



**INTERNATIONAL FEDERATION  
OF ACCOUNTANTS**

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**Agenda Item**  
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**DATE:** May 22, 2008  
**MEMO TO:** Members of the IPSASB  
**FROM:** Paul Sutcliffe  
**SUBJECT:** Public Sector Conceptual Framework – Phase 1 Papers

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**OBJECTIVE OF THIS SESSION**

To approve the revised draft of the Consultation Paper – Phase 1, subject to any further revisions identified by the Board and finalisation of introductory material.

**AGENDA MATERIAL**

Agenda Papers

2.1 Draft Consultation Paper – Phase 1

**ACTION REQUIRED**

Review the draft Consultation Paper – Phase 1 with a view to its approval for publication and/or provide staff with directions for its further development.

**BACKGROUND**

At its March 2008 meeting, the IPSASB reviewed the first draft of the Consultation Paper dealing with Conceptual Framework Phase 1 topics (CP-1). Those topics are: the Objective of Financial Reporting, Scope of Financial Reporting, Qualitative Characteristics of Information included in General Purpose Financial Reports and the Reporting Entity. The IPSASB provided directions for the revision and further development of the CP.

An updated draft of CP-1 is included at agenda item 2.1. This draft has been revised and restructured to reflect the directions of the IPSASB at its March 2008 meeting. The IPSASB Framework subcommittee has not met to review this draft. However, staff have sought and received input from a number of IPSASB members on specific technical and structural issues.

It is intended that an Executive Summary, contents page and listing of the IPSASB's Preliminary Views and the specific matters for comment will be included in the document when published. This material will be prepared when the contents and substance of the CP-1 has been agreed by the IPSASB.

An IASB Exposure Draft (ED) dealing with the objective of financial reporting by business entity's in the private sector and the qualitative characteristics of financial reporting information has not yet been released. However, its release is imminent. Staff also understand that the IASB is about to release its Discussion Paper (DP) on the reporting entity. Staff have been monitoring development of the ED and the DP. Explanations of the positions proposed by the IASB in the attached draft CP-1 have been drawn from publicly available materials, observation of developments at public IASB meetings and follow-ups with IASB staff. They will be updated for any refinements included the final IASB-ED and DP when issued.

The amendments to the draft CP-1 have been extensive. The text has been revised, restructured and reduced in length, and attachments and extracts from National Standards Setters and similar authoritative bodies deleted. The introduction of the IPSASB's Preliminary Views has also reduced the need for many specific matters for comment.

To strengthen the links between each topic and reduce repetition, the topic areas have been structured as sections of the one document, rather than as separate autonomous Chapters as in the previous draft.

As sections were redrafted and restructured, some refinements to the approach contemplated at the IPSASB meeting in March 2008 were necessary and/or appeared useful - particularly in respect of the sections dealing with Qualitative Characteristics and Reporting Entity. The nature of these changes are outlined below. In addition to other issues that arise in the review of the CP, members are requested to consider and confirm, or provide direction for the revision of, the approach adopted in respect of these two sections.

### *Qualitative Characteristics.*

At the March 2008 IPSASB meeting, members indicated that they saw considerable merit in the qualitative characteristics being developed by the IASB, but were concerned about the classification of some characteristics as “fundamental” and others as “enhancing”. Members were of the view that the enhancing characteristics may be seen as less important than the fundamental characteristics, and this was not appropriate – particularly since “understandability” and “timeliness” were classified as enhancing characteristics.

Members directed staff to consider the applicability of the IASB characteristics to the public sector, and noted that at this (June 2008) meeting they would consider whether a Preliminary View on the qualitative characteristics could be agreed.

Staff have structured the qualitative characteristics section of the CP-1 to align with the characteristics as proposed by the IASB, with amendments to reflect the IPSASB's discussion at the March 2008 meeting. Consequently, the qualitative characteristics are not identified as either fundamental or enhancing and revisions have been made where necessary to:

- deal with public sector circumstances, including the matters discussed at the March 2008 meeting;
- to reflect differences in the objective of financial reporting proposed by the IPSASB and the IASB; and
- to respond to the broad scope of financial reporting proposed for the IPSASB Framework.

The explanation of key differences between the qualitative characteristics proposed for application to the public sector, and those proposed by the IASB are built into the discussion.

Identification of key differences from the existing qualitative characteristics of financial statements identified in IPSAS 1 “Presentation of Financial Statements” that were noted by members are also built into the discussion. (For information, the qualitative characteristics of financial statements currently identified in IPSAS 1 are included as an attachment to this memorandum.)

Staff are hopeful that this approach will support the IPSASBs consideration of whether a Preliminary View on the qualitative characteristics can be agreed at this meeting.

A potential Preliminary View on the qualitative characteristics is included in this section for consideration. However, that Preliminary View has not yet been agreed, and variation is possible.

*Reporting Entity.*

At the March 2008 meeting, members agreed that the CP would include a Preliminary View on the identification of a reporting entity, but not on the boundary of a group reporting entity.

Members agreed that the CP would seek input from constituents on how the boundary of a group reporting entity should be determined prior to forming their Preliminary View.

The first part of the section of the CP explains that an entity may elect to, or be required to, prepare a GPFR. This is not identified as a Preliminary View as such – staff were concerned that to do so would render the rest of the discussion superfluous. Rather, the Preliminary View identifies the key characteristic of a reporting entity as the existence of users dependent on GPFRs for information for accountability or decision making purposes, and acknowledges that such entities may have a separate identity at law or may be an administrative unit or program.

The discussion of the boundary of the group reporting entity reads differently from other sections of the CP because it does not build to a Preliminary View – rather it identifies issues and seeks input on them. It explains that the control and accountability approaches to determining the boundary of the group reporting entity embrace many of the same characteristics. However, the accountability basis acknowledges that the boundary of the reporting entity may need to be expanded to encompass additional circumstances not dealt with by the control basis. The definition of control in IPSAS 6 “Consolidated and Separate Financial Statements” and the GASB definition of the accountability basis are used to indicate the major features of these bases.

Staff has received additional input from members on the family of control notions/definitions applicable in different jurisdictions and the accountability type bases, and are of the view that the two approaches may be better seen as a continuum – rather than as fundamentally different approaches. Reflecting this, the approach adopted in this section has been to identify issues in the application of control type approaches and consider the enhancements that may be necessary to make for a more robust basis for determining the boundary of the group entity – whether that basis is termed the accountability or the control basis is not identified as the substantive issue.

The previous draft included some commentary on application of the control approach in the text and some further elaboration in an attachment to the chapter on reporting entity. At the March 2008 meeting, members agreed that at this meeting a decision would be made on whether to retain the attachment. The attachment has not been retained in this draft because the key issues have now been absorbed in the text.

**IPSAS 1 – Appendix B**  
**Qualitative Characteristics of Financial Reporting**

The four principal qualitative characteristics of information in financial statements are understandability, relevance, reliability and comparability.

**Understandability**

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

Information about complex matters should not be excluded from the financial statements merely on the grounds that it may be too difficult for certain users to understand.

**Relevance**

Information is relevant to users if it can be used to assist in evaluating past, present or future events or in confirming, or correcting, past evaluations. In order to be relevant, information must also be timely.

*Materiality*

The relevance of information is affected by its nature and materiality.

Information is material if its omission or misstatement could influence the decisions of users or assessments made on the basis of the financial statements. Materiality depends on the nature or size of the item or error judged in the particular circumstances of its omission or misstatement. Thus, materiality provides a threshold or cut-off point rather than being a primary qualitative characteristic which information must have if it is to be useful.

**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.

*Faithful Representation*

For information to represent faithfully transactions and other events, it should be presented in accordance with the substance of the transactions and other events, and not merely their legal form.

*Substance Over Form*

If information is to represent faithfully the transactions and other events that it purports to represent, it is necessary that they are accounted for and presented in accordance with their substance and economic reality and not merely their legal form. The substance of transactions or other events is not always consistent with their legal form.

*Neutrality*

Information is neutral if it is free from bias. 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.

*Prudence*

Prudence is the inclusion of a degree of caution in the exercise of the judgments needed in making the estimates required under conditions of uncertainty, such that assets or revenue are not overstated and liabilities or expenses are not understated.

However, the exercise of prudence does not allow, for example, the creation of hidden reserves or excessive provisions, the deliberate understatement of assets or revenue, or the deliberate overstatement of liabilities or expenses, because the financial statements would not be neutral and, therefore, not have the quality of reliability.

*Completeness*

The information in financial statements should be complete within the bounds of materiality and cost.

**Comparability**

Information in financial statements is comparable when users are able to identify similarities and differences between that information and information in other reports.

Comparability applies to the:

- comparison of financial statements of different entities; and
- comparison of the financial statements of the same entity over periods of time.

An important implication of the characteristic of comparability is that users need to be informed of the policies employed in the preparation of financial statements, changes to those policies and the effects of those changes.

Because users wish to compare the performance of an entity over time, it is important that financial statements show corresponding information for preceding periods.

**Constraints on Relevant and Reliable Information**

*Timeliness*

If there is an undue delay in the reporting of information it may lose its relevance. To provide information on a timely basis it may often be necessary to report before all aspects of a transaction are known, thus impairing reliability. Conversely, if reporting is delayed until all aspects are known, the information may be highly reliable but of little use to users who have had to make decisions in the interim. In achieving a balance between relevance and reliability, the overriding consideration is how best to satisfy the decision-making needs of users.

*Balance between Benefit and Cost*

The balance between benefit and cost is a pervasive constraint. The benefits derived from information should exceed the cost of providing it. The evaluation of benefits and costs is, however, substantially a matter of judgment. Furthermore, the costs do not always fall on those users who enjoy the benefits. Benefits may also be enjoyed by users other than those for whom the information was prepared. For these reasons, it is difficult to apply a benefit-cost test in any particular case. Nevertheless, standard-setters, as well as those responsible for the preparation of financial statements and users of financial statements, should be aware of this constraint.

*Balance between Qualitative Characteristics*

In practice a balancing, or trade-off, between qualitative characteristics is often necessary. Generally the aim is to achieve an appropriate balance among the characteristics in order to meet the objectives of financial statements. The relative importance of the characteristics in different cases is a matter of professional judgment.

## **INTRODUCTION**

- I1. The mission of the International Public Sector Accounting Standards Board (IPSASB) is to serve the public interest by developing high quality accounting standards for use by public sector entities around the world in the preparation of general purpose financial reports. The application of the standards will enhance the quality and transparency of public sector financial reporting and strengthen confidence in public sector financial management. In achieving its objectives, the IPSASB:
  - issues International Public Sector Accounting Standards (IPSASs);
  - promotes their acceptance and international convergence to them; and
  - publishes other documents that provide guidance on issues and experiences in financial reporting in the public sector.
- I2. The Conceptual Framework for Financial Reporting by Public Sector Entities (the Framework) will establish the concepts that are applied in the development of IPSASs and other documents that provide guidance on information included in general purpose financial reports (GPFRs).
- I3. The IPSASB will issue Consultation Papers on the key components of the Framework and, after consideration of responses and other consultation, an exposure draft of the full Framework.
- I4. This is the first Consultation Paper issued by the IPSASB as part of its Framework project. It deals with the:
  - objective of financial reporting – the objective will establish the goals or purpose of financial reporting by public sector entities and assist the IPSASB in making the selection of appropriate financial reporting concepts and requirements from possible alternatives;
  - scope of financial reporting – that is, the transactions, events and activities that may be reported in GPFRs;
  - qualitative characteristics that information included in GPFRs will need to possess – these are attributes that make information included in GPFRs useful to users for the achievement of the objective of financial reporting; and
  - reporting entity – that is, the characteristics that public sector entities that prepare GPFRs in accordance with IPSASs are likely to possess and how the boundaries of a group reporting entity should be drawn.
- I5. Other Consultation Papers will deal with:
  - the definition and recognition of the elements of financial statements and the “the unit of account” – that is, how to identify the elements of financial statements, or groups thereof, that are to be accounted for separately. This Paper will also deal with any definition and recognition issues that may arise

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in respect of additional information that may be presented within GPFRS, 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
- 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 GPFRs.

- I6. The IPSASB encourages public sector entities to adopt the accrual basis of accounting, but acknowledges that many public sector entities currently adopt the cash basis of accounting (or a near cash basis). As part of the Framework project, the IPSASB will consider the concepts that underpin the cash basis of financial reporting.
- I7. The IPSASB's standards work program is developed after wide consultation and consideration of the need for, and relative priority of, dealing with a particular issue. Whether an IPSAS is developed on matters identified at the conceptual level, and the nature of that IPSAS, will be determined by work program priorities and at the standards development level.
- I8. Strategic themes which underpin the IPSASB's standards work program include the development of public sector specific projects, including convergence with statistical bases of financial reporting where appropriate, and convergence with International Financial Reporting Standards (IFRSs) unless there is a public sector reason for a departure.
- I9. Many of the IPSASs currently on issue are based on International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) to the extent that the requirements of those IFRSs are relevant to the public sector. The current IPSASs therefore draw on concepts and definitions in the IASB's *Framework for Preparation and Presentation of Financial Statements* (the IASB Framework) with modifications where necessary to address public sector circumstances<sup>1</sup>.
- I10. The IASB is currently reviewing its Framework in a joint project with the USA Financial Accounting Standards Board (FASB). The objective of that review is to develop a common Framework that can be used in developing new and revised accounting standards. The initial focus of the IASB-FASB joint project is on financial reporting by business entities in the private sector. In a later phase of the project the applicability of the Framework to financial reporting by not-for-profit entities in the private sector and business entities in the public sector will be considered. However, the IASB Framework will not apply to other public sector entities.

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<sup>1</sup> Consistent with the IPSAS convergence strategy, the accrual IPSASs that 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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- I11. Given the relationship between the IPSASs currently on issue and the concepts and definitions in IASs/IFRSs, and the IPSASB's ongoing IFRS convergence strategy, potential developments in the IASB Framework are being monitored<sup>2</sup>. Where relevant, these developments are identified in this paper. 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.
- I12. The concepts underlying the statistical reporting models, and the potential for convergence with them, will also be considered in the development of the IPSASB Framework.

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<sup>2</sup> The IASB issued 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). An Exposure Draft is anticipated for release in the near future.



## **The Public Sector Conceptual Framework**

### **THE ROLE OF THE FRAMEWORK**

- 1.1 The Public Sector Conceptual Framework (the Framework) establishes the concepts that underpin financial reporting by public sector entities that adopt the accrual basis of financial reporting. These concepts will be applied by the International Public Sector Accounting Standards Board (IPSASB) in the development of International Public Sector Accounting Standards (IPSASs) and other guidance applicable to the preparation and presentation of general purpose financial reports (GPFRs) of public sector entities.
- 1.2 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 relevant to public sector financial reporting;
  - 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.
- 1.3 The Framework can also:
- provide guidance to preparers and auditors in dealing with financial reporting issues not dealt with by IPSASs or other guidance issued by the IPSASB;
  - assist users in interpreting the information included in GPFRs; and
  - enhance communication between the IPSASB and its constituents - because the conceptual underpinnings of IPSASB decisions, and the parameters within which the IPSASB operates, will be apparent. This will assist members of the financial reporting community to better participate in the standards setting process.

### **AUTHORITY OF THE FRAMEWORK**

- 1.4 Authoritative requirements relating to the transactions, events and activities reported in GPFRs and their recognition, measurement and disclosure are specified in IPSASs. The IPSASB adopts a due process for the development of IPSASs that provides the opportunity for comment by all interested parties.
- 1.5 The Framework will not establish new authoritative requirements for financial reporting by public sector entities that adopt IPSASs, nor will it override the requirements of existing IPSASs. If an IPSAS currently 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 IPSAS will apply.

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- 1.6 The IASB-FASB have not reached a common conclusion on the authoritative status of their revised Frameworks but have agreed that they will not override existing financial reporting standards.
- 1.7 While the IPSASB Framework will be of lesser authority than that of an IPSAS developed to deal with a specific transaction or event, it will be a relevant source of guidance to management in selecting accounting policies to deal with circumstances not specifically dealt with in an IPSAS. In dealing with these circumstances, public sector entities will refer to, and consider the applicability of, the definitions, recognition criteria, measurement principles and other concepts identified in the Framework.

***IPSASB Preliminary View 1***

The Framework will not establish new authoritative requirements for financial reporting by public sector entities that adopt IPSASs, nor will it override the requirements of existing IPSASs.

In selecting accounting policies to deal with circumstances not dealt with in IPSASs or other guidance issued by the IPSASB, management will refer to, and consider the applicability of, the definitions, recognition criteria, measurement principles and other concepts identified in the Framework.

**APPLICABILITY: PUBLIC SECTOR ENTITIES OTHER THAN  
GOVERNMENT BUSINESS ENTERPRISES**

- 1.8 The Framework is being developed for financial reporting by public sector entities other than Government Business Enterprises (GBEs). Therefore, it applies to GPFRs of national, state, provincial or local governments and a wide range of other public sector entities, including government departments and agencies and public sector social security funds. It also applies to other entities including international governmental organizations that prepare GPFRs in accordance with IPSASs.
- 1.9 IPSAS 1 *Presentation of Financial Statements* (paragraph 7) defines a GBE as “an entity with the following characteristics:
- is an entity with the power to contract in its own name;
  - has been assigned the financial and operational authority to carry on a business;
  - sells goods and services, in the normal course of its business, to other entities at a profit or full cost recovery;
  - is not reliant on continuing government funding to be a going concern (other than purchases of outputs at arm’s length); and
  - is controlled by a public sector entity.”
- 1.10 Some GBEs may have limited community service obligations under which they are required to provide goods and services to some individuals or organizations at either no charge or a significantly reduced charge. However, GBEs are in

substance no different from entities conducting similar business activities in the private sector. Therefore, GBEs apply IFRSs. The IASB Framework establishes the concepts that underpin the development of IFRSs.

***IPSASB Preliminary View 2***

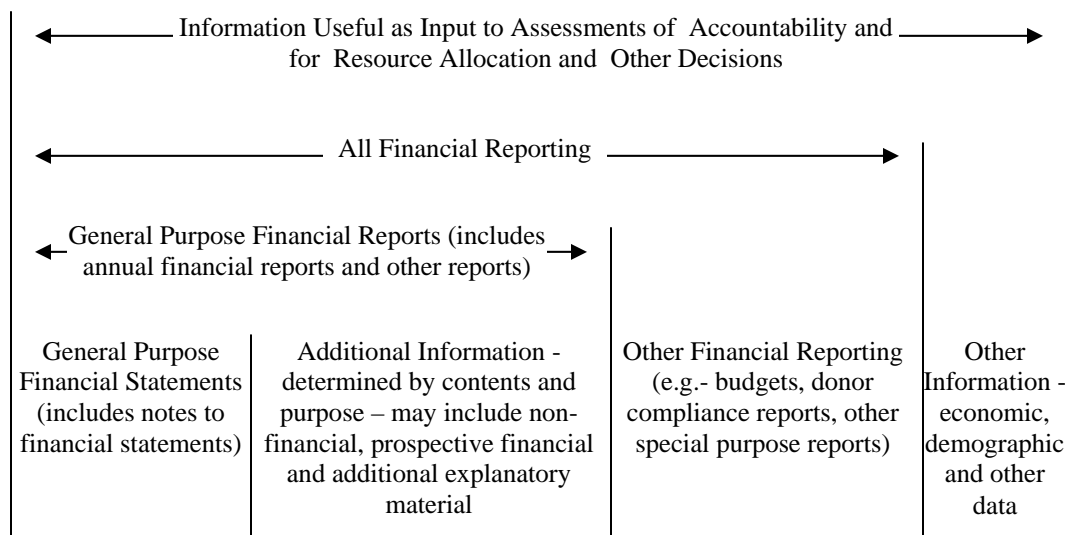
Government Business Enterprises (GBEs) apply IFRSs. The IASB Framework, which establishes the concepts that underpin the development of IFRSs will apply to GBEs.

**GENERAL PURPOSE FINANCIAL REPORTS (GPFRS)**

- 1.11 GPFRs are financial reports intended to meet the common information needs of a potentially wide range of users who are unable to demand the preparation of financial reports tailored to meet their specific information needs. These users are reliant on an independent standards-setter to establish appropriate principles for application in the preparation of the financial reports upon which they must rely.
- 1.12 The IPSASB has been established as an independent standards-setter under the auspices of the International Federation of Accountants (IFAC). Its role is to develop high quality accounting standards for use by public sector entities around the world in the preparation of GPFRs.
- 1.13 GPFRs include, but are broader than, financial statements and notes thereto as currently dealt with in IPSASs. GPFRs may provide information about the past, present and the future that is useful to users. They may comprise general purpose financial statements that present financial information about past transactions and other events, prospective financial and other information and non-financial information about the achievement of the entity's service delivery objectives. The scope of financial reporting and information that may be provided by GPFRs will develop and evolve in response to a number of factors including:
  - the changing operating environment faced by entities which prepare GPFRs; and
  - users' need for reliable and relevant information about new and innovative transactions that impact such matters as the assessment of the financial position and performance of the entity, and the discharge of its accountability obligations.
- 1.14 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, users will need to refer to information from sources other than GPFRs. Figure 1 below identifies potential sources of information to meet users' needs.
- 1.15 Some users of financial information 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. 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.

**Figure 1: Information needs of users of GPFRs**



### ***IPSASB Preliminary View 3***

GPFRs are financial reports intended to meet the common information needs of a potentially wide range of users who are unable to demand the preparation of financial reports tailored to meet their specific information needs.

## **DIFFERENTIAL REPORTING**

- 1.16 In some jurisdictions, small entities may not be required to apply all the requirements of complex accounting standards that apply to larger entities.<sup>3</sup> In these cases, differential reporting requirements are said to apply to these classes of entities. This may occur where, for example, small entities do not issue or otherwise incur public debt, or consume or administer material amounts of public resources.
- 1.17 The Framework does not establish different concepts for application to large and small public sector entities. Whether differential reporting requirements should be developed for application by certain public sector entities will be considered in the development of individual IPSASs or in a separate differential reporting project. If initiated by the IPSASB, such a project will include consideration of the circumstances that may give rise to the establishment of differential reporting

<sup>3</sup> For example, the IASB has issued an exposure draft proposing simplified requirements for application in the preparation of general purpose financial statements of small and medium sized business entities in the private sector (SMEs) - *Exposure Draft of a Proposed IFRS for Small and Medium-sized Entities*, (February 2007).

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requirements, including whether the benefits of compliance with all requirements of IPSASs justify the costs, and the principles that may guide the identification of those requirements.

***IPSASB Preliminary View 4***

Differential reporting issues will not be dealt with in the Framework. They will be addressed as matters of application of the concepts at the standards-setting level, and will include consideration of the costs and related benefits of compliance with the requirements of IPSASs for particular classes of public sector entity.

## **The Objective of Financial Reporting**

### **INTRODUCTION**

- 2.1 The objective of financial reporting is at the core of the Framework. It identifies the purpose of financial reporting by public sector entities. The other components of the Framework, and the IPSASs themselves, are developed to respond to the objective.

### **USERS OF GPFRs OF PUBLIC SECTOR ENTITIES**

- 2.2 Financial reporting is not an end in itself. The purpose of financial reporting is to provide information useful to users of GPFRs. Therefore, the objective of financial reporting is determined by reference to users of GPFRs and their information needs.
- 2.3 The IPSASB has reviewed the range of potential users of GPFRs of public sector entities identified by many national standards-setters and other authoritative bodies with responsibility for establishing financial reporting standards for public sector entities. Those potential users include:
- taxpayers, ratepayers and similar “involuntary” resource providers;
  - citizens and other recipients of goods and services from government;
  - the legislature and oversight bodies;
  - elected officials and their staff;
  - donors and other providers of resources on a voluntary basis;
  - national accountants and government statisticians;
  - present and potential institutional and individual lenders, including purchasers of government bonds and other debt instruments;
  - “fee-for-service” consumers of goods and services;
  - suppliers;
  - the media; and
  - representatives of, or advisors to, these user groups.
- 2.4 The IASB-ED/DP identifies present and potential equity investors, lenders and other creditors (and their advisors) as the primary users of GPFRs of business entities in the private sector. It notes 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 (DP, July 2006 paragraph OB12). (*Staff note- to be updated when IASB -ED issued.*)
- 2.5 Some national standards-setters with responsibility for not-for-profit entities in the public and/or private sectors have identified present and potential funders and financial supporters as the primary or defining user groups, and develop the objective(s) of financial reporting to respond to the likely information needs of

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these primary users. In other cases, standards-setters identify broad groupings of potential users and consider the likely information needs common to those broad groups of users.

2.6 The IPSASB is of the view that, as a mechanism for focusing on users' common information needs, the potential users of GPFRs of public sector entities should be identified as:

- recipients of goods and services or their representatives - includes citizens and their representatives, the legislature and oversight or monitoring bodies;
- providers of resources or their representatives - includes “involuntary resource providers” such as taxpayers and ratepayers, “voluntary resource providers” such as lenders, donors, suppliers, fee-for-service consumers, investors and those acting on their behalf, the legislature and elected officials, central agencies, oversight bodies and advisors. This grouping encompasses present and potential funders and financial supporters and other resource providers; and
- other parties including those performing a review service of relevance to all or particular sections of the community - includes the legislature, analysts, government statisticians, the media, and special interest community groups and their representatives).
- These groupings of potential users are not mutually exclusive, for example the legislature acts in the interests of service recipients, resource providers and special interest groups. However, the groupings encompass the full range of potential users and allow for consideration of the different purposes for which users may require information.

***IPSASB Preliminary View 5***

As a mechanism for focusing on their common information needs, the potential users of GPFRs of public sector entities are identified as:

- (a) recipients of goods and services, or their representatives;
- (b) providers of resources, or their representatives; and
- (c) other parties, including those performing a review service of relevance to all or particular sections of the community.

2.7 There are similarities in the potential users of GPFRs of public sector entities and business entities in the private sector. The relationship of some of those users to the reporting entity and their information needs are also similar - particularly in the case of lenders, suppliers and purchasers of government goods and services.

2.8 The IASB-DP/ED, identifies the objective of general purpose external financial reporting of business entities in the private sector as being to provide information useful to present and potential equity investors, lenders, and other creditors in making decisions in their capacity as capital providers. Those decisions include whether and how to allocate resources to a particular entity and whether and how to protect and enhance their investments. It explains that financial reporting

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should provide information useful to capital providers for assessing the entity's ability to generate net cash inflows and management's stewardship. Such information can also be useful to other users of financial reporting. The IASB has not yet considered the applicability of this objective to financial reporting by not-for-profit entities in the private sector or business entities in the public sector. *(Staff note - This will be updated to reference the position in the IASB ED when issued)*

- 2.9 While there are similarities in some users of GPFRs of public and private sector entities and in their information needs, there are differences in the operating objectives of public sector entities subject to the IPSASB's Framework and business entities subject to the IASB Framework. There are also differences in how these entities raise a substantial portion of their funds and the nature and range of decisions that can be made by many funders and consumers of the goods and services they provide.
- 2.10 Public sector entities that are subject to the IPSASB's Framework are constituted and funded to provide goods and services to constituents, rather than financial returns to equity investors and other capital providers. They do not operate in competitive markets and are not subject to market pressures on the nature, volume and cost of their service delivery activities, albeit that some goods and services they provide may also be provided by private sector entities – for example, by private hospitals as well as public hospitals or private schools as well as public schools. As such, the performance of these entities will not be fully or adequately reflected in measures of their financial result or changes in their net assets. Information about the achievement of the service delivery objectives of these entities, as well as financial information about such matters as their financial position and changes therein and cash flows, will be necessary input to assessments of their operating performance during any reporting period.
- 2.11 The legislature can make or influence decisions about the resources allocated to support the delivery of particular goods and services, and the "investment" made in the government departments, agencies or other entities used for such purposes. Lenders, creditors and donors can make decisions about whether to provide resources and, within certain constraints, withdraw those resources from the government or a public sector entity. However, decision making for taxpayers, rate payers and many consumers of the goods and services provided by public sector entities is often limited to decisions about their voting preferences, or representations they make to elected or other officials and oversight bodies. For example:
- present and potential investors in private sector business (and other) entities have the discretion of whether to invest in the entity, but taxpayers, rate payers and certain other resource providers to government entities do not – they provide funds on an involuntary basis and cannot choose to "invest" or "disinvest" in the government or public sector entity;
  - donors and providers of development and other assistance provide resources on a voluntary basis to public sector entities, but do not expect goods and



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services of approximately equal value in return, or a financial return on the resources they provide. However, they do expect that resources will be used for the purposes intended and with the outcomes anticipated – that is, there are compliance and performance conditions attached to the resources provided;

- taxpayers, rate payers and other citizens and residents receive goods and services from the government or a government entity but (except for some 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; and
- consumers of the goods and services provided by most private sector business 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.

2.12 These differences will influence, and be reflected in, the purposes for which users of GPFs of public sector entities need information and the nature of the information provided consistent with those purposes. They will also influence the nature of the reporting obligation of public sector entities and be reflected in the objective(s) of financial reporting by them.

**THE INFORMATION NEEDS OF USERS**

2.13 Governments and other public sector entities raise resources from taxpayers, ratepayers and other resource providers for use in the provision of goods and services to citizens and other service recipients. They are accountable to those that provide them with resources and to those that depend on them to use those resources for delivery of necessary goods and services. Accountability has been defined for common usage in many dictionaries and, in respect of its application to financial reporting, in the accounting literature. While the wording may differ, those definitions have common themes that are reflected in the following definition: “The obligation of evidencing good management, control, or other performance imposed by law, regulation, agreement, or custom.”<sup>1</sup>

2.14 This Framework reflects the view that constituents have a right to information about the financial resources raised and used by public sector entities in the provision of goods and services, and that governments and other public sector entities have an obligation to report information about those resources, and the efficiency and effectiveness of their use in providing goods and services, to constituents to justify the raising of resources from them. Such information is necessary for accountability purposes, will inform public debate and provide input to decision making by users of financial reports.

2.15 For a government or other public sector entity subject to the Framework, the discharge of accountability requires reporting to constituents on the stewardship

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<sup>1</sup> [Kohler’s Dictionary for Accountants (1983) p.7]

**Objective**

- of public resources. That includes reporting information that will enable users to form judgments about such matters as the extent to which the entity has discharged its responsibilities with respect to the safekeeping and the management of public resources, the efficient and effective use of those resources in the achievement of specified service delivery objectives, and compliance with relevant budgetary, legislative and other controls regulating the raising and use of public monies.
- 2.16 In an environment where the majority of resources are provided on an involuntarily basis by taxpayers and ratepayers, the discharge of accountability by public sector entities involves transparency about the entity's likely resource needs and service delivery objectives in the future, as well as how it financed its current operations and the extent to which the funding and service delivery objectives reflected in prior period's budget were achieved. Most governments make their approved budgets for the forthcoming annual or other period publicly available. In some cases, they also publish projections of their medium or long term expenditure plans and other forecast financial information. The approved budget reflects the financial characteristics of the government's (or other entity's) plans for the forthcoming period and establishes the authority for expenditure of public monies. Reporting against that budget is a key tool for the discharge of a government's accountability to its constituents.
- 2.17 Some users of GPFRs such as the legislature, lenders and donors have the capacity to make or influence decisions about the allocation of resources to particular entities or programs on an ongoing basis. These users will require information for accountability purposes and, as appropriate, as input to the formulation of government policy initiatives and decisions about the resources they will allocate to particular entities in the future.
- 2.18 Citizens and other potential users of GPFRs have little direct or immediate capacity to make resource allocation decisions in respect of a particular reporting entity on an ongoing basis. However they can make decisions about such matters as their voting preferences and representations they make to elected officials or other representative bodies – these decisions may have resource allocation consequences for certain public sector entities. In some cases, they can also make decisions about personal circumstances such as choice of school for their children or health service provider. In most cases, these decisions will not be made directly in response to information included in GPFRs – for example, voting decisions may be made only on a three or four year basis and involve consideration of a wide range of factors, and other decisions may also be episodic and influenced by information outside GPFRs. However, information about such matters as the entity's management and use of public resources, its achievement of service delivery objectives in the past and its likely future resource needs and service delivery objectives that is provided in annual or other GPFRs to support the ongoing discharge of accountability obligations will also contribute to and, cumulatively, inform decision making. Therefore, these users will also require information for accountability purposes and as input to political and social decision making purposes.

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- 2.19 The information users will need for accountability purposes and as input for resource allocation, political or social decision making purposes are considered below.
- 2.20 Recipients of goods and services or their representatives will require information about:
- the resources raised by the government or other public sector entity during the reporting period and amounts used in the provision of particular classes of goods and services;
  - the volume, types and costs of goods and services provided during the period, and whether service delivery was consistent with the quantity, quality and frequency prescribed by approved budgets, enabling legislation, or other authority governing the raising and use of public monies;
  - the entity's anticipated future service delivery activities and objectives, including:
    - the resources to be allocated for the delivery of particular classes of goods and services in future periods and the likely sources of those resources; and
    - the level of service delivery intended for existing goods and services in the future, the anticipated cost and sources of cost recovery.
- 2.21 Recipients of goods and services will require this information as input to assessments of whether the entity is using resources economically, efficiently, effectively and as intended; whether such use is in their interests; and 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. 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 and the amount of resources that should be 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 public sector entity or, where such an alternative exists, a private sector supplier.
- 2.22 Resource providers or their representatives will require information about:
- the amount and type of resources raised by the government or other public sector entity during the reporting period and the resources available to support operations in the future;
  - the amount and type of resources used in the provision of goods and services, the acquisition of capital assets or the repayment of debt or for other purposes;
  - whether the use of resources was consistent with approved budgets, enabling legislation, or other authority governing the raising and use of public monies or as otherwise specified in funding agreements;

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- the nature, volume and cost of goods and services provided during the period; and
- the entity's anticipated future service delivery activities and objectives, including the resources necessary to support the intended level of service delivery in future periods and the likely sources of those resources.

2.23 Resource providers will require this information to enable them to form judgments about such matters as whether the entity is achieving the objectives established as the justification for the resources raised during the reporting period, whether it funded current operations from funds raised in the current period from taxpayers and ratepayers or from borrowings or other sources, and whether its resource needs are likely to increase or decrease in the future and the likely sources of those resources. Donors will require information to confirm that monetary and non-monetary assets provided for specific purposes were used for those purposes and that the outcomes were as anticipated. Lenders and creditors will require information as input to assessments about the liquidity of the entity and to confirm expectations that the amount and timing of repayment will be as agreed. This may influence the voting preferences of taxpayers and the representations they make to elected or other representatives about the amount of resources to be raised in the future and allocated to particular programs or entities, and how efficiently and effectively resources have been used in the past. It may also influence:

- decisions of elected officials, including parliaments and similar representative boards, councils or chambers, about the allocation of resources to support the provision of current or additional programs for the provision of goods and services;
- expectations of the capital markets about the demand for debt financing by governments, and the pricing of that debt;
- decisions of donors and other voluntary resource providers about whether continued support for the activities of the program or entity is warranted; and
- expectations of fee-for-service consumers, 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.

2.24 Other parties including those performing a review service of relevance to all or particular sections of the community will require information about:

- the volume, types and costs of goods and services provided to constituents (or particular subgroups thereof) during the period, and whether this was as prescribed by approved budgets or other authority or agreement relating to service delivery;
- the amount, nature and changes in resources and claims to them during the period and the resources allocated to the provision of particular classes of goods and services during the reporting period; and

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- the anticipated future service delivery activities and objectives and the resources to be allocated to support those activities.
- 2.25 These parties will require this information to enable them to confirm that goods and services were made available to constituents as intended during the reporting period; to anticipate the level of service delivery and related resource needs in future periods; and to form judgments about such matters as the extent to which public monies are used efficiently and effectively in the interest of the community, or sections thereof. This information will also be required as input to the compilation of national accounts and statistical financial reporting models and assessments of the impact of government policies on economic activity. It will also facilitate international comparisons of such matters as resources allocated to the provision of particular goods and services, sources of funding for government activities and the level of government debt.
- 2.26 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.

**THE OBJECTIVE OF FINANCIAL REPORTING**

- 2.27 The information needs of the user groups identified above overlap since, to some extent, they are all interested in information about such matters as:
- the types and amount of resources currently available for provision of goods and services in future periods and claims against them;
  - the amount, sources, and uses of resources raised during the reporting period;
  - the cost of goods and services provided during the period and the amount and sources of cost recovery during the period, including the amounts recovered from taxpayers, ratepayers, fee-for-service consumers and donors;
  - whether resources have been used economically, efficiently and effectively and in accordance with approved budgets and other authority that justified the raising and use of resources from, or on behalf of, taxpayers, ratepayers and other involuntary resource providers;
  - the entity's performance in achieving its service delivery objectives, including quantitative and qualitative aspects of its service delivery achievements;
  - anticipated future service delivery activities and objectives of the entity, including prospective financial information about their anticipated cost and the amount and sources of the resources that will be allocated to their provision; and
  - financial and other information useful in assessment of the sustainability of government operations and programs, and at what level.
  - They will also require additional explanatory information to support assessments of the efficiency and effectiveness of operations and to place in

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context financial and other information about the achievements of the entity during the reporting period and its future plans and objectives.

- 2.28 Users will require this information for accountability purposes - that is, to assist in assessing the extent to which managers have discharged their responsibilities with respect to the provision of particular goods and services and the achievement of specified service delivery objectives, the management of public resources and compliance with relevant budgetary, legislative and other controls regulating the raising and use of public monies.
- 2.29 They will also require the information as input for resource allocation, political or social decision making purposes – that is, for making decisions about the allocation of resources under their control, decisions about their voting preferences or representations they make to elected officials or other representative bodies, and decisions about personal circumstances such as choice of school for their children or health service provider for the family.
- 2.30 GPFRs have a significant role in communicating information necessary to support the discharge of a government's or other public sector entity's obligation to be accountable, as well as providing information useful as input for economic, political or social decision making purposes. For example GPFRs can provide in "conventional" financial statements and notes thereto information about financial position as at reporting date and financial performance, cash flows and changes in net assets during the reporting period. GPFRs can also provide non-financial information about service achievements during the reporting period and prospective financial and other information about the entity's plans and objectives for service delivery in the future and the anticipated amount and sources of the resources to support that delivery.
- 2.31 However, GPFRs may not provide all the information users require for accountability and economic, political and social decision making purposes. Users of GPFRs will also need to consider information from other sources including reports on current and anticipated economic conditions and other relevant matters, government budgets and forecast data and information about policy initiatives not reported in GPFRs. Figure 1 at paragraph 1.16 indicates the wide range of financial and other information about the reporting entity's past, present and future activities and performance that users are likely to need for accountability and decision making purposes, and the potential sources of that information.
- 2.32 Conventionally, general purpose financial statements and notes thereto report information about the financial results of transactions and other events that have occurred. The extent to which GPFRs will respond to users' information needs for additional information about the entity's achievement of its service delivery objectives and its future service delivery plans and projected resource needs, and the nature of that response, will be dependant on what is included within scope of financial reporting. The scope of financial reporting is considered in the next section. Definitions of the elements of financial statements and other matters presented in GPFRs, and mechanisms for their display, will be considered in other Consultative Papers issued as part of the Framework Project

**Objective**

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The objective of financial reporting by public sector entities is to provide information about the reporting entity useful to users of GPFRs for accountability purposes and for making resource allocation, political and social decisions.

## **The Scope of Financial Reporting**

### **INTRODUCTION**

- 3.1 The scope of financial reporting establishes the boundary around the transactions, events and activities that may be reported in GPFRs. The scope is developed in response to the information needs of users and the objective of financial reporting derived from those information needs.
- 3.2 GPFRs report on the results of transactions, events and activities that have been entered into, undertaken by or otherwise affect the reporting entity, and the achievement of the entity's service delivery and other objectives. GPFRs may also provide financial and other information about the entity's future service delivery activities and objectives, and anticipated resource needs. While financial reporting provides information about the results or anticipated results of government policy, it does not encompass involvement in matters of policy formulation - except to the extent that information reported in GPFRs informs the process of policy formulation.

### **THE SCOPE OF FINANCIAL REPORTING**

- 3.3 To respond to the information needs of users, GPFRs will report information about the economic resources of the entity and claims to those resources (financial position) and transactions and other events that change those resources and claims to them (financial performance and cash flows). GPFRs will also report information about, for example, the entity's service delivery achievements during the reporting period, compliance with budgets and other authority relating to the expenditure of public monies, and future service delivery activities and objectives and the resources needed to support those activities and objectives. Explanations from the entity's management or governing body will enable users to better understand, and place in context, the financial and other information provided by GPFRs. Information that may be included within the scope of financial reporting and presented in GPFRs is considered further below.

#### **Financial Position**

- 3.4 Information about the economic resources of the entity (its assets), claims to those economic resources (its liabilities) and the net assets/equity of the entity will enable users of GPFRs to identify:
- the resources that are available for the provision of goods and services at reporting date and changes in them during the period, including any redeployment of resources that has occurred consistent with changing policy priorities;
  - the increase or decrease in the economic resources, and classes thereof, 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; and



**Scope**

- the nature and amount of claims to 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.

**Financial Performance**

- 3.5 The provision of goods and services to constituents, the raising of resources from them and a range of other events, such as changes in interest rates, will have consequences for the economic resources of the entity and claims to them during the reporting period. These transactions and other events will impact on the entity's financial performance as presented under the accrual bases of accounting. For example, the provision of goods and services during the reporting period will involve the consumption of cash and other economic resources; amounts received or receivable as taxes and user charges for the reporting period will increase cash and receivables; and changes in interest rates can change the cost of servicing debt or the return from cash deposits and other investments.
- 3.6 Information about the financial performance of the entity during the reporting period will inform assessments of the nature and reasons for changes in financial position and whether the entity has acquired and used resources economically and efficiently in achieving its service delivery and other objectives. Information about the costs of service delivery and the amount and sources of cost recovery will enable users to determine whether operating costs were recovered from taxes, rates, user charges, donor contributions, transfers from other levels of government, or through the issuance of debt.

**Cash Flows**

- 3.7 Information about the entity's cash flows contributes to assessments of financial performance and the entity's liquidity and solvency. It indicates how the entity raised and used cash during the period, including its borrowing and repayment of borrowing, its capital transactions, transfers it makes to and receives from other levels of government and cash dividends it receives from government business enterprises and other investments. Information about cash flows can also support assessments of the entity's compliance with spending mandates expressed in cash flow terms.

**Compliance**

- 3.8 Governments and other public sector entities are accountable to constituents for their use of the resources raised from them, or raised or provided on their behalf. The inclusion in GPFRs of information to assist users in assessing the entity's adherence to relevant legislation or regulation and compliance with legally adopted or approved budgets used to justify the raising of monies from taxpayers and ratepayers will complete the accountability cycle.<sup>1</sup>

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<sup>1</sup> IPSAS 24 "Presentation of Budget Information in Financial Statements" requires entities which make publicly available their approved budget(s) to disclose budget and actual information for accountability purposes.

**Scope**

**Service Delivery Achievements**

- 3.9 Information about the outputs and outcomes of the entity's service delivery activities is necessary for assessments of the entity's achievement of its service delivery objectives. In some cases, quantitative measures of outputs and outcomes will provide relevant information about the achievement of these objectives – for example, information about the cost, volume and frequency of service delivery and the relationship of services provided to the resource base of the entity. However, in other cases, the results of service delivery activities may only be communicated by explanatory material about the quality of particular services or the outcome of certain social support programs.
- 3.10 Reporting financial and non-financial information about service delivery activities and achievements during the reporting period will provide input to assessments of the economy, efficiency and effectiveness of operations of the entity. The provision of this information is necessary for the entity to discharge its obligation to be accountable for its performance in achieving its service delivery objectives. This information will also provide input to the legislature, other authoritative body or donors in confirming past decisions about the allocation of resources, and for making decisions about the allocation of resources to particular entities and programs for the delivery of goods and services in the future.

**Prospective Financial and Other Information**

- 3.11 Decisions made in a particular period about programs for the delivery of goods and services in the future can have significant consequences for:
- constituents who are, and will be, dependent on those goods and services in the future; and
  - current and future generations of taxpayers, ratepayers and other involuntary resource providers who will provide the taxes, rates and levies to fund the planned service delivery.
- 3.12 The presentation of information about the entity's anticipated future service delivery activities and objectives, their likely impact on the future resource needs of the entity and the likely sources of such resources will enhance the accountability of the entity and provide additional information for decision making purposes.
- 3.13 Prospective financial information provided in GPFRs can encompass information about the anticipated future financial consequences of past transactions and events, including consequences that are not reflected in the financial statements. It can also encompass information about transactions and other events and activities which have not yet occurred but may, or are anticipated to, occur in the future consistent with existing government programs, policies and initiatives, including those that underpin government budgets and forecasts.
- 3.14 In some jurisdictions, in the interests of enhancing transparent reporting, governments and government agencies may currently elect to, or be directed to, present future oriented information about the anticipated outcomes of government

**Scope**

programs or policies as GPFRs. They may also present financial and other information about the fiscal sustainability of existing government programs that are to be operated over the long term, including the anticipated costs of the programs and the tax revenues and other resources that will need to be generated in the future to fund them. In these circumstances, the presentation of prospective financial and other information will be within the scope of financial reporting.

**Explanatory Material**

- 3.15 The inclusion in GPFRs of explanatory material from management or a governing body about 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 will assist users to better understand the information provided.
- 3.16 Information provided in GPFRs will include estimates and expectations about the outcome of certain transactions and events that have occurred, and the anticipated outcomes of future activities and service delivery objectives. Explanation of the assumptions and major uncertainties underlying amounts recognized in the financial statements and other information presented in GPFRs, and methods used in compiling such information, will also assist users in evaluating the information provided.

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The scope of financial reporting encompasses the provision of financial and non-financial information about:

- the results of transactions, events and activities that were undertaken by, or otherwise affected, the reporting entity during the reporting period; and
- prospective financial and other information about the reporting entity's future service delivery activities and objectives and the resources necessary to support those activities.

- 3.17 The methods of presentation and display of information in GPFRs, including what information will be presented in the financial statements and other forms of presentation and communication will be considered in other components of the Framework. Methods of presentation and display will also be prescribed in individual IPSASs and, as appropriate, will be responsive to the nature of the reporting entity and its operating objectives. Similarly, while the scope of financial reporting will not differ dependent on the frequency with which GPFRs are presented, the information to be included within annual and interim GPFRs will be considered in the development of IPSASs and at the standards development level. The qualitative characteristics that financial reporting information is to possess will also constrain and condition the information that may be presented in GPFRs.
- 3.18 The IASB has not yet issued a DP or ED dealing with the information spectrum that might be included within the scope of financial reporting. However, the IASB DP/ED dealing with the objective of financial reporting proposes that financial reporting should disclose information about the economic resources of the entity

**Scope**

and claims to those resources (financial position), the effects of transactions and other events that change those resources and claims to them during the reporting period (financial performance reflected by accrual accounting and by cash flows), other changes in resources and management explanation. The DP/ED also explains that the Framework is being developed for general purpose external financial reporting, which is broader than financial statements and may encompass financial and non-financial information communicated by means other than traditional financial statements. The nature of additional information that might be presented in GPFRs including “environmental sustainability or social information”, “prospective information or forecasts” and “cash flow forecasts” will be considered at a later phase of the project. (IASB-DP paragraphs BC1.3 – 1.7).

**IMPLICATIONS FOR THE IPSASB’S STANDARDS-SETTING PROGRAM**

3.19 Information presented in financial statements and notes thereto remains at the core of financial reporting. Consequently, the standards development work program of the IPSASB will continue to respond to users’ needs for better financial reporting of existing transactions and events, and relevant information about new and innovative transactions and events that impact the financial position, financial performance and cash flows of the entity.

3.20 Acknowledging that reporting on particular transactions, events or activities may be within the scope of financial reporting does not mean that it is inevitable that an IPSAS will be developed to direct reporting on the matter. However, to respond to users information needs and the scope of financial reporting as proposed in this Framework, it is likely that the IPSASB will need to provide guidance on presentation of information about the following in GPFRs:

*Performance Reporting - achievement of service delivery objectives*

3.21 Governments and their entities operate primarily to improve the economic and social well being of their constituent by the provision of a range of needed goods and services over the short, medium and long term. The inclusion in GPFRs of information about, for example, the service delivery objectives of the entity and its performance in achieving those objectives provides a more comprehensive picture of the entity’s performance and responds to users’ information needs.

3.22 Governments and other public sector entities routinely compile and report a range of measures of their service delivery performance. These may include quantitative measures of planned and actual outputs and their related costs, and explanations of their intended and actual outcomes. Performance reporting in GPFRs also continues to develop, with standards-setters in some jurisdictions providing guidance on the reporting of service delivery objectives and accomplishments and the characteristics that performance measures included in GPFRs should possess. IPSASs currently do not provide guidance on information that should be reported in GPFRs about the entity’s service delivery performance and achievements. However, the IPSASB’s work program identifies performance reporting as a project for development in the future.

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*Prospective financial and other information*

- 3.23 The inclusion in GPFRs of prospective financial and other information is consistent with the objectives of financial reporting, and within the scope of financial reporting as proposed in the IPSASB's Framework. Prospective information may be provided about particular aspects of an entity's operations, such as a particular program, or may reflect more broadly the anticipated financial position, performance or compliance of the entity or its service delivery objectives. Prospective information may be based on an extrapolation of existing policies, programs and conditions, may be based on assumptions of future events that are reasonably expected to occur, or may be forecasts of outcomes that may arise if circumstances change or possible, but less likely, events occur. The "quality" and usefulness of such information to users will be dependent on such matters as the manner of its presentation in GPFRs and the assumptions that underpin it and their explanation - including information about its sensitivity to, for example, changes in community needs for particular services, government policy, economic conditions or changes in other key factors.
- 3.24 IPSASs do not currently require the disclosure of prospective information about such matters as an entity's service delivery objectives or resource needs. Governments and other public sector entities may elect to, or be directed to, present future oriented financial and other information about the anticipated outcomes of government programs or policies in GPFRs. IPSASs currently do not include guidance on the characteristics that such information should possess if reported in GPFRs, or the explanatory and other information that should be presented to better enable users to understand and evaluate such information. A project dealing with the presentation of prospective financial information is not currently identified on the IPSASB's work program.

*Long term fiscal sustainability reporting*

- 3.25 Where government programs are to be operated to provide benefits to constituents over the long term, the discharge of accountability obligations in GPFRs encompasses the provision of information about the anticipated long term consequences of those programs. Such information will include the services to be provided by the programs and their cost, and the tax revenues and other resources that will need to be generated in the future to fund them. Information about the likely future resource needs for continued operation of those programs at existing levels will also provide input to decisions some users of GPFRs may make about whether to support continued operation of the program and at what level, or to advocate changes to a government's service delivery priorities.
- 3.26 Governments in many jurisdictions already disclose information about the cost and revenue implications of particular programs in the form of medium and long term expenditure frameworks. Some governments also 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"

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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.

- 3.27 Financial statements report such matters as the assets and liabilities of the entity at reporting date and the cash flows, revenues and expenses, and changes in net assets/equity, which occur during the reporting period. Although financial statements use estimation techniques to determine liabilities that will not be settled until future reporting periods, they focus primarily on past events. In addition, they do not recognize as an asset prospective inflows of future tax revenue and other revenues anticipated to be generated to support the entity's activities in the future.
- 3.28 The IPSASB has formed a view that the financial statements of an entity cannot satisfy all the needs of users in assessing the future viability of social benefit programs<sup>2</sup>. It has recently actioned a project directed at strengthening the reporting of long terms fiscal sustainability in GPFRs<sup>3</sup>.

*Explanatory material*

- 3.29 The role and importance of explanatory material is likely to increase as the scope of financial reporting extends beyond financial statements to encompass performance reporting and the presentation of prospective financial and other information. Explanatory material will be necessary to, for example, place information provided 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 the achievement of service delivery objectives and compliance with budgets and other relevant authoritative regulation and requirement.
- 3.30 In recognition of the potential for such commentary to enhance (or degrade, if compiled inappropriately) the value and usefulness of information included in GPFRs, the IPSASB has initiated the preparation of a project brief on "narrative reporting" to provide guidance on explanatory material that may be included in GPFRs.

*Other potential developments in the scope of financial reporting*

- 3.31 The scope of GPFRs as proposed in the IPSASB Framework may encompass reporting on additional transactions and events that respond to users information needs and are consistent with the achievement of the objective of financial reporting. These may include for example reporting information about additional environmental and social matters not specifically identified above, including the organization's sustainable development over a specified period<sup>4</sup>.

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<sup>2</sup> IPSASB Project Brief "Long-Term Fiscal Sustainability Reporting" (March 2008, paragraph 2)

<sup>3</sup> IPSASB Consultation Paper "Social Benefits: Issues in Recognition and Measurement" (March 2008).

<sup>4</sup> An Information Paper issued by the Professional Accountants in Business Committee (PAIB) of IFAC notes the increasing demand for reporting on sustainability as part of transparent reporting by public and private sector entities. (*Professional Accountants in Business – At the Heart of Sustainability* August 2006- *Executive Overview*). The Global Reporting Initiative (GRI), an official collaborating centre of the United Nations Environment Programme (UNEP), has developed sustainability reporting Guidelines

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The scope of financial reporting should evolve in response to user information needs as reflected in the objectives of financial reporting.

***Specific matters for comment***

The IPSASB would welcome comment on additional projects that should be included on its active work program to respond to users' information needs, and the relative priority of those projects.

- 3.32 The objectives of public sector entities that 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. The provision of non-financial information about service delivery objectives and achievements, and explanatory material about factors that have influenced the entity's operations and achievements are necessary for the discharge of accountability – that is, to account for and justify the use of the financial resources raised from taxpayers, ratepayers and other resource providers. Decisions about the allocation of resources to these entities are also made, at least in part, in response to non-financial information about service delivery objectives, outputs and outcomes. Therefore, the disclosure of non-financial information in GPFRs is necessary to achieve the objectives of financial reporting.

***Specific matter for comment***

The IPSASB would welcome comment on whether the description of the Framework as the “Conceptual Framework for Financial Reporting”, and the use of the term “General Purpose Financial Reports” are appropriate, or whether additional terminology or commentary is necessary to reflect that GPFRs can encompass reporting of non-financial and explanatory information?

If you are of that view that other terms should be adopted please indicate what those terms should be.

## **The Qualitative Characteristics of Information Included in General Purpose Financial Reports**

### **INTRODUCTION**

- 4.1 The qualitative characteristics of information included in GPFRs are the attributes that make that information useful to users for the achievement of the objectives of financial reporting – that is, for accountability purposes and for making resource allocation, political and social decisions.
- 4.2 IPSAS 1, *Presentation of Financial Statements* (Appendix B) identifies the qualitative characteristics that currently apply in respect of information included in financial statements prepared in accordance with IPSASs. These characteristics are: understandability; relevance - which encompasses materiality; reliability - which encompasses faithful representation, substance over form, neutrality, prudence and completeness; and comparability. Constraints that impact on the achievement of those characteristics are identified as: timeliness; balance between benefit and cost; and the balance between the qualitative characteristics.
- 4.3 The qualitative characteristics in IPSAS 1 are drawn from, and are substantially the same as, the qualitative characteristics of financial statements in the existing IASB Framework. The IASB-DP/ED has proposed revisions to the qualitative characteristics applicable to decision-useful financial reporting information. (*IASB-ED 2008- staff note: The IASB- ED is about to be released, references to its content in this section will be updated to reflect the ED*).
- 4.4 There are many similarities in the qualitative characteristics currently identified in IPSAS 1 and those proposed by the IASB, and in the explanation of their intent and operation. However there are some differences – for example, the IASB-ED uses the term “faithful representation” rather than “reliability”, and identifies “verifiability” and “timeliness” as separate additional qualitative characteristics. In addition, the IASB-ED classifies relevance and faithful representation as fundamental qualitative characteristics and the remainder as enhancing characteristics, and provides guidance on the order of application of the qualitative characteristics. It also identifies materiality and cost as two pervasive constraints.
- 4.5 The qualitative characteristics identified in the IPSASB Framework and the IASB Framework have the same purpose – to identify the attributes that make information useful to users in achieving the objectives of the financial reporting. The IPSASB is of the view that there is considerable merit in the qualitative characteristics proposed by the IASB and significant benefit in ensuring that, where appropriate for public sector entities, the qualitative characteristics of financial reporting identified by the IPSASB Framework reflect those identified by the IASB Framework.
- 4.6 The qualitative characteristics that information included in GPFRs of public sector entities should possess are identified below. They are based on the qualitative characteristics proposed by the IASB. However, their application, explanation and interpretation differ from those proposed by the IASB in response



to differences in the operating environments of public and private sector entities, and differences in the objectives of GPFRs and the users of those reports in each sector.

## **THE QUALITATIVE CHARACTERISTICS OF INFORMATION INCLUDED IN GPFRS OF PUBLIC SECTOR ENTITIES**

- 4.7 GPFRs provide information about the entity's financial position, financial performance, achievement of service delivery objectives and compliance during a reporting period. GPFRs may also include prospective financial and other information about the entity's anticipated service delivery activities and objectives in future periods, and explanatory material that assists users to understand current performance and future expectations, strategies and goals. Economic phenomena are economic resources of the entity, claims to those resources and transactions and other events and circumstances that change them during a reporting period. Information included in GPFRs depicts economic and other phenomena that exist or have already occurred and prospective financial and other information, in words and numbers.
- 4.8 The qualitative characteristics of information included in GPFRs are relevance, faithful representation, timeliness, understandability, comparability and verifiability. Materiality, cost and achieving an appropriate balance between the qualitative characteristics are pervasive constraints on that information.
- 4.9 These characteristics apply to all information included in GPFRs, including nonfinancial information, prospective financial information and explanatory material or other narrative reporting. However, their interpretation, relative importance and the extent to which they can be achieved may differ dependent on the nature of information included in GPFRs and the degree of uncertainty and qualitative assessment or opinion included therein. For example, the degree of verifiability achievable for prospective financial and other information may be less than is achievable for historical data, and transparency of the underlying assumptions and methodologies adopted for their compilation becomes necessary to achieve faithful representation. Similarly, for narrative reporting which includes management's perception of the factors underlying current performance and factors likely to impact future operations and achievements, comparability with other entities is less important and verifiability may be more appropriately interpreted as the presentation of information to support the explanations, opinions and expectations reported.
- 4.10 Potential directions for developments in the scope of financial reporting beyond traditional financial statements and notes thereto were identified in previous sections of this Consultation Paper. In the development of IPSASs or other guidance dealing with those matters, consideration will be given to the need for additional guidance on the interpretation and application of the qualitative characteristics to those matters.

## **Relevance**

- 4.11 Information is relevant if it is capable of making a difference in the assessment of accountability or the decisions made by users of GPFRs. Information about the transactions, other events or activities that are within the scope of financial reporting is capable of making a difference when it has *predictive value*, *confirmatory value*, or both. Whether information about these transactions, other events or activities is capable of making a difference is not dependent on whether the information has actually made a difference in the past or will definitely make a difference in the future. Information may be capable of making a difference, and thus be relevant, even if some users choose not to take advantage of it or are already aware of it.

### *Predictive Value and Confirmatory Value*

- 4.12 Information about economic and other phenomena that exist or have already occurred can have predictive value as input to predictive processes used to form expectations about the future. In these cases, information itself need not be predictable to have predictive value - predictable information may not have any predictive value. For example, straight-line depreciation of plant and equipment may be predictable from year to year but may not be very helpful in assessing an entity's ability to achieve service delivery objectives. Also, information does not need to be in the form of an explicit forecast to have predictive value - it needs only to be a useful input to predictive processes of use to users of GPFRs.
- 4.13 Information has confirmatory value if it confirms or changes past (or present) expectations based on previous evaluations. Information that confirms past expectations increases the likelihood that the outcomes or results will be as previously expected. If the information changes expectations, it also changes the perceived probabilities of the range of possible outcomes.
- 4.14 The predictive and confirmatory roles of information are interrelated - information that has predictive value usually also has confirmatory value. For example, information about the current level and structure of an entity's economic resources and claims to them helps users to predict an entity's ability to respond to changing circumstances and service delivery needs and to react to adverse situations. The same information helps to confirm or correct users' past predictions about that ability. It will also confirm prospective information about the expected level and structure of such resources included in previous GPFRs.
- 4.15 GPFRs may present information about an entity's anticipated future service delivery activities and objectives, including prospective financial information about their anticipated cost and the amount and sources of the resources that will be allocated to their provision. This information will have predictive value in identifying those future plans, and confirmatory value by providing input to assessments of the extent to which performance in any period reflected the plans and expectations for that period presented in GPFRs of a previous period.

### **Faithful Representation<sup>1</sup>**

- 4.16 To be useful in financial reporting, information must be a faithful representation of the economic and other phenomena that it purports to represent. Faithful representation is attained when the depiction of the phenomenon is complete, neutral, and free from material error. Information that faithfully represents an economic or other phenomenon depicts the substance of the underlying transaction, event, activity or circumstance - which is not always the same as its legal form.
- 4.17 While not separately identified as a qualitative characteristics or component thereof, substance over form remains a key quality that information included in GPFRs must possess. This is because the achievement of faithful representation requires that the substance, and not merely the legal form, of economic or other phenomena be presented in GPFRs.<sup>2</sup>
- 4.18 A single economic or other phenomenon may be represented in multiple ways. For example, the achievement of particular service delivery objectives, or an estimate of the risk transferred in an insurance contract may be depicted qualitatively - for example, a narrative explanation of the immediate and anticipated longer term outcomes and effects of the service delivery program or a narrative description of the nature of possible losses. It may also be presented quantitatively - for example, a measure of the volume of goods and services provided by the service delivery program, or the expected loss. Additionally, a single depiction in GPFRs may represent multiple economic phenomena - for example, the presentation of the item called plant and equipment in a financial statement may represent an aggregate of all an entity's plant and equipment.
- 4.19 A depiction of an economic or other phenomenon is complete if it includes all information that is necessary for faithful representation of the phenomena that it purports to depict. An omission can cause information to be false or misleading and thus not helpful to the users of GPFRs. Prospective financial information and information about the achievement of service delivery objectives and outcomes included in GPFRs must be supportable – it will need to be presented with the key assumptions and explanations that are necessary to ensure that its depiction is complete, it represents faithfully what it purports to represent and it is helpful to users.
- 4.20 *Neutrality* is the absence of bias intended to attain a predetermined result or to induce a particular behaviour. Neutral information is free from bias so that it faithfully represents the economic phenomena that it purports to represent.
- 4.21 Neutral information does not colour the image it communicates to influence behavior in a particular direction. GPFRs are not neutral if, by the selection or presentation of financial information, they influence the assessment of

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<sup>1</sup> IPSASs uses the term “reliability” in a number of IPSASs to, for example, establish the circumstances in which the outcome of transactions will give rise to recognition or disclosure in the financial statements. Its replacement with the term “faithful representation” may precipitate some terminology changes in those standards.

<sup>2</sup> IPSAS 1 identified substance over form as a component of reliability.

**Qualitative Characteristics**

- accountability or the making of a decision or judgment in order to achieve a predetermined result or outcome. However, to require information included in GPFRs to be neutral does not mean that it should be without purpose or that it should not influence behavior - by definition, relevant information is capable of influencing users' assessments and decisions.
- 4.22 The economic and other phenomena represented in GPFRs generally take place under conditions of uncertainty. Therefore, information included in GPFRs will include estimates of various types that incorporate management's judgment. To faithfully represent an economic or other phenomenon, an estimate must be based on the appropriate inputs, and each input must reflect the best available information. Completeness and neutrality of estimates (and inputs to estimates) are desirable, and some minimum level of accuracy is necessary for an estimate to be a faithful representation of an economic or other phenomenon. However, faithful representation does not imply absolute completeness or neutrality in the estimate, nor does it imply total freedom from error in the outcome. For a representation to imply a degree of completeness, neutrality, or freedom from error that is impracticable for it to achieve would diminish the extent to which the information faithfully represents the economic phenomena that it purports to represent. Sometimes it may be necessary to explicitly disclose the degree of uncertainty in financial information to attain faithful representation.
- 4.23 The existing qualitative characteristics in IPSAS 1 identify both "neutrality" and "prudence" as components of reliability. Neutrality focuses on preparers not taking a stance for or against a particular matter or outcome - IPSAS 1 explains "Financial statements are not neutral if the information they contain has been selecting or presented in a manner designed to influence the making of a decision or judgment in order to achieve a predetermined result or outcome." IPSAS 1 explains that prudence is "the inclusion of a degree of caution in the exercise of the judgments needed in making the estimates under conditions of uncertainty, such that assets or revenue are not overstated and liabilities or expenses are not understated." However, the exercise of prudence does not allow for the introduction of bias in information presented in GPFRs, because this would mean that the financial statements would not be neutral or "reliable".
- 4.24 The neutrality of information and the need to exercise caution in dealing with uncertainty remain important characteristics of information presented in GPFRs for accountability and decision making purposes. Prudence is not identified as an essential component of faithful representation because the appropriate features of prudence that were identified in IPSAS 1 are encompassed by, and reflected in, the quality of neutrality. Prudence (or conservatism) has sometimes been interpreted to allow for an introduction of bias in GPFRs - in the interests of not overstating assets or revenues. Neutrality is incompatible with prudence if prudence is interpreted to allow for a bias in information included in GPFRs.

**Understandability**

- 4.25 *Understandability* is the quality of information that enables users to comprehend its meaning. GPFRs of public sector entities should present information in a

## Qualitative Characteristics

manner that is responsive to the needs and knowledge base of their users, and the nature of the information presented. For example, explanations of financial and other information and narrative reporting of achievements and expectations should be written in plain language and presented in a manner that is readily understandable by users. Understandability is enhanced when information is classified, characterized, and presented clearly and concisely. Comparability also can enhance understandability.

- 4.26 Although presenting information clearly and concisely helps users to comprehend it, the actual comprehension or understanding of information depends largely on the users of the GPFRs. Users of GPFRs are assumed to have a reasonable knowledge of the entity's activities and the environment in which it operates, and to be able and prepared to read and review a GPFR. In making assessments and judgments for accountability and decision making purposes, users also should review and analyze the information with reasonable diligence. However, when underlying economic and other phenomena are particularly complex, fewer users may understand the financial information depicting those phenomena. In these cases, some users may need to seek the aid of an advisor. Information that is relevant and faithfully represented should not be excluded from GPFRs solely because it may be too complex or difficult for some users to understand without assistance.

## Timeliness

- 4.27 *Timeliness* means having information available to users before it loses its capacity to be useful for accountability and decision making purposes. Having relevant information available sooner can enhance its usefulness as input to assessments of accountability and its capacity to influence decisions, and a lack of timeliness can rob information of its potential usefulness.
- 4.28 Some information may continue to be timely long after the end of a reporting period because some users may continue to consider it when making decisions. For example, for accountability purposes and as input to resource allocation, political or social decisions, users may need to assess trends in the financial and service delivery performance of the entity, the achievement of planned service levels it reported previously, and its compliance with budgets over a number of reporting periods. In addition, the outcome and effects of some service delivery programs may not be determinable until future periods – this may occur in respect of programs intended to, for example, enhance the economic well-being of constituents, reduce the incidence of a particular disease or increase literacy levels of certain age groups.

## Comparability

- 4.29 Comparability is the quality of information that enables users to identify similarities in and differences between two sets of phenomena. Comparability is not a quality of an individual item of information, but rather a quality of the relationship between two or more items of information. *Consistency* refers to the use of the same accounting policies and procedures, either from period-to-period

### Qualitative Characteristics

- within an entity or in a single period across entities. Comparability is the goal, and consistency is a means to an end that helps in achieving that goal.
- 4.30 Information about the entity's financial position, financial performance, compliance, service delivery achievements, and its future plans is necessary input for accountability and decision making purposes. The usefulness of such information about the entity is enhanced if it can be compared with similar information about other entities (for example, public sector entities providing similar goods and services in different jurisdictions), and with similar information about the same entity for some other period or some other point in time. However, comparability with other entities may be less significant for narrative reporting of management's perception or opinion of the factors underlying current performance of the entity. Consistent application of accounting policies to prospective information about a future period and actuals for that period will enhance the usefulness of any comparison of projected and actual results.
- 4.31 Comparability should not be confused with uniformity. For information to be comparable, like things must look alike and different things must look different. An overemphasis on uniformity may reduce comparability by making unlike things look alike. Comparability of information in GPFRs is not enhanced by making unlike things look alike any more than it is by making like things look different.
- 4.32 Some degree of comparability should be attained by maximizing the qualitative characteristics of relevance and faithful representation. That is, faithful representation of a relevant economic or other phenomenon by one entity should naturally possess some degree of comparability to a faithful representation of a similar relevant economic or other phenomenon by another entity. Although a single economic or other phenomenon can be faithfully represented in multiple ways, permitting alternative accounting methods for the same phenomenon diminishes comparability and, therefore, may be undesirable.

### Verifiability

- 4.33 *Verifiability* is a quality of information that helps assure users that information faithfully represents the phenomena that it purports to represent. Verifiability implies that the information is supportable and that different knowledgeable and independent observers could reach general consensus, although not necessarily complete agreement, that either:
- the information represents the phenomena that it purports to represent without material error or bias; or
  - an appropriate recognition, measurement or representation method has been applied without material error or bias.
- 4.34 To be verifiable, information need not be a single point estimate. A range of possible amounts and the related probabilities also can be verified.
- 4.35 Verification may be direct or indirect. With *direct verification*, an amount or other representation itself is verified, such as by counting cash, checking records of

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- service response times or records of patients treated, or observing marketable securities and their quoted prices. With *indirect verification*, the amount or other representation is verified by checking the inputs and recalculating the outputs using the same accounting convention or methodology. An example is verifying the carrying amount of inventory by checking the inputs (quantities and costs) and recalculating the ending inventory using the same cost flow assumption (for example, average cost or first in, first out).
- 4.36 Verifiability is not an absolute. Rather, the more verifiable is the information included in the financial report, the more useful it is. Some information may be less capable of verification than other information. GPFRs of public sector entities may include narrative information about key influences on the entity's performance during the period, the anticipated future effects or outcomes of service delivery programs undertaken during the reporting period and prospective financial and other information. It may not be possible to verify such information until a future period, if at all. In these cases, the assumptions that underlie and the methodologies adopted in compiling the information, and the factors and circumstances that support any opinions expressed, should be transparent. This will enable readers to confirm that the information represents the phenomena that it purports to represent and form judgements about whether the assumptions that underlie the information presented and the method of compilation, measurement or representation are appropriate.

## CONSTRAINTS ON FINANCIAL REPORTING

### Materiality

- 4.37 Information is material if its omission or misstatement could influence the discharge of accountability by the entity or the decisions that users make on the basis of the entity's GPFRs. Because materiality depends on the nature and amount of the item judged in the particular circumstances of its omission or misstatement, it is not possible to specify a uniform quantitative threshold at which a particular type of information becomes material. When considering whether information is a faithful representation of what it purports to represent, it is important to take into account materiality because material omissions or misstatements will result in information that is incomplete, inaccurate, or biased.

### Cost

- 4.38 Financial reporting imposes costs. The benefits of financial reporting should justify those costs. Assessing whether the benefits of providing information justify the related costs will usually be more qualitative than quantitative. Even the qualitative assessment of benefits and costs often will be incomplete.
- 4.39 The costs of providing information include costs of collecting and processing the information, costs of verifying it, and costs of disseminating it. Users incur the costs of analysis and interpretation. Omission of useful information also imposes costs, including the costs that users incur to obtain or attempt to estimate needed information using incomplete data in GPFRs or data available elsewhere. Preparers expend the majority of the effort toward providing information in

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- GPFRs. However, service recipients and resource providers ultimately bear the cost of those efforts as resources are redirected from service delivery activities to collection of data for inclusion in GPFRs.
- 4.40 Information provided by GPFRs is necessary for the discharge of accountability and helps providers of resources and other users make better resource allocation, political and social decisions. Individual entities can also enjoy benefits including better management decisions because information used internally often is based at least partly on information prepared for GPFRs and, in the case of governments, perhaps lower costs of debt.
- 4.41 For public sector entities it may be necessary to consider whether financial reporting imposes undue cost and effort on the reporting entity as well as, or even rather than, whether the benefit justifies the cost. This is because the objectives of GPFRs encompass the provision of information for accountability as well as decision making purposes and, in these circumstances, the incremental benefits from imposition of additional financial reporting requirements are less capable of quantification than for their private sector counterparts.

*Application of materiality and cost constraints*

- 4.42 Materiality is a pervasive constraint because it pertains to all the qualitative characteristics of information included in GPFRs. For example, materiality should be considered when determining whether information is sufficiently complete, neutral, and free from material error to faithfully represent the economic and other phenomenon that it purports to represent.
- 4.43 Application of the cost constraint involves assessing whether the benefits of reporting information are likely to justify the costs incurred to provide and use that information, or whether financial reporting imposes undue cost and effort on the reporting entity. When making this assessment, it is necessary to consider whether one or more qualitative characteristics might be sacrificed to some degree to reduce cost. When applying the cost constraint to a proposed standard, standards-setters seek information from preparers, users, academics, and others about the expected nature and quantity of the benefits and costs of that standard.

**Balance Between The Qualitative Characteristics**

- 4.44 The qualitative characteristics work together to contribute to the usefulness of information in different ways. For example, a depiction that is a faithful representation of an irrelevant phenomenon is not useful, just as a depiction that is an unfaithful representation of a relevant phenomenon results in information that is not useful. Similarly, to be relevant information must be timely and understandable.
- 4.45 In some cases, a balancing or trade off between the qualitative characteristics may be necessary to achieve the objectives of financial reporting. The relative importance of the qualitative characteristics in each situation is a matter of professional judgement. Generally the aim is to achieve an appropriate balance among the characteristics in order to meet the objectives of financial reporting.



**Qualitative Characteristics**

4.46 The IASB identifies relevance and faithful representation as fundamental qualitative characteristics and the remainder as enhancing qualitative characteristics, and explains the relationship between them. The IPSASB is of the view that those characteristics identified as “enhancing” may be perceived as being less important than those identified as “fundamental”, particularly in those jurisdictions with limited experience in the application and interaction of the current qualitative characteristics in IPSAS 1. The IPSASB is also of the view that the designation of timeliness and understandability as enhancing rather than fundamental is not responsive to public sector circumstances – that is, to be relevant information needs to be both understandable and timely and:

- given the significant delays in presentation of the financial reports of public sector entities in many jurisdictions, there is a need to signal to public sector entities that providing information in a timely manner is a fundamental qualitative characteristic. That relationship between timeliness and relevance is acknowledged in the existing qualitative characteristics in IPSAS 1 – timeliness is identified as both a component of relevance and a constraint on relevant and reliable information; and
- many users of the GPFRs of public sector entities are likely to be less financially sophisticated than their private sector counterparts. This is understandable given the relative recent history of preparation of GPFRs by public sector entities in many jurisdictions. As a consequence, identifying understandability as a fundamental characteristic sends a necessary signal to preparers to be responsive to their user base.

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The qualitative characteristics of information included in GPFRs of public sector entities are:

- relevance, which encompasses predictive value, confirmatory value or both;
- faithful representation, which is attained when depiction of economic or other phenomena is complete, neutral and free from material error;
- understandability;
- timeliness;
- comparability; and
- verifiability.

Constraints on financial reporting are materiality, cost and the balance between the qualitative characteristics.

## **The Reporting Entity**

### **INTRODUCTION**

- 5.1 GPFRs may be prepared in respect of an individual government department, organization or agency, or a program for delivery of particular services. GPFRs may also be prepared to report information useful to users about groups of organizations or activities with a common objective as if they were a single entity (described as a group reporting entity or an economic entity) – for example, a government ministry of health, or the government itself.
- 5.2 In some cases, an organization or group thereof may elect to prepare a GPFR, and in other cases it may be required to do so by legislation, regulation or an authoritative body such as a ministry of finance. For the purposes of the Framework, an organization or activity, or group of organizations or activities, which prepare GPFRs is described as a reporting entity. Therefore, domestic organizations at the national, state/province or local government levels and international governmental organizations that are required to, or elect to, present their GPFRs are reporting entities for the purposes of the Framework.
- 5.3 It is not intended that the Framework identify which organizations or activities, or groups thereof, in any jurisdiction are reporting entities. Such decisions will 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 likely user information needs. However, the Framework will identify the key characteristics that a reporting entity is likely to possess and the basis that is to be adopted for determining the boundary of a group reporting entity.
- 5.4 Requirements relating to such matters as the content, basis of measurement and format of presentation of information included in GPFRs prepared in respect of particular reporting entities will be specified in other components of this Framework and in individual IPSASs. The methods that are to be adopted to combine or consolidate information about the separate departments and organizations that are encompassed within GPFRs of a group reporting entity will also be specified in individual IPSASs.
- 5.5 This section of the Consultation Paper identifies the IPSASB's Preliminary View on the key characteristics that public sector reporting entities are likely to possess. However, it differs from previous sections of the Consultation Paper in that it does not identify the IPSASB's Preliminary View on the basis that should be adopted for determining the boundary of the group reporting entity. The IPSASB has decided that its deliberations on this matter should be informed by input from constituents prior to forming its Preliminary View.
- 5.6 The IASB has not yet issued a Discussion Paper identifying its views on the concept of a reporting entity. However, publicly available material indicates that the IASB is forming a preliminary view that a reporting entity should be described as a circumscribed area of business activity of interest to present and

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potential equity investors, lenders and other creditors. The IASB is also forming a view that the controlling entity model should be used as the primary basis for determining the composition of the group reporting entity, but a common control model may also be appropriate in some circumstances - such as when the controlling entity is not a reporting entity or when a group of individuals collectively control a group of corporations. *(Staff will monitor developments in the IASB-FASB joint project and update.)*

**CHARACTERISTICS OF A REPORTING ENTITY**

- 5.7 The objective of financial reporting is to provide information about the reporting entity useful to users for accountability purposes and for making resource allocation, political or social decisions. Consequently, the key characteristic of a reporting entity is the existence of users that are dependent on GPFRs prepared in respect of them for information for accountability and decision making purposes.
- 5.8 In some cases, government organizations will have a separate identity or standing in law – for example, the government itself, 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. Having a separate identity at law will remove any doubt about the separate existence of the organization and its right to, for example, raise funds, own assets, incur liabilities and administer or use assets consistent with the terms of its operating mandate as specified in legislation, regulation or other enabling authority.
- 5.9 Government organizations and programs that lack separate legal status may also raise, consume, deploy or manage public monies, administer government policy, or be responsible for the provision of goods and services to constituents or particular groups thereof. There may be users dependent on GPFRs of these organizations and programs for information for accountability and decision making purposes. For example, many administrative units (such as government departments) or integrated or related group of activities directed at the provision of particular goods and services (such as government programs) may be organizations or structures that are, or should be, separately accountable to parliament and the community, but do not have separate legal status (for example, they cannot enter contractual arrangements with third parties).
- 5.10 Consequently, a public sector reporting entity may be an entity with a separate legal identity (including a national, state/provincial, local/city government or statutory authority) or other organisational structure or arrangements (including government departments or government programs).
- 5.11 In considering whether a particular organization or activity, or group thereof should prepare GPFRs, it is appropriate to focus on circumstances which are likely to signal that it is reasonable to expect the existence of users who are dependent on GPFRs of the entity for information for accountability or decision making purposes. In many cases, these entities will have the responsibility or

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capacity to raise, administer or deploy public monies and/or incur liabilities in order to achieve their objectives. However, this may not always be the case – for example, some entities may be created with a narrowly defined purpose related to formulation or implementation of some aspects of government policy and may not have the capacity to raise, administer or deploy public monies or incur liabilities. There may be users who are dependent on GPFRs of these entities for information for accountability and decision making purpose.

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The key characteristic of a reporting entity is the existence of users dependant on GPFRs prepared in respect of the entity for information for accountability purposes and for making resource allocation, political and social decisions.

A reporting entity may have a separate identity at law (including a national, state/provincial, local/city government or statutory authority) or be an organisation, activity or administrative arrangement (including government departments or government programs) that lack separate legal status.

**THE BOUNDARY OF A GROUP ENTITY**

- 5.12 A government or government ministry may comprise a number of separate entities such as departments, programs, trusts, statutory authorities and government corporations. Those separate entities will undertake activities consistent with their operating mandate and may control assets, raise revenues and incur expenses and liabilities. The preparation of GPFRs which report information about the government, or the ministry, as a reporting entity requires that information about the activities, resources, achievements and if appropriate plans of those separate entities be presented as a single entity – that is, as a group reporting entity.
- 5.13 A group reporting entity is a reporting entity that comprises two or more separate legal or other entities or organizations that are presented as a single entity. A critical issue in preparing GPFRs for group reporting entities, such as a particular government ministry or for the government itself (referred to as the whole-of government reporting entity), is how to establish the boundary of the group entity to ensure that GPFRs prepared in respect of it provide information that is useful to users for accountability and decision making purposes. Establishing the boundary of a group reporting entity will determine what organizations, resources and activities will be included within the group.
- 5.14 The terms “control basis” or “accountability basis” have been used most commonly by public sector standards-setters and similar authoritative bodies to describe the bases that should be adopted for establishing the boundary of a group reporting entity for general purpose financial reporting purposes.
- 5.15 The control and accountability bases embrace many of the same characteristics. However, the accountability bases acknowledge that in some cases the boundary

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of the reporting entity should be expanded to encompass certain additional organizations that a government or other public sector entity is accountable for but may not be captured by definitions of control – for example, because of the potential of an entity created by the government, but not controlled by it, to benefit the government or to expose it to a financial burden.

- 5.16 Perhaps the most robust explanation of an accountability basis for determining the government reporting entity is provided by the Government Accounting Standards Board (GASB) in the USA. It defines the whole of government reporting entity in the following terms: “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<sup>1</sup>.... A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent on it.” (GASB, Statement No. 14, 1991 page 2)
- 5.17 IPSAS 6 “Consolidated and Separate Financial Statements” (paragraph 7) defines control as “the power to govern the financial and operating policies of another entity so as to benefit from its activities.” It uses the term economic entity rather than group reporting entity and identifies an economic entity as “a group of entities comprising a controlling entity and one or more controlled entities”. IPSAS 6 and other standards which adopt a control basis for determining the boundary of the group entity explain that control arises when both a “power element” (the power to govern the financial and operating policies of another entity, at least at the strategic level) and a “benefit element” (the ability of the controlling entity to benefit from the activities of the other entity) exist. Other key features of the control basis include that<sup>2</sup>:
- the “power” to govern the financial and operating policies of another entity may arise from enabling legislation which established the entity, or formal contractual or other agreement, and is often 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. In the case of GBEs and

<sup>1</sup> The GASB explains that the inclusion of component (c) extends beyond a strict accountability basis, but provides an element of flexibility that may be necessary to ensure that the financial reports of a government are not misleading.

<sup>2</sup> Readers should refer to IPSAS 6 (paragraphs 7 and 28-41) for a full explanation of the circumstances and factors to consider in determining when control arises for financial reporting purposes.

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other entities which adopt a corporate structure, it may arise when the government holds a majority shareholding or other equity interest or a “golden share”<sup>3</sup> (or equivalent) in the entity; and

- the “benefit” may be in the form of rights to a distribution of the surpluses of the controlled entity (such as a dividend from a GBE), or to residual benefits (or liabilities) if the entity is dissolved. The benefit may also be in the form of an ability to direct the other entity to work with the controlling entity to achieve the service delivery objectives of the controlling entity, including provision of services to constituents.

5.18 Other notions raised but not widely adopted by standards setters for establishing the boundaries of the group reporting entity include the majority of risks and rewards basis, common control basis, operations covered by a public budget, and operations with a similar function or purpose. For the most part, GPFRs prepared on a control or accountability basis can present information about the resources, obligations and activities reflected in these other bases<sup>4</sup>. In some cases, consideration of the risks and rewards associated with particular transactions and events, and which party to the transaction or event bears the majority of those risks and rewards, may also be relevant to application of the control and accountability bases.

5.19 A control basis with similar features to that identified in IPSAS 6 is perhaps the most widely used by standards-setters. It appears to respond appropriately to many circumstances in the public sector and to establish the boundary of a group reporting entity consistent with the achievement of the objectives of financial reporting. However, issues in its application continue to arise and it is appropriate to consider whether such a control type basis is appropriate and/or needs refinement or amendment. The more common of those issues are whether:

- there are circumstances in which an entity should be included within the group reporting entity notwithstanding the absence of the “power element” or the “benefit element”;

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<sup>3</sup> “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. A golden share often confers rights to govern the financial and operating policies of that other entity. Whether a “golden share” held by a government in a public corporation will give rise to control over the investee will depend on the powers it provides to the holder - this should be assessed by reference to all relevant circumstances

<sup>4</sup> For example, IPSAS 18 *Segment Reporting* requires entities to disclose information about particular groups of activities; 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 GPFRs at the whole-of-government level; and IPSAS 23 *Disclosure of Budget Information* requires an entity that issues a public budget to present budget and actual information in a financial report.

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- adoption of a control basis results in GPFRs prepared at the “whole-of-government level” which deal appropriately with the financial reporting of the legislature and government entities or officers with separate legislative and statutory powers;
- adoption of the control basis is appropriate in centralized or planned economies, or jurisdictions transitioning to a market economy; and
- there are other circumstances not embraced by the control basis that justify inclusion of an entity within the government group entity.

The remainder of this section outlines the major features of these issues. A specific matter for comment seeks input from readers on whether a control basis such as defined in IPSAS 6 can deal appropriately with these issues, requires modification to do so, or whether a different basis is necessary.

- 5.20 For the most part, the following discussion is framed in terms of whether a “whole-of-government” reporting entity would include the entity within its boundary. This is because the issues identified arise in respect of the whole-of-government reporting entity. However, in particular circumstances the issues may also arise in respect of other group reporting entities.

*Absence of power element*

- 5.21 IPSAS 6 explains that the power to control must be presently exercisable. That is, the entity must already have had this power conferred upon it whether by legislation, formal agreement or other arrangement, or through ownership rights. The power to control is not presently exercisable if it requires changes in legislation or renegotiating of agreements in order to be effective. IPSAS 6 also explains that control will exist when an entity has the power to govern the financial and operating policies of another entity even if it 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.
- 5.22 Consistent with such definitions, GBE’s and sovereign wealth funds<sup>5</sup>, whether described as future funds, infrastructure funds or other funds will be included within the governmental reporting entity when the government has the capacity to, for example, appoint the majority of the governing board of the GBE or the trustees of the fund, even if it chooses not to exercise that power. GBE’s and sovereign wealth funds have the potential to provide significant benefits for, and

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5 State wealth funds or sovereign wealth funds may be established and owned by a government, central bank or other government agency to provide for pension benefits or future infrastructure or other needs. They can represent a significant store of wealth for the government and be of significant economic and fiscal importance in the delivery of a government economic and other policy initiatives. Such funds may be established as state owned investment companies – that is as a GBE. Governments may also establish GBEs for the delivery of other goods and services – for example: a rail authority, government airline or state owned utility companies.

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impose significant burdens on, the government. It is then appropriate that information about them should be presented in GPFRs intended to provide information about the government for accountability and decision making purposes.

5.23 Some commentators have expressed concern that some entities established by governments to fund operations and support service delivery activities may not satisfy the power element of control definitions, but none the less should be encompassed within the whole of government reporting entity - by applying additional accountability criteria in determining of the group reporting entity. That is, the nature of the relationship of these entities to the government and the benefit they provide is appropriately presented by including that entity within the whole of government reporting entity for financial reporting purposes. For example:

- in some circumstances a government may establish an investment fund, or other operating entity, with specific operating objectives. The enabling legislation for the fund or entity establishes all significant financial and operating policies concerning the entity, including investment strategies and deployment of the earnings of the fund, or nature and recipients of services to be provided. These policies cannot be modified. The earnings of the fund will benefit specified government agencies and the services provided by other entities are consistent with government policy. The benefit element of the definition of control is satisfied, but it is questionable whether the power element has been.
- in other cases, a capacity to influence financing or operating policies may not materially impact the level of potential benefits to be provided to the government or public sector entity. This may arise where, for example, an independent special purpose entity is created to issue debt on behalf of a government to fund a specific project and to receive specified revenues from, or provided on behalf of, the government or its constituents for the servicing and repayment of that debt. In such cases, the activities of the entity are effectively limited to collecting rates, taxes or other revenues as specified, paying interest to the debt holders, and undertaking other operations to facilitate this activity. While the government may not have a present capacity to govern operating and financing policies of such an entity, the entity operates for the benefit of the government and raises monies from taxpayers and ratepayers at the direction of the government to service the debt.

*Absence of benefit element - capacity to impose a financial burden*

5.24 IPSAS 6 requires that both the power and benefit elements exist to satisfy the definition of control. Benefits flowing from the controlled entity may be in the form of financial benefits such as rights to participate in the surplus of the other entity or may arise from the governments ability to direct the other entity to work with it to achieve its objectives - including delivery of goods or services to the



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controlling entity or to the public on behalf of the controlling entity. However, a requirement to bear the losses of another entity without the potential to share in any benefits will not give rise to control.

- 5.25 In some jurisdictions, governments may establish separate entities to provide services to the community that are to be funded in part by user charges – however, those charges are established at a level which is not sufficient to sustain the operations of the entity. The government has the capacity to appoint a voting majority of the entity’s governing board or officials of the entity and is legally obligated or otherwise formally assumes an obligation to finance the deficits of the entity, provide financial support to it and/ or underwrite its debt. The form of that financial support may include annual appropriations to meet operating expenditures/expenses of the entity, periodic capital grants, and direct payment of capital expenditures or debt service. Governments may also assign specific incremental taxes to the entity to support its operations. These circumstances may arise in respect of arrangements for the provision of transport facilities, higher education, and healthcare.
- 5.26 In these cases, the power element of the definition of control is satisfied. While the entity will impose a financial burden on the government, its structure and operating conditions are such that it has no prospect of providing a financial benefit to the entity. Some commentators are of the view that in this case the services to be provided by the other entity would not satisfy the “benefits element” in the IPSAS 6 existing definition of control and therefore the entity will not be included within the government reporting entity. This is because, for example, while the government supports the service delivery activities of the entity in the interests of constituents, the government does not have an obligation to provide the services, does not have a right to receive the services (or other benefits) from the entity directly if not provided to the community and it is not clear that the government would provide the services itself if not provided by the separate entity.
- 5.27 These commentators express concern that the nature of the relationship of the separate entity to the government and the magnitude of the financial burden it may impose on government cannot be adequately reflected by merely recognizing a liability in respect of that obligation to provide financial support when that obligation arises. Rather the nature of the relationship of the service provider to the government, and its ongoing capacity to impose a financial burden on the government, is more appropriately presented by including that entity within the whole of government reporting entity for financial reporting purposes. Therefore, additional “accountability” criteria will need to be applied in determining of the group reporting entity.

*The legislature and entities with separate legislative or statutory authority.*

- 5.28 Many systems of government, particularly democratic systems, distinguish the legislature from the executive branch of government. The relationship between

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- the legislature and executive can differ in different systems of government, but in broad terms the legislature can make and amend laws and has the authority to raise taxes and rates and adopt the budget and other money bills, while the executive is responsible for management of the state and the implementation and enforcement of laws enacted by the legislature. In parliamentary systems of government, the legislature appoints the executive branch of government. In congressional systems of government, the legislature is at least equal to, and independent of, the executive. Representational bodies that form the legislature at national, state and local or provincial levels of government are not controlled by the government. However, they are funded from public monies reflected in the government budget and administered by the executive branch of government.
- 5.29 Certain public sector bodies such as courts and the supreme audit institution or government statistician (or their equivalents), are established by the legislature, or otherwise, with statutory or constitutional authority to be professionally independent and with autonomy to establish their operating processes and policies. Such organizations have the power to obtain information and report on their findings without recourse to government or any other body.
- 5.30 To satisfy the objectives of financial reporting, GPFRs prepared in respect of the government reporting entity as reflected by the constitution or enabling legislation of the nation, state or municipality should encompass information about the resources raised and allocated to support the operations of the legislature and its officers, and other officers created by statute or constitution.
- 5.31 IPSAS 6 explains that the existence of separate legislative or statutory power or authority does not, of itself, preclude an entity from being controlled by another entity and therefore being included within the group reporting entity established on the basis of control. Therefore, the existence of control does not require an entity to have responsibility over the day-to-day operations of another entity or the manner in which professional functions are performed by the entity. However, some commentators express concern that a narrow application of the control definition may exclude from the whole-of-government reporting entity in some jurisdictions, public sector bodies such as courts and the supreme audit institution or government statistician (or their equivalents).
- 5.32 These commentators also note that the legislature and its officers are not controlled by the government. Therefore, the application of control definitions to determining the boundary of the group reporting entity without additional accountability criteria are unlikely to achieve the objectives of financial reporting at the whole of government level.

*Transition from a centralized or planned economy to a market economy*

- 5.33 In centralized or planned economies, governments may have the power to govern the financial and operating policies of a wide range of entities and to direct those entities to work with the government for the benefit of the community.

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Application of a control basis may therefore result in the inclusion within GPFRs prepared in respect the government of all, or a substantial proportion of, economic activity undertaken within that jurisdiction by businesses and individual operators as well as by government departments and agencies. At the national level it may also include activity undertaken at the state/provincial or local government level and other subordinate levels of government and by privately owned entities whose financial and operating policies are subject to review and direction by the government.

- 5.34 Concern has been raised about whether GPFRs prepared on this basis would faithfully represent the government's financial position and performance and provide information useful to users of governments GPFRs for accountability and decision making purpose. It has also been noted that significant costs would be incurred in preparing GPFRs on this basis and it is questionable whether the benefits would justify the costs. This is particularly so for transitioning economies where the boundary of the government reporting entity would steadily change over time as the transition to a market economy progressed – for such economies, adoption of the control basis would also have undesirable consequences for the comparability of the governments' GPFRs over time.

*Other circumstances which justify inclusion within the government reporting entity*

- 5.35 IPSAS 6 explains that an indicator of control is the ability to veto operating and capital budgets of the other entity, but that economic or fiscal dependency does not constitute control where the entity retains discretion as to whether it will take funding from, or do business with, the entity. Therefore, for example, a charity or non-profit education facility 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 or facility 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.
- 5.36 Some commentators express the view that the basis established for determining the boundary of the reporting entity should allow for professional judgement to be exercised in limited circumstances in determining which entities should be included within a group reporting entity. This may be necessary to enable the group reporting entity to include additional organizations whose relationship with the government is such that their exclusion would undermine the ability of GPFRs prepared in respect of the whole-of-government to satisfy the objectives of financial reporting.

*Specific matters for comment*

The IPSASB would welcome comments on the following:

- (a) Which basis (or bases) for determining the boundary of a group reporting 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.
- (b) Is the basis for identifying the boundaries of a group reporting entity identified in IPSAS 6 appropriate? Should the definition of control in IPSAS 6 and related explanations be refined, extended or reworked to deal with the issues identified above, or is a different basis necessary? Please identify the amendments that are necessary or the basis that should be adopted.
- (c) Are there circumstances or issues additional to those identified above that are not adequately dealt with in current approaches to determining the boundary of the group reporting entity. Please identify those bases and the guidance that is necessary to deal with those issues.