



**INTERNATIONAL FEDERATION
OF ACCOUNTANTS**

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Agenda Item
2A

Date: June 7, 2010
Memo to: Members of the IPSASB
From: Paul Sutcliffe
Subject: First draft of Exposure Draft of Phase 1 of the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities

Objective of this Session

Review first draft of Exposure Draft (ED) of Phase 1 of the Conceptual Framework and provide directions for further development of the ED.

Agenda Material

Agenda material attached to this memorandum:

- 2A.1 Decisions made to date on review of responses to Consultation Paper #1;
- 2A.2 The Conceptual Framework for general purpose financial reporting;
- 2A.3 Objectives, users and information needs;
- 2A.4 The qualitative characteristics on, and constraints of, information included in general purpose financial reports; and
- 2A.5 The reporting entity and group reporting entity.

Background

Consultation Paper

Conceptual Framework Consultation Paper #1 *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: The objectives of financial reporting; The scope of financial reporting; The qualitative characteristics of information included in general purpose financial reports; The reporting entity* (CP #1) was issued in September 2008, with comments requested by March 31, 2009. A total of 57 responses to CP #1 were received.

The IPSASB reviewed responses to CP #1 at its May 2009, December 2009 and April 2010 meetings, and provided directions for the development of a first draft of an exposure draft (ED) dealing with the components of the Conceptual Framework dealt with by CP#1 (the Phase 1-ED).

A summary of the decisions made by the IPSASB at those meetings is included in Agenda paper 2A.1. The first draft of the Phase 1-ED prepared to reflect those decisions of the IPSASB are attached as Agenda papers 2A.2 through 2A.5.

At the April 2010 meeting, the IPSASB considered papers which restructured certain aspects of the qualitative characteristics and reporting entity chapters of CP#1 in the style

of an ED, and provided directions for their further development for inclusion in a first draft of the Phase 1-ED. Marked-up drafts of these papers are available on request. They have not been included in these Agenda papers because changes are quite extensive, and review of the marked-up drafts is not practicable.

The Task Based Group (TBG) for this Phase of the Framework (Sheila Fraser and Frans Van Schaik) have reviewed, and provided very useful feedback, on previous drafts of these Agenda papers. The TBG also identified a number of substantive issues to be brought to the attention of the IPSASB. They are encompassed in the key issues identified below. From a staff perspective, the addition of the TBG review to the development process is most helpful. Staff are most grateful to the TBG for their input and assistance in preparing these papers.

Status of equivalent components of the IASB/FASB Conceptual Framework Project

The IASB work plan (updated as at 5 May 2010) anticipated issue of the final Chapters of its Conceptual Framework dealing with objectives and qualitative characteristics in May 2010 and the final Chapter of reporting entity in the fourth quarter of 2010. (The IASB's ED dealing with the reporting entity was issued in March 2010 for comment by 16 July 2010.)

At the IASB and FASB meeting in May 2010 the Boards considered two issues identified in the ballot drafts of the final Chapters of the objective of financial reporting and the qualitative characteristics. The May 2010 IASB Update notes:

"...The boards decided that materiality is an entity-specific aspect of relevance rather than a constraint to be considered in setting financial reporting standards. The boards also discussed how best to describe the objective of financial reporting. The boards directed the staff to prepare a new ballot draft to reflect both the discussion of the objective and the results of the decision about materiality."

At the forthcoming meeting, staff will provide a verbal update on IASB progress with these components of its Conceptual Framework.

The reports prepared for the NSS-4 group of national standard setters (Australia, Canada, New Zealand and UK) monitoring the IASB-FASB joint Conceptual Framework project which identify any ramifications/issues for not-for profit entities in the private and public sectors are made available to IPSASB members via the intranet.

Next Steps

The Phase 1-ED will be further developed consistent with the IPSASB's directions for review at the November 2010 meeting.

The IPSASB has previously noted its intention to prepare and issue an ED of the full Conceptual Framework for comment – to allow the IPSASB and constituents to identify and test the relationship between all the proposed components of the Conceptual Framework. However, at the April 2010 meeting, some members noted that there may be merit in issuing an ED dealing with only the Phase 1 components earlier – for example, at the same time as Consultation Papers on Phases 2, 3 or 4 are issued. These members expressed concern that delaying issue of the Phase 1-ED may result in a loss of momentum on these components, particularly since many members involved in the

development of Phase 1 of the Conceptual Framework may not still be members when the full Framework is ready for issue. The IPSASB agreed that as the Phase 1-ED is further developed, it will consider whether it should be issued together with Consultation papers of Phases 2, 3 or 4, or held over until an ED of the full Conceptual Framework can be compiled.

The work plan specifies that the Phase 1-ED and Consultation Papers on Phase 2 (elements) and Phase 3 (measurement) are scheduled for approval at the November 2010 meeting. Phase 4 (presentation and display) is scheduled for approval at the March 2011 meeting.

If the Phase 1-ED is to be issued following the November meeting, it will be necessary to develop introductory material to, for example, place the Phase 1-ED in context and explain the process for the ongoing development of the Conceptual Framework. Such introductory material could also deal with underlying assumptions such as the accrual basis and notions of going concern - members will recall that some respondents to CP#1 noted that there was a need to acknowledge these notions within the Conceptual Framework. While the IPSASB does not intend to make its decision regarding the timing of issue of the Phase 1-ED until the November 2010 meeting, it may be useful to prepare such introductory material for consideration at that meeting.

Action Requested:

Staff seek the IPSASB's direction on whether introductory material to the Phase 1-ED should be prepared for consideration at the November 2010 meeting - on the basis that it may be issued at the same time as Consultation Papers on Phase 2 and Phase 3.

Key Issues

Staff is of the view that structuring the Phase 1-ED into the four components identified at Agenda papers 2A.2, 2A.3, 2A.4 and 2A.5 with a separate basis for conclusions for each will assist constituents in reviewing and developing a response to these components the Conceptual Framework. However, the various components would then be brought together when the Conceptual Framework is finalized and issued.

This is the first draft of an ED of the Phase 1 components of the Conceptual Framework. Accordingly, staff seek guidance on matters of form as well as substance, including whether an:

- appropriate structure for these components of the Conceptual Framework has been adopted; and
- an appropriate balance between text and the basis for conclusion has been struck, particularly in respect of those aspects of:
 - Agenda paper 2A.3 which deal with the users of GPFs and their information needs;
 - Agenda paper 2A.4 which deal with the qualitative characteristics (QCs) and how substance over form and the prudence fit with the proposed QCs; and

- Agenda 2A.5 which deal with the circumstances in which an entity may be included in a group reporting entity.

Issues for IPSASB discussion identified by the TBG and/or staff are identified below.

Key issue #1: General Issue: explanation of differences from the IASB proposed Conceptual Framework

Each component of the Phase 1-ED includes an explanation of differences between the proposed IPSASB Conceptual Framework and proposals of the IASB for updating its Conceptual Framework. In some cases, the level of detail differs reflecting the nature and extent of those differences.

On some occasions, as the IPSASB developed CP#1 and reviewed responses to it, members expressed different views about whether differences from the IASB had been explained in sufficient detail or were too extensive.

Staff have attempted to provide a broad overview of the differences from the IASB proposals in respect of each of the components of the Phase 1-ED, but have added material where the IPSASB has identified the need for a more detailed explanation and/or greater justification of the differences.

Action Requested:

Members are requested to review Agenda papers 2A.2 through 2A.5 and confirm or otherwise that the broad approach to the explanation of differences from the IASB Conceptual Framework are appropriate.

Key issue #2: General Issue – Use of bold paragraphs

The draft Phase 1-ED includes “bold paragraphs” to highlight the objectives of financial reporting, the qualitative characteristics and constraints, and the characteristics of a reporting entity and group reporting entity. These matters were highlighted as Preliminary Views in CP#1. CP#1 also highlighted the definition of general purpose financial reports, the users of GPFs and the scope of financial reporting as Preliminary Views. There is a case that they should also be bolded in this ED.

However, staff is of the view that the explanation and positioning of these matters in the draft ED is such that their representation as a black letter may not be effective in capturing the sense intended by the IPSASB. This is particularly so in respect of the users of GPFs, where the IPSASB’s discussion is now more inclusive of a range of users.

Action Requested:

Members are requested to review Agenda papers 2A.2 through 2A.5 and confirm or otherwise the use of bold paragraphs.

Key issue #3: Re Agenda paper 2A.2 - The scope of financial reporting.

This draft of the Phase 1-ED includes a brief discussion of the scope of financial reporting following the role of the Conceptual Framework and the explanation of GPFs.

CP#1 dealt with the scope of financial reporting following consideration of the objectives of financial reporting and the information needs of users. However, in developing CP#1, members noted that there was a case for inclusion of discussion of the scope of financial reporting earlier in the document.

Staff is of the view that discussion of the scope of financial reporting and how it might evolve are better placed earlier in the Phase 1-ED. This will sharpen the focus of this aspect the Conceptual Framework. It will clearly establish the potential of a broad scope for financial reporting early in the document and avoid some potential repetition later on. The information that is consistent with users' information needs and the objectives of financial reporting, and therefore may be within the scope of financial reporting, is discussed more extensively in Agenda paper 2A.3.

Paragraph BC8 of Agenda paper 2A.2 also reflects the IPSASB decisions of May 2009 and April 2010 (See Agenda paper 2A.1 re scope and qualitative characteristics) that, while the Conceptual Framework reflects a potentially broad scope for financial reporting, the initial focus of the elements and measurement phases of the Conceptual Framework is on the financial statements. (As appropriate, this paragraph will be updated for IPSASB decisions regarding the focus of the presentation phase.) Whether or not this paragraph should appear in the basis for conclusions at this stage is likely to depend on whether the Phase 1-ED is issued as a separate document. However, it is included in this draft, to capture the IPSASB's intent on this point.

Action Requested:

Members are requested to confirm or otherwise the placement and explanation of the scope of financial reporting in the Phase 1-ED.

Key issue #4: Re Agenda paper 2A.2 – Differential reporting

The basis for conclusions in Agenda paper 2A.2 notes the IPSASB's decision on how it intends to deal with differential reporting issues. There is also a reference to differential reporting in the basis for conclusions of the Qualitative Characteristics section of the Phase 1-ED (Agenda paper 2A.4) - to respond to the suggestion of some respondents that the cost-benefit constraint should be further developed to establish a principle that might be useful when the IPSASB considers differential reporting issues.

During the development of CP#1, the PSASB discussed at some length whether the Conceptual Framework should acknowledge that cost-benefit assessments may differ for different public sector entities. The IPSASB also explored alternative approaches to dealing with the differential reporting issue, before settling on the current position. Staff is of the view that explaining in the basis for conclusions the IPSASB's views on how differential reporting issues should be dealt with will be useful to readers.

However, the Conceptual Framework itself does not refer to differential reporting, and the basis for conclusions is generally used to explain the IPSASB's reasoning for reaching conclusions about matters dealt with by the Conceptual Framework. There is then a case that at least the first two sentences of paragraph BC10 and the first sentence of paragraph BC11 should be included in the text of the Conceptual Framework for

exposure purposes. This will ensure that the role of the Conceptual Framework in respect of differential reporting is clearly identified within the Framework itself.

Action Requested:

Members are requested to confirm or otherwise that an explanation of how the IPSASB will deal with differential reporting issues is to be included in the basis for conclusions and, as appropriate, provide directions on the further development of that explanation.

Key issue #5: Re Agenda paper 2A.2 – The IASB Conceptual Framework and government business enterprises

The IASB is developing its Conceptual Framework initially for application to business entities in the private sector. It has noted it will then consider the applicability of the Conceptual Framework to GBE's. Paragraph BC13 of Agenda paper 2A.2 notes that the IPSASB is monitoring the development of the IASB's Conceptual Framework and intends to contribute to the IASB's consideration of the applicability of its Conceptual Framework to GBE's. The basis for conclusions makes clear that this is a staff view only. The IPSASB has not yet formally discussed/agreed the details of how it could best contribute to the IASB's consideration of application of its Conceptual Framework to GBE's, or sought the IASB's views on those matters.

However, staff anticipate that, at a minimum, the IPSASB would respond to any due process documents issued by the IASB which relate to application of the IASB's Conceptual Framework to GBE's. Accordingly, the inclusion of a broad comment such as that included in paragraph BC13 would flag to constituents that the IPSASB will monitor and provide input to the development of that stage of the IASB Conceptual Framework. This may be appropriate if the Phase 1-ED is issued in late 2010 or early 2011.

However, whether such a commitment should be made in a basis for conclusions is questionable.

Action Requested:

Members are requested to confirm or otherwise that the basis for conclusions should include comment to acknowledge that the IPSASB will contribute to the IASB's consideration of the applicability of the IASB's Conceptual Framework to GBEs.

Key issue #6: Re Agenda paper 2A.3 – Users of GPFRs

Respondents to CP#1 expressed a range of different views about whether or not a primary user group of GPFRs should be identified, and who the primary users were. Members also discussed at length the merits and drawbacks of identifying particular groups as the primary users of GPFRs, and worked through their implications for directing the focus of the standards development program of the IPSASB.

After lengthy discussion, and consideration of a range of alternatives, the IPSASB agreed that the primary users of GPFRs should be identified as service recipients and resource providers and their representatives and advisors. The IPSASB also agreed to substantially reconfigure and further develop the explanation of the users that may be encompassed

within these groups, and their relationship to citizens and the legislature, parliament or other representative body.

Paragraphs 4-10 and BC1-BC12 of Agenda paper 2A.3 are intended to reflect the IPSASBs discussion of the users of GPFRs, and explain the IPSASB's rationale for the final position agreed.

While significant in the IPSASB's discussion of how to identify the users of GPFRs, guidance is sought on whether it is necessary or appropriate to include reference to the circumstances of "developing economies", rather than simply referring more generally to "jurisdictions", at paragraph BC7 of Agenda paper 2A.3. The basis for conclusions does not generally refer to the circumstances of particular jurisdictions and the matters addressed in this paragraph may apply in some developed as well as developing economies.

Action Requested:

Members are requested to confirm that the identification and explanation of the users of GPFRs is appropriate and/or provide directions for the further development of this component of the Phase 1-ED.

Key issue #7: Re Agenda paper 2A.3 - Objectives or Objective of financial reporting?

The IPSASB has agreed that both accountability and decision making are to be specifically identified as objectives of financial reporting and that the text should explain that information provided in GPFRs for accountability purposes will also inform decision-making. Agenda paper 2A.3 paragraph 17 has been drafted to reflect this direction.

Given that information provided for accountability purposes will also be useful as input for decision making purposes, some have noted that there is a case that the black letter paragraph (Agenda paper 2A.3 paragraph 1) should refer to a singular "objective" (rather than a plural "objectives") as follows:

The objective of financial reporting by public sector entities is to provide information about the reporting entity useful to users of GPFRs for accountability and decision making purposes.

Staff is of the view that the plural form (objectives) should be retained since this acknowledges that in some cases the IPSASB may respond to users need for the disclosure of information for accountability purposes even if the link of such information to decision making by some users may be questioned.

In this context, it is worth noting that the IASB refers to the objective (singular) of financial reporting, but is yet to agree whether or not the objective will refer to the objective as including the provision of information useful "*in assessing whether the management and the governing board of that entity have made efficient or effective use of the resources provided*" as well as the provision of information useful in making decisions about providing resources to the entity.

Action Requested:

Members are requested to confirm that the Phase 1-ED is to refer to the objectives (plural) of financial reporting as reflected in Agenda paper 2A.3 paragraph 1.

Key issue #8: Re Agenda paper 2A.4 - Faithful representation or reliability

Members have not yet made a final decision on whether the term “faithful representation” or “reliability” is to be used to refer to the quality of information that is “*attained when the depiction of the phenomenon is complete, neutral, and free from material error*” (Agenda paper 2A.4 paragraph 10). However, at the April 2010 meeting, members agreed that the term “faithful representation” should be used in the first draft of the Phase 1-ED. Members also directed that the basis for conclusions should more fully explain the reasons for the use of this term, and provided input on the matters that should be noted. The draft Phase 1-ED (at Agenda paper 2A.4) has been further developed based on this input.

Staff remains of the view that there is merit in retaining the term faithful representation in the Phase 1-ED for the reasons outlined in paragraphs BC15 - BC19 of Agenda paper 2A.4. If retained in the Conceptual Framework ED, the IPSASB could also seek specific comment on this matter through the exposure process - outlining its concerns with the use of “faithful representation” to identify this qualitative characteristic and the merits or otherwise of retaining the term “reliability”.

Action Requested:

Members are requested to confirm or otherwise that the term “faithful representation” is to be used in the Phase 1-ED, and provide directions for the further explanation of the rationale underlying the adoption of that term.

Key issue #9: Re Agenda paper 2A.4 - Application of materiality to the broader scope of financial reporting

At its April 2010 meeting, the IPSASB noted that the description of materiality appeared to be narrowly focused on application only to financial statements and notes thereto. Staff has attempted to acknowledge that materiality will apply across the full scope of financial reporting, including to explanatory and prospective financial and other quantitative information.

Staff considered whether it would be appropriate to acknowledge in the Conceptual Framework that a different term, such as “significance”, may be adopted in some cases to describe the materiality constraint when applied to qualitative and prospective financial information. This would parallel the acknowledgement that “supportability” is sometimes used to describe the quality of “verifiability” when applied to such information. However, staff are of the view that materiality is more readily applied across the full scope of information that may be included in GPFRs than is the notion of verifiability. This is because the characteristics of materiality as described in the Conceptual Framework refers to both the amount and nature of an item judged in the particular circumstances of each reporting entity.

As noted above, at their joint meeting in May 2010, the IASB and FASB agreed that materiality should be re-designated as an entity-specific aspect of relevance rather than a constraint to be considered in setting financial reporting standards. The IASB and FASB directed their staff to prepare a draft of the final Chapter of qualitative characteristics to reflect that position. The IASB Staff papers indicate that the reason for this view is that:

- materiality is related to relevance, because immaterial information cannot make a difference in users' decisions; and
- the cost constraint will operate as a constraint on the inclusion of immaterial information, because the cost of reporting information that is not useful is always too high.

Members have previously discussed whether materiality should be identified as a broad constraint or as a component of relevance – as described in the qualitative characteristics identified in Appendix B of IPSAS 1 "*Presentation of Financial Statements*". Paragraph BC36 of Agenda paper 2A.4 explains that the IPSASB is of the view that materiality can impact a number of the qualitative characteristics of information included in GPFRs, and is therefore better reflected as a broad constraint rather than as an entity specific component of relevance.

Paragraphs BC41- BC44 have been updated to reflect the latest position of the IASB (identified by mark-up). However the final Chapter of the IASB Conceptual Framework dealing with the qualitative characteristics has not been approved and issued. Staff will continue to monitor IASB progress on this matter and will provide a verbal update on any further developments at the forthcoming meeting.

Action Requested:

Members are requested to confirm or otherwise the placement and explanation of materiality in the draft Phase 1-ED and/or provide directions on its further development.

Key issue #10: Re Agenda paper 2A.5 - Structure of the reporting entity and group reporting entity component of the Phase 1-ED

At its May 2010 meeting the IPSASB reviewed a preliminary staff paper dealing with the reporting entity and group reporting entity. Members directed that the first draft of the Phase 1-ED should combine into a single paragraph, those paragraphs dealing with the circumstances in which a single entity or group of entities may be required, or may volunteer, to prepare GPFRs – because they dealt with substantially the same matters.

Staff has restructured this component of the draft ED accordingly. However, as this aspect of the draft ED was being prepared staff formed the view that it is not possible to combine only the specific aspects of the discussion of an individual and group reporting entity, without also drawing together other matters that are common for individual and group reporting entities. Consequently, some further restructuring has been necessary to give full effect to the IPSASB's direction on this matter. As a consequence, some matters relating to both individual and group reporting entities are encompassed by Agenda paper 2A.5 paragraphs 1- 9.

While this restructuring has been effective in reducing repetition, staff is not convinced that the merging of aspects of individual and group reporting entities has resulted in a

clearer document. Staff is of the view that the individual and group reporting entity aspects of the draft ED should be dealt with separately as in the papers considered at the April 2010 meeting,

Action Requested:

Members are requested to provide directions on whether the current structure of the reporting entity and group reporting entity components of the draft Phase 1-ED is to be retained, or the explanation of individual and group reporting entity components are to be separated.

CONCEPTUAL FRAMEWORK PHASE 1

Decisions made to date on review of responses to CP#1

At Meetings: May 2009, December 2009 and April 2010.

The following identify matters agreed by the IPSASB at meetings held in May 2009, December 2009 and April 2010. They are drawn from the IPSASB minutes of each meeting and identify matters/views that are to be included in the draft Exposure draft when prepared. For a fuller explanation of the IPSASB deliberations refer to the minutes themselves.

Note they are working decisions only, and are subject to change as the IPSASB's discussion of this Phase of the Framework continues.

This register is updated following each IPSASB meeting at which Phase I is discussed.

Re Analysis of documents

The analysis of responses should be updated to provide a profile of the types of respondent by region and to remove the staff view on whether a particular respondent supported or opposed a particular Preliminary View. This to be adopted for all public documents analyzing responses to an IPSASB consultation paper or similar. **(Agreed May 2009)**

Re Development Program and Process

The IPSASB will continue to progress its Framework project even though it may move ahead of the IASB project. **(Agreed May 2009)**

Development of the Framework will be progressed as originally conceived – that is, the IPSASB will issue consultation papers identifying its preliminary views on each component of the Framework and then prepare and issue an exposure draft (ED) of the full Framework for comment. Subject to those comments the Framework will be finalized. **(Agreed May 2009)**

When the draft of ED of Phase 1 of the Framework is further developed, the IPSASB will consider whether it should be issued at the same time as Consultation Papers on Phases 2, 3 or 4 are issued. **(Agreed April 2010)**

General Purpose Financial Reports

This draft ED of the Framework is to reflect that GPFRs may encompass multiple reports each responding more directly to certain aspects of the objectives of financial reporting and/or of the broad scope, as appropriate. **(Agreed May 2009)**

Authority of the Framework – CP Preliminary View 1

The IPSASB 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, public sector entities will refer to, and consider the applicability of, the definitions, recognition criteria, measurement principles, and other concepts identified in the IPSASB Framework.

The IPSASB confirmed that the authority of the Framework as currently identified in the PV is appropriate and should be retained, but that commentary/basis for conclusion in the ED of the Framework should explain that:

- The Framework identifies the broad principles that underpin the development of IPSASs. The authoritative requirements are established by the IPSASs after application of a due process which provides the opportunity for interested parties to provide input on the specific requirements proposed, including their compatibility with current practices in different jurisdictions;
- The IPSASB is of the view that existing authoritative requirements should not be overturned without the application of due process; and
- Once the Framework is issued, the IPSASB will review extant IPSASs and identify and, through application of the due process, address circumstances where there is substantial conflict between the IPSAS and the Framework. **(Agreed May 2009)**

The basis for conclusions or text of the draft ED should reflect that international governmental organizations may well be public sector entities. **(Agreed May 2009)**

General Purpose Financial Reports (GPFRs) - Preliminary View 2

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.

The term “general purpose financial reports” (GPFRs) should be retained for development of the Framework ED, notwithstanding that the scope of financial reporting may encompass non-financial information. **(Agreed December 2009)**

(The definition of GPFRs is to be revised if necessary to reflect IPSASB decision on whether to identify a primary user group.)

The definition of GPFRs is to read: “*GPFRs are financial reports intended to meet the common information needs of users who are unable to demand the preparation of financial reports tailored to meet their specific information needs.*” **(Agreed April 2010)**

The phrase “common information needs is to be retained for review in the draft ED”. The ED is to explain that when developing IPSASs the Board may need to make decisions about the relative importance of the issues identified by users. **(Agreed April 2010)**

The Users of GPFRs - Preliminary View 3

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

- recipients of services or their representatives;

- providers of resources or their representatives; and
- other parties, including special interest groups and their representatives.

The legislature is a major user of GPFRs. It acts in the interest of members of the community, whether as recipients of services, providers of resources, or citizens with an interest in, or need for, particular services or activities.

The IPSASB agreed that the basis for conclusions in the draft Framework ED of the Framework will clarify that:

- while management, budget controllers, treasury officers, and audit institutions may use GPFRs, they have the authority to demand the information they need - therefore, GPFRs are not developed to respond to their specific information needs;
- the IPSASB considered many different potential groupings of users, including whether public sector and private sector (or voluntary and involuntary) resource providers should be identified as separate user groups, but is of the view that the user groups and common information needs identified respond to the information needs of these (and other) users; and
- the users of GPFRs embrace a wide range of users that are unable to demand the preparation of financial reports tailored to meet their specific information needs and therefore must rely on GPFRs - including many of the additional users proposed by some respondents to Consultation Paper #1. The explanation of this point to be subject to IPSASB decision about the identification of a primary user. **(Agreed December 2009)**

Whether or not a primary user of GPFRs should be identified, and the identity of that primary user was discussed – working decisions on this issue not yet made. **(May 2009 and December 2009)**

The draft ED is to identify service recipients and their representatives and resources providers and their representatives as the primary users of GPFRs, and explain their relationship to citizens and the legislature, parliament or another representative body included in the staff paper. **(Agreed April 2010)**

The text or basis for conclusions of the draft ED is to reflect that:

- the nature, role and objectives of governments and their agencies are different from private sector business entities;
- resource providers may include both voluntary and involuntary resource providers - governments have an obligation to be accountable to resource providers as well as service recipients for use of the resources raised;
- bond rating agencies, governments as providers of resources to international organizations and employees and other internal resource providers may be users of GPFRs;
- elected or appointed bodies such as parliaments and councils often make extensive use of GPFRs and are often perceived as a major user of GPFRs;

- the IPSASB considered whether or not to identify a primary user group, and the user groups that might be considered as the primary users;
- other components of the Framework will deal with presentation and display.
(Agreed April 2010)

Objectives of Financial Reporting - Preliminary View 4

The objectives of financial reporting by public sector entities are to provide information about the reporting entity useful to users of GPFRs for:

- accountability purposes; and
- making resource allocation, political and social decisions.

The objectives of general purpose financial reporting will include both an accountability and decision making dimension. The linkage between accountability and decision making is to be clarified to reflect that information provided by GPFRs is necessary for accountability and useful as input for decision making. (Agreed May 2009)

The objectives are not to include a reference to “making resource allocation, political and social decisions” as in PV 4. Rather, the objectives should refer to “decision-making purposes” and be supported by an explanation of the types of decisions that users of GPFRS may require for- as per the Consultation Paper. (Agreed May 2009)

Explanation should acknowledge that different potential users of GPFRs of public sector entities may have a different capacity for and focus on decision making; and different components of GPFRs may be of greater significance for accountability purposes and decision-making purposes. (Agreed May 2009)

The Scope of Financial Reporting - Preliminary View 5

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

- economic resources of the reporting entity at the reporting date and claims to those resources;
- the effect of transactions, other events, and activities that change the economic resources of the reporting entity and claims to those resources during the reporting period, including cash inflows and outflows and financial performance;
- the reporting entity’s compliance with relevant legislation or regulation and legally adopted or approved budgets used to justify the raising of monies from taxpayers and ratepayers;
- the reporting entity’s achievement of its service delivery objectives; 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.

It also encompasses explanatory material about: (a) the major factors underlying the financial performance of the entity, the achievement of its service delivery and other objectives and the factors which are likely to influence its performance in the future; and

(b) the assumptions underlying and major uncertainties affecting the information included in GPFRs.

Evolution of the Scope of Financial Reporting - Preliminary View 5

The scope of financial reporting should evolve in response to users' information needs, consistent with the objectives of financial reporting.

A broad scope for general purpose financial reporting as proposed in the Consultative Paper is appropriate. While not unlimited, the scope of financial reporting should be allowed to develop in response to users' information needs. **(Agreed May 2009)**

The Framework ED should make clear that the establishment of a broad scope for financial reporting does not mean that it is inevitable that an IPSAS will be developed to direct reporting on these matters. IPSASs may include encouragements as well as requirements, and best practice guidance rather than IPSASs may also be developed on certain matters. **(Agreed May 2009)**

The Framework should be developed to initially focus on key aspects of financial statements. How the concepts may apply to other areas of financial reporting would be considered subsequently—for example in the context of projects dealing with narrative reporting, performance reporting and long-term fiscal sustainability. **(Agreed May 2009)**

The Qualitative Characteristics of Information Included in GPFRs - Preliminary View 7

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

- relevance, which encompasses confirmatory value, predictive 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 (including supportability).

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

Subject to further consideration of responses at future meetings, the existing suite of QCs and their explanation is appropriate for application to information to be included in general purpose financial statements. **(Agreed May 2009)**

The following matters are to be revisited at future meetings, whether:

- The term reliability or faithful representation was more appropriate for application to the GPFSs of public sector entities;
- The role of prudence and substance over form was appropriately expressed; and

- The operation of materiality and cost as a constraint in the public sector context needed further explanation. **(Agreed May 2009)**

The draft Framework ED is not to include a notion of fundamental and enhancing characteristics or otherwise establish some characteristics as being of greater important than others - current guidance in the CP that the relative importance of the QCs in different circumstances is a matter of professional judgment responds appropriately to the circumstances of public sector entities. **(Agreed May 2009)**

The basis for conclusions in the ED will include an explanation of the reasons for differences in the QCs proposed for public sector entities and those identified by the IASB. **(Agreed May 2009)**

The applicability of the QCs, particularly faithful representation (or reliability) and verifiability, to non-financial and prospective financial information would be considered and confirmed or otherwise as projects dealing with those matters are developed. **(Agreed May 2009)**

The QC chapter of the Consultation Paper should be restructured in the style of an ED for review at the next IPSASB meeting. It should include a basis for conclusions and reflect the tentative decisions made by the IPSASB at its meeting in May and December 2009. Outstanding QC issues will be considered in the context of this restructured draft. **(Agreed December 2009)**

The QCs apply to information included in GPFRs but their applicability to the broader scope of financial reporting may be further clarified, including by providing additional guidance in projects dealing with reporting on long-term sustainability of public finances, narrative reporting, and performance reporting. **(Agreed April 2010)**

“Supportability” is to be identified as a subset or component of verifiability applicable to qualitative information—as it was in CP#1. **(Agreed April 2010)**

“Substance over form” and “prudence” are not to be identified as qualitative characteristics. The text or basis for conclusions is to explain that faithful representation requires that the substance, and not merely the legal form, of economic and other phenomena be presented in GPFRs, and the key features of prudence as identified in Appendix 2 of IPSAS 1 are reflected in the concepts of faithful representation, including neutrality. **(Agreed April 2010)**

“Cost-benefit” rather than “cost” is to be identified as the constraint. The text or basis for conclusions is to include explanation as necessary to acknowledge that:

- all efforts should be undertaken to represent economic and other phenomena included in GPFRs in a way that was understandable to a wide range of users. and
- materiality applies to the broad scope of financial reporting. **(Agreed April 2010)**

Additional QCs are not to be identified but the ED is to explain that application of the full set of QCs and compliance with IPSASs will enhance the transparency of financial reports and achievement of the objectives of financial reporting. The ED is also to explain The notion of “regularity” as used in many jurisdictions was related to “compliance” as used in IPSAS. **(Agreed April 2010)**

Members expressed differing views about whether “faithful representation” or “reliability” should be identified as a QC but agreed “faithful representation” should be used in the first draft of the ED and the basis for conclusions should more fully explain the reasons for the change in terminology. Members would then reconsider the issue at the next meeting. **(Decision not yet made. Issue still under discussion - April 2010)**

A consistent style for the title of the section on current status of the IASB Framework should be adopted throughout the ED. **(Agreed April 2010).**

The explanation of why the IPSASB does not identify some QCs as fundamental and others as enhancing should note that in a number of jurisdictions something that is fundamental is perceived as more important than something that is enhancing, **(Agreed April 2010)**

Characteristics of a Reporting Entity - Preliminary View 8

The key characteristic of a reporting entity is the existence of users who are dependant on GPFs of the entity for information for accountability purposes, and for making resource allocation, political, and social decisions.

A public sector reporting entity may be an entity with a separate legal identity or other organizational structure or arrangement.

Composition of a Group Reporting Entity - Preliminary View 9

A group reporting entity will comprise the government (or other public sector entity) and other entities when the government (or other public sector entity):

- has the power to govern the strategic financing and operating policies of the other entities (a “power criterion”); and
- can benefit from the activities of the other entities, or is exposed to a financial burden that can arise as a result of the operations or actions of those entities; and can use its power to increase, maintain, or protect the amount of those benefits, or maintain, reduce, or otherwise influence the financial burden that may arise as a result of the operations or actions of those entities (a “benefit or financial burden/loss” criterion).

The characteristics of a reporting entity and composition of a group reporting entity should continue to be developed as components of Phase 1 of the Framework. **(Agreed May 2009)**

The existence of users should be identified as an important if not the key characteristic of the reporting entity. Whether additional characteristics of a reporting entity should be identified and the nature of those characteristics will be considered at a future meeting. **(Agreed May 2009)**

PV 9 should focus on only the high level principles for determining the composition of the group entity and:

- not deal with application of those principles to particular circumstances;
- draw out the influence that users’ information needs would play in determining the boundaries of the group; and

- consider the principles established in statistical financial reporting models to determining the composition of a reporting entity or group reporting entity. **(Agreed May 2009)**

The Reporting Entity chapter of the CP should be refocused on broad principles and restructured in the style of an ED - with the removal of certain paragraphs of the Consultation Paper and the relocation of others to the basis for conclusions as proposed by staff. **(Agreed December 2009)**

The paragraphs dealing with the power and benefit or financial burden/loss criteria for determining the boundary of the group reporting entity should be re-expressed more generally to draw out the underlying principles and link more closely to the objectives of financial reporting. **(Agreed December 2009)**

The “black letter” paragraph is to reflect that a key characteristic of a reporting entity is the existence of users who are dependent on GPFRs for information about the reporting entity. **(Agreed April 2010)**

The text is to include a reference to the likely information needs of “resource providers and service recipients” in respect of the whole-of-government reporting entity. **(Agreed April 2010)**

Paragraph 9 is to be deleted and the discussion of the power and benefit or financial burden/loss characteristics ‘generalized. **(Agreed April 2010)**

Paragraphs 2 and 12 are to be combined. **(Agreed April 2010)**

The basis for conclusions is to explain why the IPSASB adopted the terminology “group reporting entity” rather than “economic entity”. **(Agreed April 2010)**

The explanation of the reporting entity concept in the proposed IASB Framework and in statistical financial reporting models is to be updated as necessary. **(Agreed April 2010)**

The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities

The Role of the Conceptual Framework

1. The Conceptual Framework establishes the concepts that underpin general purpose financial reporting (financial reporting) by public sector entities that adopt the accrual basis of financial reporting, other than Government Business Enterprises (GBE's). The International Public Sector Accounting Standards Board (IPSASB) will apply these concepts in developing 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.

General Purpose Financial Reports (GPFRs)

2. GPFRs are financial reports intended to meet the common information needs of users who are unable to command the preparation of financial reports tailored to meet their specific information needs. These users rely on an independent standards-setter to establish appropriate principles for application in preparing the financial reports upon which they must rely. GPFRs are a central component of, and support and enhance transparent financial reporting by, governments and other public sector entities.
3. Some users of financial information may have the authority to command the preparation of reports tailored to meet their specific information needs. While such parties may find the information provided by GPFRs useful for their purposes, GPFRs are not developed to specifically respond to their particular information needs.

The Scope of Financial Reporting

4. The scope of financial reporting establishes the boundary around the transactions, other events and activities that may be reported in GPFRs. It is determined by such factors as the information needs of users and the objectives of financial reporting, and responds to the operating characteristics of public sector entities. The scope of financial reporting will evolve in response to users' information needs, consistent with the objectives of financial reporting.
5. GPFRs of public sector entities include, but are broader than, financial statements and their notes as currently dealt with in IPSASs. They can report information about the past, present, and the future that is useful to users - including financial and non-financial information about the achievement of financial and service delivery objectives in the current reporting period and anticipated future service delivery activities and resource needs. GPFRs may also comprise multiple reports, each responding more directly to certain aspects of the objectives of financial reporting and matters included within the scope of financial reporting.

6. While this Conceptual Framework reflects a potentially broad scope for financial reporting, information presented in financial statements and their notes remain at the core of financial reporting. How information will be presented and disclosed in the financial statements, and other forms of presentation and communication that might be adopted for GPFRs, is considered in other components of this Conceptual Framework and in the development of individual IPSASs or other guidance, as appropriate.

Authority of the Conceptual Framework

7. This Conceptual Framework does not establish new authoritative requirements for financial reporting by public sector entities that adopt IPSASs, nor does it override the requirements of existing IPSASs. However, it can provide guidance to preparers and auditors in dealing with financial reporting issues not dealt with by IPSASs or other guidance issued by the IPSASB. In such circumstances, preparers and auditors can refer to, and consider the applicability of, the definitions, recognition criteria, measurement principles, and other concepts identified in the IPSASB Conceptual Framework. In some cases, an IPSAS may specifically refer to, and identify circumstances in which, the definitions and other concepts in this Conceptual Framework have authoritative status.

Applicability of the Conceptual Framework

8. The Conceptual Framework applies to general purpose financial reporting by public sector entities other than Government Business Enterprises (GBEs). Therefore, it applies to GPFRs of national, state/provincial, and local governments, and to a wide range of other public sector entities. These include government ministries, departments, programs, boards, commissions, agencies, public sector social security funds, trusts, and statutory authorities and international governmental organizations that are public sector entities.

BASIS FOR CONCLUSIONS

This Basis for Conclusions accompanies, but is not part of, the Conceptual Framework. It provides additional background to the concepts reflected in the Conceptual Framework and draws out certain of their implications. It also summarizes the major issues and considerations of the IPSASB as it developed this Exposure Draft, noting in particular changes from the Preliminary Views identified in the Consultation Paper and the reasons for those changes.

The Role and Authority of the IPSASB Conceptual Framework

- BC1. The Conceptual Framework identifies the broad principles that the IPSASB will apply in developing International Public Sector Accounting Standards (IPSASs). Authoritative requirements relating to the recognition, measurement, presentation, and disclosure of transactions, other events, and activities that are reported in GPFRs are specified in IPSASs. IPSASs are developed after application of a due process which provides the opportunity for interested parties to provide input on the specific requirements proposed, including their compatibility with current practices in different jurisdictions.
- BC2. The IPSASB is of the view that existing authoritative requirements should not be overturned without the application of due process. Once the Conceptual Framework is issued, the IPSASB will review extant IPSASs and identify and, through application of the due process, address any circumstances where there is substantial conflict between the IPSAS and the Conceptual Framework.
- BC3. Although the Conceptual Framework has lesser authority than an IPSAS developed to deal with a specific transaction or other event, it will be a relevant source of guidance to preparers and auditors in dealing with financial reporting issues not specifically dealt with in IPSASs. IPSAS 3 “*Accounting Policies, Changes in Accounting Estimates and Errors*” currently provides guidance on the circumstances in which the Conceptual Framework is to be referred to as an authoritative source of guidance. In addition, as appropriate, other IPSASs may also specify that certain definitions or other concepts identified in this Conceptual Framework are to be applied in dealing with particular transactions or events.

Special Purpose Financial Reports

- BC4. Some users of financial information have the authority to command the preparation of financial reports that disclose the information they need for their particular purposes. Standards-setters often describe reports prepared for such users as special purpose financial reports. The IPSASB is aware that the requirement of IPSASs have been (and may continue to be) applied effectively and usefully in the preparation of some special purpose financial reports. However, readers should note that neither the concepts reflected in this Conceptual Framework nor the IPSASs themselves are developed specifically for application to special purpose financial reports.

The Scope of Financial Reporting

- BC5. This Conceptual Framework reflects a potentially broad scope for financial reporting. For example, GPFRs may encompass financial statements that present financial information about past transactions and other events, non-financial information about the achievement of the entity's service delivery objectives during the reporting period and prospective financial and other information about its future service delivery activities, objectives, and resource needs.
- BC6. The IPSASB is of the view that this broad scope is necessary to ensure that financial reporting responds to users' information needs and reflects the operating characteristics of public sector entities. It is also necessary to allow financial reporting to evolve in response to further developments in users' need for financial reporting information.
- BC7. Acknowledging a broad scope for financial reporting does not mean that it is inevitable that an IPSAS will be developed to direct reporting on all the matters that may encompassed within its scope. For example, IPSASs may include encouraged as well as required disclosures, and the IPSASB's publications include discussion papers and non-authoritative guidance intended to assist the financial reporting community to respond to particular reporting issues. In addition, information presented in financial statements and their notes 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 transactions and other events that are reported in the financial statements and their notes.
- BC8. The IPSASB has also determined that components of the Conceptual Framework dealing with the definition, recognition and measurement of the elements of GPFRs will be developed to initially focus on key aspects of general purpose financial statements. How these concepts may apply to other areas of financial reporting will be considered subsequently. Existing IPSASB projects dealing with such matters as narrative reporting, performance reporting and long-term fiscal sustainability are also likely to inform the ongoing development of a number of aspects of the Conceptual Framework.

Other Reports and Information

- BC9. GPFRs may not provide all the information users need for accountability and decision-making purposes. In some cases, users will need to refer to information from other sources. In addition to GPFRs, governments and other public sector entities report a wide range of financial and other information about their activities, achievements, plans, and the economic and other conditions and factors that influence them. GPFRs will need to be read in conjunction with other information provided by governments and other public sector entities when users require additional or more detailed information about the activities and plans of a government or other public sector entity, and the factors that influence them.

Differential Reporting

- BC10. In some jurisdictions, certain types or classes of entity may not be required to apply all the requirements of complex accounting standards. In these cases, differential reporting requirements are said to apply to these classes of entities. Included in these classes, for example, may be entities that elect to prepare financial reports and make them available to interested parties, even though they (a) are not required to do so by legislation or a regulatory body, and (b) do not issue or otherwise incur public debt, or consume or administer material amounts of public resources.
- BC11. This Conceptual Framework does not identify concepts that may be applied in determining whether differential reporting requirements are justified. The IPSASB is of the view that it is more appropriate to consider whether relief from the requirements of IPSASs should be provided to certain public sector entities in the development of individual IPSASs that may apply to such entities, or in a separate project. The IPSASB is of the view that this will enable it to more fully consider the factors that may justify the application of different reporting concepts or requirements to some public sector reporting entities.

Government Business Enterprises

- BC12. This Conceptual Framework does not apply to financial reporting by GBE's. The *"Preface to International Public Sector Accounting Standards"* (paragraph 12) explains that IPSASs do not apply to GBEs. Rather, GBEs apply International Financial Reporting Standards (IFRSs), which are issued by the IASB. The IASB Conceptual Framework establishes the concepts that underpin the development of IFRSs.
- BC13. The IASB is currently reviewing its Conceptual Framework in a joint project with the USA Financial Accounting Standards Board (FASB). The IASB intends to develop the Conceptual Framework initially for application to business entities in the private sector. It will then consider the applicability of the Conceptual Framework to GBE's. The IPSASB is monitoring the development of the IASB's Conceptual Framework and will contribute to the IASB's consideration of the applicability of its Conceptual Framework to GBE's. (*Staff Note: This reflects a staff view of the process. The IPSASB has yet to formally agree its views on what involvement it may have in this process, and to discuss those views with the IASB.*)

The IASB Conceptual Framework

- BC14. The Preface to the International Accounting Standards Board (IASB) Exposure Draft *"An improved Conceptual Framework for Financial Reporting: Chapter 1: The Objective of Financial Reporting (and) Chapter 2: Qualitative Characteristics and Constraints of Decision-useful Financial Reporting Information"* (IASB ED *Objectives and Qualitative Characteristics* (2008)). explains that general purpose financial reporting stems from the information needs of users who (a) lack the ability to prescribe all the financial information

- they need from an entity, and (b) therefore must rely, at least partly, on the information provided in financial reports.
- BC15. The ED also explains that the IASB and the FASB have not reached a common conclusion on the authoritative status of their revised Conceptual Frameworks, but have agreed that the Conceptual Frameworks will not override existing financial reporting standards.
- BC16. The IASB has not yet issued a discussion paper or exposure draft dealing with the information spectrum that might be included within the scope of financial reporting. However, the Basis for Conclusions in the IASB ED *Objectives and Qualitative Characteristics* (2008) explains that the objective of financial reporting should be broad enough to encompass information that might eventually be provided by financial reporting outside financial statements.

Objectives, Users and Information Needs

The Objectives of Financial Reporting

1. *The objectives of financial reporting by public sector entities are to provide information about the reporting entity useful to users of GPFRs for accountability and decision making purposes.*
2. The objectives of financial reporting are at the core of the Conceptual Framework. They identify the purpose of financial reporting by public sector entities. The other components of the Conceptual Framework, and the IPSASs themselves, are developed to respond to the objectives.
3. Financial reporting is not an end in itself. Its purpose is to provide information useful to users of GPFRs. The objectives of financial reporting are therefore determined by reference to the users of GPFRs, and their information needs.

Users of GPFRs of Public Sector Reporting Entities

4. Governments and other public sector entities raise resources from taxpayers, ratepayers, donors, commercial lenders and other resource providers for use in the provision of services to citizens and other service recipients. These entities are accountable to those that provide them with resources, and to those that depend on them to use those resources to deliver necessary services. Those that provide the resources and receive, or expect to receive, the services will also require information as input for decision making purposes.
5. Consequently, GPFRs of public sector entities are developed primarily to respond to the information needs of service recipients and resource providers who do not possess the authority to direct a public sector reporting entity to disclose the information they need for accountability and decision making purposes. Those that are elected or appointed to represent or advise these service recipients and resource providers or otherwise act in their interests are also primary users of GPFRs as identified in this Conceptual Framework
6. Citizens receive services from, and provide resources to, the government and other public sector entities. Therefore, citizens that do not possess the authority to direct a public sector reporting entity to disclose the information they need for accountability and decision making purposes are primary users of GPFRs.
7. Some service recipients and some resource providers that rely on GPFRs for the information they need for accountability and decision making purposes may not be citizens – for example, residents who pay taxes and or receive benefits but are not citizens; some multilateral or bilateral donor agencies and many commercial lenders and corporations that provide resources to, and transact with, a government; and those that fund, and/or benefit from, the services provided by international public sector entities.
8. Service recipients and resource providers as described in this Conceptual Framework include those that are elected or appointed to represent or advise

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them. This means that the legislature, individual members of parliament (or similar representative body), and other advisors are also primary users of GPFRs when acting in their capacity as representative of the interests of citizens and other service recipients and resource providers. The media is also likely to be a major user of GPFRs and can make public information useful to service recipients and resource providers for accountability and decision making purposes.

9. GPFRs prepared to respond to the information needs of service recipients and resource providers as identified in this Conceptual Framework may also provide information useful for other users. For example, elected or appointed bodies such as parliaments and councils have the authority and responsibility to make decisions about allocating resources to particular government entities, programs or activities, as well as confirming that resources allocated in the past have been used as intended. These bodies will generally require and have the authority to command the preparation of detailed reports tailored to meet their specific information needs for these purposes. However, they often also use the information provided by GPFRs for these purposes.
10. Other bodies that have the authority to command the preparation of financial reports tailored to meet their specific information needs may also use GPFRs – for example, regulatory and oversight bodies, audit institutions, subcommittees of the legislature or other governing body, central agencies and budget controllers, entity management and in some cases lending institutions and providers of development and other assistance. Government statisticians and analysts and others may also use GPFRs to provide input useful for their own purposes. While such parties may find the information provided by GPFRs useful, GPFRs are not developed to specifically respond to their particular information needs.

Information Needs of Service Recipients and Resource Providers

11. Service recipients include taxpayers, ratepayers and other members of the community that benefit from the services provided by the government or other public sector entity, whether as a result of an exchange or non-exchange transaction.
12. Service recipients will require information as input to assessments of such matters as whether:
 - the entity is using resources economically, efficiently, effectively, and as intended, and whether such use is in their interests;
 - the range and cost of services provided during the reporting period, and the amount and sources of their cost recoveries, are appropriate; and
 - current levels of taxes, rates, or other charges are sufficient to maintain the volume and quality of services currently provided.

They will also require information about the entity's anticipated future service delivery activities and objectives, and the amounts and sources of cost recoveries necessary to support those activities.

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13. Resource providers include “involuntary resource providers” such as taxpayers and ratepayers; and “voluntary resource providers” such as lenders, donors, suppliers, fee-for-service consumers. They may also include employees and other parties “internal” to the reporting entity that provide resources to the entity and do not possess the authority to command it to disclose the information they need for accountability and decision making purposes. In some cases governments that provide resources to international organizations may be dependant on GPFRs of those organizations for information for accountability and decision making purposes.
14. Resource providers will require 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;
 - funded current operations from funds raised in the current period from taxpayers and ratepayers or from borrowings or other sources; and
 - is likely to need additional (or less) resources in the future (and the likely sources of those resources).
15. 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. Donors will require information to support assessments of whether the entity is using resources efficiently, effectively and as intended. They will also need information about the entity’s anticipated future service delivery activities and resource needs.

Accountability and Decision Making

16. Service recipients and resource providers will require information for accountability purposes and as input for making decisions. However, the capacity of some service recipients and resource providers to make resource allocation or other decisions, and the frequency with which they can make those decisions, can differ. For example:
 - lenders, creditors, donors and others that provide resources on a voluntary basis, including in an exchange transaction, can make decisions about whether to provide resources in the future and, within certain constraints, whether and when to withdraw those resources from the government or other public sector entity. In some circumstances, members of the legislature or similar representative body who depend on GPFRs for the information they need, can make or influence decisions about the service delivery objectives of government departments, agencies or programs and the resources allocated to support their achievement;
 - taxpayers and ratepayers do not usually provide funds to the government or other public sector entity on a voluntary basis or as a result of an exchange transaction. In addition, in many cases, they do not have the discretion to choose whether or not to accept the goods and services

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provided by a public sector entity or to choose an alternative service provider. Consequently, they have little direct or immediate capacity to make decisions about whether to provide resources to the government, the resources to be allocated for the provision of services by a public sector reporting entity or whether to purchase or consume the services provided. However, they can make decisions about 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.

17. Information provided in annual or other GPFRs for accountability purposes will contribute to and inform decision-making. For example, information about the costs, efficiency and effectiveness of past service delivery activities, the amount and sources of cost recovery and the resources available to support future activities will be necessary for the discharge of accountability. This information will also be useful for decision making by some users of GPFRs, including decisions that donors and other financial supporters make about providing resources to the entity.

Information Provided by General Purpose Financial Reports

18. To respond to the information needs of users, GPFRs will need to provide information about the financial position of the government or other public sector entity as at the reporting date and its financial performance, cash flows, and changes in net assets during the reporting period. GPFRs will also need to provide financial and non-financial information about such matters as the government's or other public sector entity's:
 - service delivery achievements during the reporting period, including 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 those resources; and
 - plans and objectives for service delivery in the future, and the anticipated amount and sources of the resources needed to support those plans and objectives.

Financial Position, Financial Performance, Cash Flows

19. Information about the financial performance of the entity, and other transactions or events that have resulted in changes to its financial position during the reporting period, will inform assessments of matters such as whether the entity has acquired resources economically, and used them efficiently and effectively to achieve its service delivery objectives. Information about the costs of service delivery and the amount and sources of cost recovery during the reporting period will enable users to determine whether operating costs were recovered from, for example, taxes, rates, user charges, contributions, transfers or through issuing debt.

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20. 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 and its acquisition and sale of capital assets. It also indicates the cash received from, for example, taxes, rates and investments and the cash transfers it made to, and received from, other governments, government agencies or international organizations. Information about cash flows can also support assessments of the entity's compliance with spending mandates expressed in cash flow terms, and inform assessments of the likely amount and sources of cash inflows needed in future periods to support service delivery objectives.

Compliance

21. 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 approved budget of a government or other public sector entity reflects the financial characteristics of the government's (or other entity's) plans for the forthcoming period. It is used to justify the raising of monies from taxpayers, ratepayers, and other resource providers, and establishes the authority for expenditure of public monies. Information that assists users in assessing the entity's compliance with legally adopted or approved budgets, and its adherence to relevant legislation or other authority governing the raising and use of public monies, is necessary for the discharge of a government's accountability to its constituents and will inform decision-making.

Service Delivery Achievements

22. Reporting non-financial as well as financial information about service delivery activities and achievements during the reporting period will provide input to assessments of the economy, efficiency, and effectiveness of the entity's operations. Providing this information is necessary for the entity to discharge its obligation to be accountable – that is, to account for, and justify the use of, the financial resources raised. Decisions that donors make about the allocation of resources to particular entities and programs are also made, at least in part, in response to information about service delivery achievements during the reporting period, and future service delivery objectives.

Prospective Financial and Other Information

23. Decisions made in a particular period about programs for delivering and funding services in the future can have significant consequences for:
- constituents who are and will be dependent on those 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.

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24. 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.

Explanatory Material

25. In some cases, quantitative measures of the outputs and outcomes of the entity's service delivery activities during the period and anticipated activities in future periods will provide relevant information about the achievement of these service delivery 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. In other cases, the achievement of service delivery objectives may need to be communicated by explanatory material about the quality of particular services or the outcome of certain social support programs.
26. Information provided in GPFRs will include estimates and expectations about the outcomes of certain transactions and other events that have occurred, and the anticipated outcomes of future service delivery objectives and strategies to fund them. Explanatory material about the major factors underlying the financial and service delivery performance of the entity during the reporting period, and the factors that are likely to influence the entity's future performance, will assist users to better understand and place in context the financial and other information included in GPFRs. This will enhance the role of GPFRs in providing information useful for accountability and decision-making purposes.

Limitations of GPFRs

27. GPFRs play 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 decision-making purposes. However, GPFRs may not provide all the information required for accountability and decision-making purposes. Consequently, service recipients and resource providers may also need to consider information from other sources, including reports on current and anticipated economic conditions, government budgets and forecasts, and information about government policy initiatives not reported in GPFRs.

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Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, the Conceptual Framework. It provides additional background to the concepts reflected in the Conceptual Framework and draws out certain of their implications. It also summarizes the major issues and considerations of the IPSASB as it developed this Exposure Draft, noting in particular changes from the Preliminary Views identified in the Consultation Paper and the reasons for those changes.

Primary User Groups

- BC1. The IPSASB's Preliminary View 3 (PV3) in CP#1¹ was that the potential users of GPFRs of public sector entities should be identified as recipients of services (service recipients) or their representatives, providers of resources (resource providers) or their representatives, and other parties, including special interest groups and their representatives.
- BC2. Many respondents to CP#1 expressed support for PV3. However, many others were of the view that the public, citizens, electors or their representatives (for example, the legislature, parliament, elected council or other representative body), should be identified as the primary or most important users of GPFRs of public sector entities. They explain that this is because governments are primarily accountable to the citizens or their representative and, in many jurisdictions, the legislature and individual members of parliament or similar representative body acting on behalf of citizens are the main users of GPFRs.
- BC3. Other respondents were of the view that resource providers, funders, financial supporters or similar should be identified as the primary users of GPFRs of public sector entities. These respondents explain that it is unlikely that GPFRs can respond to the information needs of all users, and resource providers are likely to have the greatest interest in GPFRs. Identifying resource providers as the primary user group will allow the IPSASB to focus more sharply on their information needs. They also note that GPFRs prepared to respond to the information needs of resource providers are likely to also provide information useful to other potential users.
- BC4. IPSASB members acknowledge that there is merit in many of the proposals made by respondents to CP#1 regarding the identity of the primary users of GPFRs of public sector entities, particularly as they apply to governments in many jurisdictions. However, on balance, the IPSASB is of the view that the primary users of GPFRs of public sector entities should be identified as service recipients and resource providers (and their elected or appointed representatives and advisors). This is because the Conceptual Framework will apply to governments

¹ IPSASB Consultation Paper: *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: The objectives of financial reporting; The scope of financial reporting; The qualitative characteristics of information included in general purpose financial reports; The reporting entity.*

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and a potentially wide range of other public sector entities in many different jurisdictions as well as international governmental organizations, and it is not clear that identification of other groupings of users as the primary users will be relevant and operate effectively for all public sector entities across all jurisdictions.

- BC5. The IPSASB's views on the relationship of the individual primary users groups identified by respondents and service recipients and resource providers are outlined below.

Citizens

- BC6. There is much common ground between the views of those that identify citizens or their representatives as the primary user group and the views of the IPSASB as reflected in CP#1. This is because citizens (or the public) are both resource providers and service recipients. The IPSASB acknowledges the importance of citizens (and their elected or appointed representatives and advisors) as users of GPFRs, but is of the view that it is necessary to further classify citizens into resource providers and service recipients to provide a basis for assessing their potential information needs. The IPSASB is also of the view that in developing IPSASs, it is appropriate that it have the capacity to consider the information needs of a range of non-citizen service recipients and resource providers (including donors and commercial lenders) who do not possess the authority to direct a public sector reporting entity to disclose the information they need for accountability and decision making purposes.

Resource Providers

- BC7. The IPSASB agrees that GPFRs directed at the provision of information to satisfy the information needs of resource providers will also provide information useful to other potential users of GPFRs. However, the IPSASB is of the view that the Conceptual Framework should make clear its expectation that governments and public sector entities should be accountable to both those that provide them with resources and those that depend on them to use those resources to deliver necessary or promised services. In addition, in at least some developing economies it is likely that service recipients rather than resource providers will be the primary users of GPFRs. This is because in these jurisdictions, resource providers are primarily donors or lenders that, in many cases, have the authority to command the preparation of special purpose financial reports to provide the information they needed.

The Legislature

- BC8. The IPSASB is of the view that the legislature or similar governing body is a primary user of GPFRs in its capacity as a representative of resource providers and service recipients. In addition, the legislature, or similar governing body, and its committees will often use the information provided by GPFRs for their own particular purposes including for input for making resource allocation and other decisions.

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BC9. Individual members of the legislature or other governing body, whether members of the government or opposition, may not have the authority to command the preparation of financial reports that provide the information they require. Consequently, they are users of GPFRs, whether in their capacity as representatives of service recipients and resource providers in their electorate or in their personal capacity as citizens and members of the community.

Other User Groups

BC10. In developing CP#1, the IPSASB considered a wide range of potential users of GPFRs, including whether those transacting with public sector entities on a commercial or non-commercial basis, or on a voluntary or involuntary basis, such as public sector and private sector resource providers should be identified as separate user groups. The IPSASB is of the view that identifying service recipients and resource providers and their representatives or advisors as the primary users of GPFRs will respond to the information needs of these subgroups of resource providers.

BC11. CP#1 identified as potential users of GPFRs “*other parties, including special interest groups and their representatives*”. However, a number of respondents argued that many of these potential users of GPFRs, including bond rating agencies and credit analysts that act as advisors to resource providers, would be encompassed within the groups identified as service recipients and resource providers and their elected or appointed representatives and advisors. Consequently they should not be identified as a separate user group. The IPSASB was persuaded by this argument.

BC12. The information provided by GPFRs may also be useful to compile national accounts and as input to statistical financial reporting models and assessments of the impact of government policies on economic activity or for other economic analytical purposes. However, GPFRs are not developed specifically to respond to the needs of those who require information for these purposes. Similarly, while the media and others including analysts and many public interest groups are likely to find the information reported in GPFRs useful for their purposes, GPFRs are not prepared specifically to respond to their particular information needs.

Responding to Users’ Information Needs

BC13. The IPSASB recognizes that some users of GPFRs (whether resource providers or service recipients) may have different priorities and interest in information, and will weigh these differences in making decisions about the contents of IPSASs that best achieves the objectives of financial reporting. The IPSASB also recognizes that some aspects of GPFRs may be of more relevance and interest to some users than others. For example, funders and debt market participants are likely to be more interested in financial statements and notes thereto, while many citizens may find information about service delivery achievements and plans of equal, if not more, significance. Other components of this Conceptual Framework deal with matters of presentation and display that respond to users’ information needs.

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BC14. Some respondents to CP#1 expressed the view that the Conceptual Framework should also embrace and provide guidance on the role and characteristics of budgets prepared and issued as public documents by governments or other public sector entities. While information about compliance with budgets may be included in GPFRs, the IPSASB does not propose that GPFRs encompass budget policy statements or matters related to budget formulation. Information about compliance with budgetary policy initiatives and other legislative, contractual, or regulatory matters may be included in budget execution or budget monitoring reports, or other financial reports that governments or their agencies issue in addition to their GPFRs.

The IASB Conceptual Framework

BC15. The IASB Conceptual Framework ED “*Objective and Qualitative Characteristics*” (2008) explains that capital providers are the primary users of GPFRs, and that the decisions they make include whether and how to (a) allocate resources to a particular entity, and (b) protect or enhance their investments. The ED identifies the objective of general purpose financial reporting of business entities in the private sector as being “...to provide information about the reporting entity that is useful to present and potential equity investors, lenders, and other creditors in making decisions in their capacity as capital providers. Information that is decision useful to capital providers may also be useful to other users of financial reporting who are not capital providers.” (paragraph OB2). (Staff comment: this is steadily being updated by the IASB in the light of comments received. The final Chapter of the IASB Conceptual Framework dealing with the objective of financial reporting is expected to be issued in the near future. This paragraph will be updated once that occurs.)

BC16. There are some 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 services. However, there are differences in the operating objectives of public sector entities subject to this Conceptual Framework and business entities that are subject to the IASB Conceptual Framework. There are also differences in how these entities raise funds, and in the nature and range of decisions that can be made by many funders and consumers of the services they provide. For example:

- public sector entities that are subject to this Conceptual Framework are constituted and funded primarily to provide services to constituents, rather than to provide financial returns to equity investors and other capital providers – as such, their performance will not be fully or adequately reflected in measures of their financial results or changes in their net assets;
- present and potential investors in private sector business entities have the discretion to decide whether to invest in the entity, but taxpayers, ratepayers, and certain others that provide resources to government entities

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do not – they provide funds involuntarily, and cannot choose to “invest” or “disinvest” in the government or public sector entity;

- providers of development and other assistance and other donors provide resources voluntarily to public sector entities, but do not expect to receive services of approximately equal value directly in return, or a financial return on the resources they provide. However, they do expect that resources will be used for the intended purposes and to achieve the anticipated outcomes – that is, there are compliance and performance stipulations attached to the resources provided to recipients;
- taxpayers, ratepayers, and other citizens and residents receive services from the government or a government entity, but not (except for some fee-for-service consumers) as a result of an exchange transaction – that is, rarely would the taxes paid by taxpayers and the services they receive in return be classified as an exchange transaction, as conventionally defined in accounting standards; and
- consumers of the goods and services provided by private sector business entities can decide whether or not to purchase the goods and services provided by an entity, and often have a choice of service provider. Recipients of the services and other benefits provided by public sector entities often do not have such discretion or a choice of service provider.

BC17. The users of GPFRs of public sector entities and the objectives of financial reporting by public sector entities identified by the IPSASB respond to these circumstances. Therefore they differ from those identified by the IASB for business entities in the private sector.

The Qualitative Characteristics of, and Constraints on, Information Included in GPFRs

1. *The qualitative characteristics of information included in GPFRs of public sector reporting entities are relevance, faithful representation, understandability, timeliness, comparability, and verifiability.*
2. *Materiality, cost-benefit, and achieving an appropriate balance between the qualitative characteristics are pervasive constraints on information in GPFRs.*
3. GPFRs present financial and other information about economic or other phenomena. The qualitative characteristics of information included in GPFRs are the attributes that make that information useful to users and support the achievement of the objectives of financial reporting. The objectives of financial reporting are to provide information useful for accountability and decision making purposes.
4. Each of the qualitative characteristics is integral to, and works with, the other characteristics to provide in GPFRs information useful for achieving the objectives of financial reporting. However, in practice, all qualitative characteristics may not be fully achieved, and a balance or trade-off between certain of them may be necessary.
5. The qualitative characteristics apply to all information reported in GPFRs, including financial and non-financial information, historic and prospective information, and explanatory material or other narrative reporting. However, the extent to which the qualitative characteristics can be achieved may differ depending on the degree of uncertainty and subjective assessment or opinion involved in compiling the financial and other information. The need for additional guidance on interpreting and applying the qualitative characteristics to information that extends the scope of financial reporting beyond financial statements and their notes as currently dealt with in IPSASs will be considered in the development of any IPSASs and other pronouncements of the IPSASB that deal with such matters.

Relevance

6. Financial and other information is relevant if it is capable of making a difference in achieving the objectives of financial reporting. Financial and other information is capable of making a difference when it has confirmatory value, predictive value, or both - it 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.
7. Financial and other information has confirmatory value if it confirms or changes past (or present) expectations. For example, information will be relevant for accountability and decision making purposes if it confirms expectations about such matters as the extent to which managers have discharged their responsibilities for the efficient and effective use of resources, the achievement of

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- specified service delivery objectives, and compliance with relevant budgetary, legislative, and other requirements.
8. GPFRs may present information about an entity's anticipated future service delivery activities, objectives and costs, and the amount and sources of the resources that are intended to be allocated to providing services in the future. Such future oriented information will have predictive value and be relevant for accountability and decision making purposes. Information about economic and other phenomena that exist or have already occurred can also have predictive value in forming expectations about the future. For example, information that confirms or disproves past expectations can reinforce or change expectations about financial results and service delivery outcomes that may occur in the future.
 9. The confirmatory and predictive roles of information are interrelated – for example, information about the current level and structure of an entity's economic resources, and claims to them, helps users to confirm the outcome of resource management strategies during the period, and to predict an entity's ability to respond to changing circumstances and anticipated future service delivery needs. The same information helps to confirm or correct users' past predictions about that ability. It also helps to confirm or correct prospective financial information included in previous GPFRs.

Faithful Representation

10. 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, other event, activity or circumstance – which is not necessarily always the same as its legal form.
11. In practice, it may not be possible to present information that is fully complete, neutral, and free from material error, or to know or confirm that the information satisfies these conditions. However, information should be as complete, neutral, and free from material error as is possible.
12. A depiction of an economic or other phenomena is complete if it includes all information that is necessary for faithful representation of the phenomena that it purports to depict. An omission of some information can cause the representation to be false or misleading, and thus not useful to users of GPFRs. For example, a complete depiction of the item "plant and equipment" in GPFRs will include a numeric representation of the aggregate amount of plant and equipment together with other quantitative, descriptive and explanatory material necessary to faithfully represent that class of assets. In some cases, this may include the disclosure of information about such matters as the major classes of plant and equipment, factors that have affected their use in the past or might impact on their use in the future, and the basis and process for determining their numeric

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- representation. Similarly, prospective financial information and information about the achievement of service delivery objectives and outcomes included in GPFRs will need to be presented with the key assumptions that underlie that information, and any explanations that are necessary to ensure that its depiction is complete and useful to users.
13. Neutrality in financial reporting is the absence of bias, such that the selection and presentation of financial and other information is not made with the intention of attaining a particular predetermined result, for example, to influence in a particular way users' assessment of the discharge of accountability by the entity or a decision or judgment that is to be made, or to induce a particular behaviour.
 14. Neutral information is free from bias, so that it faithfully represents the economic and other phenomena that it purports to represent. However, to require information included in GPFRs to be neutral does not mean that it is not without purpose or that it will not influence behaviour. Relevance is a qualitative characteristics and, by definition, relevant information is capable of influencing users' assessments and decisions.
 15. The economic and other phenomena represented in GPFRs generally takes place or occurs under conditions of uncertainty. Information included in GPFRs will therefore often include estimates that incorporate management's judgment. To faithfully represent an economic or other phenomenon, an estimate must be based on appropriate inputs, and each input must reflect the best available information. Caution will need to be exercised when dealing with uncertainty. It may sometimes be necessary to explicitly disclose the degree of uncertainty in financial and other information to faithfully represent economic and other phenomena.
 16. Free from material error does not mean complete accuracy in all respects. Free from material error means there are no identified errors or omissions that are individually or collectively material in the description of the phenomenon, and the process used to produce the reported information has been applied as described. In some cases, it may be possible to determine the accuracy of some information included in GPFRs – for example, the amount of a cash transfer to another level of government, volume of services delivered or the price paid for the acquisition of plant and equipment. However, in other cases it may not - for example, the accuracy of an estimate of the value or cost of an item or the effectiveness of a service delivery program may not be able to be determined. In these cases, the estimate will be free from material error if the amount is clearly described as an estimate, the nature and limitations of the estimating process are explained, and no material errors have been identified in selecting and applying an appropriate process for developing the estimate.

Understandability

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

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manner that responds to the needs and knowledge base of users, and to 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.

18. Users of GPFRs are assumed to have a reasonable knowledge of the entity's activities and the environment in which it operates, to be able and prepared to read GPFRs, and to review and analyze the information presented with reasonable diligence. Some economic and other phenomena are particularly complex and difficult to represent in GPFRs, and some users may need to seek the aid of an advisor to assist in their understanding of them. All efforts should be undertaken to represent economic and other phenomena included in GPFRs in a manner that is understandable to a wide range of users. However, information should not be excluded from GPFRs solely because it may be too complex or difficult for some users to understand without assistance.

Timeliness

19. 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 inform and influence decisions that need to be made. A lack of timeliness can render information less useful.
20. Some items of information may continue to be useful long after the reporting date. For example, for accountability and decision making purposes users of GPFRs may need to assess trends in the financial and service delivery performance of the entity 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

21. 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.
22. Comparability differs from consistency. Consistency refers to the use of the same accounting policies and procedures, either from period to period within an entity or in a single period across more than one entity. Comparability is the goal, and consistency helps in achieving that goal.

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23. Comparability also differs from uniformity. For information to be comparable, like things must look alike, and different things must look different. An over-emphasis 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.
24. Information about the entity's financial position, financial performance, compliance, service delivery achievements, and its future plans is necessary for accountability purposes and provides input for decision making purposes. The usefulness of such information is enhanced if it can be compared with, for example:
 - the budget for the entity for the reporting period or prospective financial and other information previously presented for that reporting period or reporting date;
 - similar information about the same entity for some other period or some other point in time; and
 - similar information about other entities (for example, public sector entities providing similar services in different jurisdictions).
25. Consistent application of accounting policies to budget or other prospective information and actual outcomes will enhance the usefulness of any comparison of projected and actual results. Comparability with other entities may be less significant for narrative reporting of management's perception or opinion of the factors underlying the entity's current performance.

Verifiability

26. Verifiability is the quality of information that helps assure users that information in GPFRs faithfully represents the phenomena that it purports to represent. Supportability is sometimes used to describe this quality when applied in respect of explanatory information and prospective financial and other quantitative information disclosed in GPFRs – that is, the quality of information that helps assure users that explanatory or prospective financial and other quantitative information faithfully represents the phenomena that it purports to represent. Whether referred to as verifiability or supportability, the characteristic implies 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.
27. To be verifiable, information need not be a single point estimate. A range of possible amounts and the related probabilities also can be verified.

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28. Verification may be direct or indirect. With direct verification, an amount or other representation is itself verified, such as by (a) counting cash, (b) checking records of service response times or records of patients treated, (c) observing marketable securities and their quoted prices, or (d) confirming that the factors identified as influencing past service deliver performance were present and operated with the effect identified. 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).
29. The quality of verifiability (or supportability if such term is used to describe this characteristic) is not an absolute - some information may be more or less capable of verification than other information. However, the more verifiable is the information included in the financial report, the more useful it is.
30. GPFRs of public sector entities may include financial and other quantitative information and explanations about (a) key influences on the entity's performance during the period, (b) the anticipated future effects or outcomes of service delivery programs undertaken during the reporting period, and (c) prospective financial and other information. It may not be possible to verify the accuracy of all quantitative representations and explanations of such information until a future period, if at all.
31. To help assure users that prospective financial and other quantitative information and explanations included in GPFRs faithfully represents the phenomena that they purport to represent, the assumptions that underlie the information disclosed, the methodologies adopted in compiling it, and the factors and circumstances that support any opinions expressed or disclosures made should be transparent. This will enable users to form judgements about the appropriateness of those assumptions and the method of compilation, measurement, representation, and interpretation of the information.

Constraints on Information Included in GPFRs

Materiality

32. 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 prepared for that period. Materiality depends on both the nature and amount of the item judged in the particular circumstances of each reporting entity. GPFRs may encompass qualitative and quantitative information about service delivery achievements during the reporting period and expectations about service delivery and financial outcomes in the future. Consequently, it is not possible to specify a uniform quantitative threshold at which a particular type of information becomes material.

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33. Assessments of materiality will be made in the context of the legislative, institutional and operating environment within which the reporting entity operates and, in respect of prospective financial and other information, the preparer's knowledge and expectations about the future. Disclosure of information about compliance or non-compliance with legislation, regulation or other authority may be material because of its nature - irrespective of the magnitude of any amounts involved. In determining whether an item is material in these circumstances, consideration will be given to such matters as the nature, legality, sensitivity and consequences of past or anticipated transactions and events, the parties involved in any such transactions and the circumstances giving rise to them.

Cost-Benefit

34. Financial reporting imposes costs. The benefits of financial reporting should justify those costs. Assessing whether the benefits of providing information justify the related costs is often a matter of judgment, because it is often not possible to identify and or quantify all the costs or benefits of information included in GPFRs.
35. The costs of providing information include costs of collecting and processing the information, costs of verifying it and/or presenting the assumptions and methodologies that support 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 needed information and the costs that result from making decisions using incomplete data provided by GPFRs.
36. Preparers expend the majority of the effort to provide information in GPFRs. However, service recipients and resource providers ultimately bear the cost of those efforts - because resources are redirected from service delivery activities to preparation of information for inclusion in GPFRs.
37. Users reap the majority of benefits from the information provided by GPFRs. However, reporting entities can also enjoy benefits such as better management decisions, because information used internally often is based (at least partly) on information prepared for GPFRs.
38. Application of the cost-benefit constraint involves assessing whether the benefits of reporting information are likely to justify the costs incurred to provide and use it. When making this assessment, it is necessary to consider whether one or more qualitative characteristics might be sacrificed to some degree to reduce cost.
39. In developing IPSASs, the IPSASB considers information from preparers, users, academics, and others about the expected nature and quantity of the benefits and costs of the proposed requirements. Disclosure and other requirements are prescribed by IPSASs only when the benefits of compliance with them are assessed to be greater than their costs.

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Balance Between the Qualitative Characteristics

40. The qualitative characteristics work together in different ways to contribute to the usefulness of information. For example, neither a depiction that faithfully represents an irrelevant phenomenon, nor a depiction that unfaithfully represents a relevant phenomenon, results in useful information. Similarly, to be relevant, information must be timely and understandable.
41. In some cases, a balancing or trade-off between 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 judgment. The aim is to achieve an appropriate balance among the characteristics in order to meet the objectives of financial reporting.

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Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, the Conceptual Framework. It provides additional background to the concepts reflected in the Conceptual Framework and draws out certain of their implications. It also summarizes the major issues and considerations of the IPSASB as it developed this Exposure Draft, noting in particular changes from the Preliminary Views identified in the Consultation Paper and the reasons for those changes.

The Qualitative Characteristics of Information Included in GPFRs

- BC1. In developing IPSASs, the IPSASB receives input on, and makes judgments about, information that best satisfies the objectives of financial reporting and should be included in GPFRs. In making those judgements, the IPSASB considers the extent to which each of the qualitative characteristics can be achieved. Disclosure and other requirements are included in IPSASs only when the information that results from their application is constraints on inclusion of that information that are identified in this Conceptual Framework.
- BC2. IPSASs will not deal with all financial and other information that may be included in GPFRs. In the absence of an IPSAS that deals with particular economic or other phenomena, assessments of whether an item of information satisfies the qualitative characteristics and constraints identified in this Conceptual Framework, and therefore qualifies for inclusion in GPFRs, will be made by preparers compiling the GPFRs. Those assessments will be made in the context of achieving the objectives of financial reporting, which in turn have been developed to respond to users' information needs.

Other Qualitative Characteristics Considered

- BC3. Some respondents to CP#1 expressed the view that additional qualitative characteristics should be identified. Those characteristics included “sincerity”, “true and fair view”, “credibility”, “transparency” and “regularity”.
- BC4. The IPSASB notes that “sincerity” as used in financial reporting has a similar meaning to “true and fair”. The IPSASB is of the view that “sincerity”, “true and fair view”, “credibility” and “transparency” are important expressions of the overarching qualities that financial reporting is to achieve or aspire to. However, they do not exist as single qualitative characteristics on their own – rather, achieving these qualities is the product of application of the full set of qualitative characteristics identified in the Conceptual Framework and the IPSASs that deal with specific reporting issues. Consequently, while important characteristics of GPFRs, they are not identified as separate individual qualitative characteristics in their own right. The IPSAS is also of the view that the notion of “regularity” as noted by some respondents is related to the notion of “compliance” as used in this Framework and, consequently, is not identified as an additional QC.

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Application of the Qualitative Characteristics to the Broader Scope of GPFRs

- BC5. Information included in GPFRs may depict economic and other phenomena. For example, GPFRs provide information about a reporting 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 the current performance of the entity and its future expectations, strategies, and goals.
- BC6. A number of respondents noted their concern about the application of the qualitative characteristics, to non-financial and prospective financial information.
- BC7. The IPSASB is of the view that the qualitative characteristics identified in the Conceptual Framework apply to information to be included in general purpose financial statements and other information included in GPFRs. However, their interpretation, relative importance, and the extent to which they can be achieved may differ for information included in general purpose financial statements and their notes, and for prospective financial and other information included in other components of GPFRs. As appropriate, additional guidance on the application of the qualitative characteristics and constraints to non-financial and prospective financial information will be included in any IPSASs and other pronouncements that deal with these matters.

Relevance

- BC8. The Conceptual Framework explains that financial and other information is relevant if it is capable of making a difference in achieving the objectives of financial reporting. As part of its due process, the IPSASB seeks input on whether the requirements of a proposed IPSAS is relevant to the achievement of the objectives of financial reporting – that is, is relevant to the discharge of the reporting entity's obligation to be accountable and to decisions that users may make.
- BC9. Appendix B of IPSAS 1 "*Presentation of Financial Statements*" explains the meaning of relevance as follows: "*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.*"
- BC10. The concept of relevance identified in this Conceptual Framework possesses similar characteristics and operates with similar intent to that identified in Appendix B of IPSAS 1. However, the predictive value of information is also explicitly identified as a component of relevance in this Conceptual Framework. In addition, timeliness is identified as a separate qualitative characteristic because it can influence the achievement of other qualitative characteristics and, through them, the usefulness of information included in GPFRs.

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Faithful Representation

- BC11. To be useful information must faithfully represent the economic and other phenomena that it purports to represent. Information that does not faithfully represent what it purports to represent may mislead users and, therefore, not support the achievement of the objectives of financial reporting.
- BC12. A single economic or other phenomenon may be represented in many ways. For example, the achievement of particular service delivery objectives may be depicted (a) qualitatively through a narrative explanation of the immediate and anticipated longer term outcomes and effects of the service delivery program, (b) quantitatively as a measure of the volume of services provided by the service delivery program, or (c) by a combination of both qualitative and quantitative information. Additionally, a single depiction in GPFRs may represent several economic phenomena. For example, the presentation of the item “plant and equipment” in a financial statement may represent an aggregate of all of an entity’s plant and equipment, including items that have different functions, that are subject to different risks and opportunities and that are carried at amounts based on estimates that may be more or less complex and reliable.
- BC13. Faithful representation of an economic or other phenomenon is complete if it includes all quantitative information and explanations and descriptions necessary to enable users to understand the phenomenon and for its representation to be useful for the achievement of the objectives of financial reporting.
- BC14. Completeness and neutrality of estimates (and inputs to those estimates) are desirable, and some minimum level of accuracy is necessary for an estimate to faithfully represent 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 of an economic or other phenomena 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. Therefore, to faithfully represent economic and other phenomena, it may sometimes be necessary to explicitly disclose information about the type and degree of uncertainty in the financial and other information presented in GPFRs.

Faithful Representation or Reliability

- BC15. Appendix B of IPSAS 1 identifies reliability as a qualitative characteristic. It describes reliable information as information that is *“free from material error and bias, and can be depended on by users to represent faithfully that which it purports to represent or could reasonably be expected to represent”*. Faithful representation, substance over form, neutrality, prudence and completeness are identified as components of reliability. This Conceptual Framework uses the term faithful representation rather than reliability to describe what is substantially the

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same concept. In addition, it does not explicitly identify substance over form and prudence as components of faithful representation.

- BC16. Some respondents to CP#1 did not support the replacement of “reliability” with the term “faithful representation” because reliability is widely used and well understood in the public sector. However, some of these respondents also noted that in the interests of alignment with IASB terminology, faithful representation should be adopted.
- BC17. Some IPSASB members are of the view that in many jurisdictions reliability is a better understood term in the public sector than is faithful representation. They are also of the view that it is a more accurate reflection of the substance of the characteristic, particularly as it applies to qualitative and prospective information included in GPFRs. As such they are not convinced that there is sufficient reason to change the terminology for application in the public sector.
- BC18. However, other IPSASB members note that in their jurisdiction, reliability is sometimes interpreted to mean “verifiable”, “free from error” or other of the individual components it is currently described as comprising, rather than its intended meaning of broadly representing faithfully the economic and other phenomena that it purports to represent. They are of the view that difficulties in interpretation and application of “reliability” may be overcome by using the term “faithful representation” and re-expressing its role and components. They are also of the view that faithful representation is less dependant on judgment than is reliability, is a better reflection of what preparers aspire to achieve in presenting information in GPFRs and is more readily translated into, and understood in, a wide range of languages. They also acknowledge that there is merit in using the same terminology as the IASB.
- BC19. On balance, the IPSASB was persuaded by arguments that the term faithful representation should be adopted in its Conceptual Framework, because it overcomes problems in the interpretation and application of “reliability” that have been experienced in some jurisdictions. It also notes that a number of respondents to CP#1 argued that identifying faithful representation as a qualitative characteristic aligns with IASB terminology and its use in the IPSASB’s Framework will have beneficial effects for the IPSASB’s IFRS convergence program. *(Staff comment - this matter has not yet been agreed by the IPSASB. It is the subject of ongoing debate.)*

Substance over Form and Prudence

- BC20. Some respondents to CP#1 expressed concern that substance over form and prudence are no longer identified as qualitative characteristics or that their importance is not sufficiently recognized or explained. Some also noted that prudence need not be incompatible with the achievement of neutrality and faithful representation.

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BC21. The Conceptual Framework explains that “*Information that faithfully represents an economic or other phenomenon depicts the substance of the underlying transaction, other event, activity or circumstance – which is not necessarily always the same as its legal form.*” Therefore substance over form remains a key quality that information included in GPFRs must possess. It is not identified as a separate or additional qualitative characteristic because it is already embedded in the notion of faithful representation.

BC22. IPSAS 1 Appendix B 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 example, the creation of hidden reserves or excessive provisions, the deliberate understatement of assets or revenues, or the deliberate overstatement of liabilities or expenses because this would mean that the financial statements would not be neutral or have the quality of reliability.*”

BC23. The IPSASB is of the view that the same notion of prudence as currently identified in IPSAS 1 Appendix B is reflected in the explanation of neutrality in the Conceptual Framework. It is reinforced by the acknowledgement of the need to exercise caution in dealing with uncertainty. Therefore, like substance over form, prudence is not identified as an additional component of faithful representation because its intent and influence in identifying information that is included in GPFRs is already embedded in the notion of faithful representation.

Understandability

BC24. 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.

BC25. Some economic and other phenomena are particularly complex and difficult to represent in GPFRs. However, the IPSASB is of the view that information that is, for example, relevant, faithfully represents what it purports to represent, timely and verifiable should not be excluded from GPFRs solely because it may be too complex or difficult for some users to understand without assistance. Acknowledging that it may be necessary for some users to seek assistance to understand the information presented in GPFRs, does not mean that information included in GPFRs need not be understandable or that all efforts should not be undertaken to present information in GPFRs in a manner that is understandable to a wide range of users. However, it does reflect that, in practice, the nature of the information included in GPFRs is such that all the qualitative characteristics may not be fully achievable at all times for all users.

BC26. The concept of understandability in this Conceptual Framework reflects that included in IPSAS 1 Appendix B. However, certain aspects have been explained more fully – in particular, that users should review and analyze the information in GPFRs with reasonable diligence. The Conceptual Framework also clarifies that

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in some circumstances, users may need to seek assistance to understand complex economic and other phenomena presented in GPFRs.

Timeliness

BC27. IPSAS 1 Appendix B identifies timeliness as a constraint on relevant and reliable information. It notes that that undue delay in the provision of information may reduce its relevance and explains that reporting on a timely basis may involve reporting before all aspects of a transaction are known, thus impairing reliability. It also explains that *“In achieving a balance between relevance and reliability, the overriding consideration is how best to satisfy the decision-making needs of users.”*

BC28. The IPSASB is of the view that the nature of “timeliness” and the potential for timely reporting to increase the usefulness of GPFRs for both accountability and decision making purposes, signals that it is more than a constraint on information included in GPFRs. This is reflected in its redesignation as a qualitative characteristic in its own right in this Conceptual Framework.

Comparability

BC29. IPSAS 1 Appendix B identifies comparability as a QC. To better understand and place in context, for example, the financial and service delivery performance of an entity, users will frequently compare information reported in GPFRs for a particular period with GPFRs of the same entity for a prior period or with GPFRs of different entities. Consequently, comparability continues to be identified as a qualitative characteristic in this Conceptual Framework. The characteristic of comparability in this Conceptual Framework reflects and builds on that in the current IPSAS 1 Appendix B – in particular, by explaining its operation in respect of the broader scope of financial reporting.

BC30. Some degree of comparability may be attained by maximizing the qualitative characteristics of relevance and faithful representation. For example, in some cases, faithful representation of a relevant economic or other phenomenon by one public sector entity is likely to be comparable to a faithful representation of a similar relevant economic or other phenomenon by another public entity. However, a single economic or other phenomenon can often be faithfully represented in several ways, and permitting alternative accounting methods for the same phenomenon diminishes comparability and, therefore, may be undesirable. Consequently, the IPSASB is of the view that IPSASs should preclude or limit the extent to which alternative accounting methods are permitted for presentation of the same economic or other phenomena.

Verifiability

BC31. CP#1 explains that verifiability encompasses, and in some cases may be described as, supportability when applied to qualitative and prospective information

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disclosed in GPFRs. However, whether referred to as verifiability or supportability, the characteristic is substantially the same.

- BC32. Some respondents expressed the view that supportability should be identified as a separate characteristic for application to information presented in GPFRs outside the financial statements. The IPSASB is of the view that identifying both verifiability and supportability as qualitative characteristics may be confusing to users of GPFRs. However, the Conceptual Framework does acknowledge that supportability is sometimes used to refer to the quality of information that helps assure users that non-financial and prospective financial information included in GPFRs faithfully represents the phenomena that it purports to represent. It also acknowledges that disclosure of the underlying assumptions and methodologies adopted for the compilation of qualitative and prospective financial and other information is central to the achievement of faithful representation.
- BC33. In addition, as noted earlier in this basis for conclusion, the IPSASB will consider the applicability and operation of the qualitative characteristics when it develops and gains experience with IPSASs and other pronouncements that deal with prospective financial and other quantitative information and narrative and explanatory material to be included in GPFRs.

Constraints on Information Included in GPFRs

Materiality

- BC34. IPSAS 1 Appendix B, describes materiality with similar characteristics to that described in this Conceptual Framework, but identifies materiality as a factor to be considered in determining only the relevance of information. The Preface to International Public Sector Accounting Standards explains that IPSASs are not meant to apply to immaterial items and IPSAS 3, “Accounting Policies, Changes in Estimates and Errors” explains:

“IPSASs set out accounting policies that the IPSASB has concluded result in financial statements containing relevant and reliable information about the transactions, other events, and conditions to which they apply. Those policies need not be applied when the effect of applying them is immaterial. However, it is inappropriate to make, or leave uncorrected, immaterial departures from IPSASs to achieve a particular presentation of an entity’s financial position, financial performance, or cash flows.” (IPSAS 3, paragraph 10)

- BC35. Some respondents to CP #1 expressed the view that there should be additional emphasis on the significance of materiality based on the “context and nature” of the item. The IPSASB has responded to these concerns by clarifying that judgments about the materiality of each item are made by reference to the circumstances of each entity, and providing guidance on matters to be considered by public sector entities in assessing the materiality of particular items.
- BC36. Some respondents to CP #1 also expressed the view that relevance and materiality should be distinguished more clearly. The IPSASB is of the view that materiality

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relates to, and can impact, a number of the qualitative characteristics of information included in GPFRs. For example, materiality should be considered when determining whether the omission or misstatement of an item of information could undermine the relevance, faithful representation, understandability, verifiability or supportability of financial and other information presented in GPFRs. The Conceptual Framework explains that materiality is determined in the particular circumstances of each reporting entity. Therefore, materiality differs from relevance. For example, materiality can impact a number of qualitative characteristics. In addition, relevance is a general quality of information included in GPFRs but materiality is assessed in the context of the circumstances of individual entities.

- BC37. Some respondents to CP #1 also expressed the view that the Conceptual Framework should explain that legislation may require disclosure irrespective of the cost or perceived materiality of the item. The IPSASB acknowledges that legislation, regulation or other authority may impose financial reporting requirements on public sector reporting entities in addition to those imposed by IPSASs and the operation of this Conceptual Framework. Preparers will need to consider such requirements as they prepare GPFRs. In particular, legislation may prescribe that particular items of information are to be disclosed in GPFRs even though they may not be judged to satisfy a materiality threshold (or cost-benefit constraint) as identified in this Conceptual Framework. Similarly, the disclosure of some matters may be prohibited by legislation because, for example, they relate to matters of national security, notwithstanding that they are material and would otherwise satisfy the cost-benefit constraint. However, while a feature of the operating environment of many public sector (and many private sector) reporting entities, the impact that legislation or other authority may have on the information included in GPFRs is not itself a financial reporting concept.

Cost-Benefit

- BC38. IPSAS 1 Appendix B identifies the balance between benefit and cost as a pervasive constraint and explains that the evaluation of benefits and costs is substantially a matter of judgment. This Conceptual Framework also identifies cost as a pervasive constraint that standard-setters, as well as preparers and users of financial reports, should be aware of and consider when balancing the benefits of providing a new item of financial information with the related costs. Therefore, cost-benefit continues to be identified as a constraint on providing financial and other information, rather than a qualitative characteristic of that information.
- BC39. Some respondents expressed concern that the Conceptual Framework did not explain that entities cannot decide to depart from IPSASs on the basis of their own assessments of the cost and benefits of particular requirements of an IPSAS. As noted previously in the basis for conclusions to the Conceptual Framework, authoritative requirements relating to the recognition, measurement, presentation, and disclosure of transactions, other events, and activities that are reported in GPFRs are specified in IPSASs. Disclosure and other requirements are prescribed

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by IPSASs only when the benefits of compliance with them are assessed to be greater than their costs.

BC40. Some respondents expressed concern that CP#1 does not recognize that cost benefit trade-offs may differ for different public sector entities. They note that acknowledgement of this may provide an useful principle to be applied when considering differential reporting issues. The IPSASB has considered whether issues related to differential reporting should be included in the Conceptual Framework, including the potential to acknowledge that cost-benefit issues may differ for differing entities depending on their nature, size or other operating characteristics. However, the IPSASB has determined that it will deal with differential reporting issue in the development of individual IPSASs or in a separate project.

The IASB Framework

BC41. The IASB ED “*Objectives and Qualitative Characteristics*” (2008) identifies:

- relevance and faithful representation as fundamental qualitative characteristics, and explains the order of their application;
- comparability, verifiability, timeliness, and understandability as enhancing qualitative characteristics, and explains that their application is an iterative process that does not follow a prescribed order; and
- cost as a pervasive constraint that limits the information provided by financial reporting.

BC42. The qualitative characteristics identified in the IPSASB’s Conceptual Framework differ in some respects from those proposed by the IASB, because they (a) respond to the objectives of GPFRs of public sector entities, and (b) reflect a potentially broader scope of financial reporting than the IASB has currently identified. In addition, they reflect the views of the IPSASB that:

- in some jurisdictions, all matters identified as “fundamental” are perceived to be more important than those identified as “enhancing”, even if this distinction is not intended in the case of the qualitative characteristics. As a result, there may be unintended consequences of identifying some qualitative characteristics as fundamental and others as enhancing;
- all the qualitative characteristics are important. The relative importance of a particular qualitative characteristic in different circumstances is a matter of professional judgment. As such, it is not appropriate to identify certain qualitative characteristics as always being fundamental and others as having only an enhancing or supporting role no matter what information is being considered for inclusion in GPFRs, or the circumstances of the entity and its environment. In addition, it is questionable whether information that is not understandable or is provided so long after the event as not to be useful to users for accountability or decision making purposes could be considered as relevant information – therefore, these

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characteristics are themselves fundamental to the achievement of the objectives of financial reporting; and

- GPFRs of public sector entities may encompass qualitative and prospective information about service delivery objectives and outcomes over a number of reporting periods for input to assessments of trends in service delivery activities and resources committed thereto – in these cases, reporting on a consistent basis may be as important as, and cannot be separated from, faithful representation of the information.

BC43. The IASB Framework acknowledges that the assessments of costs and benefits of the same reporting requirements may differ for different entities because of differences in, for example their size or because of other factors. The IPSASB's Conceptual Framework does not deal with matters that may be considered in determining whether differential reporting requirements are justified. The IPSASB intends to deal with differential reporting issue in the development of individual IPSASs or in a separate project.

BC44. The IASB Framework identifies materiality as an entity-specific aspect of relevance rather than a constraint to be considered in setting financial reporting standards. However, the IPSASB's Conceptual Framework reflects the materiality can impact a number of the qualitative characteristics of information included in GPFRs and is therefore better reflected as a broad constraint.

(Staff note: it is anticipated that the IASB will soon issue its final Chapter on qualitative characteristics. This section has been updated for anticipated developments since issue of the ED – highlighted by mark-up. It will be further updated when the final chapter is issued.)

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The Reporting Entity and Group Reporting

1. *A public sector reporting entity is a government or other public sector organization, program or identifiable activity that prepares a general purpose financial report. A public sector group reporting entity comprises two or more separate entities that present GPFRs as if they are a single reporting entity.*
2. *A key characteristic of a reporting entity or group reporting entity is the existence of users who are dependent on GPFRs for information about the reporting entity for accountability or decision-making purposes.*
3. A government may operate through a number of administrative units, such as ministries, departments, and programs that have responsibility for particular activities. It may also establish trusts, statutory authorities, government corporations and other entities with a separate legal identity or operational autonomy to undertake or otherwise support the provision of services to constituents. Government ministries, departments, and programs may also undertake certain of their service delivery activities through separate legal and other entities.
4. GPFRs are prepared to report information useful to users for accountability and decision making purposes. Service recipients and resource providers are the primary users of GPFRs. Consequently, a key characteristic of a reporting entity is the existence of service recipients or resource providers who are dependent on GPFRs for information about the activities of particular governmental organizations, programs or other identifiable activities for accountability or decision-making purposes.
5. For accountability and decision making purposes, service recipients and resource providers will often require information about the government as a whole, or the group of separate entities that comprise a government ministry or otherwise work together to deliver a particular government program. Therefore, a key characteristic of a group reporting entity is also the existence of service recipients and resource providers who are dependant on GPFRs prepared in respect of the group for the information they need for accountability and decision making purposes.
6. The factors that are likely to signal the existence of users of GPFRs of an entity or activity (or groups thereof) will include the responsibility or capacity to raise or deploy public monies, acquire or manage public assets, incur liabilities, or undertake activities to achieve service delivery objectives.
7. The government and some other public sector entities will have a separate identity or standing in law (a legal identity) – for example, 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. However, public sector entities, programs and activities without a separate legal identity may also raise, consume, deploy or manage public monies, implement government policy, or be

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- responsible for providing services directly to constituents. Service recipients and resource providers may depend on GPFRs of these entities, programs and activities for information for accountability and decision making purposes. Consequently, a public sector reporting entity may have a separate legal identity or be an organizational structure, administrative arrangement, program or activity without a legal identity.
8. In some cases, legislation, regulation or other authority will require a public sector organization, program, or identifiable activity to prepare GPFRs. In other cases, GPFRs for these entities may be prepared on a voluntary basis. GPFRs that present information about a whole of government or other public sector group reporting entity (such as a government ministry or sector) as if they were a single entity may also be required by legislation or other authority or may be prepared voluntarily.
 9. Governments and other public sector organizations, programs and identifiable activities at the national, state/provincial or local government level, and international governmental organizations that are required to, or elect to, prepare GPFRs are reporting entities.

The Group Reporting Entity

10. A government frequently has the power to direct the activities of one or more entities so as to benefit from the activities of those entities. It may also be exposed to a financial burden or loss that may arise as a result of the activities of those entities. Other public sector reporting entities, including government departments, agencies or programs may also have the power to direct the activities of other entities and to benefit or be exposed to a financial burden or loss as a result.
11. The benefits derived by the government (or other public sector entity) from the entities that it has the power to direct may be financial, such as a dividend or other distribution of the surplus of a GBE. However, because governments and many other public sector entities are established primarily to provide services to members of the community rather than to generate a financial return, those benefits may also be an ability to direct that other entity to work with the government (or other public sector entity) to achieve its service delivery objectives, including the provision of services to constituents. A financial burden or loss may arise if the government (or other public sector entity) is legally obligated, or otherwise assumes an obligation, to provide financial support to that other entity by, for example, financing its deficits or settling its residual liabilities if it is dissolved.
12. The disclosure of information about the resources, obligations and service delivery or other activities that a government as a whole (or other public sector entity) has the power to direct, including those it can direct through other entities, will be necessary for accountability and decision making purposes when the results of such direction can generate benefits for the government (or other public sector entity) or expose it to a financial burden or loss.

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13. When GPFRs for a group reporting entity are prepared, they will present information about, for example, all the resources of the entities that make up that group, claims to those resources, and other aspects of the financial position, performance and achievements of those entities as if they are a single reporting entity. They will also provide qualitative and prospective financial and other information as required by IPSASs.

The Power to Direct the Activities of Another Entity

14. In many cases, it will be clear when a government (or other public sector entity) has the power to direct the activities of another entity – for example, it may be specified in the enabling legislation that established the entity, or in formal contractual or other agreements that relate to its operation. Similarly, in the case of GBEs and other entities that adopt a corporate structure, the government (or other public sector entity) may hold a majority shareholding or other equity interest that confers rights to direct the financing and operating policies of that other entity. It may also be clear when such power does not exist – for example the government (or other public sector entity) will not possess that power if it requires changes in legislation, establishment of new (or renegotiation of existing) contracts and agreements or changes in ownership rights for that power to be effective.
15. However in other cases, the exercise of professional judgment may be necessary in determining whether such power exists.

Jurisdictional Differences

16. IPSASs apply across jurisdictions that adopt different forms of government and different institutional and administrative arrangements for the delivery of services. IPSASs that give authority to the principles for determining the whole of government or other public sector group reporting entity will need to respond to operational and implementation issues that may arise in different jurisdictions.

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Basis for Conclusion

This Basis for Conclusions accompanies, but is not part of, the Conceptual Framework. It provides additional background to the concepts reflected in the Conceptual Framework. It also summarizes the major issues and considerations of the IPSASB as it developed this Exposure Draft, noting in particular changes from the Preliminary Views identified in the Consultation Paper and the reasons for those changes.

Which Entities and Activities are Reporting Entities

- BC1. The Conceptual Framework does not identify which governments or other public sector entities, programs or activities should be identified as a reporting entity or group reporting entity. The IPSASB is of the view that this is not the function of the Conceptual Framework. Rather, entities or activities (or groups thereof) that are to prepare GPFRs will be specified in legislation, regulation or other authority, or be determined by relevant authoritative bodies with knowledge of the characteristics of public sector entities in their jurisdiction and the likely information needs of users. In addition, some entities or activities (or groups thereof) may voluntarily elect to prepare GPFRs.
- BC2. The IPSASB is of the view that the role of the Conceptual Framework is to identify the key characteristics that a reporting entity or group reporting entity is likely to possess. These characteristics are derived from, and are consistent with, the objectives of financial reporting. The objectives of financial reporting are to provide information about the reporting entity that is useful to users for accountability and decision making purposes. The Conceptual Framework identifies service recipients and resource providers as the primary users of GPFRs of public sector entities. Consequently, the key characteristic of a reporting entity is the existence of service recipients and resource providers who are dependent on GPFRs of the entity, program or other activity (or groups thereof) for information for accountability and decision making purposes.

Separate Legal Identity

- BC3. The Conceptual Framework explains that a public sector reporting entity need not have a separate legal identity. Having a separate legal identity will remove any doubt about the separate existence of an organization, administrative unit or activity and its right to, for example, raise funds, incur liabilities and own assets and use assets consistent with the terms of its operating mandate as specified in legislation, regulation, or other enabling authority. However, many administrative units (such as government departments), or integrated or related groups of identifiable activities directed at the provision of particular services (such as government programs) do not have a separate legal identity – for example, they cannot enter into contractual arrangements with third parties. These administrative units and activities may be responsible for raising and using public monies and managing public resources, and are often separately accountable to the legislature or similar body. Where users exist for GPFRs of such administrative units,

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programs or other identifiable activities, they may be identified as a public sector reporting entity.

BC4. While many respondents supported the characteristics of a reporting entity as proposed in the Consultation Paper, some expressed concern that additional characteristics may be necessary to ensure that, for example, insignificant entities are not identified as reporting entities and required to prepare GPFRs in accordance with IPSASs. The additional characteristics identified most frequently by respondents were, in broad terms:

- the existence of identifiable transactions or economic (or other) activities undertaken by the administrative unit or program; or
- assets or liabilities of the entity or program, for which it should be accountable and/or which have significance for decision making purposes.

BC5. The IPSASB appreciates that preparation of GPFRs is not a cost-free process and judgment will be necessary in ensuring that insignificant entities are not identified as reporting entities and, consequently, required to prepare GPFRs. The Conceptual Framework identifies factors that are likely to signal the existence of users of GPFRs. The IPSASB is of the view that, in the absence of these factors, it is unlikely that users of GPFRs of these entities or activities will exist. It is anticipated that these factors will be considered by the legislature or other authority in designating particular public sector entities, programs or other identifiable activities as reporting entities.

The Group Reporting Entity

BC6. IPSAS 1 *“Presentation of Financial Statements”* defines the term “economic entity” as *“a group of entities comprising the controlling entity and any controlled entities”*. The term “reporting entity” is not defined in IPSASs, but is frequently used to encompass both a single entity and a group of entities that present financial statements as if they are a single entity¹. The glossary of definitions to IPSASs explains *“The term economic entity is used in this series of Standards to define, for financial reporting purposes, a group of entities comprising the controlling entity and any controlled entities. Other terms sometimes used to refer to an economic entity include administrative entity, financial entity (IPSAS 4: “financial reporting entity”), consolidated entity and group.”*

¹ For example IPSAS 22 *Disclosure of Financial Information about the General Government Sector*, (paragraph 26) explains *“This Standard reflects the view that the consolidated financial statements of a government which elects to disclose information about the GGS are to be disaggregated to present the GGS as one sector of the government reporting entity.”*

Similarly, IPSAS 27, *“Revenue from Non-exchange Transactions (taxes and transfers)”* (paragraph 5) explains *“Governments may reorganize the public sector, merging some public sector entities and dividing other entities into two or more separate entities. An entity combination occurs when two or more reporting entities are brought together to form one reporting entity.”*

(Staff comment – included here only for members’ information – it is not proposed that this footnote be included in the ED itself)

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- BC7. Consultation Paper CP#1 explained (at paragraph 5.1) that groups of public sector organizations or programs that prepare GPFRs to present information as if they were a single entity are sometimes described as a “group reporting entity” or an “economic entity”. CP#1 then used the term reporting entity and group reporting entity consistently to refer, respectively, to (a) a single entity that prepares a GPFR or (b) a group of entities that prepare a GPFR as if they were a single entity.
- BC8. The IPSASB is aware that different interpretations of the meaning of the term “economic” may have consequences for its use to identify a public sector reporting entity or group reporting entity. It is also aware that some are of the view that the term “economic entity” may be (and has been) applied equally to an individual reporting entity or a group reporting entity. The IPSASB is of the view that consistent use of the terms reporting entity and group reporting entity more clearly identifies, and distinguishes between, the types of reporting entity referred to in the Conceptual Framework. Respondents to CP#1 did not express concern with the use of this terminology. Consequently, it has been retained in this ED.

Determining the Group Reporting Entity

- BC9. In developing its Preliminary View in CP#1, the IPSASB considered a wide range of potential bases for determining the composition of a public sector group reporting entity, including those described as the “control basis,” “accountability basis,” and “oversight and substantial influence”. Other bases sometimes identified also 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”.
- BC10. Many of these bases have common features and, in some cases, GPFRs prepared consistent with one basis can present information about the resources, obligations, and activities of a group reporting entity that is similar to a group identified under other bases. However, the bases also differ in some respects, and can have different meanings in different jurisdictions. Consequently, the IPSASB determined that the Conceptual Framework should identify the circumstances that justify inclusion of an entity or activity within a public sector group reporting entity, without designating those circumstances as reflecting a control, accountability, oversight, or some other basis.
- BC11. Consistent with the principles identified in the Conceptual Framework, a group reporting entity may comprise a government and all the statutory authorities, government business enterprises and other entities whose activities it can direct for its benefit or which expose it to a financial burden or loss. A group reporting entity may also constitute a ministry or a substantial sector of government – for example, a government department and all the agencies and statutory authorities whose activities it can direct.

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The Power to Direct the Activities of Other Entities

- BC12. CP#1 identified the government's (or other entity's) power to govern the strategic financial and operating policies as one of the criteria to be satisfied for inclusion in a group reporting entity. Some respondents to CP#1 expressed concern that use of the term "power to govern" may be interpreted as "power to regulate", and this may result in the inclusion of additional and unintended entities in the group reporting entity.
- BC13. The IPSASB also notes that underpinning the views expressed by some respondents is a more fundamental concern that whether or not the capacity to govern the strategic financial and operating policies of another entity would justify the inclusion of an entity in a group reporting entity should be dealt with more expansively at the standards development level, and should include additional direction on what constitutes "strategic" financial and strategic "operating". The IPSASB has responded to these concerns by referring more broadly to the underlying principles and circumstances that would give rise to a group reporting entity.

The Capacity to Benefit or be Exposed to a Financial Burden or Loss

- BC14. This Framework reflects the view that, to satisfy the objectives of financial reporting, GPFRs of a group reporting entity should present financial and other information as specified in IPSASs about the government (or other public sector entity) and the entities whose activities it can direct, when the results of such direction can generate benefits for the government (or other public sector entity) or expose it to a financial burden or loss.
- BC15. For inclusion in a group reporting entity it is necessary that both the power to direct the activities of the other entity and the capacity to benefit or be exposed to a financial burden or loss as a result of those activities are present. In many, cases, it will be clear when a government (or other public sector entity) has the power to direct the activities of another entity and the capacity to benefit or be exposed to a financial burden or loss as a result. However, in some cases, it may be necessary to exercise professional judgment in determining whether either, or both, the power and benefit or financial loss/burden conditions are present. Authoritative and other guidance on the circumstances that may give rise to the power to direct the activities of another entity will be included in IPSASs that deal with the preparation of GPFRs for a group reporting entity.
- BC16. In some cases, a public sector entity may have the power to direct the activities of another entity in the capacity of a trustee or agent, but cannot exercise that power to increase the benefits it receives, or influence the financial burden imposed on it, by the other entity. In other cases, a public sector entity may benefit, or be subject to a financial burden/loss, as a result of the actions of an entity whose activities it cannot direct. In each of these cases, the nature of the relationship between the entities is such that presenting GPFRs of a group reporting entity that

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comprises the public sector entity and these other entities will not achieve the objectives of financial reporting.

Application of the Principles in Particular Circumstances

BC17. CP#1 included the IPSASB's views on application of the principles to a number of circumstances including the composition of the whole of government group reporting entity in different forms of government, and whether a whole of government group reporting entity would include, for example:

- public sector organizations with statutory or constitutional authority to be professionally independent - particularly, where they are fully or substantially funded by public monies and subject to budget oversight; and
- statutory authorities, GBEs, sovereign wealth funds and a range of what are known in some jurisdictions as special purpose entities.

BC18. Many respondents to CP#1 noted their agreement with the IPSASB's views about the consequences of application of the definition of the reporting entity and the criteria for inclusion within a group reporting entity in the specific circumstances dealt with. However, they also expressed concern that these were matters that were more appropriately addressed and resolved at the standards development level. Some respondents also expressed concern about some potential implications of the application of the criteria to circumstances that were not specifically addressed in CP#1, including the relationship between national and state or provincial governments in some jurisdictions.

BC19. The IPSASB found these concerns persuasive and has reconstructed its discussion of the reporting entity and group reporting entity to focus on the underlying principles. Specific applications will then be dealt with at the standards development level. This will ensure that the circumstances of particular jurisdictional are acknowledged as authoritative requirements that give effect to the principles identified in the Conceptual Framework are developed.

BC20. Similarly, the Conceptual Framework does not specify the basis on which financial statements for a group reporting entity are to be prepared, including for example:

- whether, and in what circumstances, consolidated, combined or other financial statements should be prepared for a group reporting entity or components thereof; and
- the techniques to be adopted in compiling such statements.

The IPSASB is of the view that these are also matters that should be dealt with at the standards level.

Jurisdictional Differences

BC21. In centralized or planned economies, governments may have the power to direct the financial and other activities of a wide range of entities, and to direct those

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entities to work with the government for the benefit of the community. If GPFRs were prepared for the whole of government group reporting entity in these jurisdictions, they may include all, or a substantial proportion, of economic activity undertaken within that jurisdiction by non-government business entities as well as by government departments and other public sector entities.

- BC22. In some market economies, national governments may have the power to direct the financial and other activities of state, provincial and/or local governments and to benefit, or suffer a financial burden or loss, as a result of their activities. If GPFRs were prepared for a whole of government group reporting entity at national level in these jurisdictions they may encompass all levels of government.
- BC23. Whether or not GPFRs for the whole of government group reporting entity in these circumstances will provide information useful to users for accountability and decision-making purposes will need to be considered in developing authoritative requirements in each jurisdiction. In these jurisdictions, users may exist for GPFRs prepared in respects of a subgroup of the entities or activities that comprise a whole-of government or other group reporting entity, and legislation, regulation or other authority may require GPFRs to be prepared in respect of them.

The Reporting Entity and Group Reporting Entity in the System of National Accounts and Statistical Bases of Financial Reporting

- BC24. The focus of the 2008 System of National Accounts (2008 SNA) is on institutional units, allocated into mutually exclusive sectors, one of them being the general government sector. The general government sector comprises central, state and local government (with possibly separate social security funds) in any country. The 2008 SNA also provides for reporting by the public sector which comprises the general government sector and public corporations. This focus is reflected in the Government Finance Statistics Manual 2001 (GFSM 2001), the European System of Accounts (ESA 95) and other statistical bases of financial reporting derived from it.
- BC25. Explanation of what constitutes a reporting entity and group reporting entity in the Conceptual Framework differs from the description of a public sector unit and the general government sector as identified in the 2008 SNA. The definition of a government business enterprise (GBE) in IPSASs and public corporations in the 2008 SNA also differ. However, the circumstances that give rise to the inclusion of an entity in a group reporting entity under the Conceptual Framework and the inclusion of a public sector unit in the general government sector or public sector under SNA 2008 are substantially the same.
- BC26. The IPSASB received input from the statistical financial reporting community as it developed CP #1. It will continue to work closely with that community as it develops its Conceptual Framework to ensure that unintended differences in the concepts applicable to the preparation of GPFRs and to statistical financial reports

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do not arise. However, the IPSASB and its colleagues in the statistical financial reporting community recognize that the objectives of GPFRs as established by the IPSASB and the objectives of national accounts as dealt with in the System of National Accounts 2008 (SNA 2008) may differ in some respects, and this will be reflected in underlying concepts and specific financial reporting requirements where appropriate.

The IASB Framework.

BC27. The IASB has issued Exposure Draft, “*Conceptual Framework for Financial Reporting: The Reporting Entity*” (March 2010) . The IASB-ED proposes that a reporting entity be described as a circumscribed area of economic activity whose financial information has the potential to be useful to the primary user group for achieving the objectives of financial reporting. As such, a reporting entity is not limited to only a legal entity. It may comprise a component of a legal entity or more than one entity, including more than one legal entity.

BC28. The IASB-ED also explains that control of an entity refers to one entity currently having the power to direct the activities of another entity to generate benefits (or limit losses) for itself. It notes that if an entity that controls one or more entities prepares financial reports, it should present consolidated financial statements. The ED also explains that:

- parent only financial statements may be prepared and presented together with consolidated financial statements;
- consolidated financial statements include information about a controlling entity and all entities it controls; and
- combined financial statements may be prepared to present information about two or more entities that are included within the group reporting entity - but combined financial statements do not include information about the controlling entity.

BC29. The characteristics of a reporting entity and group reporting identified in the IPSASB’s Conceptual Framework differ in some respects from those proposed by the IASB, because they:

- reflect the operating environment and institutional arrangements in place in the public sector and the users of GPFRs of public sector reporting entities;
- do not use “control” to describe the circumstances in which a public sector entity may be included within a group reporting entity; and
- do not specify the circumstances in which consolidated, combined or parent only financial statements are to be prepared.

BC30. The IPSASB’s Conceptual Framework also makes it clear that legislation, regulation or other authority will specify which governments or other public sector entities, programs or activities are identified as a reporting entity or group

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reporting entity and therefore should prepare GPFRs. It also acknowledges that some entities or activities (or groups thereof) may voluntarily elect to prepare GPFRs.