equity is the residual interest in the assets of the entity after deducting all its liabilities.
1993	NZ ARSB	Equity is the residual interest in the assets of the entity after deduction of its liabilities.
2002	German ASB Draft	Equity embodies the claims of owners. Equity is distinguishable from liabilities. The criteria for distinguishing between equity and liabilities are based on whether the claims are for a fixed amount (liabilities) or for a residual amount (equity).
2006	Japan ASB DP	Net assets is the difference between total assets and total liabilities.
2006	African ASB	Net assets are the residual interest of the owners in the assets of the entity after deducting all its liabilities.

Appendix C – Summary of definitions of revenue/gains and expenses/losses

DATE	PUBLICATION	REVENUE DEFINITION
2006	IPSAS 1, Presentation of Financial Statements	Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets/equity, other than increases relating to contributions from owners.
2007	IFRS Framework	Income is increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases in liabilities that result in increases in equity, other than those relating to contributions from equity participants.
2006	Canada PS 1000	Revenues, including gains, are increases in economic resources, either by way of increases of assets or decreases of liabilities, resulting from the operations, transactions and events of the accounting period.
	Canada 1000	Revenues are increases in economic resources, either by way of inflows or enhancements of assets or reductions of liabilities, resulting from the ordinary activities of an entity.
2007	US FASAB ED	A revenue is an increase in assets, a decrease in liabilities, or a combination of both from providing goods or services, levying taxes or other impositions, receiving donations, or any other activity (excluding borrowing) performed during the reporting period.
2007	US GASB	An inflow of resources is an acquisition of net assets by the government that is applicable to the reporting period.
1985	US FASB CON 6	Revenues are inflows or other enhancements of assets of an entity or settlements of its liabilities (or a combination of both) from delivering or producing goods, rendering services, or other activities that constitute the entity's ongoing major or central operations.
1999	UK ASB Principles	No revenue definition but included in gains definition.
2004	Australia AASB	Income is increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in equity, other than those relating to contributions from equity participants. The definition of income encompasses both revenue and gains.
1993	NZ ARSB	Revenue are inflows or other enhancements or savings in outflows, of service potential or future economic benefits in the form of increases in assets or reductions in liabilities of the entity, other than those relating to contributions by owners, that result in an increase in equity during the reporting period.

2002	German ASB Draft	Income is the increase in economic benefits during an accounting period. The increase in economic benefits is in the form of a direct inflow (inflow of cash or cash equivalents), an increase in the value of an asset or the decrease in the value of a liability. The profit or loss from extraordinary items comprises income and expenses which do not arise in the course of the ordinary activities of an enterprise.
2006	Japan ASB DP	Revenues/gains are those items that result in increases in net income or minority interests' share in earnings, and represent the portion of the amount corresponding to increases in assets or decreases in liabilities having occurred by the end of a particular period which have been released from the risks.
2006	African ASB	Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

DATE	PUBLICATION	GAIN DEFINITION
2006	IPSAS 1, Presentation of Financial Statements	
2007	IFRS Framework	The definition of income encompasses both revenue and gains.
2006	Canada PS 1000	The definition of revenue encompasses both revenue and gains.
	Canada 1000	Gains are increases in equity / net assets from peripheral or incidental transactions and events affecting an entity and from all other transactions, events and circumstances affecting the entity except those that result from revenues or equity / net assets contributions.
2007	US FASAB ED	The definitions of revenue and expense in this Statement include items that might be reported as gains and losses. Gains and losses are considered subsets of revenues and expenses, rather than distinct elements, just as capital assets and financial assets are considered subsets of assets.
	US GASB	
1985	US FASB CON 6	Gains are increases in equity (net assets) from peripheral or incidental transactions of an entity and from all other transactions and other events and circumstances affecting the entity except those that result from revenues or investments by owners.
1999	UK ASB Principles	Gains are increases in ownership interest not resulting from contributions from owners.

2004	Australia AASB	The definition of income encompasses both revenue and gains.
1993	NZ ARSB	The definition of revenue encompasses both revenue and gains.
2002	German ASB Draft	The profit or loss from extraordinary items comprises income and expenses which do not arise in the course of the ordinary activities of an enterprise.
2006	African ASB	The definition of revenue encompasses both revenue and gains. Gains represent increases in economic benefits or service potential and as such are no different in nature from revenue. Hence, they are not regarded as constituting a separate element in this framework.

DATE	PUBLICATION	EXPENSE DEFINITION
2006	IPSAS 1, Presentation of Financial Statements	Expenses are decreases in economic benefits or service potential during the reporting period in the form of outflows or consumption of assets or incurrences of liabilities that result in decreases in net assets/equity, other than those relating to distributions to owners.
2007	IFRS Framework	Expenses are decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrences of liabilities that result in decreases in equity, other than those relating to distributions to equity participants.
2006	Canada PS 1000	Expenses, including losses, are decreases in economic resources, either by way of decreases in assets or increases in liabilities, resulting from the operations, transactions and events of the accounting period.
	Canada 1000	Expenses are decreases in economic resources, either by way of outflows or reductions of assets or incurrences of liabilities, resulting from an entity's ordinary revenue generating or service delivery activities.
2007	US FASAB ED	An expense is a decrease in assets, an increase in liabilities, or a combination of both from providing cash or cash equivalents, goods or services, or any other activity (excluding repayments of borrowing) performed during the reporting period.
2007	US GASB	An outflow of resources is a consumption of net assets by the government that is applicable to the reporting period.
1985	US FASB CON 6	Expenses are outflows or other using up of assets or incurrences of liabilities (or a combination of both) from delivering or producing goods, rendering services, or carrying out other activities that constitute the entity's ongoing major or central operations.
1999	UK ASB Principles	No expense definition but included in losses definition.

2004	Australia AASB	Expenses are decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrences of liabilities that result in decreases in equity, other than those relating to distributions to equity participants. The definition of expenses encompasses losses as well as those expenses that arise in the course of the ordinary activities of the entity.
1993	NZ ARSB	Expense are consumptions or losses of service potential or future economic benefits in the form of reductions in assets or increases in liabilities of the entity, other than those relating to distributions to owners, that result in a decrease in equity during the reporting period.
2002	German ASB Draft	Expenses are decreases in economic benefits during an accounting period. The decreases in economic benefits are in the form of a direct outflow (outflow of cash or cash equivalents), an increase in the value of a liability or the decrease of the value of an asset. The profit or loss from extraordinary items comprises income and expenses which do not arise in the course of the ordinary activities of an enterprise.
2006	Japan ASB DP	Expenses/losses are those items that result in decreases in net income or minority interests' share in earnings, and represent the portion of the amount corresponding to decreases in assets or increases in liabilities having occurred by the end of a particular period which has been released from the risks.
2006	African ASB	Expenses are decreases in economic benefits or service potential during the reporting period in the form of outflows or consumption of assets or incurrences of liabilities that result in decreases in net assets, other than those relating to distributions to owners.

DATE	PUBLICATION	LOSS DEFINITION
2006	IPSAS 1, Presentation of Financial Statements	
2007	IFRS Framework	The definition of expenses encompasses losses as well as those that arise in the course of the ordinary activities of the entity.
2006	Canada PS 1000	The definition of expenses encompasses both expenses and losses.
	Canada 1000	Losses are decreases in equity / net assets from peripheral or incidental transactions and events affecting an entity and from all other transactions, events and circumstances affecting the entity except those that result from expenses or distributions of equity / net assets.

2007	US FASAB ED	The definitions of revenue and expense in this Statement include items that might be reported as gains and losses. Gains and losses are considered subsets of revenues and expenses, rather than distinct elements, just as capital assets and financial assets are considered subsets of assets.
	US GASB	
1985	US FASB CON 6	Losses are decreases in equity (net assets) from peripheral or incidental transactions of an entity and from all other transactions and other events and circumstances affecting the entity except those that result from expenses or distributions to owners.
1999	UK ASB	Losses are decreases in ownership interest not resulting from distributions to owners.
2004	Australia AASB	The definition of expenses encompasses losses as well as those expenses that arise in the course of the ordinary activities of the entity.
1993	NZ ARSB	The definition of expenses encompasses losses.
2002	German ASB Draft	The profit or loss from extraordinary items comprises income and expenses which do not arise in the course of the ordinary activities of an enterprise.
2006	African ASB	The definition of expenses encompasses losses as well as those expenses that arise in the course of the operating activities of the entity. Losses represent decreases in economic benefits or service potential and as such, they are no different in nature from other expenses. Hence, they are not regarded as a separate element in this framework.

**December 2006
(updated July 07)**

**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? b) also apply to private sector? Are there separate CFs for the public and private sectors?	N Y	Y Y	Y N	Y N		N Y	Y N	N Y	Y Y	N Y	N Y	Y Y		N Y	N Y	N* Y	Y N
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? b) the accrual basis? c) both cash and accrual bases		N Y N	b)	N Y N		N Y N	C	N Y N	Y Y N		b) accrual	b) accrual	N Y N	N Y N/A	b)	N Y N	Y ***
6. Does the CF deal with: a). Reporting Entity b). Objectives c). Qualitative Characteristics d). Definitions of:		Y	N3	Y		N	Y	N	Y		Y	Y		N	N	Y	N
Assets,		Y	Y	Y		Y	Y	Y	Y		Y	Y		Y	Y	Y	Y*
Liabilities,		Y	Y	Y		Y	Y	Y	Y		Y	Y		Y	Y	Y	Y*
Revenues,		Y	N1	Y		Y	Y	Y	Y		Y	Y	Y	Y	Y	Y	Y*
Expenses,.		Y	Y	Y		Y	Y	Y	Y		Y	Y	Y	Y	Y	Y	Y*
Equity/net assets		Y	Y			Y	Y	Y	Y		Y	Y		Y	Y	Y	Y*
Other terms (indicate in notes)		N	Y4			N	Y	N	N			Y				Y	Y*
e) Recognition criteria		Y	Y	Y		Y	Y	Y	Y		Y	Y	Y	Y	Y	Y	
f) Measurement bases		N*	Y	Y		Y	Y	Y	Y		Y	Y	Y	Y	Y	Y	Y
g) Financial statements		N	N5	Y		Y	Y	N	Y		Y	Y		Y	Y	Y	Y
h) Scope of financial reporting		N	Y			N	Y	N	Y		Y	Y		Y	N	Y	Y
i) Frequency of presentation		N	N			N	Y	N	N		Y	N		Y	(Y)	N	N
7. Are other Matters addressed		Y*	Y6			Y	N	N	N		*)	Y		N	Y	Y	Y
									A								

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

ARG – Argentina (2002 comment)

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

AUS – Australia (2006 Comment)

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

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

However, the following Statements of Accounting Concepts were retained:

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

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

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

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

Financial Accounting Standards Board to complete and update their conceptual frameworks, and will develop a revised Australian Framework in the light of that international project. That revision will apply to entities in both the private and public sectors.

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

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

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

CAN – Canada (2006 Comment)

- 1) Canada's conceptual framework for the public sector does not currently include a definition of revenue though a general revenue recognition principle is included in the general standards of financial statement presentation. This gap is currently being addressed with completion scheduled for November 2006.
- 2) Canada's conceptual framework for the public sector does not constitute a financial reporting standard, however, where the Public Sector Accounting Handbook is silent on an issue, any proposed solution must be consistent with the conceptual framework if those financial statements are to be described as having been prepared in accordance with GAAP.
- 3) Canada has a separate financial reporting standard addressing the reporting entity Section PS 1300 *Government Reporting Entity*.
- 4) Definitions of 'Financial Asset', 'Non-Financial Asset' and 'Tangible Capital Asset' are also given in the public sector conceptual framework. The first two definitions necessary to providing a key measure of financial performance for Canadian governments – the measure of 'Net Debt'.
- 5) The conceptual framework does discuss what information must be portrayed in the financial statements as well as naming those financial statements. However a separate

financial reporting standard (Section PS 1200 *Financial Statement Presentation*) gives the actual directive as to what financial statements should be prepared.

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

ISRL – ISRAEL (2006 Comment)

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

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

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

JAPN – Japan (2006 Comment)

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

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

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

developing public sector accounting standards so far. JICPA currently does not have a plan to further develop CF for public sector.

Malaysia (2006 comment)

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

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

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

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

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

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

MEX – Mexico (2002 comment)

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

NETH – The Netherlands

Public sector:

There is not one single body responsible for public sector accounting standards in the Netherlands. Various ministries develop accounting standards for governmental entities within their jurisdiction. The Ministry of Internal Affairs develops accounting standards for the 12 provinces and 458 municipalities in this country. The Ministry of Internal Affairs also develops accounting standards for the 25 police departments. The Ministry of

Transport, Public Works and Water Management develops accounting standards for the 27 waterboards in the Netherlands. Furthermore, each Ministry establishes tailor-made accounting standards in separate contracts with each of its agencies. The Ministry of Finance develops standards for the central government all ministries.

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

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

Companies and non-profit organizations:

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

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

NZ – New Zealand (2006)

*The Conceptual Framework is authoritative but not legally enforceable.

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

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

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

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

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

to be readily updated for future revisions of the IASB Framework, changes to the text of the IASB Framework have been minimized.

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

- (a) The discussion in paragraphs 1-4 has been revised to reflect the purpose of the proposed NZ Framework and the role of the FRSB (paragraphs NZ 4.1 to NZ 4.4).
- (b) The description of a complete set of financial statements has been amended for consistency with NZ IAS 1 Presentation of Financial Statements (paragraph 7).
- (c) A discussion acknowledging the role of non-financial and supplementary information has been included (paragraph NZ 7.1).
- (d) Additional paragraphs have been inserted to acknowledge the range of entities that are required to prepare general purpose financial statements (paragraphs NZ 8.1 to NZ 8.3).
- (e) A discussion of two additional users of financial statements (funders or financial supporters, and elected or appointed representatives) has been inserted (paragraph NZ 9.1).
- (f) A discussion of the role of financial statements in demonstrating accountability has been included (paragraphs NZ 14.1 and NZ 14.2).
- (g) A discussion of various types of non-financial and supplementary information has been included (paragraphs NZ 20.1 to NZ 20.8).
- (h) Additional guidance for public benefit entities in respect of materiality has been inserted (paragraph NZ 30.1).
- (i) An additional paragraph discussing “future economic benefits” and “service potential” has been inserted (paragraph NZ 49.1).
- (j) Additional guidance has been inserted stating that in the context of public benefit entities, references to contributions from (or distributions to) equity participants should be read as contributions from (or distributions to) equity holders acting in their capacity as equity holders (paragraph NZ 70.1).
- (k) A brief discussion of the elements of non-financial statements has been included. The NZ Framework requires that the quality of the information presented in non-financial and supplementary information should be considered with regard to the qualitative characteristics and constraints on those qualitative characteristics discussed in paragraphs 24 to 45 of the Framework (paragraphs NZ 101.1 to NZ 101.3).
- (l) A brief rationale for the New Zealand specific sections has been included as an Appendix.

Projects to revise the Framework

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

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

NOR – Norway (2006 Comment)

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 implicit used as basis for issuing accounting standards, but were explicit 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 February 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	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.
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	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 participate.

IPSASB/PSC MEETING	ACTION
	<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 America to discuss the potential for collaborative project. Also participating in the discussion were members and/or staff of the Public Sector Committee</p>

IPSASB/PSC MEETING	ACTION
	<p>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; Scope – author South Africa ASB; Qualitative Characteristics – author Norway Institute; and Reporting Entity – author Australia AASB.</p>

IPSASB/PSC MEETING	ACTION
July 2007	<p>Subcommittee meets and reviews first draft Consultation Papers on Objectives, Reporting Entity and Scope.</p> <p>IPSASB reviews first draft Consultation Papers on Objectives and Scope at its Montreal meeting.</p>
Sept 2007	<p>Subcommittee and NSS-4 meet and review second draft paper on Reporting Entity and first draft Paper on Qualitative Characteristics.</p>
November 2007	<p>Subcommittee will meet prior to IPSASB meeting to review updated papers on Objectives, Scope, Reporting Entity and Qualitative Characteristics.</p> <p>IPSASB will review updated papers on Objectives, Scope, Reporting Entity and Qualitative Characteristics at its Beijing meeting.</p>
December – February 2008	<p>First draft of Consultative Paper prepared for review of by the IPSASB at its March meeting. Draft Consultative Paper comprising an Introductory Chapter on the nature, objectives and process of development of the IPSASB Framework project and Chapters on:</p> <ul style="list-style-type: none">• Scope of General Purpose Financial Reporting (GPFR),• Objectives of GPFR,• Qualitative Characteristics of Information included in GPFR; and• Reporting Entities in the Public Sector <p>Group 2 subcommittee commences development of draft papers on group 2 projects.</p>