



**INTERNATIONAL FEDERATION  
OF ACCOUNTANTS**

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**Agenda Item**  
**2A**

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

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**Objective of this Session**

To review and approve for issue the Exposure Draft (ED) of Phase 1 of the Conceptual Framework and/or provide directions for further development of the ED.

**Agenda Material**

Agenda material attached to this memorandum:

- 2A.1 Decisions to date on review of responses to Consultation Paper #1 and drafts of the ED of Conceptual Framework Phase 1 (Framework Phase 1- ED);
- 2A.2 Marked-up draft of Framework Phase 1- ED;
- 2A.3 Summary of comments received on the draft Framework Phase 1- ED circulated out of session to IPSASB members, Technical Advisors, Observers and members of the Standards-Setters Advisory Panel (SSAP);
- 2A.4 Copy of comments received on materials circulated out of session; and
- 2A.5 Clean draft of Framework Phase 1- ED.

**Background**

**Development of the draft Exposure Draft**

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.

At its meetings in May and December 2009 and April 2010, the IPSASB reviewed responses to CP #1 and provided directions for the development of an exposure draft dealing with Phase 1 of the Conceptual Framework (Framework Phase 1- ED). At its meeting in June 2010, the IPSASB reviewed a first draft of the Framework Phase 1- ED and provided directions for its further development.

A summary of the decisions made by the IPSASB at those meetings is included in agenda paper 2A.1.

*Out-of-session review of the draft Framework Phase 1- ED – September 2010*

At its last meeting (in June 2010), the IPSASB agreed that, to facilitate approval of the Framework Phase 1- ED at the November 2010 meeting:

- A draft of the Framework Phase 1-ED, revised for decisions made at the June 2010 meeting should be circulated to IPSASB members and their Technical Advisors (TAs) and IPSASB Observers for comment out of session;
- IPSASB members, TAs and Observers would then advise staff of any remaining substantive or drafting concerns and proposed amendments to overcome those concerns; and
- Staff would amend the draft Framework Phase 1-ED in response to concerns identified and include the updated draft ED in the agenda papers for review at this (November 2010) meeting.

A draft of the Framework Phase 1-ED and supporting material was circulated to IPSASB members, TAs and Observers on August 31, 2010 for review and comment by September 15, 2010 (hereafter referred to as the September draft ED). That September draft ED had been reviewed by the Concepts Phase 1 Task Based Group (TBG) and the Project Coordinator and updated for their comments. The September draft ED was also circulated to the members of the SSAP by the Project Coordinator, noting that the IPSASB was anticipating approval of the ED at this (November 2010) meeting and seeking comments on any fatal flaws or other matters.

Responses were received from 9 IPSASB members, TAs and Observers and two members of the SSAP. A summary of these responses and Staff's proposed action is identified at agenda paper 2A.3. The full text of all responses received is included at agenda paper 2A.4. Staff followed up by email and phone with a number of respondents to clarify and/or better understand some comments.

As these agenda papers were being finalized for distribution, an additional response was received from an SSAP member and the IASB issued final chapters of its Framework dealing with the objective of financial reporting and the qualitative characteristics of financial information. Staff has not yet had an opportunity to review these materials, but will do so in the near future and, prior to the forthcoming IPSASB meeting, provide members with staff proposals for any further amendments to the attached draft Phase 1-ED that appear appropriate as a consequence.

***Responses - clarification and consistency***

For the most part, the proposed amendments identified by respondents to the out-of-session review are directed at clarifying explanations and interpretations and improving consistency of the narrative to better deliver the IPSASB's message. Staff found the majority of proposals persuasive and has amended the draft Framework Phase 1-ED accordingly – all amendments proposed by staff are identified in the marked-up draft Framework Phase 1-ED attached as agenda paper 2A.2. (A clean copy of the draft Framework Phase 1-ED is attached as agenda paper 2A.5. However, staff propose that the marked-up draft be used for the page-by-page review.)

Members should note that staff has adopted a conservative approach to amendments to text that has been specifically agreed by the IPSASB, or has previously been reviewed by the IPSASB without adverse comment. This is not intended to signal that staff considers that the proposed revisions have little merit in themselves. Rather, staff is concerned about unintended consequences of amendments at this late stage in the process of development of the ED. Consequently, staff are reluctant to propose changes that do not obviously correct an error, enhance consistency or remove an unintended interpretation of a phrase, sentence or paragraph.

In some cases, staff is of the view that the proposed amended would have the effect of changing a view/position previously agreed by the IPSAS. Staff has not amended the draft ED for these proposals.

*Action Requested:*

Members are requested to confirm or otherwise staff's proposed response to comments directed at clarifying explanations and interpretations and improving consistency of the narrative – these responses are identified in agenda paper 2A.3.

Staff also seek direction on any additional amendments that should be made to the Framework Phase 1-ED to clarify explanation and enhance consistency of exposition.

(As a matter of process – staff propose that IPSASB directions on these matters be identified during a page by page review of the marked-up draft Framework Phase 1-ED.)

*Responses – outstanding issues*

Staff has not amended the draft Framework Phase 1-ED for proposals which, in staff's view, deal with substantive and other issues or with text not previously considered or formally agreed by the IPSASB in session. These issues are identified below as outstanding issues and discussed further.

**Outstanding Issues**

**Issue # 1 – General issue: Nature of appendices dealing with status of equivalent components of the IASB/FASB Conceptual Framework and statistical bases of financial reporting – Appendices 1A and 1B; 2A and 2B; 3A and 3B; 4A and 4B.**

At its June 2010 meeting the IPSASB directed that references to the equivalent positions in the IASB Framework and statistical bases of financial reporting currently included in the text of the draft Framework Phase 1-ED were to be removed and reconstituted as appendices. In addition, they were to be factual – rather than include expectations about future development of the Framework

Such appendices were developed and included for the first time in the draft Framework Phase 1-ED circulated to members on 31 August. The IPSASB has not yet had the opportunity to discuss these appendices in session.

(As noted above, the IASB has recently issued final Chapters of its Conceptual Framework dealing with objectives and qualitative characteristics. Staff will update the appendices where necessary and circulate to members prior to the IPSASB meeting.)

Four respondents commented on the appendices included in the draft Framework Phase 1-ED as follows:

- *Respondents 2 and 8 – provided input on each of the appendices dealing with the statistical bases of financial reporting.*

The appendices have been updated with this input.

- *Respondent 3 - advocated that the appendices only identify differences from the IASB Framework and statistical bases of financial reporting.*

Staff agree that the appendices in the Framework Phase 1-ED differ in some respects from the approach adopted for the IASB comparison in the appendices in IPSASs. However, staff are concerned that to attempt to identify all substantive differences is not practicable and may not achieve the objective of providing an overview of key features of the equivalent sections of the IASB Framework and statistical bases of financial reporting. This is because the Conceptual Framework is not an IASB convergence project, where the equivalent IASB document is taken as a base and modified for public sector specific differences. For IASB convergence projects, the differences are “controlled”, focused and can easily be identified – that is not the case in this document where differences from the equivalent IASB and SNA documents may be quite extensive.

However, these comments do raise the issue of whether the current title of the appendices is appropriate. The use of substantially the same title for the appendices in this document and in the IPSASs may well give rise to expectations that they will take the same form and serve the same purpose. Accordingly, staff propose that the title of the appendices does not include the term “Comparison with...”. Rather they simply refer to the IASB Framework or SNA as appropriate. The marked-up draft Framework Phase 1-ED at agenda paper 2A.2 reflects this amendment.

- *Respondent 6 expressed the view that the description of the statistical bases of financial reporting would be more useful if the requirements of the SNA and the Framework were contrasted.*

Staff sought, and was provided with, further input from the IPSASB Observers from the EU and the IMF to this end. The appendices have been updated with this input – in some cases an overview of the requirements of the SNA and supporting materials has been included. However, the SNA is a lengthy and complex document and it is difficult to strike an appropriate balance in respect of summary and detail in this matter.

*Action Requested:*

Members are requested to:

- confirm or otherwise that the style, focus and title of the appendices dealing with the IASB Framework and statistical bases of financial reporting are appropriate; and/or
- provide staff with directions for their further development.

**Issue #2: Paragraph 1.5 and elsewhere: References to non-financial information**

Respondent 6 provided an illustration of the demarcation between financial and non-financial information as understood by many in their jurisdiction, and sought staff advice on whether non-financial information as used in the Framework Phase 1-ED is the same as qualitative information as follows:

- *Respondent 6: Noted “Throughout the various papers, reference is made to “financial” and “non-financial” information; and “quantitative” and “qualitative” information. It is unclear what is meant by “non-financial” information in the context of “general purpose financial reports”. Is it the intention that “non-financial” means the same as “qualitative”? If it is, then using a term such as “qualitative” is better than using “non-financial”.*

*Paragraph 1.4 refers to financial and non financial information. For me the expansion from financial statements to financial reporting is logical, because we are still talking about financial information. Even service delivery objectives are financial when measuring the output. It becomes non-financial when we look at outcomes. This is pervasive throughout the document. Many IPSAS disclosure requirements are narrative, rather than quantitative. This does not make it non-financial, for example key assumptions.*

*An example: The objective would be to provide access to schools within 5 kilometers from every village. The output would be that we have built a 100 schools and have achieved this objective in 95% of the cases. The outcome would be that school literacy improved by 10%. The output is financial information, but the outcome is not. Accordingly, we do not agree with paragraph BC1.7 that achievement of service delivery objectives are non-financial.”*

Staff has followed up with this respondent and understands that underpinning this issue is a concern that the text of the Framework Phase 1-ED may be read as, in effect, defining what is financial information and non-financial information. This is because of the association of non-financial information with references to service delivery activities and the frequent references to financial and other information, rather than as a result of any specific statement.

Staff agree that it was not the intention of the IPSASB to define in the Conceptual Framework what constituted financial information and what constituted non-financial information (or establish clear lines of demarcation between them). Rather, the IPSASB’s purpose in directing that the Framework explicitly acknowledge that GPFRs may encompass “non-financial” as well as financial information was to ensure that the Framework would not be seen to preclude GPFRs from reporting what might be perceived as non-financial information in some jurisdictions if such was required by IPSASs. Therefore, the IPSASB included the reference to non-financial information as an “enabling” mechanism.

To respond to the concerns raised by this respondent, and retain the intention of the IPSASB in respect of this matter, staff has amended text to clarify that GPFRs may include both quantitative and qualitative information and either may encompass financial and non-financial information (see for example paragraph 1.5). This is consistent with the IPSASB’s explanation of qualitative characteristics - as applying to both financial and

non-financial information. Staff has also reviewed and refined the document in an attempt to ensure that the text does not implicitly define what is financial information and what is non-financial information, or draw a distinction between financial and “other” information that may be perceived as associating financial information with only the financial statements, and “other” information with the other components of GPFRs.

*Action Requested:*

Members are requested to confirm or otherwise that the references to financial and non-financial information in the Framework Phase 1-ED are appropriate.

**Issue #3 – Paragraphs 1.6 and BC1.4: Terminology and special purpose financial reports.**

Respondents raised a number of issues in respect of matters addressed by this component of the Framework Phase 1-ED. Staff has made amendments in respect of those matters that clarify the narrative and enhance consistency. However, staff wish to bring to the Board’s attention the following two matters raised by respondents that staff are of the view have not previously been discussed specifically and in this detail:

- *Respondent 4 - sought clarification of whether paragraph 1.6 should use the term “disclosure” rather than “communication”.*

Staff is of the view that it was the IPSASB’s intention to use “communication” in this paragraph to reflect that this might be broader than disclosure. That is, it would encompass the location of the disclosure and type of reports that might be used (for example, whether in notes or separate reports), the timing of issue of those reports (annual or more or less frequently) and the style of the report – as well as what is disclosed.

Consequently, staff is of the view that the term communication should be retained in this paragraph.

- *Respondent 11 – sought advice on whether at paragraph BC1.4 the Framework might “...provide a stronger assertion about the application of IPSAS to some special purpose reports in particular circumstances. For example, where special reports are used to provide the same information presented in GPFR but in greater detail and where information for special purpose reports is drawn from the same systems that support GPFS.”*

This proposal deals with some specific and narrow circumstances. However, Staff is uncomfortable with including such an assertion in the Framework even in the specific circumstances identified. Staff is of the view that the Framework should remain focused on GPFRs, and the IPSASB’s current acknowledgement that information presented in GPFRs may be used for some special purpose reports is appropriate. Staff is of the view that without knowledge of the purposes for which special purpose financial reports are required or their users, it is not appropriate to be more authoritative about the application of IPSASs to such reports.

*Action Requested:*

Members are requested to confirm or otherwise staff’s proposed response to the matters raised by respondents in respect of paragraphs 1.6 and BC1.4.



#### Issue #4: Paragraph 2.1 and elsewhere: Articulation of the objectives of financial reporting

At its last meeting (June 2010), the IPSASB directed that what is now paragraph 2.1 was to be revised to reflect that: “*The objectives of financial reporting by public sector entities are to provide information that is useful for accountability purposes and useful for decision making purposes*”. That paragraph was revised accordingly and included in the September draft ED circulated for comment. Two respondents proposed that the paragraph be revised as follows.

- Respondent 3 and respondent 6 - proposed that paragraph 2.1 and other similar references to the objectives of financial reporting be revised as follows:

“*The objectives of financial reporting by public sector entities are to provide information that is useful for accountability ~~purposes~~ and ~~useful for~~ decision making purposes.*”

Staff support this change – it provides a clear and crisp articulation of the objectives. However, it will bring the phrasing of this paragraph back to that used in previous drafts. Members had previously expressed some concern that this did not provide a sufficiently clear separation between the accountability and decision making components of the objectives.

The draft currently refers to “*accountability and decision making purposes*” in a number of paragraphs, primarily to enhance the flow of the narrative. Subject to the Board’s decision on this matter, staff will ensure consistency of usage throughout the Framework Phase 1-ED.

##### *Action Requested:*

Staff seek direction on whether paragraph 2.1 and consequential references to the objectives of financial reporting should be amended as proposed.

#### Issue #5 – Deletion of paragraph 2.2, adoption of alternative paragraphs 2.13 and 2.14 and retention of paragraph BC2.13

##### *(a) Paragraph 2.2*

As noted in the covering memorandum to the September draft ED, staff is of the view that while the observations made in paragraph 2.2 were useful in explaining the role of the objectives in CP#1, they do not appear necessary in the ED. Consequently there is a case to delete this paragraph. The TBG tended to agree with the staff view but thought it useful to seek specific comment from the IPSASB on whether it should be retained.

Four respondents addressed this matter as follows:

- Respondents 1, 3 and 5 – agreed the paragraph should be deleted.
- Respondent 6 – expressed the view that the paragraph was useful and should be retained

Staff is of the view that this paragraph is not necessary because the central role of the objectives is reinforced as each component of the Framework is developed. For example, discussion of the information provided by GPFs and the qualitative characteristics and

reporting entity components of this draft Framework Phase 1-ED each refer to the objectives as shaping the conclusions expressed in the text.

As the IPSASB considers this matter, it is also appropriate to acknowledge that the recently issued final Chapter the IASB Framework dealing with the objective of financial reporting includes a paragraph similar to 2.2.

*Action Requested:*

Members are requested to confirm or otherwise the deletion of paragraph 2.2, from the Framework Phase 1-ED.

***(b) Paragraphs 2.13 and 2.14***

As noted in the covering memorandum to the September draft ED, the Board had included what is now paragraph 2.13 to acknowledge that the capacity of some users of GPFRs of public sector entities to make decisions was limited. However, staff was concerned that subsequent revisions to this paragraph had undermined its clarity. The TBG and project coordinator had different views about how well paragraph 2.13 of the draft ED worked and what its purpose is, or should be.

Staff restructured paragraphs 2.13 and 2.14 in an attempt to respond to these concerns. They were included in the September draft ED (and in agenda paper 2A.2) as alternative paragraphs 2.13 and 2.14.

Four respondents addressed this issue as follows:

- *Respondent 1 – advocates that paragraphs 2.13 and 2.14 be deleted “because the matters are already covered in paragraphs 2.9 – 2.11. However, if they are to be retained then the alternative versions of 2.13 and 2.14 are preferred.”*

Staff acknowledge that paragraph 2.13 and 2.14 do encompass some matters addressed in earlier paragraphs. However, staff is the view that paragraphs 2.13 and 2.14 do add value to the ED by linking information included in GPFRs with the accountability and decision making needs of a range of potential users.

- *Respondents 3 and 4 – support retention of the alternative versions of 2.13 and 2.14*
- *Respondent 6 - Prefers the alternative wording, but suggest the following amendments to the text in the rubric: “Combine 2.13 and 2.14 and add a semi-colon after “for example”. Currently, the opening sentence of 2.13 provides a lead-in for both the example in 2.13 and 2.14.*  
*2.13 ... “For example:*
  - *Information about costs ....*
  - *(2.14) Taxpayers.....”*

Staff’s interpretation of alternative paragraphs 2.13 and 2.14 restructured as proposed by respondent 6 is identified below:



***Staff reconstruction of alternative paragraphs 2.13 and 2.14 to reflect proposals of Respondent 6***

- 2.13 *Service recipients and resource providers will require information for accountability purposes and as input for making decisions. Information provided in 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 as input for decision making by lenders, creditors, donors and others that provide resources on a voluntary basis to governments or other public sector entities; and*
  - *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. Consequently, they have little direct or immediate capacity to make decisions about whether to provide resources to the government or other public sector entity. However, information provided in GPFRs for accountability purposes will inform decisions that taxpayers and ratepayers make about their voting preferences, and representations they make to elected officials or representative.*

Staff has a preference for keeping the alternative paragraphs 2.13 and 2.14 as separate paragraphs to allow 2.14 to focus on decision making by taxpayers and ratepayers. However, the restructured paragraphs as proposed by respondent 6 (outlined above) would also serve this end.

***Action Requested:***

Members are requested to confirm or otherwise the inclusion of alternative paragraphs 2.13 and 2.14 in the Framework Phase 1-ED.

***(c) Basis for Conclusions - Paragraph BC2.13***

At the June 2010 meeting, members noted that matters that have been addressed elsewhere in the draft ED should be excluded from the list of differences identified in what is now paragraph BC2.13.

As noted in the covering memorandum accompanying the September draft ED, a number of the matters identified in BC2.13 are also dealt with elsewhere in the text. For example, paragraphs 2.13, 2.18 and 2.22 deal with matters addressed in the first and third dot points of paragraph BC2.13. However, these dot points have not been deleted from paragraph BC2.13. This is because staff is concerned that to remove them would leave the paragraph incomplete and undermine its usefulness/validity as an explanation of the differences between public sector entities subject to this Framework and private sector business entities. Therefore, staff is of the view it may be more appropriate to consider whether or not the paragraph should be retained, rather than whether it should be amended.

Staff is of the view that paragraph BC2.13 does serve an useful purpose in drawing together the list of differences between public sector entities subject to this Framework and private sector business entities. However, whether it is best placed in this Framework Phase 1-ED is not clear. Members noted at the June 2010 meeting that the matters addressed in paragraph BC2.13 may be encompassed in the explanation of the public sector to be included in a general Introduction to the full Framework. Staff propose that the need for the inclusion of paragraph BC2.13 in the Framework Phase 1-ED be considered in light of matters dealt with in the general Introduction to the Framework.

*Action Requested:*

Members are requested to confirm or otherwise whether paragraph BC2.13 is to be retained in the Framework Phase 1-ED.

**Issue #6: Re Qualitative Characteristics paragraphs 3.11 and 3.16 - Thresholds for free from material error**

Respondent 9 noted some concerns with the type of wording used in paragraph 3.11 and advised of considerations of the USA Financial Accounting Standards Advisory board (FASAB) in developing documents that deal with similar matters as follows:

- Respondent 9 – “My concern about paragraph 11 and 16 is that they do not set a threshold for what is sufficient. For example, is it possible that information may be as complete, neutral, and free of material error as possible but still not be sufficiently complete, neutral, and free of material misstatement to result in fair presentation. Or, even if the entity is not aware of errors or omissions that are individually or collectively material in the description of the phenomenon, is it fairly presented if management does not have a reasonable basis for their knowledge. Also, free from material error could be perceived as a condition of the financial statements whether or not the entity is aware of errors or omissions. Therefore, it may be appropriate to add some language to address this. In looking through FASAB and IAASB literature, it seemed that reasonable assurance might be an acceptable threshold. See the edits below for how this might read.

3.11 In practice, it may not be possible to know or confirm if information presented in GPFRs is fully complete, neutral, and free from material error. However, there should be [the entity should have] reasonable assurance that information is sufficiently complete, neutral, and free from material error. ~~However, information should be as complete, neutral, and free from material error as is possible.~~

3.16 Two possible alternatives

(Paragraph 3.16- alternative 1)

Free from material error does not mean complete accuracy in all respects. Free from material error means that 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 (including related uncertainties) of the estimating process are explained, and the estimates, including the selection and application of an appropriate process, are reasonable in the circumstances.

(Paragraph 3.16- alternative 2)

Free from material error does not mean complete accuracy in all respects. Free from material error means that there is [or that the entity has] reasonable assurance that 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 (including related uncertainties) of the estimating process are explained, and there is [or the entity has] reasonable assurance that there are no material errors ~~have been identified~~ in selecting and applying an appropriate process for developing the estimate.”

*Re paragraph 3.11*

Staff do not share the concerns of Respondent 9 in respect of paragraph 3.11. Staff is of the view that the IPSASB did not intend that the Conceptual Framework would set a threshold for what is sufficient in respect of faithful representation - or for other of the QCs such as timeliness or verifiability if similar issues arose in respect of them. Rather, the need for specific thresholds for completeness, neutrality and freedom from material error or other of the QCs would be dealt with at the individual IPSAS level (building on definitions and recognition criteria established in other phases of the Framework where appropriate).

Staff believes that at paragraph 3.11 the IPSASB had intended to signal its view that information should be as complete, neutral, and free from material error as is possible - and this is a desirable quality for information presented in GPFRs generally, including for information that has passed a minimum threshold.

However, Staff is of the view that, to respond to the concerns raised by this respondent, the IPSASB could usefully consider strengthening the explanation in paragraph BC3.9 to note that where necessary such minimum thresholds will be established at the standards level. BC3.9 would then read:

“Completeness and neutrality of estimates (and inputs to those estimates) and freedom from material error 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 phenomenon 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.

Where necessary, IPSASs will establish minimum thresholds of completeness, neutrality and freedom from material error that are to be satisfied by information that qualifies for inclusion in GPFRs.”

Staff has not referred to the need for there to be reasonable assurance that information is sufficiently complete, neutral, and free from material error in these proposed amendments. Staff is concerned that such references do not fit well at the conceptual level and would prompt questions from IPSASB constituents about what constituted “reasonable assurance” and what was “sufficient”. Again, staff are of the view that these are matters better dealt with at the standards level.

Staff has followed up with this respondent and believes that this goes some way to responding to the concerns raised. Staff will continue to follow up and provide an update before the meeting.

*Re paragraph 3.16*

Staff are of the view that the first alternative paragraph 3.16 as proposed by this respondent may usefully reinforce the message intended by the IPSASB, but remains concerned about potential different interpretations of the notion of “reasonable”. Staff has also followed-up with this respondent to better understand the consequences of the following changes proposed – the respondents response is also identified below:

- The implications of removing “identified” in the second line. The IPSASB had included “identified” to respond to concerns that without “identified” the QC establishes that information in GPFRs includes no known or unknown errors. Members were concerned this quality was not achievable and, consequently, included identified as a form of “protection” for the preparer.

Respondent 9 has noted a preference for omitting “identified” because “*free from material error is a quality of the data, regardless of management's awareness*”. Staff are persuaded by this argument and support deletion of “identified” in this paragraph - the balance of paragraph 3.16 then works to explain how freedom from material error can be achieved in conditions of uncertainty.

- Whether the reference in brackets to “including related uncertainties” is already covered in paragraph 3.15.

Respondent 9 has explained the reference was meant to convey that the uncertainties should be disclosed as part of fair presentation to clearly communicate the nature and possible extent of uncertainty surrounding the estimate, and notes that it may not be necessary to repeat it in 3.16.

- The implication of inclusion of the word “estimates” in the proposed additional final phrase in paragraph 3.16: “*...estimates, including the selection and application of an appropriate process, are reasonable in the circumstances.*” In

particular, whether it is to be read to mean that while selection and application of the estimation process may be reasonable and the other conditions established in the paragraph have been satisfied, the estimate that results may still not be free from material error if it is not considered (by the preparer) to be reasonable. Staff is concerned that the introduction of this final assessment of whether the estimate is reasonable was not what was intended by the Board.

Respondent 9 has explained that: *“the word ‘estimates’ was included to recognize that the estimates themselves need to be reasonable - arguably, if estimates are not reasonable (e.g., outside of a reasonable range), they are misstated.”* Staff still have some reservations about this matter and will continue to follow up with the respondent to better understand its implications.

Respondent 9 also indicated some concerns over the use of "best available estimate" in paragraph 3.15 – noting FASAB changed its use of "best estimate" to "reasonable estimate" because of implementation issues about whether obtaining "best" information had cost/benefit constraints and whether "best" was necessarily sufficient. (See comments from this Respondent at Agenda paper 2A.4.) Staff has not yet had the opportunity to fully consider or follow-up on this matter but will do so and provide an update before the meeting.

*Action Requested:*

Members are requested to confirm or otherwise staff views on whether amendments should be made to the following paragraphs of the draft Framework Phase 1-ED:

- paragraphs 3.11 and BC3.9; and
- paragraph 3.16.

**Issue #7: Paragraph 3.29 - Verifiability**

Paragraph 3.29 explains that the quality of verifiability is not an absolute and some information may be more or less capable of verification than other information. It also notes: *“However, the more verifiable is the information included in GPFRs, the more useful it is”*.

One respondent sought clarification of the operation of this phrase as follows:

- Respondent 4 – *“Please clarify whether the sentence ‘the more verifiable is the information included in GPFRs, the more useful it is’ is proper. For example, the fair value information of financial instruments is useful but difficult to verify.*

This wording has been included in previous drafts and not drawn adverse comment. However, staff raised for discussion with the TBG when preparing the September draft ED the operation of this paragraph in various circumstances, and whether it needed clarification. Ultimately, staff formed the view that this is a general observation that applies to information that is included in GPFRs. Like other of the QCs it is not a single characteristic that operates alone to establish a threshold for selecting information for inclusion in GPFRs. Rather, as noted in paragraph 3.4, it works with the other QCs to provide information useful for achieving the objectives of financial reporting. The TBG had different views about the value of the paragraph, but ultimately accepted it should be retained.



Staff is of the view that paragraph 3.29 should be retained for purposes of exposure. Guidance currently included in the draft Framework Phase 1-ED on the interaction of the QCs will ensure that it operates appropriately.

*Action Requested:*

Members are requested to confirm or otherwise staff's view that paragraph 3.29 should be retained in the Framework Phase 1-ED.

**Issue #8: Paragraph 3.39 - Cost benefit and undue cost and effort.**

Respondent 6 notes that the draft ED refers to “cost-benefit” as a constraint while the “Rules of the Road” which are applied in the IFRS convergence program refers to “undue cost and effort”. Respondent 6 proposes that the interaction between the overall constraint of “cost-benefit” and the constraint or test that is to be applied at the individual standards level should be explained.

- *Respondent 6 – advocates that there be further explanation of the operation of “cost-benefit” as dealt with in paragraph 3.39 as follows: “This paragraph deals with the development of individual IPSASs. It notes that “Disclosures and other requirements which result in the presentation of information useful to users....unless the cost of compliance with those requirements are assessed to be greater than their benefits.” This paragraph notes that at a “standards-level”, “cost benefit” is still used. While in the “rules of the road”, “undue cost” and effort has been used as the hurdle for assessing requirements at a standards level. These two documents seem to conflict with one another about what test is applied at an individual standards-level. The interaction between the overall constraint of “cost-benefit” and, the constraint that may be applied at a standards-level, i.e. “undue cost and effort” should be explained. A suggested explanation could be:*

*The requirements in the IPSASs are developed within the overall constraint that the cost of providing information should not outweigh the benefit received by the users of the financial statements. When entities prepare their financial statements, they would also consider a “cost-benefit” test in applying the requirements of the individual IPSASs. A “cost-benefit” test requires measurement of both the costs and benefits of providing or not providing certain information to the users of the financial statements.*

*On an individual standard-level however, the IPSASB may however assess that while some information may be useful to users, it should only be provided if it can be provided without “undue cost and effort”. A test based on “undue cost and effort” does not require an assessment of the benefits users may or may not receive from the disclosure of the information.*

Staff agree that references to application of the cost-benefit (or similar) test in the IPSASB literature should be consistent. Staff anticipate that once the concept is established in the Conceptual Framework, the IPSASB will identify and as appropriate align references in other documents.

Staff are uncomfortable with the additional explanation proposed (in the box above) for the following reasons:



- The explanation in the second sentence: “*When entities prepare their financial statements, they would also consider a “cost-benefit” test in applying the requirements of the individual IPSASs*” may be read as indicating that an entity would make its own assessment about whether the benefits of a requirement of a particular IPSAS is greater than its costs, and if it assess that costs are greater than benefits it need not apply those requirements. Staff is of the view that this interpretation is not intended by the Board.
- Staff are not clear whether an assessment of undue cost and effort can be made without some feel for the benefit that would result from the requirement.

Staff has followed up with this respondent to better appreciate the issue. As a consequence, staff now understands that the concern is primarily with application of the broad cost-benefit test by the IPSASB in assessing whether certain requirements should be mandated/required in IPSASs – particularly in circumstances where the benefits of such requirements are assessed to be marginal or are not clear.

Staff continues to discuss this issue with the respondent and will provide members with an update as it is progressed. However, in the interim, staff is of the view that the IPSASB could usefully consider whether the inclusion of an additional paragraph following paragraph BC3.36 as outlined below may serve to bridge the concerns raised by this respondent and the operation of the cost-benefit constraint as reflected in the Conceptual Framework:

“In some cases, it may not be possible for the IPSASB to identify and/or quantify all the benefits that are likely to flow from the inclusion of a particular requirement in an IPSAS. In other cases, the IPSASB may be of the view that the benefits of a particular requirement may be marginal for users of GPFRs of some reporting entities. In applying the cost-benefit test to determine whether particular requirements should be included in an IPSAS in these circumstances, the IPSASB’s deliberations may also include consideration of whether imposing such requirements on reporting entities are likely to involve undue cost and effort.”

This paragraph is included in agenda paper 2A.2 as a potential additional paragraph following paragraph BC3.36.

**Action Requested:**

Members are requested to confirm or otherwise staff views on:

- the relationship of the cost-benefit test in the Conceptual Framework to undue cost and effort as referred to in the “Rules of the Road”; and
- the inclusion of an additional paragraph in the basis for conclusions (following paragraph BC3.36 (as outlined above) to respond to the concerns identified by this respondent.

**Issue #9– Location of Para BC3.8**

One respondent questioned whether paragraph BC3.8 should be included in the basis for conclusion or the text as follows:

- *Respondent 3: “Not sure why this para is here. It reads more as a para that should be in the body of the Framework rather than in the BC.”*

The IPSASB located BC3.8 in the basis for conclusions in an previous draft of the ED with the intention of sharpening the focus of the discussion in the text itself. Staff is of the view that this can be justified on the basis that paragraph BC3.8 is an explanation/elaboration of the IPSASB’s observation (in paragraph 3.10 of the text) that to be useful, information must be a faithful representation of the economic or other phenomena it represents. While there may be a case for the relocation of BC3.8 to the text, staff is reluctant to process that change at this stage – because it would become repetitious of some matters already dealt with in the text. Rather, staff has amended paragraph BC3.8 with the intent of clarifying its role as providing background for matters already included in paragraph 3.10 of the text of the Framework.

*Action Requested:*

Members are requested to agree or otherwise the staff proposal for the amendment to paragraph BC3.8 and its retention in the basis for conclusions of the Framework Phase 1-ED.

**Issue 10 – Qualitative Characteristics Other Specific technical/editorial issues**

***(a) Retention of third dot point of Paragraph BC3.29***

One respondent questioned whether the third dot point of paragraph Bc3.29 should be retained as follows:

- *Respondent 4 – “I cannot understand the relationship between these sentences and “classification of the characteristics and order of their application”. Please clarify whether these sentences are necessary.”*

Staff is of the view that the third dot point is an elaboration/example of the second dot point in particular circumstances. It was included in response to the IPSASB’s wish to acknowledge that the scope of IPSASs included prospective information about financial performance and the achievement of service delivery objectives, and this may impact on which characteristics may be perceived as being more important (or fundamental) than others when applied to this data. Staff is of the view that, while not critical to the Board’s message, this dot point does reinforce the message and should be retained.

*Action Requested:*

Members are requested to confirm or otherwise that the third dot point of paragraph BC3.29 should be retained in the Framework Phase 1-ED.

***(b) Deletion of paragraph BC3.32***

Staff and the TBG formed the view that paragraph BC3.32 of the September draft ED was not needed. This was because the explanation included in BC3.31 that materiality can impact a number of the QCs appeared to already deal adequately with matters raised in BC3.32.

Two respondent commented on this matter as follows:

- *Respondent 1 – “I am fine with the deletion of this paragraph as proposed.”*

- Respondent 3 – “comfortable if this is deleted.”

Staff have deleted paragraph BC32. (It is identified at page 44 of the marked-up draft of the draft Framework Phase 1-ED at agenda paper 2a.2.)

*Action Requested:*

Members are requested to confirm or otherwise that paragraph BC3.32 should be deleted as proposed from the Framework Phase 1-ED.

**Issue #11 – Reporting Entity paragraphs 4.1–BC4.23: Structural and editorial and issues**

Respondents raised a number of structural and editorial issues in respect of the reporting entity and group reporting entity component of the September draft ED. Staff is of the view that many of these proposals clearly strengthened and clarified the IPSASB’s intent, and have amended the draft Framework Phase 1-ED accordingly. They are identified in the marked-up draft at agenda paper 2A.2.

There are however a number of proposals that staff seek the IPSASB’s guidance on – these relate to text previously included in the ED and reviewed by the IPSASB without adverse comment or matters raised by staff and the TBG for confirmation as noted below.

**(a) Paragraph BC4.5 - deletion of final sentence**

Paragraph BC4.5 identifies factors that are likely to signal the existence of users of GPFRs. At the June 2010 meeting, the IPSASB directed that the paragraph be redrafted to reflect that the IPSASB “assumes” that these factors will be considered by the legislature or other authority in determining what organizations should be identified as reporting entities. The final sentence of the paragraph has been redrafted accordingly. It notes:

*“...The IPSASB assumes 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.”*

As noted in the covering memorandum accompanying the September draft ED, staff are not convinced that this phrasing works well in the context of the Framework. This is because it reads, or may be read, as signaling that the IPSASB will act otherwise if this assumption does not prove correct. Staff is of the view that the IPSASB does not intend that the Framework convey such messages. After discussion with TBG members, staff propose that this sentence be deleted.

One respondent commented on this paragraph noting support for the deletion as proposed.

- Respondent 1: “I am fine with the deletion of this paragraph as proposed.”

*Action Requested:*

Members are requested to confirm or otherwise that the final sentence of paragraph BC4.5 should be deleted from the Framework Phase 1-ED.

***(b) Location of paragraphs BC4.15 and BC4.16.***

As this component of the ED has been developed, matters of detail and application that were explored in CP#1 have progressively been discarded or moved to the basis for conclusions. The intent being to sharpen the focus of the discussion in the text itself. Staff included BC4.15 and BC4.16 in the basis for conclusions to that end. One respondent commented on the inclusion of these paragraphs in the basis for conclusions as follows:

- *Respondent 3 – “most of this para (staff note: refers to BC4.15 and BC4.16) would belong in the body of the CF rather than in the BC.”*

To some extent the appropriate location of paragraphs such as BC4.15 and BC4.16 is a matter of judgment. In preparing previous drafts of this component of the ED, staff and the TBG discussed whether these paragraphs should be retained in the ED and, if so, their appropriate location. On balance staff and the TBG were of the view that there was merit in their inclusion in the basis for conclusion.

These paragraphs have been included in the BC in previous drafts of the Framework Phase 1-ED and did not draw adverse comment from the IPSASB. However, on reflection, staff agree that there is a case to reconsider the content and positioning of these paragraphs, and whether they be retained. In particular:

- Much of paragraph BC4.15 is a restatement of matters dealt with either implicitly or explicitly in the text itself – staff is of the view that much of this paragraph could be deleted, and the remainder merged with paragraph 4.14;
- If retained, BC4.16 could be relocated to the body of the text following paragraph 4.12 – because it does provide additional examples of the operation of the concept.

On balance, staff is of the view that there is merit in restructuring paragraph 4.15 and retention and relocation of paragraph 4.16 for purposes of the exposure draft. Staff's views on how this may be achieved are included for members consideration in marked-up form in the draft ED attached as 2A.2 - see the paragraph following 4.12 and paragraph BC4.14.

***Action Requested:***

Members are requested to confirm or otherwise that paragraphs BC4.15 and BC4.16 should be restructured and repositioned in the Framework Phase 1-ED as proposed.

***(c) Paragraph BC4.19 – reference to entities with statutory independence***

At its June 2010 meeting, the IPSASB directed that the basis for conclusions acknowledge that some public sector entities with statutory independence may be included within the whole of government group reporting entity for financial reporting purposes. After considering a number of alternative mechanisms to give effect to this, staff amended paragraph BC4.19 to acknowledge IPSASB's view that the existence of statutory or constitutional authority to be professionally independent does not, of itself, preclude an entity from being included within the whole of government (or public sector) group reporting entity.

However, on reflection, staff are not convinced that the inclusion of this type of observation works well with the less prescriptive approach the IPSASB has adopted

generally in the Framework Phase 1-ED and its basis for conclusions. Staff discussed the inclusion of this or similar phrasing with the TBG who were comfortable with paragraph BC4.19 as included in the draft ED, but agreed that staff should seek confirmation of this from the IPSASB.

Two respondents to the September draft ED indicated they would support deletion of the observation.

- *Respondent 1. – “... I tend to delete this paragraph.*
- *Respondent 4. – “I recommend that the paragraph “the existence of statutory or constitutional authority to be professionally independent does not, of itself, preclude an entity from being included within the whole of government” would be deleted because this paragraph refers to the standard-level issue rather than the conceptual-level issue.”*

Staff are of the view that the following phrase currently included in paragraph BC4.19 could usefully be deleted: “While the IPSASB remains of the view that the existence of statutory or constitutional authority to be professionally independent does not, of itself, preclude an entity from being included within the whole of government (or public sector) group reporting entity...”.

This proposed deletion is illustrated in marked-up form in the draft ED attached as 2A.2

*Action Requested:*

Members are requested to confirm or otherwise that the reference in the second sentence in paragraph BC4.19 to entities with statutory or constitutional authority to be professionally independent should be deleted from the Framework Phase 1-ED.

**Issue #12 : Period of Exposure for Framework Phase 1- ED**

The revised Conceptual Framework project plan issued following the June 2010 meeting proposed a 6 month exposure period for the Framework Phase 1-ED, and a four month exposure period for Consultation Papers dealing with phases 2, 3 and 4.

Subject to the IPSASB’s approval for issue of the Phase 1 ED at this meeting, a six month exposure period would mean that the IPSASB could commence its review of responses at the September 2011 meeting. However, staff are of the view that there is a case to issue the ED with a four month exposure period. This would enable the IPSASB to commence review of responses at the meeting in June of 2011. This would maintain momentum on the project and allow for review of comments at 3 meetings during 2011.

*Action Requested:*

Members are requested provide directions on the exposure period for the Framework Phase 1-ED.

## CONCEPTUAL FRAMEWORK PHASE 1

### Review of responses to CP#1 & draft Phase 1-ED

#### Summary of IPSASB Decisions made to date

##### IPSASB Meetings: May 2009, December 2009, April 2010 and June 2010

(Decisions made at the last IPSASB meeting (June 2010) are shown in mark-up)

The following identify the decisions regarding substantial matters agreed by the IPSASB at meetings held in May 2009, December 2009, April 2010 and June 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 (ED) when prepared. They do not encompass decisions relating to all editorial, phrasing or explanatory matters. Rather they focus on broad directional/strategic decisions. For a fuller explanation of the IPSASB deliberations on this Phase of the Framework 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 of decisions is updated following each IPSASB meeting at which Phase I of the Conceptual Framework is discussed.

#### Re Analysis of documents

The analysis of responses to CP#1 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 approach is to be adopted for all public documents analyzing responses to an IPSASB consultation paper or similar. **(Agreed May 2009)**

#### Re Development Program and Process and Format of Phase 1-ED

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)**

The IPSASB will issue an ED of the Phase 1 components of the Framework when approved, ideally with the CPs dealing with Phase 2 and Phase 3 components of the



Framework. It is anticipated that the ED (and CPs of Phase 2 and Phase 3 components) will be approved in November 2010. (Agreed June 2010)

The existing structure of the draft Phase 1 ED (comprising four sections with a separate basis for conclusions for each section) is to be retained for the ED. In its final form, the Conceptual Framework is to draw together each component of each phase and include a single basis for conclusions. (Agreed June 2010)

The ED is to include a number of specific matters for comment dealing with significant issues/matters including those that were of most concern to respondents to CP#1 (Agreed June 2010 – note this matter is still subject to review of the specific matters for comment and confirmation at the Nov 2010 meeting.)

Differences from the IASB Framework and, where relevant, the System of National Accounts 2008 (SNA 2008) (and the statistical models of financial reporting derived from it as currently adopted by the EU and IMF) are to be identified and included in an appendix at the end of each section of the Phase 1 ED. The appendix is not to: (a) attempt to justify or explain the reasons for the differences; or (b) identify differences from positions proposed in IASB Discussion Papers or IASB EDs. (Agreed June 2010)

All the paragraphs of the Conceptual Framework are to have equal status - consequently no paragraphs are to be presented in bold type. (Agreed June 2010)

The phrase “a more comprehensive basis of financial reporting” rather than “a broader scope of financial reporting” is to be used in the text and basis for conclusions as appropriate/where possible. (Agreed June 2010)

References in the basis of conclusions to “the views of some IPSASB Members,” or similar terms, are to be deleted. (Agreed June 2010)

The draft ED is not to include quotations from existing IPSASs. Quotations included in the current draft are to be deleted and replaced by a general observation of the point intended and a cross reference to the relevant IPSAS. (Agreed June 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. Note: “may encompass...” is to be re-expressed as “is likely to encompass ...” Agreed June 2010)

The text of the ED or the basis of conclusions is to acknowledge that, in making decisions that extend the scope of financial reporting, the IPSASB will consider the need for, and benefits of, the information to users and the capacity of preparers to compile such information. (Agreed June 2010)

## 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)**

The text of the ED and/or basis for conclusions as appropriate is to acknowledge that the Conceptual Framework will establish principles that will apply in developing IPSASs and non-authoritative guidance. **(Agreed June 2010)**

The text of the ED is not to refer to differential reporting. In addition, sections of the basis for conclusion which identify the views of respondents to CP#1 in respect of differential reporting are to be modified to simply note that the Framework does not deal with differential reporting issues. References to actions the IPSASB may take in respect of differential reporting issues are to be deleted. **(Agreed June 2010)**

The basis for conclusions is to explain that the IPSASB develops IPSASs and non-authoritative guidance for public sector entities. However, this Conceptual Framework has been developed for public sector entities other than GBEs. Consequently, it does not apply to GBEs. **(Agreed June 2010)**

## 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 the 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)**

“Demand” is to be replaced by “require” in the definition of GPFRs. The definition is to read: “GPFRs are financial reports intended to meet the common information needs of users who are unable to require the preparation of financial reports tailored to meet their specific information needs.” This terminology is to be used consistently throughout the ED. (Agreed June 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 is 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 other representative body as included in the staff paper. **(Agreed April 2010 – confirmed June 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)**

Parties that advise service recipients and resource providers may also be users of GPFRs, but are not to be identified as primary users. (Agreed June 2010)

The basis for conclusions is to note that the IPSASB did not identify a primary user group (or primary user groups) in PV3 of CP#1. (Agreed June 2010)

The basis for conclusions is to clarify that individual members of parliament may require the disclosure of the information they need in the discharge of their official/parliamentary duties. (Agreed June 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)**

The plural “objectives”, rather than the singular “objective”, of financial reporting is to be used in the ED. Those objectives are to be identified as to provide information that is useful for accountability purposes and information useful for decision making. **(Agreed June 2010)**

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 - reconfirmed in June 2010 after consideration of responses to CP "Reporting on the Long-Term Sustainability of the Public Finances".)**

The ED is to explain that the financial performance of public sector entities is not fully reflected by notions of surplus and deficit (or profit and loss). Rather information about financial performance provides input for analysis of such matters as the purposes for which resources were used, and the costs and efficiency of service delivery during the reporting period. (Agreed June 2010)

The Conceptual Framework is to establish broad principles. Projects dealing with specific financial reporting issues are to explain and justify how they relate to the Conceptual Framework – including the scope of financial reporting. (Agreed June 2010)

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 will 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 draft ED or basis for conclusions dealing with prospective financial and other information is to include a brief explanation of why information about fiscal sustainability is relevant for accountability and decision making purposes. (Agreed June 2010)

The basis for conclusions is to explain that while information about compliance with budgets may be included in GPFRs, GPFRs will not deal with the "format" or "formulation" of budgets. (Agreed June 2010)

## 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#1 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 draft 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. Note differences from IASB Framework are now to be included in an appendix without explanation – agreed June 2010.)**

The applicability of the QCs, particularly faithful representation (or reliability) and verifiability, to non-financial and prospective financial information will 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)**

The discussion of cost-benefits is to note that when the benefits to users of including information in GPFRs is significant, information that satisfies the qualitative characteristics should not be “sacrificed” or given-up unless the costs of providing it are assessed to be greater than its benefits. **(Agreed June 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 that the notion of “regularity” as used in many jurisdictions was related to “compliance” as used in CP#1 and IPSASs. **(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)**

The term “faithful representation” rather than “reliability” is to be used in the Phase 1 ED. A specific matter for comment is to seek constituents’ views on whether this terminology should be retained in the Conceptual Framework when finalized. **(Agreed June 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. Note differences from IASB Framework are now to be included in an appendix - Agreed June 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 GPFRs 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)**

The basis for conclusion is to reflect that the IPSASB “assumes” that the factors (as identified in draft ED reviewed in June 2010) will be considered by the legislature or other authority in designating particular public sector entities, programs or other identifiable activities as reporting entities. (Agreed June 2010)

Aspects of the draft ED dealing with 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 GPFs for information about the reporting

entity. (Agreed April 2010. Note all black letter paragraphs are to be removed from the draft ED. Agreed June 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 of the proposed draft ED 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 of the draft ED 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. Note differences from IASB Framework are now to be included in an appendix without explanation of differences - Agreed June 2010)

The structure of this component of the draft ED reviewed in June 2010 is appropriate and is to be retained for the updated draft of the Phase 1 ED. (Agreed June 2010)

The ED is to refer to the entities that a government has the “authority and capacity” to direct, rather than entities it has the “power” to direct. (Agreed June 2010)

The draft ED is to clarify that both the capacity and authority to direct the activities of another entity and the potential exposure to a benefit or a financial burden/loss as the result of the activities of that entity must be present for an entity to be included in the government reporting entity. (Agreed June 2010)

The draft ED is to acknowledge that the capacity and authority to direct the activities of another entity may exist even where the government chooses not to exercise that authority. (Agreed June 2010)

As appropriate, the text of the ED or its basis for conclusions is to acknowledge that some public sector entities with statutory independence may be included within the whole of government group reporting entity for financial reporting purposes. (Agreed June 2010)

*Note: This is a draft only. The matter considered here are the subject of ongoing IPSASB discussion.*

**Objective of the Exposure Draft and Specific Matters for Comment**

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The International Public Sector Accounting Standards Board (IPSASB), an independent standards-setting body within the International Federation of Accountants (IFAC), approved for publication in XXXX 201X this Exposure Draft, “Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities:

- The Role and Authority of the Conceptual Framework; and the Scope of General Purpose Financial Reporting;
- The Objectives of Financial Reporting;
- The Qualitative Characteristics of, and Constraints on, Information included in General Purpose Financial Reports; and
- The Reporting Entity and Group Reporting Entity.”

The proposals in this Exposure Draft may be modified in light of comments received before being issued in final form. **Comments are requested by XXXX, 201X.**

Respondents are asked to submit their comments **electronically** through the IFAC website ([www.ifac.org](http://www.ifac.org)), using the “Submit a Comment” link on the Exposure Drafts and Consultation Papers page. Please note that first-time users must register to use this new feature. All comments will be considered a matter of public record and will ultimately be posted on the IFAC website. Although IFAC prefers that comments be submitted electronically, e-mail may continue to be sent to [edcomments@ifac.org](mailto:edcomments@ifac.org) and [stepheniefox@ifac.org](mailto:stepheniefox@ifac.org). Comments can also be faxed to the attention of the IPASB Technical Director at +1 (416) 204-3412, or mailed to:

The Technical Director  
International Public Sector Accounting Standards Board  
International Federation of Accountants  
277 Wellington Street, 4th Floor  
Toronto, Ontario M5V 3H2 CANADA

Copies of this exposure draft may be downloaded free-of-charge from the IFAC website at <http://www.ifac.org>

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**Objective of the Exposure Draft and Specific Matters for Comment**

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## **Introduction**

The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities (the Conceptual Framework) will establish and make explicit the concepts that are to be applied in developing IPSASs and other documents that provide guidance on information included in general purpose financial reports (GPFRs).

IPSASs are developed to apply across countries and jurisdictions with different political systems, different forms of government and different institutional and administrative arrangements for the delivery of services to constituents. The IPSASB recognizes the diversity of forms of government, social and cultural traditions, and service delivery mechanisms that exist in the many jurisdictions that may adopt IPSASs, and has developed this Conceptual Framework to respond to and embrace that diversity.

## **The Accrual Basis of Accounting**

The IPSASB encourages public sector entities to adopt the accrual basis of accounting. This Exposure Draft deals with concepts that apply to general purpose financial reporting (hereafter referred to as financial reporting unless identified otherwise) under the accrual basis.

Under the accrual basis of accounting, transactions and other events are recognized in financial statements when they occur (and not only when cash or its equivalent is received or paid). Therefore, the transactions and events are recorded in the accounting records and recognized in the financial statements of the periods to which they relate.

Financial statements prepared on the accrual basis inform users of the financial statements of past transactions involving the payment and receipt of cash during the reporting period, obligations to pay cash or sacrifice other resources of the entity in the future and the economic resources of the entity at the reporting date. Therefore, they provide information about past transactions and other events that is more useful to users for accountability purposes and as input for decision-making than is information provided by the cash or other bases of financial reporting.

The IPSASB recognizes that in many jurisdictions governments and other public sector entities currently adopt the cash basis of accounting (or a near-cash or modified-cash basis of accounting). The IPSASB will consider the concepts that underpin the cash basis of financial reporting after it has developed the Conceptual Framework for the accrual basis.

## **Project Development**

The development of this Conceptual Framework is a collaborative project that the IPSASB is leading in conjunction with a number of national standards-setters and similar organizations with a role in establishing financial reporting requirements for governments and other public sector entities in their jurisdictions.

Many of the IPSASs currently on issue are based on International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB), to the extent that the requirements of those IFRSs are relevant to the public sector. The IPSASB's strategy and



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**Objective of the Exposure Draft and Specific Matters for Comment**

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operational plan also includes maintaining the alignment of IPSASs with IFRSs where appropriate for the public sector. **(Staff Note – to be updated to reflect any further development of the IPSASB strategy and operational plan for 2010 and beyond.)**

The IASB is currently developing an improved Conceptual Framework for private sector business entities in a joint project with the Financial Accounting Standards Board (FASB) of the USA. Development of the IASB's Conceptual Framework is being closely monitored. However, development of the IPSASB's Conceptual Framework is not an IFRS convergence project, and the purpose of the IPSASB's project is not simply to interpret the application of the IASB Framework to the public sector. The purpose of the IPSASB's Conceptual Framework project is to develop concepts, definitions, and principles that respond to the objectives, environment and circumstances of governments and other public sector entities and, therefore, are appropriate to guide the development of IPSASs and other documents dealing with financial reporting by public sector entities.

The concepts underlying statistical financial reporting models, and the potential for convergence with them, will also be considered by the IPSASB in developing its Conceptual Framework. The IPSASB is committed to minimizing divergence from the statistical financial reporting models where appropriate.

### **Consultation Papers and Exposure Draft**

Although all the components of the Conceptual Framework are interconnected, the project is being developed in phases. The components of the Conceptual Framework have been grouped, and are being considered in the following sequence:

Phase 1 – the objectives of financial reporting, the scope of financial reporting, the qualitative characteristics of information included in GPFRs, and the reporting entity and group reporting entity;

Phase 2 – the definition and recognition of the “elements” that are reported in financial statements;

Phase 3 – consideration of the measurement basis (or bases) that may validly be adopted for the elements that are recognized in the financial statements; and

Phase 4 – consideration of the concepts that should be adopted in deciding how to present financial statements and other components of GPFRs.

The project initially involves the development and issue for comment of Consultation Papers to draw out key issues and explore the ways in which those issues could be dealt with. The Consultation Paper dealing with Phase 1<sup>1</sup> was issued in September 2008, Consultation Papers dealing with Phase 2 and Phase 3 are being issued at the same time as this Exposure Draft (ED) and a Consultation Paper dealing with Phase 4 is under development.

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<sup>1</sup> 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.*”

*Note: This is a draft only. The matter considered here are the subject of ongoing IPSASB discussion.*

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**Objective of the Exposure Draft and Specific Matters for Comment**

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It is the IPSASB's current intention to issue EDs dealing with each of Phases 2, 3 and 4 of the Conceptual Framework after consideration of responses to the Consultation Papers dealing with those Phases. The process for developing the finalized Conceptual Framework will be determined in light of the responses received to Consultation Papers and EDs, and may include issue of an umbrella exposure draft of the full Conceptual Framework. **(Staff Note – to be updated as timing of issue of this exposure draft and Phase 2 and 3 Consultation Papers and any development in the process become clearer.)**

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**Objective of the Exposure Draft and Specific Matters for Comment**

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## **Objective of the Exposure Draft of Phase 1 of the ~~IPSASB~~ Conceptual Framework**

This Exposure Draft of Phase 1 of the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities identifies and explains the role and authority of the Conceptual Framework, and the scope of financial reporting. It also identifies and explains:

- The objectives of financial reporting;
- The qualitative characteristics of, and constraints on, information included in general purpose financial reports; and
- How a reporting entity is identified and the composition of a group reporting entity is determined.

## **Respondents**

The IPSASB would welcome comments on all the proposals in the Exposure Draft. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale and, where applicable, provide a suggestion for proposed changes to the Exposure Draft.

## **Specific Matter for Comment**

The IPSASB would particularly value comments on whether you agree that the:

- (a) Conceptual Framework should not establish new authoritative requirements for financial reporting by public sector entities that adopt IPSASs, nor override the requirements of existing IPSASs. Rather its primary role should be to identify the broad principles that the IPSASB will adopt in developing IPSASs and non-authoritative guidance;
- (b) ~~Conceptual Framework, while of less authority than an IPSAS,~~ should be identified as a relevant source of guidance to constituents in dealing with financial reporting issues not specifically dealt with in IPSASs;
- (c) Conceptual Framework should include a definition of public sector entities. The Conceptual Framework currently does not include an exhaustive definition of what constitutes a public sector entity. Rather, it explains that the Conceptual Framework applies to all public sector entities other than GBE's and identifies the following as public sector entities:
  - (i) national, state/provincial, and local governments;
  - (ii) government ministries, departments, programs, boards, commissions and agencies;
  - (iii) public sector social security funds, trusts and statutory authorities;
  - (iv) international governmental organizations; and
  - (v) government business enterprises (GBEs).

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**Objective of the Exposure Draft and Specific Matters for Comment**

- (b)(d) Conceptual Framework should define international governmental organizations as public sector entities that include supra-national public sector organizations;
- (e)(e) Conceptual Framework currently being developed by the IPSASB should not apply to government business entities;
- (d)(f) General purpose financial reports (GPFRs) of public sector entities should be prepared to respond to the information needs of users who are unable to require the preparation of financial reports tailored to meet their specific information needs ~~and, therefore, IPSASs should be developed to respond to the information needs of these users;~~
- (e)(g) Primary users of GPFRs of public sector entities should be identified as service recipients and their representatives and resource providers and their representatives;
- (f)(h) Objectives of financial reporting by public sector entities are to provide information that is useful for accountability purposes and useful for decision making purposes;
- (g)(i) Scope of financial reporting by public sector entities should allow GPFRs to report information about the past, present, and the future that is useful to users – including information about the entity's:
  - (i) Financial position at reporting date and financial performance and cash flows over the reporting period;
  - (ii) Compliance with legally adopted or approved budgets and legislation or other authority governing the raising and use of public monies; and
  - (iii) Achievement of service delivery objectives in the current reporting period and anticipated future service delivery activities and resource needs;
- (h)(j) Conceptual Framework should allow the scope of financial reporting to evolve in response to users' information needs, consistent with the objectives of financial reporting;
- (i)(k) GPFRs of public sector entities may encompass a number of separate reports, each responding more directly to certain aspects within the scope of financial reporting;
- (j)(l) GPFRs of public sector entities may report information about compliance with budgets, but should not deal with the format or formulation of budgets;
- (k)(m) Term "faithful representation" rather than "reliability" should be used in the Conceptual Framework to describe the qualitative characteristics that is satisfied when the depiction of an economic or other phenomenon is complete, neutral, and free from material error;
- (l)(n) Qualitative characteristics of information included in GPFRs of public sector reporting entities are relevance, faithful representation, understandability, timeliness, comparability, and verifiability; ~~and~~
- (m)(o) Constraints on information included in GPFRs are materiality, cost-benefit, and achieving an appropriate balance between the qualitative characteristics;
- (n)(p) Qualitative characteristics apply to all ~~information reported in GPFRs, including~~ financial and non-financial information reported in GPFRs, including, historic and prospective

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**Objective of the Exposure Draft and Specific Matters for Comment**

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information, and explanatory material or other narrative reporting. If needed, additional guidance on applying the qualitative characteristics to information outside the financial statements and their notes should be considered in the development of IPSASs and other pronouncements of the IPSASB that deal with such information;

~~(e) Conceptual Framework should not limit a public sector reporting entity to an organization that has a separate legal identity, but explain that 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;~~

(q) Conceptual Framework should:

i. identify a public sector reporting entity as a government or other public sector organization, program or identifiable activity that prepares a general purpose financial report; and

~~(p)~~ii. explain that 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

~~(q)~~ Entities included in a group reporting entity should be the ~~entities that a~~ government (or other public sector entity) and the entities whose activities it has the “authority and capacity” to direct when the results of such direction can generate financial or other benefits for the government (or other public sector entity) or expose it to a financial burden or loss; ~~and~~

~~(r) Members are requested to identify any additional matters for comment?~~

*Note: This is a draft only. The matters considered here are the subject of ongoing IPSASB discussion.*

**The Role and Authority of the Conceptual Framework and the Scope of General Purpose Financial Reporting**

## **THE CONCEPTUAL FRAMEWORK FOR GENERAL PURPOSE FINANCIAL REPORTING BY PUBLIC SECTOR ENTITIES**

### **1 The Role and Authority of the Conceptual Framework, and the Scope of General Purpose Financial Reporting**

#### **The Role of the Conceptual Framework**

- 1.1 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<sup>2</sup>s). The International Public Sector Accounting Standards Board (IPSASB) will apply these concepts in developing International Public Sector Accounting Standards (IPSASs) or non-~~authoritative~~ guidance applicable to the preparation and presentation of general purpose financial reports (GPFRs) of public sector entities.

#### **General Purpose Financial Reports**

- 1.2 GPFRs are financial reports intended to meet the common information needs of users who are unable to require 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.
- 1.3 Some users of financial information may have the authority to require 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**

- 1.4 The scope of financial reporting establishes the boundary around the transactions, other events and activities that may be reported in GPFRs. The scope of financial reporting is determined by the information needs of the primary users of ~~the~~ GPFRs and the objectives of financial reporting (as identified in “The Objectives of Financial Reporting” section of this Conceptual Framework), 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.
- 1.5 GPFRs of public sector entities include, but are more comprehensive than, financial statements and their notes. They can report information about the past, present, and the future that is useful to users – including financial and non-financial quantitative and qualitative information about the achievement of financial and service delivery objectives



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**The Role and Authority of the Conceptual Framework and the Scope of General Purpose Financial Reporting**

in the current reporting period and anticipated future service delivery activities and resource needs. GPFRs are likely to 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. The format of presentation adopted by GPFRs will also respond to, and be influenced by matters included within, the scope of financial reporting.

- 1.6 While this Conceptual Framework reflects a scope of financial reporting that is more comprehensive than that encompassed by financial statements and their notes, information presented in financial statements and their notes remain at the core of financial reporting. How the elements of financial statements are defined, recognized and measured, and forms of presentation and communication that might be adopted for information included within GPFRs, is considered in other components of this Conceptual Framework and in the development of individual IPSASs or non-authoritative guidance, as appropriate.

**Authority of the Conceptual Framework**

- 1.7 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 in dealing with financial reporting issues not dealt with by IPSASs or other non-authoritative guidance issued by the IPSASB. In these circumstances, preparers and others can refer to and consider the applicability of the definitions, recognition criteria, measurement principles, and other concepts identified in this 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**

- 1.8 The Conceptual Framework applies to ~~general-purpose~~ financial reporting by public sector entities other than 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.

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**The Role and Authority of the Conceptual Framework and the Scope of General Purpose Financial Reporting**

## Section 1: 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 dealing with this phase of the Conceptual Framework<sup>2</sup> and the reasons for those changes.*

### The Role and Authority of the Conceptual Framework

- BC1.1 The Conceptual Framework identifies the broad principles that the IPSASB will apply in developing International Public Sector Accounting Standards (IPSASs) and non-authoritative guidance intended to assist preparers and others in dealing with financial reporting issues. 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 ~~and~~ 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.
- BC1.2 The IPSASB is of the view that existing authoritative requirements should not be overturned without the application of due process. After 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.
- BC1.3 Although the Conceptual Framework has lesser authority than an IPSAS developed to deal with specific transactions or other events, it will be a relevant source of guidance 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 other sources of guidance may be referred to in the absence of an IPSAS~~the Conceptual Framework is to be referred to as an authoritative source of guidance. After the Conceptual Framework is issued, IPSAS 3 may be amended to identify the circumstances in which it (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.

<sup>2</sup> 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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**The Role and Authority of the Conceptual Framework and the Scope of General Purpose Financial Reporting**

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**Special Purpose Financial Reports**

BC1.4 Standards-setters often describe as special purpose financial reports, those financial reports prepared to respond to the requirements of users that have the authority to require the preparation of financial reports that disclose the information they need for their particular purposes. However, 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.

**The Scope of Financial Reporting**

BC1.5 This Conceptual Framework reflects a scope for financial reporting that is more comprehensive than that encompassed by financial statements and their notes. For example, in addition to financial statements that present financial information about past transactions and other events, GPFRs may encompass reports that present financial and non-financial information about the achievement of the entity's service delivery objectives during the reporting period and prospective financial and ~~other non-financial~~ information about its future service delivery activities, objectives, and resource needs.

BC1.6 The IPSASB is of the view that this more comprehensive 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.

BC1.7 Acknowledging a more comprehensive scope for financial reporting does not mean that it is inevitable that authoritative requirements will be developed to direct reporting on all the matters that may be encompassed by that scope. For example,

- the IPSASB's publications include discussion papers and non-authoritative guidance intended to assist the financial reporting community to respond to particular financial reporting issues; and
- the financial reports of public sector entities in many jurisdictions currently include information about service delivery achievements and prospective financial and non-financial information that is not specifically required by IPSASs.

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.

BC1.8 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 elements of the 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

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**The Role and Authority of the Conceptual Framework and the Scope of General Purpose Financial Reporting**

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.

- BC1.9 In making decisions that extend the scope of financial reporting beyond financial statements and their notes, the IPSASB will consider the benefits of the information to users and the costs of compiling and reporting such information. The timing of these developments of the scope of ~~GPFRs~~financial reporting will therefore respond to developments in users' information needs and assessments of the benefits and costs of reporting information to respond to those needs.

**Other Reports and Information**

- BC1.10 GPFRs may not provide all the information users need for accountability and decision-making purposes. In addition to GPFRs, governments and other public sector entities report a wide range of financial and ~~other~~non-financial 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 (and in some cases private) sector entities when users require additional or more detailed information about, for example, the activities and plans of a government or other public sector entity, and the factors that influence them.

**Government Business Enterprises**

- BC1.11 The IPSASB develops IPSASs and non-authoritative guidance for public sector entities. This Conceptual Framework has been developed for public sector entities other than GBEs. Consequently, it does not apply to GBEs.

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**The Role and Authority of the Conceptual Framework and the Scope of General Purpose Financial Reporting**

## Appendix 1.A

### **~~Comparison with~~ The IASB Conceptual Framework (as at XXX 2010)**

The International Accounting Standards Board (IASB) Conceptual Framework (adopted by the IASB in 2001 and updated in part in XX 2010):

- Applies to business entities in the private sector. (Update XX 2010.) Its application to not-for-profit entities in the private sector is to be considered in the future.
- Will not override existing financial reporting standards. (Update XX 2010)
- Applies to general purpose financial reporting (financial reporting). However, it currently identifies concepts applicable to only general purpose financial statements. (Update XX 2010)
- Explains that general purpose financial reporting stems from the information needs of users who lack the ability to prescribe all the financial information they need from an entity, and therefore must rely, at least partly, on the information provided in financial reports. (Update XX 2010)
- Specifies that the objective of financial reporting is the same for all reporting entities, but explains that cost constraints may sometimes lead standards-setters to permit or require differences in reporting for some types of entities such as small and medium-sized entities. (Update XX 2010)

(Staff Note: This is indicative of style only. It reflects recent public drafts of the equivalent Chapter of the updated IASB Conceptual Framework. It is anticipated that the final Chapter of the IASB Conceptual Framework dealing with these matters will be issued before release of this ED. This Appendix will be updated when the final Chapter of the IASB Conceptual Framework dealing with these matters is issued or, if that final Chapter is not issued, revised to reflect the position in the current IASB Conceptual Framework.)

*Note: This is a draft only. The matters considered here are the subject of ongoing IPSASB discussion.*

The Role and Authority of the Conceptual Framework and the Scope of General Purpose Financial Reporting

## Appendix 1.B

### **Comparison with the statistical bases of reporting of the 1993 System of National Accounts (updated in 2008) and statistical bases of reporting other guidance- derived from it (ESA 95 and GFSM 2001)**

The 1993 System of National Accounts – as updated ~~in~~ (2008- (SNA)-2008):

- Applies to economic activities taking place within an economy and between an economy and the rest of the world, and the interaction between the different economic agents; and groups of agents; that takes place in markets or elsewhere.
- Is an “internationally agreed standard set of recommendations on how to compile and present measures of economic activity...”
- Requires all parties to report transactions in the same way
- Identifies a “sequence of interconnected flow accounts linked to different types of economic activity taking place within a given period of time, together with balance sheets that record the values of the stocks of assets and liabilities held by institutional units or sectors at the beginning and end of the period.”
- Explains that the classifications and accounting rules are meant to be universally applicable. 2008 SNA 2008 does not define parts of the SNA differently for application in different economies, for example in less developed or more developed economies, in large relatively closed economies or small open economies, or in high-inflation economies or in low inflation.
- Adopts a standardized classification and sector-identification basis, and a multiple entry data system to facilitate institutional, sectoral and cross-country comparability.

The Government Finance Statistics Manual 2001 (GFSM 2001), and the European System of Accounts (ESA 95) are consistent with the principles of the 1993 System of National Accounts 1993 SNA. However, at a detailed level, some reporting differences result from differences in purpose and specific data needs. Updates to the 2008 SNA will be incorporated in updates to the other statistical manuals.~~reflect the same position as identified in SNA 2008 on these matters.~~



*Note: This is a draft only. The matters considered here are the subject of ongoing IPSASB discussion.*

## The Objectives of Financial Reporting

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## 2 The Objectives of Financial Reporting

- 2.1 The objectives of financial reporting by public sector entities are to provide information about the reporting entity that is useful to users of GPFRs for accountability purposes and for decision making purposes.
- 2.2 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. **(Staff propose deleting this paragraph.)**
- 2.3 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 General Purpose Financial Reports ~~of Public Sector Reporting Entities~~

- 2.4 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 for their management and use of public resources 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.
- 2.5 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. The legislature (or similar body), and members of parliament (or similar representative body), are also primary users of GPFRs when acting in their capacity as representatives of the interests of service recipients and resource providers. Therefore, for the purposes of this Conceptual Framework, the primary users of GPFRs are service recipients and their representatives and resource providers and their representatives.
- 2.6 Citizens receive services from, and provide resources to, the government and other public sector entities. Therefore, citizens are primary users of GPFRs. 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 governmental organizations~~public sector entities~~.
- 2.7 GPFRs prepared to respond to the information needs of service recipients and their representatives and resource providers and their representatives for accountability and decision making purposes may also provide information useful to other users and for other

*Note: This is a draft only. The matters considered here are the subject of ongoing IPSASB discussion.*

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**The Objectives of Financial Reporting**

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purposes. For example, government statisticians, analysts, the media, financial advisors, public interest and lobby groups and others may find the information provided by GPFRs useful for their own purposes. Organizations that have the authority to require the preparation of financial reports tailored to meet their own specific information needs may also use the information provided by GPFRs for their own purposes – 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. While these other parties may find the information provided by GPFRs useful, they are not the primary users of GPFRs. Therefore, GPFRs are not developed to specifically respond to their particular information needs.

**Information Needs of Service Recipients and Resource Providers**

2.8 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.

2.9 For accountability and decision making purposes, service recipients and their representatives 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, volume 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.

2.10 Resource providers include “involuntary resource providers” such as taxpayers and ratepayers, and “voluntary resource providers” such as lenders, donors, suppliers, fee-for-service consumers and employees.

2.11 For accountability and decision making purposes, resource providers and their representatives will require information as input to assessments of 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

*Note: This is a draft only. The matters considered here are the subject of ongoing IPSASB discussion.*

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**The Objectives of Financial Reporting**

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- Is likely to need additional (or less) resources in the future, and the likely sources of those resources.

2.12 Lenders and creditors will require information as input to assessments of the liquidity of the entity and to confirm 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. In some cases, governments that provide resources to international governmental organizations are dependent on GPFRs of those organizations for information for accountability and decision making purposes.

*Accountability and Decision Making*

2.13 Service recipients and resource providers will require information for accountability purposes and as input for making decisions. For example:

- Lenders, creditors, donors and others that provide resources on a voluntary basis, including in an exchange transaction, make decisions about whether to provide resources to support the current and future activities of 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 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.

2.14 Information provided in 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.

*Note: This is a draft only. The matters considered here are the subject of ongoing IPSASB discussion.*

**The Objectives of Financial Reporting**

**See covering memorandum Issue #5 (b) – Alternative paragraphs 2.13 & 2.14**

**Text of 2.13 & 2.14 has been rearranged to link and balance the discussion of accountability and decision making.**

- 2.13 Service recipients and resource providers will require information for accountability purposes and as input for making decisions. Information provided in 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 as input for decision making by lenders, creditors, donors and others that provide resources on a voluntary basis to governments or other public sector entities.
- 2.14 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. Consequently, they have little direct or immediate capacity to make decisions about whether to provide resources to the government or other public sector entity. However, information provided ~~by~~ in GPFRs for accountability purposes will inform decisions that taxpayers and ratepayers make about their voting preferences, and representations they make to elected officials or representative bodies.

**Information Provided by General Purpose Financial Reports**

- 2.15 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 activities, achievements and outcomes 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 including~~ the anticipated amount and sources of the resources needed to support those plans and objectives.

*Financial Position, Financial Performance and Cash Flows*

- 2.16 Information about the financial position of a government or other public sector entity will enable users to identify the economic resources of the entity that can be used to provide particular services in future periods, claims to those economic resources at the reporting date and changes in them during the reporting period. This will provide information useful as input to assessments of such matters as:

*Note: This is a draft only. The matters considered here are the subject of ongoing IPSASB discussion.*

### The Objectives of Financial Reporting

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- The extent to which management has discharged its responsibilities for safekeeping and managing the resources of the entity;
- Whether additional (or ~~fewer~~less) resources are needed to support future service delivery objectives; and
- The amounts and timing of future cash flows necessary to service and repay existing claims to the entity's resources.

2.17 Information about the financial performance of a government or other public sector 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 by increasing the level of indebtedness of the entity.

2.18 Public sector entities other than GBE's~~that are subject to this Conceptual Framework~~ are constituted and funded primarily to provide services to constituents, rather than to provide financial returns to owners or investors. As such, their financial performance will not be fully or adequately reflected in measures of their financial results (whether described as "surplus ~~and-or~~ deficit", "profit ~~and-or~~ loss" or by other terms). Rather, assessments of their financial performance will involve analysis of such matters as:

- the purposes for which resources were used during the reporting period;
- the costs, efficiency and effectiveness of service delivery during the reporting period; and
- changes during the reporting period in the amount and composition of the economic resources that are available for the provision of services in the future and claims to those resources.

2.19 Information about the cash flows of a government or other public sector entity 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, for example, property, plant and equipment. It also identifies the cash received from, for example, taxes, rates and investments and the cash transfers 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.

*Note: This is a draft only. The matters considered here are the subject of ongoing IPSASB discussion.*

### The Objectives of Financial Reporting

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#### *Compliance*

- 2.20 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 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.
- 2.21 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 included in GPFRs. Such information is necessary for the discharge of a government's (or other entity's) accountability to its constituents and will inform decision-making. However, GPFRs will not deal with matters related to the format or formulation of budgets. 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 other public sector entities issue in addition to their GPFRs.

#### *Service Delivery Achievements*

- 2.22 Reporting non-financial as well as financial information about service delivery activities, ~~and~~ achievements and outcomes during the reporting period will provide input to assessments of the economy, efficiency, and effectiveness of the entity's operations. Reporting this information is necessary for a government or other public sector entity to discharge its obligation to be accountable – that is, to account for, and justify the use of, the financial resources raised from, or on behalf of, constituents. 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~~ Non-financial Information*

- 2.23 Decisions made by a government or other public sector entity 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 activities and related financial commitments.

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 funding for such resources, will be necessary as input to any assessment of the ability of the government or other public sector entity to meet its service delivery and financial



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### The Objectives of Financial Reporting

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commitments in the future. The disclosure of such information in GPFRs will enhance the accountability of the entity and provide additional information useful for decision-making purposes.

#### *Narrative Reports*

- 2.24 Narrative reports can provide additional ~~quantitative and explanatory material information~~ about the major factors underlying the financial and service delivery performance of the entity during the reporting period. They can also outline the assumptions that underpin expectations about, and factors that are likely to influence, the entity's future performance. This will assist users to better understand and place in context the financial and ~~other non-financial~~ information included in GPFRs, and enhance the role of GPFRs in providing information useful for accountability and decision-making purposes.
- 2.25 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 narrative reports which provide an assessment of the quality of particular services or the outcome of certain programs.

#### **Other Sources of Information**

- 2.26 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, information useful for accountability and decision-making purposes may also be provided by reports other than GPFRs. 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.

*Note: This is a draft only. The matters considered here are the subject of ongoing IPSASB discussion.*

## The Objectives of Financial Reporting

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### Section 2: 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 dealing with this phase of the Conceptual Framework and the reasons for those changes.*

#### Primary User Groups

- BC2.1 The 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.*” (CP#1) did not identify a primary user, or primary users, of GPFRs. Rather, the IPSASB’s Preliminary View 3 (PV3) in CP#1 identified the potential users of GPFRs of public sector entities 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.
- BC2.2 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 representatives 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.
- BC2.3 Other respondents were of the view that resource providers, funders, financial supporters or similar providers of resources 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. Therefore, 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.
- BC2.4 The IPSASB acknowledges 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 their representatives

*Note: This is a draft only. The matters considered here are the subject of ongoing IPSASB discussion.*

### The Objectives of Financial Reporting

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and resource providers and their representatives. This is because governments and other public sector entities are accountable primarily to those that provide them with resources, and to those that depend on them to use those resources to deliver necessary services. In addition, the Conceptual Framework will apply to governments and a potentially wide range of other public sector entities in many different jurisdictions as well as international governmental organizations. Consequently, it is not clear that identification of other user groups as the primary users of GPFRs will be relevant, and operate effectively, for all public sector entities across all jurisdictions.

- BC2.5 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*

- BC2.6 There is much common ground between the views of those that identify citizens and 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 service recipients and resource providers ~~and service recipients~~. The IPSASB acknowledges the importance of citizens and their representatives as users of GPFRs, but is of the view that it is necessary to further classify citizens into service recipients and 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*

- BC2.7 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 many jurisdictions, resource providers are primarily donors or lenders that, in many cases, have the authority to require the preparation of special purpose financial reports to provide the information they needed.

#### *The Legislature*

- BC2.8 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 service recipients and resource providers. The legislature, parliaments, councils and similar bodies will also require information for their own specific accountability and decision making purposes, and

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### The Objectives of Financial Reporting

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usually have the authority to require the preparation of detailed financial and other reports to provide that information. However, they may also use the information provided by GPFRs for their own particular purposes, including for example, as input to assessments of whether resources were used efficiently and as intended and in making decisions about allocating resources to particular government entities, programs or activities.

- BC2.9 Individual members of the legislature or other governing body, whether members of the government or opposition, can usually require the disclosure of ~~the financial~~ information they need for the discharge of their official duties as directed by the governing body, but may not have the authority to require the preparation of financial reports that provide the information they require for other purposes or in other circumstances. Consequently, they are users of GPFRs, whether in their capacity as representatives of service recipients and resource providers in their electorate or constituency, or in their personal capacity as citizens and members of the community.

#### *Other User Groups*

- BC2.10 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 as the primary users of GPFRs will respond to the information needs of these subgroups of resource providers.
- BC2.11 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 would be encompassed within the groups identified as service recipients and resource providers and their representatives. Consequently they should not be identified as a separate user group. Some also expressed concern that identifying or implying that GPFRs should be developed to respond to the needs of special interest groups was contrary to the “general purpose” nature of GPFRs. The IPSASB was persuaded by these arguments.
- BC2.12 The information provided by GPFRs may also be useful for compiling national accounts, as input to statistical financial reporting models, for assessments of the impact of government policies on economic activity and 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 those that act as advisors to service recipients or resource providers such as citizen advocacy groups, bond rating agencies and credit analysts and 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.

*Note: This is a draft only. The matters considered here are the subject of ongoing IPSASB discussion.*

**The Objectives of Financial Reporting**

**Users and Objectives of General Purpose Financial Reports of Public Sector Entities**

**See covering memorandum Issue #5 (c) – Retention of BC2.13**

BC2.13 ~~The users of GPFRs of public sector entities, the objectives of financial reporting by public sector entities and the information that may be encompassed by GPFRs identified in this Framework respond to the circumstances of the public sector.~~ There are some similarities in the potential users of GPFRs of public sector entities identified in this Conceptual Framework 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 private sector business entities. There are also differences in how public sector entities and private sector business entities raise funds and 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 ~~other than GBE's 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;
- 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;
- 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 do not – they provide funds involuntarily, and cannot choose whether to “invest” those funds in the government or public sector entity. However, they can make decisions about their voting preferences, and representations to elected officials or other representative bodies – those decisions may have resource allocation consequences for certain public sector entities;
- 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

*Note: This is a draft only. The matters considered here are the subject of ongoing IPSASB discussion.*

### The Objectives of Financial Reporting

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- 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~~s of service provider.

BC2.14 Consequently, for many users of GPFRs of public sector entities, the disclosure of information for accountability purposes is as, if not more, important than the disclosure of information for decision making purposes.

BC2.15 This Conceptual Framework reflects the IPSASB's view that the discharge of accountability by a government, or other public sector entity, requires reporting information in GPFRs that will assist service recipients and resource providers to form judgments about (a) the extent to which the entity has discharged its responsibilities in safekeeping and managing the resources raised from them, or provided on their behalf, during the reporting period; and (b) the resources they are likely to be required to provide, and services they are likely to receive, in future periods as a consequence of activities and undertakings made in the current period.

BC2.16 Therefore, for both accountability and decision making purposes users of GPFRs of public sector entities will require information about financial position, financial performance, compliance, service delivery achievements and future service delivery objectives and resource needs. The IPSASB recognizes that some users of GPFRs (whether service recipients or 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.



*Note: This is a draft only. The matters considered here are the subject of ongoing IPSASB discussion.*

**The Objectives of Financial Reporting**

**Appendix 2.A**

**~~Comparison with T~~he IASB Conceptual Framework (as at XXX 2010)**

The International Accounting Standards Board (IASB) Conceptual Framework (updated XX 2010) applies to business entities in the private sector.

The IASB Conceptual Framework explains that:

- 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.
- The decisions that capital providers make include whether and how to:
  - (a) allocate resources to a particular entity, and
  - (b) protect or enhance their investments.
- Information that is decision useful to capital providers may also be useful to other users of financial reporting who are not capital providers.
- Information included in financial reports is useful for assessing an entity's ability to generate net cash inflows and for assessing the effectiveness with which management has fulfilled its responsibilities

(This is indicative of style only. It reflects recent public drafts of the equivalent Chapter of the updated IASB Conceptual Framework. It is anticipated that the final Chapter of the IASB Conceptual Framework will be issued before release of this ED. This Appendix will be updated when the final Chapter of the IASB Conceptual Framework dealing with the objective of financial reporting is issued—or, if that final Chapter is not issued, revised to reflect the position in the current IASB Conceptual Framework.)

*Note: This is a draft only. The matters considered here are the subject of ongoing IPSASB discussion.*

The Objectives of Financial Reporting

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## Appendix 2B

### **Comparison with the statistical bases of reporting of the 1993 System of National Accounts (updated in 2008) and ~~statistical bases of reporting other guidance~~ derived from it (ESA 95 and GFSM 2001)**

The primary objective of the SNA is to provide a comprehensive conceptual and accounting framework that can be used to create a macroeconomic database suitable for analyzing and evaluating the performance of an economy. The more specific uses of the SNA are identified as providing input for monitoring the behavior of the economy, macroeconomic analysis and making international comparisons.

The 2008 SNA ~~2008~~ does not identify user groups or primary users but acknowledges that data generated in accordance with its principles may be used by many parties including for example, analysts, politicians, the press, the business community and the public at large.

The objective of the system of national accounts and the likely users of the information as identified in 2008 SNA ~~2008~~ is reflected in the Government Finance Statistics Manual 2001 (GFSM 2001) and the European System of Accounts (ESA 95).

*Note: This is a draft only. The matters considered here are the subject of ongoing IPSASB discussion.*

**The Qualitative Characteristics of, and Constraints on, Information included in GPFRs**

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### **3 The Qualitative Characteristics of, and Constraints on, Information included in General Purpose Financial Reports**

- 3.1 GPFRs present financial and ~~other non-financial~~ 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.
- 3.2 The qualitative characteristics of information included in GPFRs of public sector reporting entities are relevance, faithful representation, understandability, timeliness, comparability, and verifiability.
- 3.3 Materiality, cost-benefit, and achieving an appropriate balance between the qualitative characteristics are pervasive constraints on information included in GPFRs.
- 3.4 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.
- 3.5 The qualitative characteristics apply to all ~~information reported in GPFRs, including~~ financial and non-financial information ~~reported in GPFRs, including~~, 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 non-financial~~ 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 will be considered in the development of any IPSASs and other pronouncements of the IPSASB that deal with such matters.

#### **Relevance**

- 3.6 Financial and ~~other non-financial~~ information is relevant if it is capable of making a difference in achieving the objectives of financial reporting. Financial and ~~other non-financial~~ 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.
- 3.7 Financial and ~~other non-financial~~ 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 specified service delivery objectives, and compliance with relevant budgetary, legislative, and other requirements.

*Note: This is a draft only. The matters considered here are the subject of ongoing IPSASB discussion.*

**The Qualitative Characteristics of, and Constraints on, Information included in GPFRs**

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- 3.8 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.
- 3.9 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 expectations and predictions about the entity's ability to respond to such changes. It also helps to confirm or correct prospective financial information included in previous GPFRs.

**Faithful Representation**

- 3.10 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.
- 3.11 In practice, it may not be possible to know or confirm if information presented in GPFRs is fully complete, neutral, and free from material error. However, information should be as complete, neutral, and free from material error as is possible.
- 3.12 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 representation. Similarly, prospective financial and non-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.

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**The Qualitative Characteristics of, and Constraints on, Information included in GPFRs**

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- 3.13 Neutrality in financial reporting is the absence of bias. It means that the selection and presentation of financial and ~~other~~ non-financial 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 particular behaviour.
- 3.14 Neutral information 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 characteristic and, by definition, relevant information is capable of influencing users’ assessments and decisions.
- 3.15 The economic and other phenomena represented in GPFRs generally occur 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 non-financial ~~other~~ information to faithfully represent economic and other phenomena.
- 3.16 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**

- 3.17 Understandability is the quality of information that enables users to comprehend its meaning. GPFRs of public sector entities should present information in a 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~~ non-financial 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.

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**The Qualitative Characteristics of, and Constraints on, Information included in GPFRs**

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- 3.18 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**

- 3.19 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.
- 3.20 Some items of information may continue to be useful long after the reporting period or 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**

- 3.21 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.
- 3.22 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.
- 3.23 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.
- 3.24 Information about the entity's financial position, financial performance, compliance, service delivery achievements, and its future plans is necessary for accountability purposes



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**The Qualitative Characteristics of, and Constraints on, Information included in GPFRs**

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and useful as input for decision making purposes. The usefulness of such information is enhanced if it can be compared with, for example:

- The budget of the entity for the reporting period, or prospective financial and ~~other~~ non-financial 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).

3.25 Consistent application of accounting policies to prospective financial and ~~other~~ non-financial 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**

3.26 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~~ non-financial quantitative information disclosed in GPFRs – that is, the quality of information that helps assure users that explanatory or prospective financial and ~~other~~ non-financial 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.

3.27 To be verifiable, information need not be a single point estimate. A range of possible amounts and the related probabilities also can be verified.

3.28 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 delivery 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

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**The Qualitative Characteristics of, and Constraints on, Information included in GPFRs**

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and costs) and recalculating the ending inventory using the same cost flow assumption (for example, average cost or first in-first out).

- 3.29 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 GPFRs, the more useful it is.
- 3.30 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~~ non-financial 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.
- 3.31 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 General Purpose Financial Reports**

*Materiality*

- 3.32 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 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.
- 3.33 Assessments of materiality will be made in the context of the legislative, institutional and operating environment within which the entity operates and, in respect of prospective financial and ~~other~~ non-financial 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.

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**The Qualitative Characteristics of, and Constraints on, Information included in GPFRs**

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*Cost-Benefit*

- 3.34 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.
- 3.35 The costs of providing information include the costs of collecting and processing the information, the costs of verifying it and/or presenting the assumptions and methodologies that support it, and the 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 from other sources and the costs that result from making decisions using incomplete data provided by GPFRs.
- 3.36 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.
- 3.37 Users reap the majority of benefits from the information provided by GPFRs. However, information prepared for GPFRs may also be used internally by management and result in better management decision making. Therefore, reporting entities may also benefit from the information provided by GPFRs.
- 3.38 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 the information. When making this assessment, it is necessary to consider whether one or more qualitative characteristics might be sacrificed to some degree to reduce cost.
- 3.39 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 which result in the presentation of information useful to users of GPFRs for accountability and decision making purposes and satisfy the qualitative characteristics are prescribed by IPSASs unless the cost of compliance with those requirements are assessed to be greater than their benefits.

*Balance Between the Qualitative Characteristics*

- 3.40 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.
- 3.41 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

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**The Qualitative Characteristics of, and Constraints on, Information included in GPFRs**

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to achieve an appropriate balance among the characteristics in order to meet the objectives of financial reporting.

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**The Qualitative Characteristics of, and Constraints on, Information included in GPFRs**

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### **Section 3: 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 dealing with this phase of the Conceptual Framework and from the qualitative characteristics identified in Appendix B of IPSAS 1 “Presentation of Financial Statements, and the reasons for those changes.*

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

- BC3.1 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 considered to satisfy the qualitative characteristics and ~~is not limited by the constraints on inclusion of that information~~ that are identified in this Conceptual Framework.
- BC3.2 IPSASs will not deal with all financial and ~~other non-financial~~ 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**

- BC3.3 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”.
- BC3.4 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~~B~~ is also of the view that the

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**The Qualitative Characteristics of, and Constraints on, Information included in GPFRs**

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notion of “regularity” as noted by some respondents is related to the notion of “compliance” as used in this Conceptual Framework ~~– and,~~ therefore, regularity is not identified as an additional qualitative characteristic.

**Relevance**

- BC3.5 The Conceptual Framework explains that financial and ~~other non-financial~~ 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 ~~are~~ relevant to the achievement of the objectives of financial reporting – that is, ~~are~~ relevant to the discharge of the entity’s obligation to be accountable and to decisions that users may make.
- BC3.6 Appendix B of IPSAS 1 “*Presentation of Financial Statements*” explains that information is relevant if it can be used to assist in evaluating past, present or future events or in confirming, or correcting, past evaluations. IPSAS 1 also notes that to be relevant, information must be timely.
- BC3.7 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.

**Faithful Representation**

- BC3.8 The Conceptual Framework explains that to be useful information must be a faithful representation of the economic and other phenomena that it purports to represent. 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 and cost 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. As appropriate, individual IPSASs will provide guidance on representations of particular economic and other phenomena that are complete.
- BC3.9 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



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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 phenomenon 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.

**See covering memorandum Issue #6**

**Potential amendments to paragraph BC3.9**

BC3.39 “Completeness and neutrality of estimates (and inputs to those estimates) and freedom from material error 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 phenomenon 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. Where necessary, IPSASs will establish minimum thresholds of completeness, neutrality and freedom from material error that are to be satisfied by information that qualifies for inclusion in GPFRs.”

*Faithful Representation or Reliability*

- BC3.10 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 same concept. In addition, it does not explicitly identify substance over form and prudence as components of faithful representation.
- BC3.11 Some respondents to CP#1 did not support the replacement of reliability with the term faithful representation noting that their experience was that reliability is widely used and well understood in the public sector. Some have also expressed the view that reliability is a more accurate reflection of the substance of this qualitative characteristic than is faithful representation, particularly as it applies to qualitative and prospective information included in GPFRs. However, some of these respondents also noted that in the interests of alignment with IASB terminology, faithful representation should be adopted.

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BC3.12 The IPSASB has also been advised that:

- In some jurisdictions, reliability is sometimes interpreted to mean “verifiable” or “free from error” ~~or “complete” or “neutral” 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;
- Difficulties in interpretation and application of “reliability” may be overcome by using the term “faithful representation” and re-expressing its role and components; and
- Faithful representation is less dependent 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.

BC3.13 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.

*Substance over Form and Prudence*

BC3.14 Some respondents to CP#1 expressed concern that substance over form and prudence are not 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.

BC3.15 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.

BC3.16 IPSAS 1 Appendix B explains that prudence refers to the exercise of caution in making estimates under conditions of uncertainty, such that assets or revenue are not overstated and liabilities or expenses are not understated. However, it does not allow for the deliberate understatement or overstatement of assets, liabilities, revenues, or expenses.

BC3.17 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 as a component of faithful representation, and the acknowledgement of the need to exercise caution in dealing with uncertainty. Therefore, like substance over form, prudence is not identified as a separate qualitative characteristic because its intent and influence in identifying information that is included in GPFRs is already embedded in the notion of faithful representation.

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**The Qualitative Characteristics of, and Constraints on, Information included in GPFRs**

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### **Understandability**

- BC3.18 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.
- BC3.19 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.
- BC3.20 The qualitative characteristic of understandability in this Conceptual Framework possesses similar characteristics to those identified in IPSAS 1 Appendix B. However, certain aspects of understandability 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 in some circumstances, users may need to seek assistance to understand complex economic and other phenomena presented in GPFRs.

### **Timeliness**

- BC3.21 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.
- BC3.22 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**

- BC3.23 IPSAS 1 Appendix B identifies comparability as a qualitative characteristic. 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

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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 more comprehensive scope of financial reporting.

- BC3.24 Some degree of comparability may be attained by maximizing the qualitative characteristics of relevance and faithful representation. For example, 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 sector 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**

- BC3.25 CP#1 explains that verifiability encompasses, and in some cases may be described as, supportability when applied to qualitative and prospective information disclosed in GPFRs. However, whether referred to as verifiability or supportability, the characteristic is substantially the same.
- BC3.26 Some respondents to CP#1 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 separate qualitative characteristics with essentially the same features may be confusing to preparers and users of GPFRs and others. However, the Conceptual Framework does acknowledge that supportability is sometimes used to refer to the quality of information that helps assure users that explanatory information non-financial and prospective financial and non-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-explanatory and prospective financial and other non-financial information is central to the achievement of faithful representation.
- BC3.27 In addition, 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.

**Classification of the Characteristics and Order of their Application**

- BC3.28 Some respondents to CP#1 expressed the view that the IPSASB's Conceptual Framework should identify:
- Relevance and faithful representation as fundamental qualitative characteristics, and explain the order of their application; and

*Note: This is a draft only. The matters considered here are the subject of ongoing IPSASB discussion.*

**The Qualitative Characteristics of, and Constraints on, Information included in GPFRs**

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- Comparability, verifiability, timeliness, and understandability as enhancing qualitative characteristics.

They note that this would provide useful guidance on the sequence of application of the qualitative characteristics and reflect the approach adopted by the IASB.

BC3.29 In developing the qualitative characteristics the IPSASB considered whether some characteristics should be identified as fundamental and others identified as enhancing. The IPSASB also considered whether the order of application of the characteristics should be identified and/or explained. The IPSASB is of the view that such an approach should not be adopted because, for example:

- Matters identified as “fundamental” may be 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, or to specify the sequence of their application, no matter what information is being considered for inclusion in GPFRs, and irrespective of 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 and decision making purposes could be considered as relevant information – therefore, these characteristics are themselves fundamental to the achievement of the objectives of financial reporting; and
- GPFRs of public sector entities may encompass historic and prospective information about financial performance and the achievement of service delivery objectives over a number of reporting periods. This provides necessary input to assessments of trends in service delivery activities and resources committed thereto – for such trend data in these cases, reporting on a consistent basis may be as important as, and cannot be separated from, faithful representation of the information.

**Constraints on Information Included in General Purpose Financial Reports**

*Materiality*

BC3.30 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

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**The Qualitative Characteristics of, and Constraints on, Information included in GPFRs**

items and IPSAS 3, “Accounting Policies, Changes in Estimates and Errors” explains that the accounting policies set out in IPSASs need not be applied when their effect is immaterial. ~~(See IPSAS 3, paragraph 10.)~~

~~BC3.30~~BC3.31 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 by providing guidance on matters to be considered by public sector entities in assessing the materiality of particular items.

~~BC3.31~~BC3.32 The IPSASB considered whether materiality should be identified as an entity-specific aspect of relevance rather than a constraint to be considered in setting financial reporting standards. However, the IPSASB is of the view that materiality relates to, and can impact, a number of the qualitative characteristics of information included in GPFRs, and is therefore better reflected as a broad constraint. 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 of financial and ~~other~~ non-financial information presented in GPFRs.

~~BC3.32 Some respondents to CP#1 also expressed the view that relevance and materiality should be distinguished more clearly. The Conceptual Framework explains that materiality is determined in the particular circumstances of each entity. Therefore, materiality differs from relevance – relevance is a general quality of information included in GPFRs but materiality is assessed in the context of the circumstances of individual entities.~~

BC3.33 Some respondents to CP#1 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. 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, and the IPSASB has not identified it as such in 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)~~



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**The Qualitative Characteristics of, and Constraints on, Information included in GPFRs**

~~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*

BC3.34 IPSAS 1 Appendix B identifies the balance between cost and benefit as a pervasive constraint and explains that the evaluation of benefits and costs is substantially a matter of judgment. This Conceptual Framework also identifies consideration of costs and benefits as a pervasive constraint that standards-setters, as well as preparers and users of financial reports, should be aware of and should consider in determining whether to provide a new item of information in GPFRs.

BC3.35 Some respondents expressed concern that CP#1 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 recognition, measurement, presentation, and disclosure in GPFRs are specified in IPSASs. Disclosure and other requirements are prescribed by IPSASs only when the benefits of compliance with them are assessed to be greater than their costs.

BC3.36 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 a useful principle to be applied when considering differential reporting issues. The IPSASB has considered these matters and determined that the Conceptual Framework will not deal with issues related to differential reporting.

**See covering memorandum Issue #8 –  
Potential additional paragraph BC3.37**

BC 3.37 In some cases, it may not be possible for the IPSASB to identify and/or quantify all benefits that are likely flow from the inclusion of a particular requirement in an IPSAS. In other cases, the IPSASB may be of the view that the benefits of a particular requirement may be marginal for users of GPFRs of some reporting entities. In applying the cost-benefit test to determine whether particular requirements should be included in an IPSAS in these circumstances, the IPSASB's deliberations may also include consideration of whether imposing such requirements on reporting entities are likely to involve undue cost and effort.

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**The Qualitative Characteristics of, and Constraints on, Information included in GPFRs**

### Appendix 3A

#### ~~Comparison with~~ The IASB Conceptual Framework (as at XXX 2010)

The International Accounting Standards Board (IASB) Conceptual Framework (updated XX 2010) applies to business entities in the private sector. It 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;
- cost as a pervasive constraint that limits the information provided by financial reporting; and
- materiality as an entity-specific aspect of relevance.

*(This is indicative of style only. It reflects recent public drafts of the Qualitative Characteristics Chapter of the proposed updated IASB Conceptual Framework. It is anticipated that the final Chapter of this component of the IASB Conceptual Framework will be issued before release of this ED. This Appendix will be updated if the final Chapter of the IASB Conceptual Framework is issued or, if that final Chapter is not issued, revised to reflect the position in the current IASB Conceptual Framework.)*

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**The Qualitative Characteristics of, and Constraints on, Information included in GPFRs**

## Appendix 3B

### **Comparison with the statistical bases of reporting of the 1993 System of National Accounts (updated in 2008) and statistical bases of reporting other guidance derived from it (ESA 95 and GFSM 2001)**

The 2008 System of National Accounts 2008 (SNA 2008) ~~does not~~ identifies the qualitative characteristics that source data included in the national accounts are to possess as part of the accounting rules imbedded in the system ~~are to possess~~. Source data may be adjusted to be brought into line with SNA compilation principles.

Some data included in the SNA is drawn from data in GPFRs, or prepared for inclusion in GPFRs which comply with IFRSs, IPSASs or national accounting standards. ~~and~~ Such data will therefore also satisfy the qualitative characteristics specified by those accounting standards, and/or related Conceptual Frameworks.

The qualitative characteristics of statistical data are further elaborated in the Special Data Dissemination Standard (SDDS) and the General Data Dissemination System (GDDS) of the International Monetary Fund. These documents identify minimum requirements with which the data and data reporters should comply. The “quality” of these statistics are measured and confirmed in Reports on the Observance of Standards and Codes (ROSC). They are assessed against a Data Quality Assessment Framework (DQAF) which provides a structure for assessing existing practices against best practices. The IMF DQAF is drawn from the United Nations code of “Fundamental Principles of Official Statistics” which identify qualitative requirements for all “official” statistics.

The IMF DQAF identifies a set of prerequisites and five dimensions of data quality. The dimensions of data quality comprise: assurances of integrity, methodological soundness, accuracy and reliability, serviceability, and accessibility. Each quality dimension identifies 3 – 5 elements of good practice with indicators relevant for specific data sets.

Consistent with 2008 SNA 2008, the Government Finance Statistics Manual 2001 (GFSM 2001) and the European System of Accounts (ESA 95) ~~do not~~ identify particular ~~the~~ qualitative characteristics and constraints of information- ~~embedded included~~ in the statistical bases of financial reporting prepared in accordance with their requirements. The “Fundamental Principles of Official Statistics,” SDDS and GDDS also apply to these data sets.

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**The Reporting Entity and Group Reporting Entity**

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## **4 The Reporting Entity and Group Reporting**

- 4.1 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.
- 4.2 GPFRs are prepared to report information useful to users for accountability and decision making purposes. Service recipients and their representatives and resource providers and their representatives 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.
- 4.3 For accountability and decision making purposes, service recipients and resource providers will often require information about the group of separate entities that make up 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 dependent on GPFRs prepared in respect of the group for the information they need for accountability and decision making purposes.
- 4.4 The factors that are likely to signal the existence of users of GPFRs of a government or other public sector organization, program or identifiable 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.
- 4.5 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 authority to transact and enter contracts in its own right. However, public sector organizations, programs and activities without a separate legal identity may also raise or deploy public monies, acquire or manage public assets, incur liabilities, undertake activities to achieve service delivery objectives or otherwise implement government policy. 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.
- 4.6 In most cases, legislation, regulation or other authority will require a public sector organization, program, or identifiable activity to prepare GPFRs. In some 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.

*Note: This is a draft only. The matters considered here are the subject of ongoing IPSASB discussion.*

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**The Reporting Entity and Group Reporting Entity**

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**The Group Reporting Entity**

- 4.7 A government frequently has the authority and capacity 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 entities whose activities it has the authority and capacity to direct. Other public sector reporting entities, including government departments, agencies or programs may also have the authority and capacity to direct the activities of other entities and to benefit and/or be exposed to a financial burden or loss as a result.
- 4.8 The benefits derived by the government (or other public sector entity) from the entities whose activities it has the authority and capacity to direct may be financial, such as a dividend or other distribution of the surplus of a GBE or a reduction in the loss or financial burden that it would otherwise have been exposed to. 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, or to assume the provision of services that the entity would otherwise provide.
- 4.9 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 authority and capacity 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.
- 4.10 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 non-financial~~ information as required by IPSASs.

*The Authority and Capacity to Direct the Activities of Another Entity*

- 4.11 A government (or other public sector entity) may possess the authority and capacity to direct the activities of another entity even though it chooses not to exercise that authority. In many cases, it will be clear when a government (or other public sector entity) has the authority and capacity 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

*Note: This is a draft only. The matters considered here are the subject of ongoing IPSASB discussion.*

**The Reporting Entity and Group Reporting Entity**

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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 authority and capacity does not exist – for example the government (or other public sector entity) will not possess that authority and capacity if it requires changes in legislation, establishment of new (or renegotiation of existing) contracts and agreements or changes in ownership rights for that authority and capacity to be effective.

- 4.12 However in other cases, the exercise of professional judgment may be necessary in determining whether such authority and capacity exists.

**See covering memorandum Issue #11(b)**

**Proposal for relocation of paragraph BC4.15 to become paragraph 4.13**

- 4.13 In some cases, a public sector entity may have the authority and capacity to direct the activities of another entity in the capacity of a trustee or agent, but cannot exercise that authority and capacity 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 comprises the public sector entity and these other entities will not achieve the objectives of financial reporting

*Jurisdictional Differences*

- 4.13 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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**The Reporting Entity and Group Reporting Entity**

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## **Section 4: 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. 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 [dealing with this phase of the Conceptual Framework](#) and the reasons for those changes.*

### **Which Entities and Activities are Reporting Entities**

- BC4.1 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.
- BC4.2 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.

#### *Separate Legal Identity*

- BC4.3 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 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, programs or other identifiable activities, they may be identified as a public sector reporting entity.

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**The Reporting Entity and Group Reporting Entity**

- BC4.4 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.
- BC4.5 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. The IPSASB assumes 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.

**See covering memorandum Issue #11(a) –**

**Proposal to delete the final sentence of BC4.5.**

**The Group Reporting Entity**

- BC4.6 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 entity. The glossary of definitions to IPSASs explains that “administrative entity”, “financial entity”, “financial reporting entity”, “consolidated entity” and “group” are also used to refer to a group of entities comprising the controlling entity and controlled entities.
- BC4.7 CP#1 explained that groups of public sector organizations or programs that prepare GPFRs to present information as if they are 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.
- BC4.8 The IPSASB is aware that different interpretations of the meaning of the term “economic” are possible and this may have consequences for what is considered to be its use to identify a public sector reporting entity or group reporting entity. It is also aware

*Note: This is a draft only. The matters considered here are the subject of ongoing IPSASB discussion.*

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**The Reporting Entity and Group Reporting Entity**

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that the term “economic entity” may be (and, on occasion, 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.

*Determining the Group Reporting Entity*

- BC4.9 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 considered included those described as the “majority of risks and rewards basis”, “common control basis”, “operations covered by a public budget”, and “operations with a similar function or purpose”.
- BC4.10 Many of these bases have common features and, in some cases, GPFs 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.
- BC4.11 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, including those 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.

*The Authority and Capacity to Direct the Activities of Other Entities*

- BC4.12 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.
- BC4.13 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

*Note: This is a draft only. The matters considered here are the subject of ongoing IPSASB discussion.*

**The Reporting Entity and Group Reporting Entity**

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*

BC4.14 This Conceptual Framework reflects the view that, to satisfy the objectives of financial reporting, GPFRs of a group reporting entity should present financial and ~~other non-financial~~ information as specified in IPSASs about the government (or other public sector entity) and the entities whose activities it has the authority and capacity to direct, when the results of such direction can generate financial or other benefits for the government (or other public sector entity) or expose it to a financial burden or loss.

BC4.15 ~~For inclusion in a group reporting entity it is necessary that both the authority and capacity 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 authority and capacity 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 authority and capacity and benefit or financial loss/burden conditions are present.~~ Authoritative and other guidance on the circumstances that may give rise to the authority and capacity to direct the activities of another entity will be included in IPSASs that deal with the preparation of GPFRs for a group reporting entity.

**See covering memorandum Issue #11(b)**

**Proposal to combine paragraph BC4.14 and BC4.15 as identified in mark-up above.  
Paragraph BC4.14 would then read as follows:**

BC4.14 This Conceptual Framework reflects the view that, to satisfy the objectives of financial reporting, GPFRs of a group reporting entity should present financial and non-financial information as specified in IPSASs about the government (or other public sector entity) and the entities whose activities it has the authority and capacity to direct, when the results of such direction can generate financial or other benefits for the government (or other public sector entity) or expose it to a financial burden or loss. Authoritative and other guidance on the circumstances that may give rise to the authority and capacity to direct the activities of another entity will be included in IPSASs that deal with the preparation of GPFRs for a group reporting entity.

BC4.16 In some cases, a public sector entity may have the authority and capacity to direct the activities of another entity in the capacity of a trustee or agent, but cannot exercise that authority and capacity 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

*Note: This is a draft only. The matters considered here are the subject of ongoing IPSASB discussion.*

**The Reporting Entity and Group Reporting Entity**

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

**See covering memorandum Issue#11(b)**

**Proposal to relocate paragraph BC4.16 to follow paragraph 4.12.**

*Application of the Principles in Particular Circumstances*

BC4.17 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.

BC4.18 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 of an entity 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.

BC4.19 The IPSASB found these concerns persuasive. ~~While the IPSASB remains of the view that the existence of statutory or constitutional authority to be professionally independent does not, of itself, preclude an entity from being included within the whole of government (or public sector) group reporting entity~~ It 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.

*Note: This is a draft only. The matters considered here are the subject of ongoing IPSASB discussion.*

**The Reporting Entity and Group Reporting Entity**

**See covering memorandum Issue#11(c) –**

**Proposal to delete highlighted phrase in paragraph BC4.19.**

BC4.20 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*

BC4.21 In centralized or planned economies, governments may have the authority and capacity to direct the financial and other activities of a wide range of entities, and to instruct those 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 the economic activity undertaken within that jurisdiction by non-government business entities as well as by government departments and other public sector entities, including other levels of government.

BC4.22 In some market economies, national governments may have the authority and capacity 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.

BC4.23 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.



*Note: This is a draft only. The matters considered here are the subject of ongoing IPSASB discussion.*

**The Reporting Entity and Group Reporting Entity**

**Appendix 4.B**

**~~Comparison with The~~ IASB Conceptual Framework (as at XXX 2010)**

The International Accounting Standards Board (IASB) Conceptual Framework (adopted by the IASB in 2001) explains: “A reporting entity is an entity for which there are users who rely on the financial statements as their major source of financial information about the entity”.

(Staff note: The IASB issued Exposure Draft, “Conceptual Framework for Financial Reporting: The Reporting Entity” in March 2010 but has not yet approved the final Chapter of the IASB Conceptual Framework dealing with the reporting entity. Staff do not anticipate that a final updated Chapter dealing with the reporting entity will be issued by the time of issue of this exposure draft. This Appendix will be updated if a final Chapter of the IASB Conceptual Framework dealing with the reporting entity is issued prior to release of this ED.)

*Note: This is a draft only. The matters considered here are the subject of ongoing IPSASB discussion.*

The Reporting Entity and Group Reporting Entity

## Appendix 4.B

### **Comparison with The statistical bases of reporting of the 1993 System of National Accounts (updated in 2008) and other guidance derived from it (ESA 95 and GFSM 2001)**

The focus of the 2008 System of National Accounts (2008 SNA) is on institutional units which are 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.

An institutional unit is an economic entity that is capable, in its own right, of owning assets, incurring liabilities and engaging in economic activities and in transactions with other entities.

A similar~~This~~ focus on institutional units and sectors 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.

As a rule the entries in the SNA are not consolidated. However, there is a summation of entries of all resident institutional units belonging to a sector, and for the economic territory (referred to as economy-wide aggregates).

The GFSM 2001 requires that data presented for a group of units be consolidated so that flows and positions of entities within such a grouping are eliminated and the data are presented as flows and positions with the remainder of the economy.

**EXPOSURE DRAFT - PHASE 1 CONCEPTS**  
**COMMENTS ON DRAFT ED OF PHASE 1 CONCEPTS - CIRCULATED ON 1 SEPTEMBER 2010 TO:**  
**IPSASB MEMBERS, TAS AND OBSERVERS AND MEMBERS OF THE STANDARDS SETTERS ADVISORY PANEL**

<b>Respondent #</b>	<b>Board Members, TAs and Observers - Respondent Name</b>
1	S. Berger
2	J. Verrinder
3	J. Scott
4	K. Izawa
5	M. Abilleira
6	E. Swart
7	J. Karia
8	S. De Clerck
9	R. Dacey

<b>Response #</b>	<b>Standards Setters Advisory Panel</b>
10	R. Cottrell
11	Wendy Payne

Para# in agenda paper 2A.2	RESPONDENT NAME	COMMENTS	STAFF VIEW – PROPOSED RESPONSE
		<b>General Comments</b>	
General	3. J. Scott	consistency en hashes and hyphens throughout	Will have editorial staff ensure consistency.
General	3. J. Scott	whole of government – sometimes with dashes, sometimes not	Staff has amended for consistency.
General	3. J. Scott	decision-making or decision making – both used, mainly without the hyphen. Depends on your policy on compound adjectives	Staff has amended for consistency.
General	3. J. Scott	dependent/dependant	Staff has amended for consistency.
General	6. E. Swart	Terminology should be used consistently wherever possible. Some examples include: <ul style="list-style-type: none"> <li>“the Framework” vs “the Conceptual Framework”.</li> <li>“public sector organization” vs “public sector entity”.</li> </ul>	Staff has amended to align terminology.
General	6. Swart	Throughout the various papers, reference is made to “financial” and “non-financial” information; and “quantitative” and “qualitative” information. It is unclear what is meant by “non-financial” information in the context of “general purpose <u>financial</u> reports”. Is it the intention that “non-financial” means the same as “qualitative”? If it is, then using a term such as “qualitative” is better than using “non-financial”.	Staff has amended for consistency and to clarify that use of qualitative information (to distinguish it from quantitative information) and make clear it may encompass financial and non-financial information. See also related broad issue raised at paragraph 1.5 below. Issue raised in covering memorandum for discussion at forthcoming IPSASB meeting
General	6. E. Swart	Reference is often made to “government or another public sector entity” in the papers. Suggest amending this to “government or public sector entity” as using “another” seems to indicate that “government” is an entity, which may not be the case in many jurisdictions.	No change proposed by staff  Phrasing such as a "government or public sector entity" might quite validly prompt some to ask whether this means that the government is not a public sector entity for financial reporting purposes and if governments fit within the Framework which is described as the Conceptual Framework for Financial Reporting by Public Sector Entities.

Para# in agenda paper 2A.2	RESPONDENT NAME	COMMENTS	STAFF VIEW – PROPOSED RESPONSE
		<b>Introduction and Specific Matters for Comment</b>	
Page 2/5	6, E. Swart	6 <sup>th</sup> paragraph – add full stop at the end of the last sentence in the paragraph.	Have amended.
SMC (b)	3. J. Scott	(b) I would prefer not to say that the framework is of less authority than an IPSAS. Technically it is correct but I think it downplays the importance of the CF. Could we just delete that clause? (a) already says that the CF doesn't override a standard.	Have amended - agree not necessary for this SMC.
SMC (b)	5.M.Abilleira	I believe the issue is not about authority, but that it is different from an IPSAS. Therefore I would make no reference to the degree of authority.	Staff has amended
SMC (d)	5.M.Abilleira	I think this is better: “Establish appropriate principles for application in preparing the financial reports upon which they must rely”	Staff has deleted the final phrase which gives rise to this concern.
SMC (e)	3. J. Scott	mentions service recipients and resource providers. The order in which these two groups are mentioned through the document varies. My preference is to discuss resource providers first. –	IPSASB decision was that primary users are: recipients of services and their representatives and resource providers and their representatives, in that sequence. Have changed order in paras BC 2.6 and BC 2.16 to ensure consistent sequence throughout document.
SMC (f) Also arises in other text.	3. J. Scott	Objectives of financial reporting by public sector entities are to provide information that is useful for accountability <del>purposes</del> and <del>useful</del> for decision making purposes; –	Staff do not propose an amendment at this stage but will raise the issue for discussion at IPSASB meeting. See comment on this matter at paragraph 2.1 below.
SMC (k)	6. E. Swart	“.. should be used in the conceptual framework to describe the qualitative characteristics that is” should be “are”.	Staff has amended to the singular “characteristic”
SMC (l)	6.E. Swart	(l) delete “and” at the end of the sentence.	Staff has amended.
SMC (o)	5.M.Abilleira	I would suggest joining (o) and (p) as follows: “Conceptual Framework should not limit a public sector reporting entity to an organization that has a separate legal identity, but may also be an organizational structure, administrative arrangement, program or identifiable activity without a legal identity that prepares a general	Staff has combined with a refinement – staff is of view it is useful to draw responses to each of the two major components, but takes the advice regarding translation issues.

Para# in agenda paper 2A.2	RESPONDENT NAME	COMMENTS	STAFF VIEW – PROPOSED RESPONSE
		purpose financial report;” because there is a partial conceptual repetition I find quite confusing for those who have to translate this into another language.	
SMC (q)	5.M.Abilleira	What exactly is meant by “direct” here? There are entities in Latin America that have functional but not financial independence. Does this mean that they have to report by themselves or together with the entity that finances them? What happens with those entities that are wholly financed by the National Government, their authorities are appointed by the National Government, but are completely autonomous regarding technical and financial decisions?	Staff has further developed the SMC – see also below
SMC (q)	6.E. Swart	(q) consider adding words like “financial and operating policies” in relation to “direct”.	Staff has amended to include a fuller explanation
Additional SMC	7. J. Karia	Consider adding a definition for ‘public sector entities’. If that definition is the one mentioned in Para. 1.8 of 2A.2, consider making an early reference to that definition in the ED.	Staff has included an additional SMC to this end. Also note comment re paragraph 1.8. explanation
Additional SMC	7. J. Karia	Consider adding a definition for international governmental organizations, similar to that in the middle of page 8 of Memo. Consider making an early reference to that definition in the ED	Staff has included a SMC to this end.
		<b>The Conceptual Framework - Paras 1.1- BC 1.11 and Appendices</b>	
1.1	3. J. Scott	1.1 GBEs – no apostrophe – as per Handbook	Staff has amended
1.1 and BC1.11 – Re GBEs	11.W. Payne	While I agree that GBEs should apply private sector standards, I am concerned about explicitly excluding GBEs from the conceptual framework. GBE’s are governmental and seem relevant to the government as a whole and to resource providers who may face future risks. So, ultimately – the conceptual framework needs to be used to explain why GBEs are (1) permitted to apply private sector standards and (2) included or excluded in whole of government GPFR. In the final analysis, the governmental accounting standards-setter ought to be able to say	No change proposed by staff at this stage.  The IPSASB has recently agreed the current position and explanation in the draft ED after much deliberation.  Staff agree with the view that ultimately the Framework should provide an explanation/justification of this matter. In developing CP# and this ED, the IPSASB considered the current positioning of GBE’s re IPSASs and agreed that it would be appropriate to revisit and



Para# in agenda paper 2A.2	RESPONDENT NAME	COMMENTS	STAFF VIEW – PROPOSED RESPONSE
		that, on the whole, governmental objectives are best met by presentation of GBE information that is comparable to private sector information.	discuss more fully the issue of GBE's before "locking-in" a proposed positions in the Framework.
1.1 and BC1.11 – Re GBEs	11. W. Payne	If GBE's are to be excluded from or included in whole of government reports – the IPSAS ought to point to something in the entity concept that supports that decision and the decision as to whether GBE information should or should not be restated to IPSAS basis if consolidated. The current IPSAS preamble presents the conceptual arguments for excluding GBEs – is this simply an issue of placement (preamble or conceptual framework)?	No change proposed by staff at this stage.  Staff is of the view that paragraph 4.11 clarifies that GBE's are included in whole of government reports when the criteria are satisfied. Paragraph BC 4.20 explains that requirements related to the preparation of financial statements will be dealt with at the standards level.
1.2	3. J. Scott	1.2 and throughout document – "standards-setters". I prefer standard-setters.  Edit delete "and"	Staff has confirmed that policy is that "standards-setters" is term used/to be used generally in IPSASs. No change proposed by staff unless change in general policy. Staff has deleted "and".
1.3	3. J. Scott	...After the Conceptual Framework is issued, the IPSASB will review extant IPSASs <del>and identify</del> and, through application of the due process, <u>identify</u> and address any circumstances where there is substantial conflict between the IPSAS and the Conceptual Framework.	No change proposed by staff.  Staff is of view this wording reflects IPSASB intent – that is, IPSASB will itself identify what it considers substantive difference and then test that through due process.
1.5	6. E. Swart	Paragraph 1.4 refers to financial and non financial information. For me the expansion from financial statements to financial reporting is logical, because we are still talking about financial information. Even service delivery objectives are financial when measuring the output. It becomes non-financial when we look at outcomes. This is pervasive throughout the document. Many IPSAS disclosure requirements are narrative, rather than quantitative. This does not make it non-financial, for example key assumptions.  An example: The objective would be to provide access to schools within 5 kilometers from every village. The output would be that we have built a 100 schools and have achieved this objective in 95% of the cases. The outcome would be that school literacy improved by 10%. The output is financial information, but the outcome is not. Accordingly, we do not agree with paragraph	Staff do not propose a change at this stage but will raise for discussion at forthcoming meeting.  Staff is of view that differing views about demarcation between financial and non-financial information may be held by IPSASB members and constituents– comments on flow chart of Framework tend to confirm this.  Staff is of the view that the IPSASB's intention in referring to non-financial information was as an "enabling" mechanism – that is to allow the IPSASB to develop IPSASs on matters that might be considered "non-financial" in some jurisdictions.  Staff has followed up with respondent to better understand the concern. As a consequence staff has refined the references to financial and non-financial in

Para# in agenda paper 2A.2	RESPONDENT NAME	COMMENTS	STAFF VIEW – PROPOSED RESPONSE
		BC1.7 that achievement of service delivery objectives are non-financial.	the SMC's and other paragraphs in a bid to ensure that the draft is not implicitly developing a definition of non financial by virtue of its association with service delivery or narrative reporting.
Para 1.6 – the 5 <sup>th</sup> line	4. K. Izawa	Please clarify whether it is better to state “forms of presentation and <u>disclosure</u> that might be adopted for information included within GPFRs” rather than “ <u>communication</u> ”.	No change proposed by staff at this stage. Will raise at forthcoming meeting but staff of view Board intended to use communication to reflect that this might be broader than disclosure. That is, it would encompass the type of reports that might be used (whether notes or separate reports), the timing of issue of those reports (annual, or , more or less frequently) and the style of the report – as well as what is disclosed in them.
1.7 - 4 <sup>th</sup> line	4. K. Izawa	I recommend that “IPSASs or <u>other</u> guidance” is replaced by “IPSASs or <u>non-authoritative</u> guidance” in order that the readers don't misunderstand that IPSASs are one kind of guidance.	Staff has amended. This reflects approach Board agreed is to be adopted for similar phrases /uses throughout the document. Staff will check to ensure consistency of usage throughout ED.
1.8	7. J. Karia	Definition might be perceived as circular in the second sentence: These (public sector entities) include.....public sector social security.....and international governmental organizations that are public sector. While defining public sector entities, the ‘public sector’ term was used twice in the definition.	Staff agree circularity issue if in a definition. However, Staff propose no change at this stage. This is because reference in this paragraph is in the nature of a non-exhaustive explanation rather than a definition. Staff has included a SMC on whether a definition of public sector entities needs to be developed.
BC1.1	6. E. Swart	Last sentence should be amended as follows: “IPSASs <del>and</del> are...”	Staff has amended.
BC 1.3	3. J. Scott	Again, I would prefer to replace the words "has lesser authority" with something else. My suggestions are "does not have the same status" or "does not override the requirements of existing IPSASs". The latter would be consistent with what you have said in the specific matters for comment (a).	No change proposed by staff at this stage. This form of wording was agreed by the IPSASB in developing CP#1 and has been reviewed by the Board at a number of meetings without adverse comment. Staff is of the view that it reflects the Board's intent that the ED provide a clear message to constituents regarding its view on the authority of the Framework.

Para# in agenda paper 2A.2	RESPONDENT NAME	COMMENTS	STAFF VIEW – PROPOSED RESPONSE
BC 1.3	3. J. Scott	BC1.3 is a little confusing as IPSAS 3 currently refers to the IASB Framework. Should we say that IPSAS 3 will be updated to say ... " An entity preparing financial statements in accordance with IPSASs is required to consider the CF when ..."-\\	Staff has amended - agree that reference to Framework in IPSAS 3 needs to be revised.
BC 1.3	6. E. Swart	This paragraph notes that IPSAS 3 describes when the conceptual framework has authority. Currently, IPSAS 3 does not make any reference to the IPSASB Framework. Likewise, other IPSASs will need to be amended as a result of the issuing of a Framework (e.g. The characteristics used to formulate accounting policies will need to amended based on the framework).	Staff has amended.
BC 1.3general issue	6. E. Swart	It is customary to include the consequential amendments as an appendix to the Exposure Draft. How will the consequential amendments be dealt with for the Framework?	No change proposed by staff at this stage.  The IPSASB has explained at paragraph BC1.2 that after the Framework has been issued it will review IPSASs on issue and initiate due process where amendments are considered necessary. Staff is of the view that this is an appropriate mechanism for dealing with consequential amendments - particularly given the decision to issue EDs of components of the Framework.
BC1.4	6. E. Swart	Alternative wording: After first sentence add: "The IPSASs are not designed to meet those users' information needs." The IPSASB is <u>however</u> aware...	Staff has amended.
<u>BC1.4</u>	11 W. Payne	This paragraph acknowledges the application of IPSAS to some special purpose reports. Can a stronger assertion be made? For example, where special reports are used to provide the same information presented in GPFR but in greater detail IPSAS ought to be applied. Another option is to assert that it is good practice to draw information for special reports from the same systems that support GPFS - that is, a single source of data for financial information.	No change proposed by staff, but will raise for consideration at the forthcoming meeting. Staff is of the view that the Framework should remain focused on GPFRs and the IPSASB's acknowledgement that IPSASs may be used for special purpose reports is appropriate. Staff is of the view that without knowledge of the purpose or users of special purpose reports, it is not appropriate to be more authoritative about the application of IPSASs to such reports.
<u>BC1.5 – 1.9</u>	11. W. Payne	This section allows for evolution through IPSASB's response to user needs and through non-authoritative guidance. But, does it	Paragraph BC3.2 notes that IPSASs will not deal with all information included in GPFRs. However staff agree

Para# in agenda paper 2A.2	RESPONDENT NAME	COMMENTS	STAFF VIEW – PROPOSED RESPONSE
		<p>allow for experimentation by preparers?</p> <p>BC1.9 may be read to require IPSASB decisions to extend the scope. It may be helpful to say something about current practice – that some GPFR already present non-financial performance information and/or prospective information. Further, perhaps something can be said to encourage expansion. Is the content of GPFR limited by IPSAS?</p>	<p>that this point could also be made earlier in the document. Staff has amended paragraph BC 1.7 to included an acknowledgement that financial reports of public sector entities in many jurisdictions currently include information about service delivery achievements and prospective financial and other information that is not required by IPSASs. This is intended to capture the notion that practice may develop beyond IPSAS and experimentation is not precluded by the Framework.</p>
Appendix 1.A and 1.B	3.J. Scott	<p>at present this is a summary rather than a comparison. Some of the items listed are not differences.</p> <p>Third bullet "financial statements".</p>	<p>Staff agree this is an overview/comparison of major points – some of which are not different. Staff do not propose an amendment at this stage but will raise the issue for discussion at IPSASB meeting – including whether the title of the appendix is appropriate.</p> <p>Staff is of the view that since this is not a convergence project these appendices have a different function than the IASB comparison in the individual IPSASs. That is, where the IFRS is taken as a base and modified, differences are “controlled”, focused and can easily be identified. – that is not the case in this document where differences are extensive.</p> <p>Staff has amended</p>
Appendix 1B:	6. E. Swart	Third bullet more appropriate for the “elements” paper?	<p>Staff do not propose an amendment at this stage.</p> <p>Staff acknowledge this is probably true, but are of the view that given the separate issue of this ED it is useful to reflect the current focus of the IASB Framework.</p>
Appendix 1B	6.E. Swart	Paper 2A.2 Appendix 1B - The comparison with the SNA is useful. Its usefulness would however be increased if, as with the comparisons in the other IPSAS, the requirements of the SNA and the Framework are contrasted rather than indicating the requirements of the SNA. (pervasive throughout these appendices).	<p>Staff do not propose an amendment at this stage but will raise the role/nature of appendices for discussion at the forthcoming IPSASB meeting.</p> <p>IPSASB Observers from EU (ECB) and IMF (statistical division) are reviewing all appendices and have been requested to provide input to this end. However, the SNA is an extensive, detailed document and staff do not</p>

Para# in agenda paper 2A.2	RESPONDENT NAME	COMMENTS	STAFF VIEW – PROPOSED RESPONSE
			underestimate the difficulty of striking an appropriate balance in this matter.
Appendix 1B	2. J. Verrinder	Proposed amendments – see attached	Staff has amended
Appendix 1B	8. S. De Clerck	Proposed amendments – see attached	Staff has amended
		<b>The Objectives of Financial Reporting – paras 2.1 - BC2.16 and Appendices</b>	
2.1	3. J. Scott	The objectives of financial reporting by public sector entities are to provide information about the reporting entity that is useful to users of GPFs for accountability <del>purposes</del> and <del>for</del> decision making purposes	No change proposed by staff at this stage but will raise at forthcoming meeting. The proposed amendments will bring the phrasing back to that used in previous drafts. Staff support that change. However, at the last meeting the IPSASB directed that the wording of this paragraph was to be changed to that reflected in the current draft.
2.1	6.E. Swart	Consider amending as follows: “....accountability <del>purposes</del> and <del>for</del> decision making purposes.”	This would bring wording back to that in previous draft. Staff will raise at meeting. See comment above.
2.2	1. S. Berger	I support deletion of para. 2.2 (there is no additional benefit or added value).	Staff agree but will confirm deletion at meeting
2.2	3. J. Scott	agree delete	Staff are also of the view that the paragraph is not necessary - but will confirm deletion at meeting
2.2	4. K. Izawa	Yes. It would be better if this paragraph is deleted because the readers can understand what the paper states without this paragraph.	Staff are also of the view that the paragraph is not necessary - but will confirm deletion at meeting
2.2	6.E. Swart.	Paragraph is useful – would not consider deleting.	Staff are of view that paragraph is unnecessary, but will confirm or otherwise deletion at meeting. Other submissions support deletion.
2.4 heading	1.S. Berger	Paper 2A.3: Heading above para 2.4. I propose deleting the word "Reporting" => Users of general purpose financial reports of Public Sector Reporting Entities. You use everywhere only "public sector entities" (see e.g. para. 2.6 and 2.8).	Staff has shortened title (see below) – includes this proposed amendment

Para# in agenda paper 2A.2	RESPONDENT NAME	COMMENTS	STAFF VIEW – PROPOSED RESPONSE
2.5	3. J. Scott	I would put resource providers first;, representatives –	Staff do not propose an amendment at this stage - this sequence reflects decision of Board at last meeting. Staff has amended to representatives.
2.4	6.E. Swart	Heading: Consider amending as follows: “Users of general purpose financial reports of <del>public sector reporting entities</del> ” (heading a bit too long)	Staff has amended
2.4	6.E. Swart	2 <sup>nd</sup> sentence: The “their management” in the sentence is confusing. Should it be “the management”?	Staff do not propose a change at this stage. This wording has been included in previous drafts without adverse comment.
2.5	1. S. Berger	Paper 2A.3: Para 2.5, third line: ...public sector <del>reporting</del> entity..	Staff has amended
2.6	7. J. Karia	In 2A.2, para 1.8, the term used was international governmental organizations. To consider consistently using the same term throughout the ED.	Staff has amended
2.6	7. J.Karia	Citizens <u>and other service recipients</u> receive services from, and <u>/ or</u> provide resources to, the government and other public sector entities. Therefore, citizens <u>and other service recipients</u> are...	Staff do not propose a change at this stage. The intent of this sentence was to focus on citizens. Wording has been included in previous drafts without adverse comment and staff is reluctant to propose changes.
2.7	10. R. Cottrell	I believe the most important user is the legislature with oversight responsibility. They are the monitors of accountability. I therefore disagree with the penultimate sentence of 2.7 and believe the position should be at least equal to that of a citizen.	The different view is noted. However, staff do not recommend a change at this stage given that the IPSASB has considered this matter in developing its proposed position on users.
2.8	7. J.Karia	Service recipients include taxpayers, ratepayers, <u>beneficiaries</u> 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.	Staff do not propose a change at this stage. Wording has been included in previous drafts without adverse comment and beneficiaries embraced by broad term.
2.10	7. J.Karia	Resource providers include “involuntary resource providers” such as taxpayers, <del>and</del> ratepayers <u>and treaty signers</u> , and “voluntary resource providers” such as ...	Staff do not propose a change at this stage. Wording has been included in previous drafts without adverse comment and staff is reluctant to propose changes.
2.12	7. J. Karia	Same as earlier comment to consider using a consistent term when referring to international governmental organizations.	Staff has amended



Para# in agenda paper 2A.2	RESPONDENT NAME	COMMENTS	STAFF VIEW – PROPOSED RESPONSE
2.13 and 2.14.	1.S. Berger	I would delete these two paragraphs because, for my understanding, they are covered with para 2.9 and 2.11. If I am not right then I prefer the alternative version in the box.	Staff do not propose an amendment at this stage but will raise the issue for discussion at forthcoming IPSASB meeting.  The function of paragraphs 2.13 and 2.14 was originally to acknowledge some limits on matters addressed in 2.9-2.11. However, staff take the point that they encompass some matters addressed in earlier paragraphs.
<u>2.13 and 2.14</u>	3. J. Scott	I prefer the alternative paras. My reasons follow. If you keep 2.13 and 2.14 on page 3 the first bullet contains two ideas. The second sentence of that bullet should be separated out. If you keep it, it needs to bring in the idea of using information in d-making. The second bullet point doesn't really say anything about accountability to service recipients.	Staff agree but will raise at forthcoming IPSASB meeting for decision.
2.14 alternative	3. J. Scott	In the alternative 2.14 suggest "by GPFRs" be replaced with "in GPFRs".	Staff has amended
2.13 and 2.14	4. K Izawa	Yes. The alternative paragraphs would be better because they are more concise than the original paragraphs.	Staff will confirm at IPSASB meeting given some differing views.
2.13 & 2.14	6.E. Swart	Prefer alternative wording, but suggest the following amendments to the text in the rubric: Combine 2.13 and 2.14 and add a semi-colon after "for example". Currently, the opening sentence of 2.13 provides a lead-in for both the example in 2.13 and 2.14.  2.13 ... "For example: <ul style="list-style-type: none"> <li>• Information about costs ....</li> <li>• (2.14) Taxpayers....."</li> </ul>	Staff has a preference to keep as separate paragraphs to allow 2.14 to focus on decision making by taxpayers and ratepayers. But will raise at forthcoming IPSASB meeting for decision, given range of differing views.
2.15	3. J. Scott	The first bullet point has three ideas. Too much happening for me. I think of compliance and justification as separate things.	Staff do not propose a change at this stage. This wording has been included in previous drafts and not drawn adverse comment from IPSASB members, Consequently staff is reluctant to start reconstruction at this stage and unsettle agreed text.

Para# in agenda paper 2A.2	RESPONDENT NAME	COMMENTS	STAFF VIEW – PROPOSED RESPONSE
2.16,2 <sup>nd</sup> dot	4. K. Izawa	Minor point. Please clarify whether it would be better if “or <u>fewer</u> ” is replaced by “or <u>less</u> ”. See para 2.11) .	Staff has amended. “Less” was used in previous draft.
2.17	3. J. Scott	Suggest replacing "recovered from" with "financed by". Increasing the level of debt isn't a form of cost recovery.	Staff do not propose a change at this stage - text agreed by IPSASB at last meeting includes a final phrase to refer to increase in debt.
2.18 and elsewhere	3. J. Scott	– is there an alternative way of saying that entities are "subject to the Framework". Can we say "applying this Framework". My thoughts are that no entity is really "subject to" the Framework – if they adopt IPSASs then the Framework comes as part of the package	Staff has amended to refer to public sector entities other than GBE's - these are the entities that are subject to this Framework. Staff uncomfortable that “applying” may be read to exclude entities that are dealt with but do not apply the Framework. See also comment below
2.18	6.E. Swart	Opening sentence refers to “Public sector entities that are subject to the conceptual framework...”. As the conceptual framework has no status, would it be better to state that “Public sector entities that apply IPSASs..”	Staff has amended to refer to public sector entities other than GBE's - these are the entities that are subject to this Framework.. See comment above.
2.18	6.E. Swart	References to “surplus and deficit” and “profit and loss” should be “or” instead of “and”.	Staff has amended.
2.20	3. J. Scott	The approved budget of a government or other public sector entity <u>portraysreflects</u> the financial <u>implicationseharacteristics</u> of the entity's	Staff do not propose a change at this stage - given text previously discussed and agreed by IPSASB.
2.23	3. J. Scott	the words "be dependent on" seem a bit strong. They don't allow for the fact that some people using public services may not be dependent on them. Maybe "use" or "require" would work.	Staff do not propose a change – the IPSASB's view was that info. would have less consequences for those not dependent” on the services.
2.23	3. J. Scott	– using description fiscal sustainability rather than the term reads ok	Staff agree
2.25	3. J. Scott	I don't understand the phrase "relationship of services provided to the resource base of the entity".	Staff do not propose a change at this stage. Wording previously discussed and agreed by IPSASB and not drawn other adverse comments.
BC –	3. J. Scott	suggest replacing CP#1" with "CP1" or "CP 1". I just think the # symbol looks ugly.	Staff do not propose a change at this stage – this formulation has been used in previous drafts and other documents without drawing adverse comment.

Para# in agenda paper 2A.2	RESPONDENT NAME	COMMENTS	STAFF VIEW – PROPOSED RESPONSE
BC2.3	3. J. Scott	suggest replacing "sharply" with "clearly"	Staff do not propose a change at this stage – this formulation has been used in previous drafts and other documents without drawing adverse comment.
BC2.4	3. J. Scott	... This is because governments and other public sector entities are accountable primarily to those that provide them with resources, <b>and to those that depend on them to use those resources to deliver necessary services</b> ... <u>[can we change the highlighted bit? Hard to follow.</u>	Staff do not propose a change at this stage –IPSASB previously directed that this wording be included. Has been in previous drafts without drawing adverse comments.
BC2.4	3. J. Scott	The second part of BC2.4 doesn't work for me. Maybe it could be a separate para. Or could we say that the IPSASB decided not to refer to "other groups" because.... You have addressed this in BC2.10. Maybe it could be deleted here.	Staff do not propose a change at this stage – the IPSASB previously directed this wording be included and it has not drawn other adverse comments
BC2.6	3. J. Scott	refers to commercial lenders in the context of those who don't have the power to demand information. Commercial lenders usually do have this power.	Staff do not propose a change at this stage – IPSASB previously discussed this and noted that it may not be the case for all commercial lenders in all jurisdictions for all governments. If no commercial lenders in this category then sentence does not apply to them. Given this previously agreed by Board and no other adverse comment, staff do not recommend change.
BC 2.6	7. J. Karia	There is much common ground between the views of those that identify citizens and <b>(and beneficiaries)</b> their representatives	Staff do not propose a change at this stage
BC2.7	3. J. Scott	uses phrase <b>those that depend on them to use those resources</b>	See comment above re BC 2.4
BC 2.10	7. J. Karia	The IPSASB is of the view that identifying service recipients <b>(beneficiaries)</b> and resource	Staff do not propose a change at this stage – wording has been agreed by IPSASB.
BC2.13	3. J. Scott	The phrase "respond to the circumstances of the public sector" is hard to follow. I know what is meant by it but some readers may not. I don't think you can say that users respond to the circumstances.	Staff agree this sentence is obscure. Propose that it be deleted – it adds little.
BC2.13	3. J. Scott	"similarities <u>between</u> .." "	Staff do not propose a change – staff has taken advice on use from IPSASB plain English expert .

Para# in agenda paper 2A.2	RESPONDENT NAME	COMMENTS	STAFF VIEW – PROPOSED RESPONSE
BC2.13 final bullet	3. J. Scott	Recipients of the services and other benefits provided by public sector entities often do not have such <del>choices</del> <del>discretion or a choice of service provider.</del>	Staff has amended
BC2.13 second bullet		providers of development and other assistance and other donors provide resources voluntarily to public sector entities <del>(and /or directly to the public)</del> , but do not expect to...	Staff do not propose a change at this stage. The IPSASB intended focus of this to be on resources provided to public sector entities. IPSASB has previously reviewed wording and staff reluctant to propose change.
BC2.14	3. J. Scott	BC2.14 Consequently, for many users of GPFRs of public sector entities, the disclosure of information for accountability purposes is as <del>if not more</del> , important <del>as than</del> the disclosure of information for decision making purposes. <del>I get the point about possibly being "more important than" but it is hard to read.]</del>	Staff do not propose a change – IPSASB has discussed and agreed this view of relationship. IPSASB unlikely to support this change in relative importance of accountability.
Appendix 2.A	3. J. Scott	The objective of general purpose financial reporting of business entities in the private sector <del>is as being to</del> provide information ....	Staff has amended
Appendix 2.B	6.E Swart	Paper 2A.2 Appendix 1B - The comparison with the SNA is useful. Its usefulness would however be increased if, as with the comparisons in the other IPSAS, the requirements of the SNA and the Framework are contrasted rather than indicating the requirements of the SNA. (pervasive throughout these appendices).	Staff has raised with EU and IMF representative and sought further input– will provide an update before/at the meeting. Staff acknowledge that SNA is extensive and awkward to capture correct balance. See also comments of Appendix 1b
Appendix 2B	8. S. De Clerck	Proposed amendments – see attached	Staff has amended
		<b>Qualitative Characteristics – Paras 3.1- BC 3.36 and Appendices</b>	
3.1	6.E. Swart	Is the last sentence necessary?	Staff do not think it necessary. However, it was included in previous drafts because Board thought it useful to have a link back to the objectives. Staff is reluctant to change at this stage.
3.4	6.E. Swart	Consider rewording 1 <sup>st</sup> sentence as follows: "...the other characteristics to provide <u>information</u> in GPFRs <u>that is</u> useful..."	Staff do not propose a change at this stage. Current wording has been in previous drafts without attracting

Para# in agenda paper 2A.2	RESPONDENT NAME	COMMENTS	STAFF VIEW – PROPOSED RESPONSE
			adverse comment. Staff is reluctant to change at this stage.
3.6	3. J. Scott	<p>I don't think the first sentence works. I think information is relevant if it meets those objectives rather than making a difference. I think making a difference is a stronger test/ higher hurdle. I like the last sentence in 3.14 and would prefer to see it in this paragraph.</p> <p>Staff followed up with respondent for clarification of the point. Respondent expressed a preference for rephrasing this paragraph to reflect that information “is relevant if it is capable of making a difference in users' decision-making or assessments of accountability.”</p>	<p>Staff do not propose a change at this stage. Current wording has been included in previous drafts without drawing adverse comment. Staff understood the IPSASB’s intention is that relevant information helps achieve the objectives of financial reporting - so it makes a difference in achieving the objectives. Information that is not relevant does help achieve the objective.</p> <p>Staff was concerned that it did not fully understand the point being made and followed up with respondent.)</p>
3.9	3. J. Scott	The same information helps to confirm or correct users’ past expectations and predictions about <del>the</del> <u>entity's</u> ability <u>to respond to changes</u> .	Staff has amended.
3.11 (and 3.16)  See below for comments on 3.16	9. R. Dacey	<p>My concern about paragraph 11 and 16 is that they do not set a threshold for what is sufficient. For example, is it possible that information may be as complete, neutral, and free of material error as possible but still not be sufficiently complete, neutral, and free of material misstatement to result in fair presentation. Or, even if the entity is not aware of errors or omissions that are individually or collectively material in the description of the phenomenon, is it fairly presented if management does not have a reasonable basis for their knowledge. Also, free from material error could be perceived as a condition of the financial statements whether or not the entity is aware of errors or omissions. Therefore, it may be appropriate to add some language to address this. In looking through FASAB and IAASB literature, it seemed that reasonable assurance might be an acceptable threshold. See the edits below for how this might read.</p> <p>3.11 In practice, it may not be possible to know or confirm if information presented in GPFRs is fully complete, neutral, and free from material error. <u>However, there should be [the entity should have] reasonable assurance that information is sufficiently complete, neutral, and free from material error.</u></p>	<p>Staff do not propose a change at this stage but have raised the issue and its interaction with 3.16 in the covering memorandum for further discussion at the forthcoming IPSASB meeting.</p> <p>Staff had not anticipated that the Framework would set a threshold for what is sufficient in respect of faithful representation or other of the QCs. Rather, where necessary, such thresholds and guidance on “reasonable assurance” and “sufficiently complete” would be established at the standards level (or through the interaction of the definition and recognition criteria in the Framework and standards).</p> <p>Staff is of the view that at a conceptual level it is appropriate to observe that information should be as complete, neutral, and free from material error as is possible – this is a desirable quality for information included in GPFRs generally, including for information that passed a minimum threshold.</p> <p>However, staff is of the view that it would be useful to strengthen the explanation in paragraph BC3.9 that</p>

Para# in agenda paper 2A.2	RESPONDENT NAME	COMMENTS	STAFF VIEW – PROPOSED RESPONSE
		<del>However, information should be as complete, neutral, and free from material error as is possible.</del>	where necessary thresholds for inclusion of information in GPFRs be established at the standards level. Staff has followed up with this respondent to better understand the issue and proposed amendments.
3.14	3. J. Scott	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.[this sentence is hard to follow – especially for English as second language readers – possible to phrase more directly? eg Information may be neutral but still have a purpose or influence behaviour.]	Staff do not propose a change at this stage. This wording has been in previous drafts and not drawn adverse comments.
3.16	9.Bob Dacey	Two possible amendments to this paragraph are canvassed: The first alternative - amendments to the second and final paragraphs: ...Free from material error means that there are no <del>identified</del> errors or omissions that are individually or collectively material in the description of the phenomenon, ... In these cases, the estimate will be free from material error if the amount is clearly described as an estimate, the nature and limitations <u>(including related uncertainties) of the estimating process are explained, and the estimates, including the selection and application of an appropriate process, are reasonable in the circumstances.</u> ...  The second alternatives- amendments to the second and final paragraphs: .... Free from material error means <u>that there is [or that the entity has] reasonable assurance that</u> there are no <del>identified</del> errors or omissions that are individually or collectively material in the description of the phenomenon, ... In these cases, the estimate will be free from material error if the amount is clearly described as an estimate, the nature and limitations <u>(including related uncertainties) of the estimating process are explained, and there is [or the entity has] reasonable assurance that there are</u> no material errors <del>have been identified</del> in selecting and applying an appropriate process for developing the estimate.	Staff is of the view that the first alternative would be an useful enhancement to the text subject to clarification of the implications of the followings – staff has followed up with this respondent to this end and will provide an update at the meeting:  1. deletion of “identified” in the second line.  2. whether the reference in brackets to “including related uncertainties” is already covered in para 3.  3. the implication of the inclusion of the word “estimates” in the final phrase: “... <i>estimates, including the selection and application of an appropriate process, are reasonable in the circumstances.</i> ”  These matters are included in the covering memorandum for discussion at the meeting. Staff continues to discuss these matters with the respondent and will provide updates as appropriate.
3.26	3. J. Scott	The second sentence seems to be saying the same as the first sentence. It doesn't explain the difference between the two terms.	Staff do not propose a change at this stage. This explanation reflects IPSASB direction. It was included



Para# in agenda paper 2A.2	RESPONDENT NAME	COMMENTS	STAFF VIEW – PROPOSED RESPONSE
		If you are arguing that there is no difference maybe that should be explicitly stated.	in the previous draft and agreed by the IPSASB. Staff is of the view that the IPSASB's view of the relationship between the terms and the circumstances in which they may be used is clear – see also para BC3.25.
3.28	3. J. Scott	delivery	Staff has amended
3.28	6.E. Swart	(d)...."influencing past service delivery performance"	Staff has amended
3.29	3. J. Scott	However, the more verifiable <u>is</u> the information included in GPFRs, the more useful it is. [sounds odd]	Staff do not propose an amendment at this stage. Note comments below.
3.29-3 <sup>rd</sup> line	4. K. Izawa	Please clarify whether the sentence "the more verifiable is the information included in GPFRs, the more useful it is" is proper. For example, the fair value information of financial instruments is useful but difficult to verify.	Staff do not propose an amendment at this stage but will raise for discussion at the forthcoming IPSASB meeting.  This wording has been included in previous drafts and not drawn adverse comment. However, Staff raised this matter for discussion with the TPG in preparing the draft that was circulated for comment, noting that it may be useful to clarify that this was a general observation applicable to information included in GPFRs, rather than in selecting information for inclusion in GPFRs. The TBG had different views about whether or not the paragraph should be included.
3.32	3. J. Scott	Can you have an entity discharging accountability without users agreeing that it has done so? Is the concept of accountability independent of users' assessments of accountability?  Staff followed up with respondent for clarification of the point. Respondent expressed a preference for restating this paragraph to reflect that: "Information is material if its omission or misstatement could influence users' assessments of the entity's accountability or users' decisions."	Staff do not propose an amendment at this stage. This wording has been included in previous drafts and has not drawn adverse comment. Staff have followed up with respondent to clarify proposed amendment.
3.34	3. J. Scott	Financial reporting <u>requirements</u> impose costs.	Staff do not propose an amendment at this stage.  Staff view is that IPSASB intended to reflect that it is financial reporting broadly (and not only financial reporting "requirements") that imposes costs.

Para# in agenda paper 2A.2	RESPONDENT NAME	COMMENTS	STAFF VIEW – PROPOSED RESPONSE
3.39	6. E. Swart	<p>Cost-benefit” as a constraint: Paper 2A.4 3.39: This paragraph deals with the development of individual IPSASs. It notes that “Disclosures and other requirements which result in the presentation of information useful to users....unless the cost of compliance with those requirements are assessed to be greater than their benefits.” This paragraph notes that at a “standards-level”, “cost benefit” is still used. While in the “rules of the road”, “undue cost” and effort has been used as the hurdle for assessing requirements at a standards level. These two documents seem to conflict with one another about what test is applied at an individual standards-level.</p> <p>The interaction between the overall constraint of “cost-benefit” and, the constraint that may be applied at a standards-level, i.e. “undue cost and effort” should be explained. A suggested explanation could be:</p> <p><i>The requirements in the IPSASs are developed within the overall constraint that the cost of providing information should not outweigh the benefit received by the users of the financial statements. When entities prepare their financial statements, they would also consider a “cost-benefit” test in applying the requirements of the individual IPSASs. A “cost-benefit” test requires measurement of both the costs and benefits of providing or not providing certain information to the users of the financial statements.</i></p> <p><i>On an individual standard-level however, the IPSASB may however assess that while some information may be useful to users, it should only be provided if it can be provided without “undue cost and effort”. A test based on “undue cost and effort” does not require an assessment of the benefits users may or may not receive from the disclosure of the information.</i></p>	<p>Staff do not propose an amendment at this stage but have raised the issue in the covering memorandum for discussion at forthcoming IPSASB meeting.</p> <p>Staff agree that once IPSASB has finalized the Framework it should revisit other references that might interact/conflict with the Framework, including rules of the road, and consider whether changes should be made to those documents.</p> <p>Staff has followed up with this respondent to better understand the issue and:</p> <ol style="list-style-type: none"> <li>1. explore whether acknowledgement of references to application of a “cost-benefit” test in applying the requirements of the individual IPSASs could be interpreted as an override on the requirements of an IPSAS; and</li> <li>2. whether an assessment of undue costs and effort can be made without some feel for the benefit that would result from the disclosure.</li> </ol> <p>Staff have included some commentary to attempt to bridge these notions and continues to discuss the matter with the respondent. Staff will provide members with an update as this issue is progressed.</p>
3.40 -heading	1. S. Berger	I suppose the heading should be in italic and not in bold.	Staff has amended

Para# in agenda paper 2A.2	RESPONDENT NAME	COMMENTS	STAFF VIEW – PROPOSED RESPONSE
BC3.1	3. J. Scott	Final sentence hard to follow. Might be easier to mention the constraints.	Staff proposes shortening the sentence. Staff agree sentence is lengthy but is uncomfortable about not mentioning the constraints.
Para BC3.4.	1. S. Berger	Last sentence: The IPSASB is also of the view that ... (the letter B is missing).	Staff has amended
BC3.4	3. J. Scott	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, <del>and, –</del> Therefore, <u>regularity</u> is not identified as an additional qualitative characteristic in this Framework.	Staff has amended
BC3.8	3. J. Scott	Not sure why this para is here. it reads more as a para that should be in the body of the Framework rather than in the BC.	Staff do not propose an amendment at this stage but will raise the issue for discussion at forthcoming IPSASB meeting. Paragraph BC 3.8 has been in the BC in previous drafts without proposals to be relocated. Staff acknowledge that there is a case that it could fit in the text but are concerned about consequential changes. Staff propose some revisions to the paragraph to clarify its positioning.
BC3.10	3. J. Scott	I think it would help, for history, to say that the IASB had proposed faithful representation. The IPSASB considered it and etc... The IASB is mentioned but not until BC3.11.	Staff do not propose an amendment at this stage. CP#1 and previous drafts included a reference to the IASB QCs. However, over the last few meetings IPSASB has provided clear directions on how references to IASB are to be included in this ED.
BC3.11	3. J. Scott	Not sure that faithful representation is solely terminology. Maybe say align with IASB concepts?	Staff do not propose an amendment at this stage. This phrasing previously agreed by IPSASB.
BC3.12	3. J. Scott	in some jurisdictions, reliability is sometimes interpreted to mean “verifiable” or “free from error” or other of the individual components it is currently described as comprising, [ <u>can't follow this</u> ] rather than its intended meaning of broadly representing faithfully the economic and other phenomena that it purports to represent	Staff has amended to replace the phrase: “... or other of the individual components it is currently described as comprising”. With those other components – that is : complete, and neutral,
BC3.12	6.E. Swart	1st bullet: jurisdictions	Staff has amended
BC3.17	3. J. Scott	Therefore, <del>like substance over form</del> , prudence is not identified as	Staff do not propose an amendment at this stage. Point

Para# in agenda paper 2A.2	RESPONDENT NAME	COMMENTS	STAFF VIEW – PROPOSED RESPONSE
		a separate qualitative characteristic <del>because its intent and influence in identifying information that is included in GPFs is already embedded in the notion of faithful representation</del> [you have already explained this earlier in the para]	noted – however, the IPSASB has developed this wording over a number of meetings - and this phrasing did not draw other adverse comments. Consequently, staff is reluctant to propose any change.
BC3.21/22	3. J. Scott	Suggest you refer to IASB proposals. Say that IPSASB considered that proposal, sought feedback on it and then decided...	Staff do not propose an amendment at this stage. The IPSASB has previously provided directions on how references to IASB are to be included in the draft ED.
BC3.27	3. J. Scott	The IPSASB <u>plans</u> to consider ...	Staff do not propose an amendment at this stage. These words previously agreed by IPSASB after some discussion
BC3.29 the 3 <sup>rd</sup> dot	4. K. Izawa	I cannot understand the relationship between these sentences and “classification of the characteristics and order of their application. Please clarify whether these sentences are necessary.	Staff have made an amendment intended to clarify but will raise at forthcoming IPSASB meeting whether third dot point is required.  The third dot point is really only an elaboration/example of the second dot point. It was included in response to Board wishes to acknowledge that the scope of IPSASs included prospective information about financial performance and the achievement of service delivery objectives and this may impact on which characteristics may be perceived as being more important (or fundamental) than others.
BC3.31	3. J. Scott	Need to mention IASB proposals first or this seems out of place.	Staff do not propose an amendment at this stage. The IPSASB has previously provided directions on how references to IASB are to be included in the draft ED.
BC3.32	1. S. Berger	I am fine with the deletion of this paragraph as proposed.	Staff have deleted in mark-up but will confirm decision at forthcoming meeting.
BC3.32	3. J. Scott	- comfortable if this is deleted.	Staff have deleted in mark-up but will confirm decision at forthcoming meeting.
BC3.33	3. J. Scott	This is a long para that doesn't tell readers what the IPSASB decided about this issue in the context of the Framework. The first two sentences are ok. Some of the rest is a discussion of the issue not how this issue was dealt within the context of the framework. I think it needs to be pared back or explicitly linked to what	Staff do not propose substantial amendment at this stage. The IPSASB directed that such a paragraph be included and has previously reviewed its wording. However, to respond to this comment, staff has relocated the last sentence which explains why the

Para# in agenda paper 2A.2	RESPONDENT NAME	COMMENTS	STAFF VIEW – PROPOSED RESPONSE
		IPSASB decided.	Board has included this paragraph. The paragraph is intended to explain why the Framework itself does not include a comment/acknowledgement that legislation may require disclosure irrespective of the cost or perceived materiality of the item. The IPSASB was of the view that this was of use to users.
Appendix 3B	J. Verrinder	Proposed amendments – see attached	Staff has amended.
Appendix 3B	8. S. De Clerck	Proposed amendments – see attached	Staff has amended.
		<b>Reporting Entity - Paras 1.1- BC 4.23 and Appendices</b>	
4.4	3. J. Scott	<del>will</del> include .	Staff has amended.
BC4.1	3. J. Scott	Should this start off by saying that the IPSASB noted that governments operate in many different forms?	Staff do not propose an amendment at this stage.
BC4.3	3. J. Scott	Second sentence is long. I would keep the first half and delete the rest.	Staff do not propose an amendment at this stage. This sentence has been included in previous drafts without adverse comment.
BC4.5.	1. S. Berger	I am fine with the deletion of this paragraph as proposed.	Staff agree with deletion of phrase – but will confirm decision at IPSASB meeting before deletion.
BC4.8	3. J. Scott	BC4.8 The IPSASB is aware that different interpretations of the meaning of the term “economic” <b>may have consequences for its use to identify</b> a public sector reporting entity or group reporting entity <u>[highlighted bit hard to follow</u> – can we say "could create problems in using this term to ..."] <u>.</u>	Staff has amended to try to clarify by explaining the issue is that it may be interpreted differently and may give rise to different views about what qualifies as a reporting entity.
BC4.15 and BC4.16	3. J. Scott	– most of this para would belong in the body of the CF rather than in the BC.	Staff have not amended the draft ED -these paragraphs have been included in the BC in previous drafts of this ED reviewed by the IPSASB and did not draw adverse comment.  However, on reflection staff agree that there is a case for reconsideration of the content and placement of

Para# in agenda paper 2A.2	RESPONDENT NAME	COMMENTS	STAFF VIEW – PROPOSED RESPONSE
			these paragraphs, and will raise the matter for consideration of the IPSASB at the forthcoming meeting..
BC4.19.	1. S. Berger	I am unsure but I tend to delete this paragraph.	Staff agree with deletion of the second sentence but will confirm at the forthcoming meeting.
BC4.19, 2nd line	4. K. Izawa	I recommend that the paragraph “the existence of statutory or constitutional authority to be professionally independent does not, of itself, preclude an entity from being included within the whole of government” would be deleted because this paragraph refers to the standard-level issue rather than the conceptual-level issue.	Staff agree with deletion of this sentence but will confirm at the forthcoming meeting.
BC4.22 the 1 <sup>st</sup> line	4. K. Izawa	I recommend that the phrase “In some market economies” would be deleted because the situation may happen not only in some market economies.	Staff have amended BC 4.21. with the phrase “including other levels of government” to attempt to overcome this concern.  Staff are of the view that it is useful to retain paragraph BC 22 because it usefully highlights that this can arise in market economies. Staff Agree that could happen in non-market economies and is of the view that the amendment to para 4.21 clarifies that.
Appendix 4B	2. J. Verrinder	Proposed amendments – see attached	Staff has amended
Appendix 4B	8. S. De Clerck	Proposed amendments – see attached	Staff has amended

**(1. S Berger- Switzerland -public member )**

**From:** Stefan.Berger@efv.admin.ch  
**Sent:** Friday, 10 September 2010 6:59 PM  
**To:** Paul Sutcliffe  
**Subject:** WG: Phase 1 ED out of session review

Dear Paul,

Thank you very much for your excellent draft Exposure Draft (ED) of Phase 1 of the Conceptual Framework. I like the papers 2.A1 to 2A.5 and think that they are on a very high level. My thank belongs to the TBG, too.

Here my comments:

- Paper 2A.3: I support deletion of para. 2.2 (there is no additional benefit or added value).
- Paper 2A.3: Heading above para 2.4. I propose deleting the word "Reporting" => Users of general purpose financial reports of Public Sector ~~Reporting~~ Entities. You use everywhere only "public sector entities" (see e.g. para. 2.6 and 2.8).
- Paper 2A.3: Para 2.5, third line: ...public sector ~~reporting~~ entity..
- Paper 2A.3: Para 2.13 and 2.14. I would delete these two paragraphs because, for my understanding, they are covered with para 2.9 and 2.11. If I am not right then I prefer the alternative version in the box.
- Paper 2A.4: Heading above para 3.40. I suppose the heading should be in italic and not in bold.
- Paper 2A.4: Para BC3.4. Last sentence: The IPSAS~~B~~ is also of the view that ... (the letter B is missing).
- Paper 2A.4: Para BC3.32. I am fine with the deletion of this paragraph as proposed.
- Paper 2A.5: Para BC4.5. I am fine with the deletion of this paragraph as proposed.
- Paper 2A.5: Para BC4.19. I am unsure but I tend to delete this paragraph.

Again Paul, thank you very much.

Kind regards,  
Stefan

**Stefan Berger**

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(2. J Verrinder – EU Observer )

## Re Conception Framework Phase 1-ED:

### 1.The Role and Authority of the Conceptual Framework, and the Scope of General Purpose Financial Reporting

#### Appendix 1.B

#### Comparison with the System of National Accounts ~~(2008)~~ and statistical bases of reporting derived from it (ESA 95 and GFSM 2001)

The System of National Accounts updated in 2008 (SNA 2008):

- Applies to economic activities taking place within an economy and the interaction between the different economic agents, and groups of agents, that takes place in markets or elsewhere.
- Is an “internationally agreed standard set of recommendations on how to compile and present measures of economic activity...”
- Identifies a “sequence of interconnected flow accounts linked to different types of economic activity taking place within a given period of time, together with balance sheets that record the values of the stocks of assets and liabilities held by institutional units or sectors at the beginning and end of the period.”
- Explains that the classifications and accounting rules are meant to be universally applicable. SNA 2008 does not define parts of the SNA differently for application in different economies, for example in less developed or more developed economies, in large relatively closed economies or small open economies, or in high-inflation economies or in low inflation.

The Government Finance Statistics Manual 2001 (GFSM 2001); [and](#) the European System of Accounts (ESA 95), [based on SNA 1993, take the same approach on these issues reflect the same position as identified in SNA 2008 on these matters.](#)

(2. J. Verrinder – EU Observer)

### 3. The Qualitative Characteristics of, and Constraints on, Information included in General Purpose Financial Reports

#### *Appendix 3B*

##### *Comparison with the System of National Accounts ~~(2008)~~ and statistical bases of reporting derived from it (ESA 95 and GFSM 2001)*

The System of National Accounts 2008 (SNA 2008) does not identify the qualitative characteristics that [source](#) data included in the national accounts are to possess.  
[Source data may be adjusted to be brought into line with SNA compilation principles.](#)

Some data [used for](#)~~included in the~~ SNA-based accounts [are](#)~~is~~ drawn from data in GPFRs, or prepared for inclusion in GPFRs which comply with IFRSs, IPSASs or national accounting standards and therefore satisfy the qualitative characteristics specified by those accounting standards, and/or related Conceptual Frameworks.

Consistent with SNA [principles](#)~~2008~~, the Government Finance Statistics Manual 2001 (GFSM 2001) and the European System of Accounts (ESA 95) do not identify the qualitative characteristics and constraints of information [in data sources](#)~~included in the statistical bases of financial reporting prepared in accordance with their requirements~~.

### 4. The Reporting Entity and Group Reporting

#### *Appendix 4B*

##### *Comparison with System of National Accounts (2008)*

The focus of the 2008 System of National Accounts (2008 SNA) is on institutional units which are 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 [for](#)~~by~~ the public sector, which comprises the general government sector and public corporations.

An institutional unit is an economic entity that is capable, in its own right, of owning assets, incurring liabilities and engaging in economic activities and in transactions with other entities.

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.

(2. J Verrinder – EU Observer)

## 2. The Objectives of Financial Reporting

### Appendix 2B

#### **Comparison with the System of National Accounts ~~(2008)~~ and statistical bases of reporting derived from it (ESA 95 and GFSM 2001)**

The primary objective of the SNA is to provide a comprehensive conceptual and accounting framework that can be used to create a macroeconomic database suitable for analyzing and evaluating the performance of an economy. The more specific uses of the SNA are identified as providing input for monitoring the behavior of the economy, macroeconomic analysis and making international comparisons.

The SNA 2008 does not identify user groups or primary users but acknowledges that data generated in accordance with its principles may be used by many parties including for example, analysts, politicians, the press, the business community and the public at large.

The objective of the system of national accounts and the likely users of the information as identified in SNA 2008 is reflected in the Government Finance Statistics Manual 2001 (GFSM 2001) and the European System [of Accounts \(ESA95\)](#).

(2. J Verrinder – EU Observer) Additional comments – re follow up

**From:** John.Verrinder@ec.europa.eu [mailto:John.Verrinder@ec.europa.eu]

**Sent:** Friday, 1 October 2010 10:10 PM

Hi Paul,

These are perfectly OK for me.

I think two general QC aspects are important to underline (the second is kind of already in there):

a) National Accounts - like many statistics - are not accounts that is drawn up through complete sets of bookkeeping etc; they rely on a wide variety of sources. For government much of the data will come originally from administrative sources/the public accounting system (on whatever the national basis), but not all.

b) SNA is an integrated system intended to provide balanced data across the whole economy and a consistent time series. Thus figures are revised backwards to ensure consistency and there is a need to reconcile different data sources for a single view about transactions. This is not at all the same as the accounting tradition for entities [eg. where an asset can appear nowhere because different entities treat it as off their balance sheet].

For the rest there are of course many conceptual differences, to reflect that SNA are economic accounts (e.g. we don't put in provisions in statistical balance sheets) but I wouldn't propose to list them here. We do have quite some experience of converting business accounting data into national accounts...

It's also important to say that there are quality frameworks for statistics in general. Sage has mentioned those from the IMF which are used worldwide. We in Europe also have (complementary) standards, which of course push the ideas of independent compilation, professional expertise and good metadata.

Best wishes, John

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**From:** paul.sutcliffe [mailto:sutclif@tpg.org]  
**Sent:** Tuesday, September 28, 2010 10:20 AM  
**To:** VERRINDER John (ESTAT)  
**Cc:** Paul Sutcliffe IfAC; John Stanford ifac  
**Subject:** FW: IPSASB Framework and SNA 2008

Hi John

I have attached Sage proposed amendments to the SNA comparison. They also include suggestions for a couple of minor refinements to the text.

I don't think they run counter to anything you already proposed but thought you should review and confirm or otherwise.

We did receive a comment from Erna that the usefulness of the comparison with the SNA would be increased if the requirements of the SNA and the Framework are contrasted rather than just indicating the requirements of the SNA.

I appreciate it is difficult to pitch this at the right level – and not to overwhelm the document. Seems to me the amendments you and Sage have proposed go much of the way – but we probably need to identify, or provide an overview of, the QCs in SNA. I have already alerted Sage of this.

Of course you may also want to take the opportunity to draw out any additional differences between SNA and the Framework that you think it appropriate.

Thanks for all this.

Regards Paul

(3. J Scott – New Zealand - TA)

**Comments on Phase 1 ED**

15 September 2010

Dear Paul

My comments on the draft Phase 1 ED follow. I know that this material has been discussed a number of times by the Board so I have tried to limit my comments to editorial matters and suggestions to improve readability. However, I didn't always succeed. It is entirely up to you which suggestions you adopt. All comments refer to clean versions.

**2A.1**

page 4

Specific matters for comment

(b) I would prefer not to say that the framework is of less authority than an IPSAS.

Technically it is correct but I think it downplays the importance of the CF. Could we just delete that clause? (a) already says that the CF doesn't override a standard.

(e) mentions service recipients and resource providers. The order in which these two groups are mentioned through the document varies. My preference is to discuss resource providers first.

(f) Objectives of financial reporting by public sector entities are to provide information that is useful for accountability ~~purposes and useful for~~ decision making purposes;

**2A.2**

1.1 GBEs – no apostrophe – as per Handbook

1.2 and throughout document – "standards-setters". I prefer standard-setters.

BC1.1. The Conceptual Framework identifies the broad principles that the IPSASB will apply in developing International Public Sector Accounting Standards (IPSASs) and non-authoritative guidance intended to assist preparers and others in dealing with financial reporting issues. 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 ~~and~~ 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.

BC1.2. The IPSASB is of the view that existing authoritative requirements should not be overturned without the application of due process. After the Conceptual Framework is issued, the IPSASB will review extant IPSASs ~~and identify~~ and, through application of the due process, identify and address any circumstances where there is substantial conflict between the IPSAS and the Conceptual Framework.

BC1.3 – Again, I would prefer to replace the words "has lesser authority" with something else. My suggestions are "does not have the same status" or "does not override the requirements of existing IPSASs". The latter would be consistent with what you have said in the specific matters for comment (a).

**(3. J Scott – New Zealand- TA)**

BC1.3 is a little confusing as IPSAS 3 currently refers to the IASB Framework. Should we say that IPSAS 3 will be updated to say ... "An entity preparing financial statements in accordance with IPSASs is required to consider the CF when ..."

Appendix 1.A and 1.B – at present this is a summary rather than a comparison. Some of the items listed are not differences.

1.A Third bullet "financial statements".

**2A.3**

2.1. The objectives of financial reporting by public sector entities are to provide information about the reporting entity that is useful to users of GPFs for accountability ~~purposes~~ and ~~for~~ decision making purposes.

2.2 agree delete

2.5 I would put resource providers first  
representatives

pages 3 and 4

I prefer the alternative paras. My reasons follow.

If you keep 2.13 and 2.14 on page 3 the first bullet contains two ideas. The second sentence of that bullet should be separated out. If you keep it, it needs to bring in the idea of using information in d-making.

The second bullet point doesn't really say anything about accountability to service recipients.

2.14 starts off with d-making then the "for example" moves to accountability. There is no link between the two.

In the alternative 2.14 suggest "by GPFs" be replaced with "in GPFs".

2.15 The first bullet point has three ideas. Too much happening for me. I think of compliance and justification as separate things.

Suggest replacing "recovered from" with "financed by". Increasing the level of debt isn't a form of cost recovery.

2.18 and elsewhere – is there an alternative way of saying that entities are "subject to the Framework". Can we say "applying this Framework". My thoughts are that no entity is really "subject to" the Framework – if they adopt IPSASs then the Framework comes as part of the package.

2.20 The approved budget of a government or other public sector entity ~~portrays~~~~reflects~~ the financial ~~implications~~~~characteristics~~ of the entity's plans for the forthcoming period.

2.23 the words "be dependent on" seem a bit strong. They don't allow for the fact that some people using public services may not be dependent on them. Maybe "use" or "require" would work.

2.23 – using description fiscal sustainability rather than the term reads ok

2.25 I don't understand the phrase "relationship of services provided to the resource base of the entity".

BC – suggest replacing CP#1" with "CP1" or "CP 1". I just think the # symbol looks ugly.

(3. J Scott – New Zealand- TA)

BC2.3 suggest relacing "sharply" with "clearly"

- BC2.4 The IPSASB acknowledges 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 their representatives and resource providers and their representatives. This is because governments and other public sector entities are accountable primarily to those that provide them with resources, **and to those that depend on them to use those resources to deliver necessary services**. [can we change the highlighted bit? Hard to follow] In addition, the Conceptual Framework will apply to governments and a potentially wide range of other public sector entities in many different jurisdictions as well as international governmental organizations. Consequently, it is not clear that identification of other user groups as the primary users of GPFRs will be relevant, and operate effectively, for all public sector entities across all jurisdictions.

The second part of BC2.4 doesn't work for me. Maybe it could be a separate para. Or could we say that the IPSASB decided not to refer to "other groups" because.... You have addressed this in BC2.10. Maybe it could be deleted here.

BC2.6 refers to commercial lenders in the context of those who don't have the power to demand information. Commercial lenders usually do have this power.

BC2.7 uses phrase **those that depend on them to use those resources**

BC2.13 The phrase "respond to the circumstances of the public sector" is hard to follow. I know what is meant by it but some readers may not. I don't think you can say that users respond to the circumstances.

"similarities ~~between~~ .."

BC2.13 final bullet

Recipients of the services and other benefits provided by public sector entities often do not have such ~~choices discretion or a choice of service provider~~.

BC2.14 Consequently, for many users of GPFRs of public sector entities, the disclosure of information for accountability purposes is as ~~if not more~~, important ~~as~~ ~~than~~ the disclosure of information for decision making purposes.

[I get the point about possibly being "more important than" but it is hard to read.]

Appendix 2.A The objective of general purpose financial reporting of business entities in the private sector ~~is 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.

**2A.4**

3.6 I don't think the first sentence works. I think information is relevant if it meets those objectives rather than making a difference. I think making a difference is a stronger test/ higher hurdle. I like the last sentence in 3.14 and would prefer to see it in this paragraph.

3.9 The same information helps to confirm or correct users' past expectations and predictions about the ~~ent~~ entity's ability to respond to changes.



(3. J Scott – New Zealand- TA)

3.14 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.[this sentence is hard to follow – especially for English as second language readers – possible to phrase more directly? eg Information may be neutral but still have a purpose or influence behaviour.]

3.26 The second sentence seems to be saying the same as the first sentence. It doesn't explain the difference between the two terms. If you are arguing that there is no difference maybe that should be explicitly stated.

3.28 delivery

3.29 However, the more verifiable **is** the information included in GPFRs, the more useful it is. [sounds odd]

3.32 Can you have an entity discharging accountability without users agreeing that it has done so? Is the concept of accountability independent of users' assessments of accountability?

3.34 Financial reporting requirements impose costs.

BC3.1 Final sentence hard to follow. Might be easier to mention the constraints.

BC3.4 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,~~ ~~Therefore, regularity~~ is not identified as an additional qualitative characteristic in this Framework.

BC3.8 Not sure why this para is here. it reads more as a para that should be in the body of the Framework rather than in the BC.

BC3.10 I think it would help, for history, to say that the IASB had proposed faithful representation. The IPSASB considered it and etc... The IASB is mentioned but not until BC3.11.

BC3.11 Not sure that faithful representation is solely terminology. Maybe say align with IASB concepts?

BC3.12

- in some jurisdictions, reliability is sometimes interpreted to mean “verifiable” or “free from error” **or other of the individual components it is currently described as comprising,** ~~[can't follow this]~~ rather than its intended meaning of broadly representing faithfully the economic and other phenomena that it purports to represent;

BC3.17 Therefore, ~~like substance over form,~~ prudence is not identified as a separate qualitative characteristic ~~because its intent and influence in identifying information that is included in GPFRs is already embedded in the notion of faithful representation~~ [you have already explained this earlier in the para]

BC3.21/22 Suggest you refer to IASB proposals. Say that IPSASB considered that proposal, sought feedback on it and then decided...

BC3.27 The IPSASB plans to consider ...

BC3.31 Need to mention IASB proposals first or this seems out of place

BC3.32- comfortable if this is deleted.

BC3.33 This is a long para that doesn't tell readers what the IPSASB decided about this issue in the context of the Framework. The first two sentences are ok. Some of the rest is a discussion of the issue not how this issue was dealt within the context of the framework. I think it needs to be pared back or explicitly linked to what IPSASB decided.

(3. J Scott – New Zealand- TA)

**2A.5**

4.4 ~~will~~ include

BC4.1 Should this start off by saying that the IPSASB noted that governments operate in many different forms?

BC4.3 Second sentence is long. I would keep the first half and delete the rest.

BC4.8 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 [highlighted bit hard to follow] – can we say “could create problems in using this term to ...”]

BC4.15 and BC4.16 – most of this para would belong in the body of the CF rather than in the BC.

**General edits**

consistency en hashes and hyphens throughout

decision-making or decision making – both used, mainly without the hyphen.

Depends on your policy on compound adjectives

dependent/dependant

whole of government – sometimes with dashes, sometimes not

(4. K Izawa – Japan- TA)

IPSASB Conceptual Framework – Phase 1 draft ED for review out of session.

Kenji Izawa

Hi Paul

I send my comments about phase 1 draft ED.

I would be happy if my comments are helpful to your work.

Regards

Re “The Role and Authority of the Conceptual Framework, and the Scope of General Purpose Financial Reporting” (Paper 2A.2)

Para 1.6 – the 5<sup>th</sup> line

Please clarify whether it is better to state “forms of presentation and disclosure that might be adopted for information included within GPFRs” rather than “communication”.

Para 1.7-the 4<sup>th</sup> line

I recommend that “IPSASs or other guidance” is replaced by “IPSASs or non-authoritative guidance” in order that the readers don’t misunderstand that IPSASs are one kind of guidance.

Re “The Objective of Financial Reporting” (Paper 2A.3)

Para 2.2

Yes. It would be better if this paragraph is deleted because the readers can understand what the paper states without this paragraph.

Para 2.13 and 2.14

Yes. The alternative paragraphs would be better because they are more concise than the original paragraphs.

Para 2.16 the 2<sup>nd</sup> dot

Minor point. Please clarify whether it would be better if “or fewer” is replaced by “or less”. See para 2.11

**(4. K. Izawa – Japan- TA)**

Re “The Qualitative Characteristics of, and Constraints on, Information included in General Purpose Financial Reports” (Paper 2A.4)

Para 3.29 the 3<sup>rd</sup> line

Please clarify whether the sentence “the more verifiable is the information included in GPFRs, the more useful it is” is proper. For example, the fair value information of financial instruments is useful but difficult to verify.

**4. Kenzi Izawa - Japan**

BC3.29 the 3<sup>rd</sup> dot

I cannot understand the relationship between these sentences and “classification of the characteristics and order of their application. Please clarify whether these sentences are necessary.

Re “The Reporting Entity and Group Reporting” (Paper 2A.5)

BC4.19 the 2<sup>nd</sup> line

I recommend that the paragraph “the existence of statutory or constitutional authority to be professionally independent does not, of itself, preclude an entity from being included within the whole of government” would be deleted because this paragraph refers to the standard-level issue rather than the conceptual-level issue.

BC4.22 the 1<sup>st</sup> line

I recommend that the phrase “In some market economies” would be deleted because the situation may happen not only in some market economies.

(5. M. Abilleira – Uruguay - TA)

### Respondents

The IPSASB would welcome comments on all the proposals in the Exposure Draft. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale and, where applicable, provide a suggestion for proposed changes to the Exposure Draft.

### Specific Matter for Comment

The IPSASB would particularly value comments on whether you agree that the:

- (a) Conceptual Framework should not establish new authoritative requirements for financial reporting by public sector entities that adopt IPSASs, nor override the requirements of existing IPSASs. Rather its primary role should be to identify the broad principles that the IPSASB will adopt in developing IPSASs and non-authoritative guidance;
- (b) Conceptual Framework, while of less authority than an IPSAS, should be identified as a relevant source of guidance to constituents in dealing with financial reporting issues not specifically dealt with in IPSASs;
- (c) Conceptual Framework currently being developed by the IPSASB should not apply to government business entities;
- (d) General purpose financial reports (GPFRs) of public sector entities should be prepared to respond to the information needs of users who are unable to require the preparation of financial reports tailored to meet their specific information needs and, therefore, IPSASs should be developed to respond to the information needs of these users;
- (e) Primary users of GPFRs of public sector entities should be identified as service recipients and their representatives and resource providers and their representatives;
- (f) Objectives of financial reporting by public sector entities are to provide information that is useful for accountability purposes and useful for decision making purposes;

**Comment [r1]:** I believe the issue is not about authority, but that it is different from an IPSAS. Therefore I would make no reference to the degree of authority.

**Comment [r2]:** I think this would be better: "establish appropriate principles to be applied when preparing the required financial reports."  
I think it is better this: "Establish appropriate principles for application in preparing the financial reports upon which they must rely"

**(6. E Swart – South Africa – IPSASB member)**

**Comments on Conceptual Framework: Phase I papers**

**General:**

1. Terminology should be used consistently wherever possible. Some examples include:
  - “the Framework” vs “the Conceptual Framework”.
  - “public sector organization” vs “public sector entity”.
2. Throughout the various papers, reference is made to “financial” and “non-financial” information; and “quantitative” and “qualitative” information. It is unclear what is meant by “non-financial” information in the context of “general purpose financial reports”. Is it the intention that “non-financial” means the same as “qualitative”? If it is, then using a term such as “qualitative” is better than using “non-financial”.

**Specific paragraphs**

3. Paragraph 1.4 refers to financial and non financial information. For me the expansion from financial statements to financial reporting is logical, because we are still talking about financial information. Even service delivery objectives are financial when measuring the output. It becomes non-financial when we look at outcomes. This is pervasive throughout the document. Many IPSAS disclosure requirements are narrative, rather than quantitative. This does not make it non-financial, for example key assumptions.

An example: The objective would be to provide access to schools within 5 kilometres from every village. The output would be that we have built a 100 schools and have achieved this objective in 95% of the cases. The outcome would be that school literacy improved by 10%. The output is financial information, but the outcome is not. Accordingly, we do not agree with paragraph BC1.7 that achievement of service delivery objectives are non-financial.

4. Reference is often made to “government or another public sector entity” in the papers. Suggest amending this to “government or public sector entity” as using “another” seems to indicate that “government” is an entity, which may not be the case in many jurisdictions.
5. Paper 2A.2 BC1.3: This paragraph notes that IPSAS 3 describes when the conceptual framework has authority. Currently, IPSAS 3 does not make any reference to the IPSASB Framework. Likewise, other IPSASs will need to be amended as a result of the issuing of a Framework (e.g. The characteristics used to formulate accounting policies will need to be amended based on the framework). It is customary to include the consequential amendments as an appendix to the Exposure Draft. How will the consequential amendments be dealt with for the Framework?
6. Paper 2A.2 Appendix 1B - The comparison with the SNA is useful. Its usefulness would however be increased if, as with the comparisons in the other IPSAS, the requirements of the SNA and the Framework are contrasted rather than indicating the requirements of the SNA. (pervasive throughout these appendices).
7. “Cost-benefit” as a constraint: Paper 2A.4 3.39: This paragraph deals with the development of individual IPSASs. It notes that “Disclosures and other requirements which result in the presentation of information useful to users....unless the cost of compliance with those requirements are assessed to be greater than their benefits.” This paragraph notes that at a “standards-level”, “cost benefit” is still used. While in the “rules of the road”, “undue cost” and effort has been used as the hurdle for assessing requirements at a standards level. These two documents seem to conflict with one another about what test is applied at an individual standards-level. The interaction between the overall constraint of “cost-benefit” and, the constraint that may be applied at a standards-level, i.e. “undue cost and effort” should be explained. A suggested explanation could be:

**(6. E Swart – South Africa - IPSASB member)**

The requirements in the IPSASs are developed within the overall constraint that the cost of providing information should not outweigh the benefit received by the users of the financial statements. When entities prepare their financial statements, they would also consider a “cost-benefit” test in applying the requirements of the individual IPSASs. A “cost-benefit” test requires measurement of both the costs and benefits of providing or not providing certain information to the users of the financial statements.

On an individual standard-level however, the IPSASB may however assess that while some information may be useful to users, it should only be provided if it can be provided without “undue cost and effort”. A test based on “undue cost and effort” does not require an assessment of the benefits users may or may not receive from the disclosure of the information.



(6. E Swart – South Africa - IPSASB member)

Specific comments

Reference	Comment
<b>Paper 2A1</b>	
Page 2/5	6 <sup>th</sup> paragraph – add full stop at the end of the last sentence in the paragraph.
Page 5/5	(k) “.. should be used in the conceptual framework to describe the qualitative characteristics that <u>is</u> ” should be “ <u>are</u> ”.
	(l) delete “and” at the end of the sentence.
	(q) consider adding words like “financial and operating policies” in relation to “direct”.
<b>Paper 2A.2</b>	BC1.1 Last sentence should be amended as follows: “IPSASs- <del>and</del> are...”
	BC1.4 Alternative wording: After first sentence add: “The IPSASs are not designed to meet those users’ information needs.” The IPSASB is <u>however</u> aware...
	Appendix 1B: Third bullet more appropriate for the “elements” paper?
<b>Paper 2A3</b>	2.1 Consider amending as follows: “....accountability <del>purposes</del> and for decision making purposes.”
	2.2 Paragraph is useful – would not consider deleting.
	2.4 Heading: Consider amending as follows: “Users of general purpose financial reports of <del>public sector reporting entities</del> ” (heading a bit too long)
	2.4 2 <sup>nd</sup> sentence: The “their management” in the sentence is confusing. Should it be “the management”?
	2.13 & 2.14 Prefer alternative wording, but suggest the following amendments to the text in the rubric: Combine 2.13 and 2.14 and add a semi-colon after “for example”. Currently, the opening sentence of 2.13 provides a lead-in for both the example in 2.13 and 2.14. 2.13 ...”For example: <ul style="list-style-type: none"> <li>• Information about costs ....</li> <li>• (2.14) Taxpayers.....”</li> </ul>
	2.18 Opening sentence refers to “Public sector entities that are subject to the conceptual framework...”. As the conceptual framework has no status, would it be better to state that “Public sector entities that apply IPSASs..”
	2.18 References to “surplus and deficit” and “profit and loss” should be “or” instead of “and”.
<b>Paper 2A4</b>	3.1 Is the last sentence necessary?
	3.4 Consider rewording 1 <sup>st</sup> sentence as follows: “...the other characteristics to provide <u>information</u> in GPFRs <u>that is</u> useful...”
	3.28 (d)....”influencing past service delivery performance”
	BC3.12 1 <sup>st</sup> bullet: <u>jurisdictions</u>

(7. J. Karia – UN Observer)

**Specific Matters for Comment**

- (g) Conceptual Framework should not limit a public sector reporting entity to an organization that has a separate legal identity, but explain that 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;
- (h) Conceptual Framework should identify a public sector reporting entity as a government or other public sector organization, program or identifiable activity that prepares a general purpose financial report;
- (i) Entities included in a group reporting entity should be the entities that a government or other public sector entity has the “authority and capacity” to direct; and
- (j) **Members are requested to identify any additional matters for comment?**

**Comment [UN3]:** Consider adding a definition for ‘public sector entities’. If that definition is the one mentioned in Para. 1.8 of 2A.2, consider making an early reference to that definition in the ED.

**Comment [UN4]:** Consider adding a definition for international governmental organizations, similar to that in the middle of page 8 of 12emo. Consider making an early reference to that definition in the ED.

**The Objectives of Financial Reporting**

- 2.2. The objectives of financial reporting by public sector entities are to provide information about the reporting entity that is useful to users of GPFRs for accountability purposes and for decision making purposes.
- 2.3. 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. **(Staff propose deleting this paragraph.)**
- 2.4. 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 general purpose financial reports of public sector reporting entities**

- 2.5. 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 for their management and use of public resources 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.

(7. J. Karia – UN Observer)

- 2.6. 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. The legislature (or similar body), and members of parliament (or similar representative body), are also primary users of GPFRs when acting in their capacity as representative of the interests of service recipients and resource providers. Therefore, for the purposes of this Conceptual Framework, the primary users of GPFRs are service recipients and their representatives and resource providers and their representatives.
- 2.7. Citizens and other service recipients receive services from, and / or provide resources to, the government and other public sector entities. Therefore, citizens and other service recipients are primary users of GPFRs. 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.
- 2.8. GPFRs prepared to respond to the information needs of service recipients and their representatives and resource providers and their representatives for accountability and decision making purposes may also provide information useful to other users and for other purposes. For example, government statisticians, analysts, the media, financial advisors, public interest and lobby groups and others may find the information provided by GPFRs useful for their own purposes. Organizations that have the authority to require the preparation of financial reports tailored to meet their own specific information needs may also use the information provided by GPFRs for their own purposes – 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. While these other parties may find the information provided by GPFRs useful, they are not the primary users of GPFRs. Therefore, GPFRs are not developed to specifically respond to their particular information needs.

**Comment [UN5]:** In 2A.2, para 1.8, the term used was international governmental organizations. To consider consistently using the same term throughout the ED

**Information needs of service recipients and resource providers**

- 2.9. Service recipients include taxpayers, ratepayers, beneficiaries 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.

(7. J. Karia – UN Observer)

- 2.10. For accountability and decision making purposes, service recipients and their representatives 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, volume 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.
- 2.11. Resource providers include "involuntary resource providers" such as taxpayers, ~~and~~ and ratepayers and treaty signers, and "voluntary resource providers" such as lenders, donors, suppliers, fee-for-service consumers and employees.
- 2.12. For accountability and decision making purposes, resource providers and their representatives will require information as input to assessments of 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.
- 2.13. Lenders and creditors will require information as input to assessments of the liquidity of the entity and to confirm 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. In some cases, governments that provide resources to international organizations are dependent on GPFRs of those organizations for information for accountability and decision making purposes.
- .....

**Comment [UN6]:** Same as earlier comment to consider using a consistent term when referring to international governmental organizations.

(7. J. Karia – UN Observer)

### 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

BC2.1. The 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.*” (CP#1) did not identify a primary user, or primary users, of GPFs. Rather, the IPSASB’s Preliminary View 3 (PV3) in CP#1 identified the potential users of GPFs of public sector entities 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.

.....  
*Citizens*

*BC 2.6*

There is much common ground between the views of those that identify citizens and (and beneficiaries) 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 representatives as users of GPFs, 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.

.....  
*Other user groups*

*BC 2.10*

In developing CP#1, the IPSASB considered a wide range of potential users of GPFs, 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 (beneficiaries) and resource

(7. J. Karia – UN Observer)

providers and their representatives as the primary users of GPFRs will respond to the information needs of these subgroups of resource providers.

#### **Users and objectives of general purpose financial reports of public sector entities**

BC 2.13

The users of GPFRs of public sector entities, the objectives of financial reporting by public sector entities and the information that may be encompassed by GPFRs identified in this Framework respond to the circumstances of the public sector. There are some similarities in the potential users of GPFRs of public sector entities identified in this Framework 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 private sector business entities. There are also differences in how public and private sector business entities raise funds and 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;
- providers of development and other assistance and other donors provide resources voluntarily to public sector entities (and /or directly to the public), 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;

.....

#### **The Qualitative Characteristics of, and Constraints on, Information included in General Purpose Financial Reports**

**Comment [UN7]:** No Comments from the UN system on 2A.4

#### **The Reporting Entity and Group Reporting**

**Comment [UN8]:** No Comments from the UN system on 2A.5

(8. S. De Clerck – IMF Observer)

**From:** De Clerck, Sage [mailto:SdeClerck@imf.org]  
**Sent:** Wednesday, 29 September 2010 4:05 AM  
**To:** Paul Sutcliffe; Paul Sutcliffe  
**Cc:** John Stanford; Gutierrez Mangas, Carlos Alberto; STA GO Mail  
**Subject:** RE: IPSASB Framework and SNA 2008

Hi Paul

Attached, please find the appendix with some amendments and agreement on the refinements that you have proposed. As indicated in the earlier version, the SNA does not explicitly put forward the qualitative characteristics of the data, but these are rather contained in the data standards and DQAF which set the scene for data compilation. Following the lead from Erna, I have added a paragraph that broadly describes the quality framework. However, to really comply with Erna's request to compare the QCs as used in the accounting framework versus the statistical quality framework, we would have to provide more details on the nature of the DQAF. To accommodate that, I have added two boxes that describes the quality dimensions and elements in more detail – please feel free to decide what level of detail you wish to incorporate in the final document. Should you need additional information on the DQAF, please find herewith also the links to several publicly available documents related to the subject.

[IMF -Introduction to the Data Quality Reference Site](#)

Do not hesitate to contact me should you need additional assistance in this regard.

Best  
Sagé



(8. S. De Clerck – IMF Observer)

## Re Conception Framework Phase 1-ED:

### 1. The Role and Authority of the Conceptual Framework, and the Scope of General Purpose Financial Reporting

#### Appendix 1.B

#### Comparison with the statistical bases of reporting of the 1993 System of National Accounts (updated in 2008) and statistical bases of reporting other guidance derived from it (ESA 95 and GFSM 2001)

The 1993 System of National Accounts, ~~as updated in 2008~~ (2008 SNA 2008):

- Applies to economic activities taking place within an economy and between an economy and the rest of the world, and the interaction between the different economic agents, and groups of agents, that takes place in markets or elsewhere.
- Is an “internationally agreed standard set of recommendations on how to compile and present measures of economic activity...”
- Identifies a “sequence of interconnected flow accounts linked to different types of economic activity taking place within a given period of time, together with balance sheets that record the values of the stocks of assets and liabilities held by institutional units or sectors at the beginning and end of the period.”
- Explains that the classifications and accounting rules are meant to be universally applicable. 2008 SNA 2008 does not define parts of the SNA differently for application in different economies, for example in less developed or more developed economies, in large relatively closed economies or small open economies, or in high-inflation economies or in periods of low inflation.
- The standardized classification and sectorization, as well as the quadruple-entry system facilitate institutional, sectoral and cross-country.

The Government Finance Statistics Manual 2001 (GFSM 2001); and the European System of Accounts (ESA 95) are consistent with the principles of the 1993 System of National Accounts 1993 SNA. However, at a detailed level, some reporting differences result from differences in purpose and specific data needs. Updates to the ~~ion as identified in 2008~~ SNA 2008 will be incorporated in updates to the other statistical manuals, on these matters.

(8. S. De Clerck – IMF Observer)

### 3. The Qualitative Characteristics of, and Constraints on, Information included in General Purpose Financial Reports

#### *Appendix 3B*

*Comparison with the statistical bases of reporting of the 1993 System of National Accounts (updated in 2008) and statistical bases of reporting other guidance derived from it (ESA 95 and GFSM 2001)*

For ~~the~~ the 2008 System of National Accounts 2008 (2008 SNA-2008) ~~does not identify~~ the qualitative characteristics ~~that of~~ data included in the national accounts, are embedded in the concepts, definitions, classifications and accounting rules of the system-are to possess. Some data included in the SNA is drawn from data in GPFRs, or prepared for inclusion in GPFRs which comply with IFRSs, IPSASs or national accounting standards and therefore also satisfy the qualitative characteristics specified by those accounting standards, and/or related Conceptual Frameworks.

The qualitative characteristics of statistics are further elaborated in the Special Data Dissemination Standard (SDDS) and the General Data Dissemination System (GDDS) of the International Monetary Fund, which put forward minimum requirements with which the data and data reporters should comply. The quality of these statistics is measured in Reports on the Observance of Standards and Codes (ROSC), assessed against a Data Quality Assessment Framework (DQAF) which provides a structure for assessing existing practices against best practices.

The IMF DQAF identifies quality-related features of governance of statistical systems, statistical processes and statistical products. It is rooted in the United Nations code for “Fundamental Principles of Official Statistics” which puts forward qualitative requirements for all “official” statistics. The DQAF is organized around a set of prerequisites and five dimensions of data quality comprising assurances of integrity, methodological soundness, accuracy and reliability, serviceability and accessibility. Each quality dimension identifies 3 – 5 elements of good practice with indicators relevant for specific data sets.<sup>1</sup>

Consistent with 2008 SNA 2008, the Government Finance Statistics Manual 2001 (GFSM 2001) and the European System of Accounts (ESA 95) ~~do not identify~~ some of the qualitative characteristics and constraints of information ~~included-embedded~~ in the statistical bases of financial reporting prepared in accordance with their requirements. The “Fundamental Principles of Official Statistics,” SDDS, GDDS and DQAF also apply to these data sets.

(8. S. De Clerck – IMF Observer)

(IPSASB Staff comment - These boxes provide more details.)

**Box 1. The Data Quality Assessment Framework**

The DQAF covers five dimensions of quality and a set of prerequisites for the assessment of data quality. The coverage of these dimensions recognizes that data quality encompasses characteristics related to the institution or system behind the production of the data as well as characteristics of the individual data product. Within this framework, each dimension comprises a number of elements, which are in turn associated with a set of desirable practices. The following are the statistical practices that are associated with each dimension:

**Prerequisites of quality**—the environment is supportive of statistics; resources are commensurate with needs of statistical programs; and quality is a cornerstone of statistical work.

**Integrity**—statistical policies and practices are guided by professional principles; statistical policies and practices are transparent; and policies and practices are guided by ethical standards.

**Methodological soundness**—concepts and definitions used are in accord with internationally accepted statistical frameworks; the scope is in accord with internationally accepted standards, guidelines, or good practices; classification and sectorization systems are in accord with internationally accepted standards, guidelines, or good practices; and flows and stocks are valued and recorded according to internationally accepted standards, guidelines, or good practices.

**Accuracy and reliability**—source data available provide an adequate basis to compile statistics; statistical techniques employed conform with sound statistical procedures; source data are regularly assessed and validated; intermediate results and statistical outputs are regularly assessed and validated; and revisions, as a gauge of reliability, are tracked and mined for the information they may provide.

**Serviceability**—statistics cover relevant information on the subject field; timeliness and periodicity follow internationally accepted dissemination standards; statistics are consistent within the dataset, over time, and with other major data sets; and data revisions follow a regular and publicized procedure.

**Accessibility**—statistics are presented in a clear and understandable manner, forms of dissemination are adequate, and statistics are made available on an impartial basis; up-to-date and pertinent metadata are made available; and prompt and knowledgeable support service is available.

(8. S. De Clerck – IMF Observer)

## **Box 2. Content of the Framework**

The elements and indicators within their respective dimensions are described below.

- 0. Prerequisites of quality:** Although not itself a dimension of quality, this group of “pointers to quality” includes elements and indicators that have an overarching role as prerequisites, or institutional preconditions, for quality of statistics. Note that the focus is on the agency, such as a national statistical office, central bank, or a ministry/department. These prerequisites cover the following elements:
  - 0.1 legal and institutional environment,
  - 0.2 resources available for the statistical program,
  - 0.3 relevance, and
  - 0.4 other quality management.
- 1. Assurances of integrity:** This dimension relates to the adherence to the principle of objectivity in the collection, compilation, and dissemination of statistics. The dimension encompasses institutional arrangements that ensure professionalism in statistical policies and practices, transparency, and ethical standards. The three elements for this dimension of quality are the following:
  - 1.1 professionalism,
  - 1.2 transparency, and
  - 1.3 ethical standards.
- 2. Methodological soundness:** This dimension covers the idea that the methodological basis for the production of statistics should be sound and that this can be attained by following internationally accepted standards, guidelines, or good practices. This dimension is necessarily dataset-specific, reflecting different methodologies for different datasets. This dimension has four elements, namely:
  - 2.1 concepts and definitions,
  - 2.2 scope,
  - 2.3 classification/sectorization, and
  - 2.4 basis for recording.
- 3. Accuracy and reliability:** This dimension covers the idea that statistical outputs sufficiently portray the reality of the economy. This dimension is also data specific, reflecting the sources used and their processing. The five elements of this dimension cover the following:
  - 3.1 source data,
  - 3.2 assessment of source data,
  - 3.3 statistical techniques,
  - 3.4 assessment and validation of intermediate data and statistical outputs, and
  - 3.5 revision studies.
- 4. Serviceability:** This dimension relates to the need that statistics are disseminated with an appropriate periodicity in a timely fashion, are consistent internally and with other major datasets, and follow a regular revision policy. The three elements for this dimension are as follows:
  - 4.1 periodicity and timeliness,
  - 4.2 consistency, and
  - 4.3 revision policy and practice.
- 5. Accessibility:** This dimension relates to the need for data and metadata to be presented in a clear and understandable manner on an easily available and impartial basis, that metadata are up-to-date and pertinent, and that a prompt and knowledgeable support service is available. This dimension has three elements, namely:
  - 5.1 data accessibility,
  - 5.2 metadata accessibility, and
  - 5.3 assistance to users.

(8. S. De Clerck – IMF Observer)

#### 4. The Reporting Entity and Group Reporting

##### *Appendix 4B*

##### *Comparison with the statistical bases of reporting of the 1993 System of National Accounts (updated in 2008) and other guidance derived from it (ESA 95 and GFSM 2001)*

##### *Comparison with System of National Accounts (2008)*

The focus of the 2008 System of National Accounts (2008 SNA) is on institutional units which are 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.

An institutional unit is an economic entity that is capable, in its own right, of owning assets, incurring liabilities and engaging in economic activities and in transactions with other entities.

This A similar focus on institutional units and sectors are 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.

As a rule the entries in the SNA are not consolidated but there is a simple summation of entries of all resident institutional units belonging to a sector, and for the economic territory (economy-wide aggregates). The GFSM 2001 requires that data presented for a group of units be consolidated so that flows and positions of entities within such a grouping are eliminated and the data are presented as flows and positions with the remainder of the economy.

(8. S. De Clerck – IMF-Observer)

## 2. The Objectives of Financial Reporting

### Appendix 2B

Comparison with the [statistical bases of reporting of the 1993 System of National Accounts \(updated in 2008\)](#) and ~~statistical bases of reporting~~ [other guidance](#) derived from it (ESA 95 and GFSM 2001)

The primary objective of the SNA is to provide a comprehensive conceptual and accounting framework that can be used to create a macroeconomic database suitable for analyzing and evaluating the performance of an economy. The more specific uses of the SNA are identified as providing input for monitoring the behavior of the economy, macroeconomic analysis and making international comparisons.

The [2008 SNA](#) ~~2008~~ does not identify user groups or primary users but acknowledges that data generated in accordance with its principles may be used by many parties including for example, analysts, politicians, the press, the business community and the public at large.

The objective of the system of national accounts and the likely users of the information as identified in [2008 SNA](#) ~~2008~~ is reflected in the Government Finance Statistics Manual 2001 (GFSM 2001) and the European System

(9. R. Dacey – INTOSAI Observer)

My concern about paragraph 11 and 16 is that they do not set a threshold for what is sufficient. For example, is it possible that information may be as complete, neutral, and free of material error as possible but still not be sufficiently complete, neutral, and free of material misstatement to result in fair presentation. Or, even if the entity is not aware of errors or omissions that are individually or collectively material in the description of the phenomenon, is it fairly presented if management does not have a reasonable basis for their knowledge. Also, free from material error could be perceived as a condition of the financial statements whether or not the entity is aware of errors or omissions. Therefore, it may be appropriate to add some language to address this. In looking through FASAB and IAASB literature, it seemed that reasonable assurance might be an acceptable threshold. See the edits below for how this might read.

I know we had some discussion about this in Vienna, but I do not recall the resolution. I would appreciate your thoughts on this.

- 3.11 In practice, it may not be possible to know or confirm if information presented in GPFRs is fully complete, neutral, and free from material error. However, there should be [the entity should have] reasonable assurance that information is sufficiently complete, neutral, and free from material error.

~~However, information should be as complete, neutral, and free from material error as is possible.~~

3.16 Two possible alternatives

Free from material error does not mean complete accuracy in all respects. Free from material error means that 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 (including related uncertainties) of the estimating process are explained, and the estimates, including the selection and application of an appropriate process, are reasonable in the circumstances....



(9. R. Dacey – INTOSAI Observer)

Free from material error does not mean complete accuracy in all respects. Free from material error means that there is [or that the entity has] reasonable assurance that 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 (including related uncertainties) of the estimating process are explained, and there is [or the entity has] reasonable assurance that there are no material errors ~~have been identified~~ in selecting and applying an appropriate process for developing the estimate.

(9. R. Dacey – INTOSAI Observer –follow-up comments)

**From:** Dacey, Robert F [mailto:DaceyR@gao.gov]  
**Sent:** Friday, 1 October 2010 12:31 PM  
**To:** Paul Sutcliffe  
**Subject:** RE: IPSASB - Framework - Qualitative Characteristics

Paul,

....

Before responding to your comments, I went back again through my notes again and the point where FASAB had some significant discussion actually related to 3.15. Sorry for not picking that up earlier. Specifically, as part of SFFAS 33, we changed the concept of "best estimate" to "reasonable estimate". 3.15 uses the term "best available estimate". Among the reasons was that we were experiencing implementation issues about whether obtaining "best" information had cost/benefit constraints and whether "best" was necessarily sufficient. I have attached the Board's definition of reasonable estimate and the logic for the Board's decision. The IPSASB may or may wish to use similar language, but perhaps the Board should be aware of the potential issues.

Here are some of my thoughts in response to your comments on 3.11 and 3.16:

1. I appreciate your thoughts on 3.11 and agree that the original language should be retained. Perhaps, though, both concepts should be discussed rather than one or the other. For example, maybe it should be "as complete, neutral, and free of material error as possible" and should state that there is a "sufficiency" threshold that is addressed at the standards level. If the conceptual framework is for preparers and auditors (and not just the Board), it may be helpful to communicate that a threshold exists, below which information does not meet the qualitative characteristics for presentation in GPFRs.

2. I would prefer omitting "identified" because I believe that "free from material error" is a quality of the data, regardless of management's awareness.

3. "including related uncertainties" was meant to convey that the uncertainties should be disclosed as part of fair presentation to clearly communicate the nature and possible extent of uncertainty surrounding the estimate. I agree that it is discussed in 3.15, so it may not be necessary to repeat it in 3.16.

4. the word "estimates" was included to recognize that the estimates themselves need to be reasonable; arguably, if estimates are not reasonable (e.g., outside of a reasonable range), they are misstated.

I hope these thoughts clarify, rather than muddy the issues.

All the best,

Bob

(9. R. Dacey – INTOSAI Observer – follow-up comments)

Excerpts from SFFAS 33  
Reasonable Estimates

35. The entity's estimates should reflect its judgment about the outcome of events based on past experience and expectations about the future. Estimates should reflect what is reasonable to assume under the circumstances. The entity's own assumptions about future cash flows may be used. However, the entity should review assumptions used generally in the federal government as evidenced by sources independent of the reporting entity, for example, those used by the Bureau of Economic Analysis for the National Income and Product Accounts and, if its assumptions do not reflect such data, explain why it is inappropriate to do so.

A79. The proposed Statement also addressed an issue with respect to the meaning of "best estimate." The proposed Statement provided that estimates should be reasonable under the circumstances (see paragraph 31). The notion of "best estimate" has been used in several FASAB standards, for example, in SFFAS 5, paragraph 65, SFFAS 7, *Accounting for Revenue and Other Financing Sources* ..., paragraph 67.1, and in various instances in SFFAS 17. However, preparers and auditors have reported disagreements regarding the meaning of the word "best," which is sometimes defined as "excelling all others." Thus, the Board proposed to replace the term "best estimate" in FASAB standards with "reasonable estimate."

A80. Actuarial Standards of Practice (ASOP) provide guidance regarding the meaning of "best estimate" in ASOP 10, *Methods and Assumptions for Use in Life Insurance Financial Statements Prepared in Accordance with GAAP*, and ASOP 27, *Selection of Economic Assumptions for Measuring Pension Obligations*. ASOP 27 instructs actuaries to select a specific economic assumption from within his or her "best estimate range" with respect to that assumption, which it defines as "the narrowest range within which the actuary reasonably anticipates that the actual results ... are more likely than not to fall"<sup>19</sup> [emphasis added]. ASOP 27 provides, generally, that

"[b]ecause no one knows what the future holds with respect to economic and other contingencies, the best an actuary can do is to use professional judgment to estimate possible future economic outcomes based on past experience and future expectations, and to select assumptions based upon that application of professional judgment. Therefore, an actuary's best-estimate assumption is generally represented by a *range* rather than one specific assumption. The actuary should determine the best-estimate range for each economic assumption, and select a specific point from within that range. In some instances, the actuary may present alternative results by selecting different points within the best-estimate range" [emphasis added].<sup>20</sup>

A81. The Board concluded that ASOP 10 and 27 apply a standard of reasonableness regarding "best estimate," and that that is an appropriate approach. Therefore, paragraph 31 of the exposure draft called for the preparer's estimate to reflect what is reasonable to assume under the circumstances, rather than the preparer's "best estimate."

(10. R. Cottrell – SSAP- South Africa, ASB)

**From:** Shakeelah Jacobs [Shakeelah@manfam.co.za]  
**Sent:** Tuesday, 14 September 2010 6:04 PM  
**To:** Tracey Stark; John.Stanford@cipfa.org; Paul Sutcliffe  
**Cc:** Erna Swart  
**Subject:** RE: SSAP - Conceptual Framework Phase 1

**Importance:** High

Dear Paul

I have briefly reviewed the drafts and consider that they are on the right track and suitable for the intended purpose of a consultation paper. Apart from the matter raised below, I did not detect any points of principle or issues with which I would take issue

I have a view on paper 2A.3. I believe the most important user is the legislature with oversight responsibility. They are the monitors of accountability. I therefore disagree with the penultimate sentence of 2.7 and believe the position should be at least equal to that of a citizen.

Regards

Rick Cottrell



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(11. W. Payne – SSAP- USA, FASAB)

**Comments on Paper 2A.2**

Par. 1.1 and BC1.11 – GBEs

While I agree that GBEs should apply private sector standards, I am concerned about explicitly excluding GBEs from the conceptual framework. GBE's are governmental and seem relevant to the government as a whole and to resource providers who may face future risks. So, ultimately – the conceptual framework needs to be used to explain why GBEs are (1) permitted to apply private sector standards and (2) included or excluded in whole of government GPFR. In the final analysis, the governmental accounting standards-setter ought to be able to say that, on the whole, governmental objectives are best met by presentation of GBE information that is comparable to private sector information. If GBE's are to be excluded from or included in whole of government reports – the IPSAS ought to point to something in the entity concept that supports that decision and the decision as to whether GBE information should or should not be restated to IPSAS basis if consolidated. The current IPSAS preamble presents the conceptual arguments for excluding GBEs – is this simply an issue of placement (preamble or conceptual framework)?

BC1.4 – Special purpose financial reports

This paragraph acknowledges the application of IPSAS to some special purpose reports. Can a stronger assertion be made? For example, where special reports are used to provide the same information presented in GPFR but in greater detail IPSAS ought to be applied. Another option is to assert that it is good practice to draw information for special reports from the same systems that support GPFS - that is, a single source of data for financial information.

BC1.5 – 1.9 Scope

This section allows for evolution through IPSASB's response to user needs and through non-authoritative guidance. But, does it allow for experimentation by preparers? BC1.9 may be read to require IPSASB decisions to extend the scope. It may be helpful to say something about current practice – that some GPFR already present non-financial performance information and/or prospective information. Further, perhaps something can be said to encourage expansion. Is the content of GPFR limited by IPSAS?

*Note: This is a draft only. The matter considered here are the subject of ongoing IPSASB discussion.*

**Objective of the Exposure Draft and Specific Matters for Comment – “clean” draft**

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The International Public Sector Accounting Standards Board (IPSASB), an independent standards-setting body within the International Federation of Accountants (IFAC), approved for publication in XXXX 201X this Exposure Draft, “Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities:

- The Role and Authority of the Conceptual Framework and the Scope of General Purpose Financial Reporting;
- The Objectives of Financial Reporting;
- The Qualitative Characteristics of, and Constraints on, Information included in General Purpose Financial Reports; and
- The Reporting Entity and Group Reporting Entity.”

The proposals in this Exposure Draft may be modified in light of comments received before being issued in final form. **Comments are requested by XXXX, 201X.**

Respondents are asked to submit their comments **electronically** through the IFAC website ([www.ifac.org](http://www.ifac.org)), using the “Submit a Comment” link on the Exposure Drafts and Consultation Papers page. Please note that first-time users must register to use this new feature. All comments will be considered a matter of public record and will ultimately be posted on the IFAC website. Although IFAC prefers that comments be submitted electronically, e-mail may continue to be sent to [edcomments@ifac.org](mailto:edcomments@ifac.org) and [stepheniefox@ifac.org](mailto:stepheniefox@ifac.org). Comments can also be faxed to the attention of the IPASB Technical Director at +1 (416) 204-3412, or mailed to:

The Technical Director  
International Public Sector Accounting Standards Board  
International Federation of Accountants  
277 Wellington Street, 4th Floor  
Toronto, Ontario M5V 3H2 CANADA

Copies of this exposure draft may be downloaded free-of-charge from the IFAC website at <http://www.ifac.org>

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*Note: This is a draft only. The matter considered here are the subject of ongoing IPSASB discussion.*

**Objective of the Exposure Draft and Specific Matters for Comment – “clean” draft**

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## **Introduction**

The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities (the Conceptual Framework) will establish and make explicit the concepts that are to be applied in developing IPSASs and other documents that provide guidance on information included in general purpose financial reports (GPFRs).

IPSASs are developed to apply across countries and jurisdictions with different political systems, different forms of government and different institutional and administrative arrangements for the delivery of services to constituents. The IPSASB recognizes the diversity of forms of government, social and cultural traditions, and service delivery mechanisms that exist in the many jurisdictions that may adopt IPSASs, and has developed this Conceptual Framework to respond to and embrace that diversity.

## **The Accrual Basis of Accounting**

The IPSASB encourages public sector entities to adopt the accrual basis of accounting. This Exposure Draft deals with concepts that apply to general purpose financial reporting (hereafter referred to as financial reporting unless identified otherwise) under the accrual basis.

Under the accrual basis of accounting, transactions and other events are recognized in financial statements when they occur (and not only when cash or its equivalent is received or paid). Therefore, the transactions and events are recorded in the accounting records and recognized in the financial statements of the periods to which they relate.

Financial statements prepared on the accrual basis inform users of the financial statements of past transactions involving the payment and receipt of cash during the reporting period, obligations to pay cash or sacrifice other resources of the entity in the future and the economic resources of the entity at the reporting date. Therefore, they provide information about past transactions and other events that is more useful to users for accountability purposes and as input for decision-making than is information provided by the cash or other bases of financial reporting.

The IPSASB recognizes that in many jurisdictions governments and other public sector entities currently adopt the cash basis of accounting (or a near-cash or modified-cash basis of accounting). The IPSASB will consider the concepts that underpin the cash basis of financial reporting after it has developed the Conceptual Framework for the accrual basis.

## **Project Development**

The development of this Conceptual Framework is a collaborative project that the IPSASB is leading in conjunction with a number of national standards-setters and similar organizations with a role in establishing financial reporting requirements for governments and other public sector entities in their jurisdictions.

Many of the IPSASs currently on issue are based on International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB), to the extent that the requirements of those IFRSs are relevant to the public sector. The IPSASB's strategy and

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operational plan also includes maintaining the alignment of IPSASs with IFRSs where appropriate for the public sector. **(Staff Note – to be updated to reflect any further development of the IPSASB strategy and operational plan for 2010 and beyond.)**

The IASB is currently developing an improved Conceptual Framework for private sector business entities in a joint project with the Financial Accounting Standards Board (FASB) of the USA. Development of the IASB’s Conceptual Framework is being closely monitored. However, development of the IPSASB’s Conceptual Framework is not an IFRS convergence project, and the purpose of the IPSASB’s project is not simply to interpret the application of the IASB Framework to the public sector. The purpose of the IPSASB’s Conceptual Framework project is to develop concepts, definitions and principles that respond to the objectives, environment and circumstances of governments and other public sector entities and, therefore, are appropriate to guide the development of IPSASs and other documents dealing with financial reporting by public sector entities.

The concepts underlying statistical financial reporting models, and the potential for convergence with them, will also be considered by the IPSASB in developing its Conceptual Framework. The IPSASB is committed to minimizing divergence from the statistical financial reporting models where appropriate.

### **Consultation Papers and Exposure Draft**

Although all the components of the Conceptual Framework are interconnected, the project is being developed in phases. The components of the Conceptual Framework have been grouped, and are being considered in the following sequence:

Phase 1 – the objectives of financial reporting, the scope of financial reporting, the qualitative characteristics of information included in GPFRs, and the reporting entity and group reporting entity;

Phase 2 – the definition and recognition of the “elements” that are reported in financial statements;

Phase 3 – consideration of the measurement basis (or bases) that may validly be adopted for the elements that are recognized in the financial statements; and

Phase 4 – consideration of the concepts that should be adopted in deciding how to present financial statements and other components of GPFRs.

The project initially involves the development and issue for comment of Consultation Papers to draw out key issues and explore the ways in which those issues could be dealt with. The Consultation Paper dealing with Phase 1<sup>1</sup> was issued in September 2008, Consultation Papers dealing with Phase 2 and Phase 3 are being issued at the same time as this Exposure Draft (ED) and a Consultation Paper dealing with Phase 4 is under development.

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<sup>1</sup> 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.*”



*Note: This is a draft only. The matter considered here are the subject of ongoing IPSASB discussion.*

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It is the IPSASB's current intention to issue EDs dealing with each of Phases 2, 3 and 4 of the Conceptual Framework after consideration of responses to the Consultation Papers dealing with those Phases. The process for developing the finalized Conceptual Framework will be determined in light of the responses received to Consultation Papers and EDs, and may include issue of an umbrella exposure draft of the full Conceptual Framework. **(Staff Note – to be updated as timing of issue of this exposure draft and Phase 2 and 3 Consultation Papers and any development in the process become clearer.)**

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## **Objective of the Exposure Draft of Phase 1 of the Conceptual Framework**

This Exposure Draft of Phase 1 of the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities identifies and explains the role and authority of the Conceptual Framework, and the scope of financial reporting. It also identifies and explains:

- The objectives of financial reporting;
- The qualitative characteristics of, and constraints on, information included in general purpose financial reports; and
- How a reporting entity is identified and the composition of a group reporting entity is determined.

## **Respondents**

The IPSASB would welcome comments on all the proposals in the Exposure Draft. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale and, where applicable, provide a suggestion for proposed changes to the Exposure Draft.

## **Specific Matter for Comment**

The IPSASB would particularly value comments on whether you agree that the:

- (a) Conceptual Framework should not establish new authoritative requirements for financial reporting by public sector entities that adopt IPSASs, nor override the requirements of existing IPSASs. Rather its primary role should be to identify the broad principles that the IPSASB will adopt in developing IPSASs and non-authoritative guidance;
- (b) Conceptual Framework should be identified as a relevant source of guidance to constituents in dealing with financial reporting issues not specifically dealt with in IPSASs;
- (c) Conceptual Framework should include a definition of public sector entities. The Conceptual Framework currently does not include an exhaustive definition of what constitutes a public sector entity. Rather, it explains that the Conceptual Framework applies to all public sector entities other than GBE's and identifies the following as public sector entities:
  - (i) national, state/provincial, and local governments;
  - (ii) government ministries, departments, programs, boards, commissions and agencies;
  - (iii) public sector social security funds, trusts and statutory authorities;
  - (iv) international governmental organizations; and
  - (v) government business enterprises (GBEs).
- (d) Conceptual Framework should define international governmental organizations as public sector entities that include supra-national public sector organizations;

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- (e) Conceptual Framework currently being developed by the IPSASB should not apply to government business entities;
- (f) General purpose financial reports (GPFRs) of public sector entities should be prepared to respond to the information needs of users who are unable to require the preparation of financial reports tailored to meet their specific information needs;
- (g) Primary users of GPFRs of public sector entities should be identified as service recipients and their representatives and resource providers and their representatives;
- (h) Objectives of financial reporting by public sector entities are to provide information that is useful for accountability purposes and useful for decision making purposes;
- (i) Scope of financial reporting by public sector entities should allow GPFRs to report information about the past, present, and the future that is useful to users – including information about the entity’s:
  - (i) Financial position at reporting date and financial performance and cash flows over the reporting period;
  - (ii) Compliance with legally adopted or approved budgets and legislation or other authority governing the raising and use of public monies; and
  - (iii) Achievement of service delivery objectives in the current reporting period and anticipated future service delivery activities and resource needs;
- (j) Conceptual Framework should allow the scope of financial reporting to evolve in response to users’ information needs, consistent with the objectives of financial reporting;
- (k) GPFRs of public sector entities may encompass a number of separate reports, each responding more directly to certain aspects within the scope of financial reporting;
- (l) GPFRs of public sector entities may report information about compliance with budgets, but should not deal with the format or formulation of budgets;
- (m) Term “faithful representation” rather than “reliability” should be used in the Conceptual Framework to describe the qualitative characteristic that is satisfied when the depiction of an economic or other phenomenon is complete, neutral, and free from material error;
- (n) Qualitative characteristics of information included in GPFRs of public sector reporting entities are relevance, faithful representation, understandability, timeliness, comparability, and verifiability;
- (o) Constraints on information included in GPFRs are materiality, cost-benefit, and achieving an appropriate balance between the qualitative characteristics;
- (p) Qualitative characteristics apply to all financial and non-financial information reported in GPFRs, including historic and prospective information, and explanatory material or other narrative reporting. If needed, additional guidance on applying the qualitative characteristics to information outside the financial statements and their notes should be

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considered in the development of IPSASs and other pronouncements of the IPSASB that deal with such information;

(q) Conceptual Framework should:

- i. identify a public sector reporting entity as a government or other public sector organization, program or identifiable activity that prepares a general purpose financial report; and
- ii. explain that 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

(r) Entities included in a group reporting entity should be the government (or other public sector entity) and the entities whose activities it has the “authority and capacity” to direct when the results of such direction can generate financial or other benefits for the government (or other public sector entity) or expose it to a financial burden or loss.

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**Role, Authority of Conceptual Framework and Scope of General Purpose Financial Reporting - “clean” draft**

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## THE CONCEPTUAL FRAMEWORK FOR GENERAL PURPOSE FINANCIAL REPORTING BY PUBLIC SECTOR ENTITIES

### 1 The Role and Authority of the Conceptual Framework and the Scope of General Purpose Financial Reporting

#### The Role of the Conceptual Framework

- 1.1 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 (GBEs). The International Public Sector Accounting Standards Board (IPSASB) will apply these concepts in developing International Public Sector Accounting Standards (IPSASs) or non-authoritative guidance applicable to the preparation and presentation of general purpose financial reports (GPFRs) of public sector entities.

#### General Purpose Financial Reports

- 1.2 GPFRs are financial reports intended to meet the common information needs of users who are unable to require 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.
- 1.3 Some users of financial information may have the authority to require 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

- 1.4 The scope of financial reporting establishes the boundary around the transactions, other events and activities that may be reported in GPFRs. The scope of financial reporting is determined by the information needs of the primary users of GPFRs and the objectives of financial reporting (as identified in “The Objectives of Financial Reporting” section of this Conceptual Framework), 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.
- 1.5 GPFRs of public sector entities include, but are more comprehensive than, financial statements and their notes. They can report information about the past, present, and the future that is useful to users – including financial and non-financial quantitative and

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qualitative 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 are likely to 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. The format of presentation adopted by GPFRs will also respond to, and be influenced by matters included within, the scope of financial reporting.

- 1.6 While this Conceptual Framework reflects a scope of financial reporting that is more comprehensive than that encompassed by financial statements and their notes, information presented in financial statements and their notes remain at the core of financial reporting. How the elements of financial statements are defined, recognized and measured, and forms of presentation and communication that might be adopted for information included within GPFRs, is considered in other components of this Conceptual Framework and in the development of individual IPSASs or non-authoritative guidance, as appropriate.

**Authority of the Conceptual Framework**

- 1.7 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 in dealing with financial reporting issues not dealt with by IPSASs or other non-authoritative guidance issued by the IPSASB. In these circumstances, preparers and others can refer to and consider the applicability of the definitions, recognition criteria, measurement principles, and other concepts identified in this 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**

- 1.8 The Conceptual Framework applies to financial reporting by public sector entities other than 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.

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## **Section 1: 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 dealing with this phase of the Conceptual Framework<sup>2</sup> and the reasons for those changes.*

### **The Role and Authority of the Conceptual Framework**

- BC1.1 The Conceptual Framework identifies the broad principles that the IPSASB will apply in developing International Public Sector Accounting Standards (IPSASs) and non-authoritative guidance intended to assist preparers and others in dealing with financial reporting issues. 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.
- BC1.2 The IPSASB is of the view that existing authoritative requirements should not be overturned without the application of due process. After 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.
- BC1.3 Although the Conceptual Framework has lesser authority than an IPSAS developed to deal with specific transactions or other events, it will be a relevant source of guidance 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 other sources of guidance may be referred to in the absence of an IPSAS. After the Conceptual Framework is issued, IPSAS 3 may be amended to identify the circumstances in which it (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.

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<sup>2</sup> 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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## **Special Purpose Financial Reports**

BC1.4 Standards-setters often describe as special purpose financial reports, those financial reports prepared to respond to the requirements of users that have the authority to require the preparation of financial reports that disclose the information they need for their particular purposes. However, 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.

## **The Scope of Financial Reporting**

BC1.5 This Conceptual Framework reflects a scope for financial reporting that is more comprehensive than that encompassed by financial statements and their notes. For example, in addition to financial statements that present financial information about past transactions and other events, GPFRs may encompass reports that present financial and non-financial information about the achievement of the entity’s service delivery objectives during the reporting period and prospective financial and non-financial information about its future service delivery activities, objectives, and resource needs.

BC1.6 The IPSASB is of the view that this more comprehensive 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.

BC1.7 Acknowledging a more comprehensive scope for financial reporting does not mean that it is inevitable that authoritative requirements will be developed to direct reporting on all the matters that may be encompassed by that scope. For example,

- the IPSASB’s publications include discussion papers and non-authoritative guidance intended to assist the financial reporting community to respond to particular financial reporting issues; and
- the financial reports of public sector entities in many jurisdictions currently include information about service delivery achievements and prospective financial and non-financial information that is not specifically required by IPSASs.

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.

BC1.8 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 elements of the financial statements. How these concepts may apply to other areas of financial reporting will be considered



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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.

- BC1.9 In making decisions that extend the scope of financial reporting beyond financial statements and their notes, the IPSASB will consider the benefits of the information to users and the costs of compiling and reporting such information. The timing of these developments of the scope of financial reporting will therefore respond to developments in users’ information needs and assessments of the benefits and costs of reporting information to respond to those needs.

### **Other Reports and Information**

- BC1.10 GPFRs may not provide all the information users need for accountability and decision-making purposes. In addition to GPFRs, governments and other public sector entities report a wide range of financial and non-financial 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 (and in some cases private) sector entities when users require additional or more detailed information about, for example, the activities and plans of a government or other public sector entity, and the factors that influence them.

### **Government Business Enterprises**

- BC1.11 The IPSASB develops IPSASs and non-authoritative guidance for public sector entities. This Conceptual Framework has been developed for public sector entities other than GBEs. Consequently, it does not apply to GBEs.

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## **Appendix 1.A**

### **The IASB Conceptual Framework (as at XXX 2010)**

The International Accounting Standards Board (IASB) Conceptual Framework (adopted by the IASB in 2001 and updated in part in XX 2010):

- Applies to business entities in the private sector. (Update XX 2010.) Its application to not-for-profit entities in the private sector is to be considered in the future.
- Will not override existing financial reporting standards. (Update XX 2010)
- Applies to general purpose financial reporting (financial reporting). However, it currently identifies concepts applicable to only general purpose financial statements. (Update XX 2010)
- Explains that general purpose financial reporting stems from the information needs of users who lack the ability to prescribe all the financial information they need from an entity, and therefore must rely, at least partly, on the information provided in financial reports. (Update XX 2010)
- Specifies that the objective of financial reporting is the same for all reporting entities, but explains that cost constraints may sometimes lead standards-setters to permit or require differences in reporting for some types of entities such as small and medium-sized entities. (Update XX 2010)

(Staff Note: This is indicative of style only. It reflects recent public drafts of the equivalent Chapter of the updated IASB Conceptual Framework. It is anticipated that the final Chapter of the IASB Conceptual Framework dealing with these matters will be issued before release of this ED. This Appendix will be updated when the final Chapter of the IASB Conceptual Framework dealing with these matters is issued or, if that final Chapter is not issued, revised to reflect the position in the current IASB Conceptual Framework.)

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## **Appendix 1.B**

### **The statistical bases of reporting of the 1993 System of National Accounts (updated in 2008) and other guidance derived from it (ESA 95 and GFSM 2001)**

The 1993 System of National Accounts – as updated (2008 SNA):

- Applies to economic activities taking place within an economy and between an economy and the rest of the world, and the interaction between the different economic agents and groups of agents that takes place in markets or elsewhere.
- Is an “internationally agreed standard set of recommendations on how to compile and present measures of economic activity...”
- Requires all parties to report transactions in the same way
- Identifies a “sequence of interconnected flow accounts linked to different types of economic activity taking place within a given period of time, together with balance sheets that record the values of the stocks of assets and liabilities held by institutional units or sectors at the beginning and end of the period.”
- Explains that the classifications and accounting rules are meant to be universally applicable. 2008 SNA does not define parts of the SNA differently for application in different economies, for example in less developed or more developed economies, in large relatively closed economies or small open economies, or in high-inflation economies or in low inflation.
- Adopts a standardized classification and sector-identification basis, and a multiple entry data system to facilitate institutional, sectoral and cross-country comparability.

The Government Finance Statistics Manual 2001 (GFSM 2001), and the European System of Accounts (ESA 95) are consistent with the principles of the 1993 System of National Accounts 1993 SNA. However, at a detailed level, some reporting differences result from differences in purpose and specific data needs. Updates to the 2008 SNA will be incorporated in updates to the other statistical manuals..

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**The Objectives of Financial Reporting - “clean” draft**

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## **2 The Objectives of Financial Reporting**

- 2.1 The objectives of financial reporting by public sector entities are to provide information about the reporting entity that is useful to users of GPFRs for accountability purposes and for decision making purposes.
- 2.2 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. **(Staff propose deleting this paragraph.)**
- 2.3 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 General Purpose Financial Reports**

- 2.4 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 for their management and use of public resources 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.
- 2.5 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 entity to disclose the information they need for accountability and decision making purposes. The legislature (or similar body), and members of parliament (or similar representative body), are also primary users of GPFRs when acting in their capacity as representatives of the interests of service recipients and resource providers. Therefore, for the purposes of this Conceptual Framework, the primary users of GPFRs are service recipients and their representatives and resource providers and their representatives.
- 2.6 Citizens receive services from, and provide resources to, the government and other public sector entities. Therefore, citizens are primary users of GPFRs. 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 governmental organizations.
- 2.7 GPFRs prepared to respond to the information needs of service recipients and their representatives and resource providers and their representatives for accountability and

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decision making purposes may also provide information useful to other users and for other purposes. For example, government statisticians, analysts, the media, financial advisors, public interest and lobby groups and others may find the information provided by GPFRs useful for their own purposes. Organizations that have the authority to require the preparation of financial reports tailored to meet their own specific information needs may also use the information provided by GPFRs for their own purposes – 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. While these other parties may find the information provided by GPFRs useful, they are not the primary users of GPFRs. Therefore, GPFRs are not developed to specifically respond to their particular information needs.

**Information Needs of Service Recipients and Resource Providers**

- 2.8 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.
- 2.9 For accountability and decision making purposes, service recipients and their representatives 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, volume 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.

- 2.10 Resource providers include “involuntary resource providers” such as taxpayers and ratepayers, and “voluntary resource providers” such as lenders, donors, suppliers, fee-for-service consumers and employees.
- 2.11 For accountability and decision making purposes, resource providers and their representatives will require information as input to assessments of 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

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- Is likely to need additional (or less) resources in the future, and the likely sources of those resources.
- 2.12 Lenders and creditors will require information as input to assessments of the liquidity of the entity and to confirm 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. In some cases, governments that provide resources to international governmental organizations are dependent on GPFRs of those organizations for information for accountability and decision making purposes.

*Accountability and Decision Making*

- 2.13 Service recipients and resource providers will require information for accountability purposes and as input for making decisions. For example:
- Lenders, creditors, donors and others that provide resources on a voluntary basis, including in an exchange transaction, make decisions about whether to provide resources to support the current and future activities of 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 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.
- 2.14 Information provided in 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.

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**See covering memorandum Issue #5 (b) – Alternative paragraphs 2.13 & 2.14**

**Text of 2.13 & 2.14 has been rearranged to link and balance the discussion of accountability and decision making.**

- 2.13 Service recipients and resource providers will require information for accountability purposes and as input for making decisions. Information provided in 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 as input for decision making by lenders, creditors, donors and others that provide resources on a voluntary basis to governments or other public sector entities.
- 2.14 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. Consequently, they have little direct or immediate capacity to make decisions about whether to provide resources to the government or other public sector entity. However, information provided in GPFRs for accountability purposes will inform decisions that taxpayers and ratepayers make about their voting preferences, and representations they make to elected officials or representative bodies.

**Information Provided by General Purpose Financial Reports**

- 2.15 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 activities, achievements and outcomes 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, including the anticipated amount and sources of the resources needed to support those plans and objectives.

*Financial Position, Financial Performance and Cash Flows*

- 2.16 Information about the financial position of a government or other public sector entity will enable users to identify the economic resources of the entity that can be used to provide particular services in future periods, claims to those economic resources at the reporting

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date and changes in them during the reporting period. This will provide information useful as input to assessments of such matters as:

- The extent to which management has discharged its responsibilities for safekeeping and managing the resources of the entity;
- Whether additional (or less) resources are needed to support future service delivery objectives; and
- The amounts and timing of future cash flows necessary to service and repay existing claims to the entity’s resources.

2.17 Information about the financial performance of a government or other public sector 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 by increasing the level of indebtedness of the entity.

2.18 Public sector entities other than GBE’s are constituted and funded primarily to provide services to constituents, rather than to provide financial returns to owners or investors. As such, their financial performance will not be fully or adequately reflected in measures of their financial results (whether described as “surplus or deficit”, “profit or loss” or by other terms). Rather, assessments of their financial performance will involve analysis of such matters as:

- the purposes for which resources were used during the reporting period;
- the costs, efficiency and effectiveness of service delivery during the reporting period; and
- changes during the reporting period in the amount and composition of the economic resources that are available for the provision of services in the future and claims to those resources.

2.19 Information about the cash flows of a government or other public sector entity 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, for example, property, plant and equipment. It also identifies the cash received from, for example, taxes, rates and investments and the cash transfers 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.



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*Compliance*

- 2.20 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 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.
- 2.21 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 included in GPFRs. Such information is necessary for the discharge of a government’s (or other entity’s) accountability to its constituents and will inform decision-making. However, GPFRs will not deal with matters related to the format or formulation of budgets. 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 other public sector entities issue in addition to their GPFRs.

*Service Delivery Achievements*

- 2.22 Reporting non-financial as well as financial information about service delivery activities, achievements and outcomes during the reporting period will provide input to assessments of the economy, efficiency, and effectiveness of the entity’s operations. Reporting this information is necessary for a government or other public sector entity to discharge its obligation to be accountable – that is, to account for, and justify the use of, the financial resources raised from, or on behalf of, constituents. 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 Non-financial Information*

- 2.23 Decisions made by a government or other public sector entity 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 activities and related financial commitments.

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 funding for such resources, will be necessary as input to any assessment of the ability of

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the government or other public sector entity to meet its service delivery and financial commitments in the future. The disclosure of such information in GPFRs will enhance the accountability of the entity and provide additional information useful for decision making purposes.

*Narrative Reports*

- 2.24 Narrative reports can provide additional information about the major factors underlying the financial and service delivery performance of the entity during the reporting period. They can also outline the assumptions that underpin expectations about, and factors that are likely to influence, the entity’s future performance. This will assist users to better understand and place in context the financial and non-financial information included in GPFRs, and enhance the role of GPFRs in providing information useful for accountability and decision making purposes.
- 2.25 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 narrative reports which provide an assessment of the quality of particular services or the outcome of certain programs.

**Other Sources of Information**

- 2.26 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, information useful for accountability and decision making purposes may also be provided by reports other than GPFRs. 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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## **Section 2: 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 dealing with this phase of the Conceptual Framework and the reasons for those changes.*

### **Primary User Groups**

- BC2.1 The 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.*” (CP#1) did not identify a primary user, or primary users, of GPFRs. Rather, the IPSASB’s Preliminary View 3 (PV3) in CP#1 identified the potential users of GPFRs of public sector entities 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.
- BC2.2 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 representatives 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.
- BC2.3 Other respondents were of the view that resource providers, funders, financial supporters or similar providers of resources 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. Therefore, 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.
- BC2.4 The IPSASB acknowledges 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

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public sector entities should be identified as service recipients and their representatives and resource providers and their representatives. This is because governments and other public sector entities are accountable primarily to those that provide them with resources, and to those that depend on them to use those resources to deliver necessary services. In addition, the Conceptual Framework will apply to governments and a potentially wide range of other public sector entities in many different jurisdictions as well as international governmental organizations. Consequently, it is not clear that identification of other user groups as the primary users of GPFRs will be relevant, and operate effectively, for all public sector entities across all jurisdictions.

- BC2.5 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*

- BC2.6 There is much common ground between the views of those that identify citizens and 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 service recipients and resource providers. The IPSASB acknowledges the importance of citizens and their representatives as users of GPFRs, but is of the view that it is necessary to further classify citizens into service recipients and resource providers 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 entity to disclose the information they need for accountability and decision making purposes.

*Resource Providers*

- BC2.7 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 many jurisdictions, resource providers are primarily donors or lenders that, in many cases, have the authority to require the preparation of special purpose financial reports to provide the information they needed.

*The Legislature*

- BC2.8 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 service recipients and resource

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providers. The legislature, parliaments, councils and similar bodies will also require information for their own specific accountability and decision making purposes, and usually have the authority to require the preparation of detailed financial and other reports to provide that information. However, they may also use the information provided by GPFRs for their own particular purposes, including for example, as input to assessments of whether resources were used efficiently and as intended and in making decisions about allocating resources to particular government entities, programs or activities.

- BC2.9 Individual members of the legislature or other governing body, whether members of the government or opposition, can usually require the disclosure of the information they need for the discharge of their official duties as directed by the governing body, but may not have the authority to require the preparation of financial reports that provide the information they require for other purposes or in other circumstances. Consequently, they are users of GPFRs, whether in their capacity as representatives of service recipients and resource providers in their electorate or constituency, or in their personal capacity as citizens and members of the community.

*Other User Groups*

- BC2.10 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 as the primary users of GPFRs will respond to the information needs of these subgroups of resource providers.
- BC2.11 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 would be encompassed within the groups identified as service recipients and resource providers and their representatives. Consequently they should not be identified as a separate user group. Some also expressed concern that identifying or implying that GPFRs should be developed to respond to the needs of special interest groups was contrary to the “general purpose” nature of GPFRs. The IPSASB was persuaded by these arguments.
- BC2.12 The information provided by GPFRs may also be useful for compiling national accounts, as input to statistical financial reporting models, for assessments of the impact of government policies on economic activity and 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 those that act as advisors to service recipients or resource providers such as citizen advocacy groups, bond rating agencies and credit analysts and public interest groups are likely to find the

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information reported in GPFRs useful for their purposes, GPFRs are not prepared specifically to respond to their particular information needs.

**Users and Objectives of General Purpose Financial Reports of Public Sector Entities**

**See covering memorandum Issue #5 (c) – Retention of BC2.13**

BC2.13 There are some similarities in the potential users of GPFRs of public sector entities identified in this Conceptual Framework 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 and private sector business entities. There are also differences in how public sector entities and private sector business entities raise funds and 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 other than GBE’s 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;
- 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;
- 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 do not – they provide funds involuntarily, and cannot choose whether to “invest” those funds in the government or public sector entity. However, they can make decisions about their voting preferences, and representations to elected officials or other representative bodies – those decisions may have resource allocation consequences for certain public sector entities;
- 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

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- 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 choices.

BC2.14 Consequently, for many users of GPFRs of public sector entities, the disclosure of information for accountability purposes is as, if not more, important than the disclosure of information for decision making purposes.

BC2.15 This Conceptual Framework reflects the IPSASB’s view that the discharge of accountability by a government, or other public sector entity, requires reporting information in GPFRs that will assist service recipients and resource providers to form judgments about (a) the extent to which the entity has discharged its responsibilities in safekeeping and managing the resources raised from them, or provided on their behalf, during the reporting period; and (b) the resources they are likely to be required to provide, and services they are likely to receive, in future periods as a consequence of activities and undertakings made in the current period.

BC2.16 Therefore, for both accountability and decision making purposes users of GPFRs of public sector entities will require information about financial position, financial performance, compliance, service delivery achievements and future service delivery objectives and resource needs. The IPSASB recognizes that some users of GPFRs (whether service recipients or resource providers) 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.

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## **Appendix 2.A**

### **The IASB Conceptual Framework (as at XXX 2010)**

The International Accounting Standards Board (IASB) Conceptual Framework (updated XX 2010) applies to business entities in the private sector.

The IASB Conceptual Framework explains that:

- The objective of general purpose financial reporting of business entities in the private sector is 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.
- The decisions that capital providers make include whether and how to:
  - (a) allocate resources to a particular entity, and
  - (b) protect or enhance their investments.
- Information that is decision useful to capital providers may also be useful to other users of financial reporting who are not capital providers.
- Information included in financial reports is useful for assessing an entity’s ability to generate net cash inflows and for assessing the effectiveness with which management has fulfilled its responsibilities

(This is indicative of style only. It reflects recent public drafts of the equivalent Chapter of the updated IASB Conceptual Framework. It is anticipated that the final Chapter of the IASB Conceptual Framework will be issued before release of this ED. This Appendix will be updated when the final Chapter of the IASB Conceptual Framework dealing with the objective of financial reporting is issued or, if that final Chapter is not issued, revised to reflect the position in the current IASB Conceptual Framework.)



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**Appendix 2B**

**The statistical bases of reporting of the 1993 System of National Accounts (updated in 2008) and other guidance derived from it (ESA 95 and GFSM 2001)**

The primary objective of the SNA is to provide a comprehensive conceptual and accounting framework that can be used to create a macroeconomic database suitable for analyzing and evaluating the performance of an economy. The more specific uses of the SNA are identified as providing input for monitoring the behavior of the economy, macroeconomic analysis and making international comparisons.

The 2008 SNA does not identify user groups or primary users but acknowledges that data generated in accordance with its principles may be used by many parties including for example, analysts, politicians, the press, the business community and the public at large.

The objective of the system of national accounts and the likely users of the information as identified in 2008 SNA is reflected in the Government Finance Statistics Manual 2001 (GFSM 2001) and the European System of Accounts (ESA 95).

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**The Qualitative Characteristics of, and Constraints on, Information included in GPFRs - “clean” draft**

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### **3 The Qualitative Characteristics of, and Constraints on, Information included in General Purpose Financial Reports**

- 3.1 GPFRs present financial and non-financial 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.
- 3.2 The qualitative characteristics of information included in GPFRs of public sector reporting entities are relevance, faithful representation, understandability, timeliness, comparability, and verifiability.
- 3.3 Materiality, cost-benefit, and achieving an appropriate balance between the qualitative characteristics are pervasive constraints on information included in GPFRs.
- 3.4 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.
- 3.5 The qualitative characteristics apply to all financial and non-financial information reported in GPFRs, including 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 non-financial 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 will be considered in the development of any IPSASs and other pronouncements of the IPSASB that deal with such matters.

#### **Relevance**

- 3.6 Financial and non-financial information is relevant if it is capable of making a difference in achieving the objectives of financial reporting. Financial and non-financial 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.
- 3.7 Financial and non-financial 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 specified service delivery objectives, and compliance with relevant budgetary, legislative, and other requirements.

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**The Qualitative Characteristics of, and Constraints on, Information included in GPFRs - “clean” draft**

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- 3.8 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.
- 3.9 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 expectations and predictions about the entity’s ability to respond to such changes. It also helps to confirm or correct prospective financial information included in previous GPFRs.

**Faithful Representation**

- 3.10 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.
- 3.11 In practice, it may not be possible to know or confirm if information presented in GPFRs is fully complete, neutral, and free from material error. However, information should be as complete, neutral, and free from material error as is possible.
- 3.12 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 representation. Similarly, prospective financial and non-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.

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**The Qualitative Characteristics of, and Constraints on, Information included in GPFRs - “clean” draft**

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- 3.13 Neutrality in financial reporting is the absence of bias. It means that the selection and presentation of financial and non-financial 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 particular behaviour.
- 3.14 Neutral information 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 characteristic and, by definition, relevant information is capable of influencing users’ assessments and decisions.
- 3.15 The economic and other phenomena represented in GPFRs generally occur 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 non-financial information to faithfully represent economic and other phenomena.
- 3.16 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**

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

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**The Qualitative Characteristics of, and Constraints on, Information included in GPFRs - “clean” draft**

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- 3.18 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**

- 3.19 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.
- 3.20 Some items of information may continue to be useful long after the reporting period or 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**

- 3.21 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.
- 3.22 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.
- 3.23 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.
- 3.24 Information about the entity’s financial position, financial performance, compliance, service delivery achievements, and its future plans is necessary for accountability purposes

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**The Qualitative Characteristics of, and Constraints on, Information included in GPFRs - “clean” draft**

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and useful as input for decision making purposes. The usefulness of such information is enhanced if it can be compared with, for example:

- The budget of the entity for the reporting period, or prospective financial and non-financial 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).

3.25 Consistent application of accounting policies to prospective financial and non-financial 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**

3.26 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 non-financial quantitative information disclosed in GPFRs – that is, the quality of information that helps assure users that explanatory or prospective financial and non-financial 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.

3.27 To be verifiable, information need not be a single point estimate. A range of possible amounts and the related probabilities also can be verified.

3.28 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 delivery 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).

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- 3.29 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 GPFRs, the more useful it is.
- 3.30 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 non-financial 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.
- 3.31 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 General Purpose Financial Reports**

*Materiality*

- 3.32 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 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.
- 3.33 Assessments of materiality will be made in the context of the legislative, institutional and operating environment within which the entity operates and, in respect of prospective financial and non-financial 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*

- 3.34 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

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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.

- 3.35 The costs of providing information include the costs of collecting and processing the information, the costs of verifying it and/or presenting the assumptions and methodologies that support it, and the 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 from other sources and the costs that result from making decisions using incomplete data provided by GPFRs.
- 3.36 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.
- 3.37 Users reap the majority of benefits from the information provided by GPFRs. However, information prepared for GPFRs may also be used internally by management and result in better management decision making. Therefore, reporting entities may also benefit from the information provided by GPFRs.
- 3.38 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 the information. When making this assessment, it is necessary to consider whether one or more qualitative characteristics might be sacrificed to some degree to reduce cost.
- 3.39 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 which result in the presentation of information useful to users of GPFRs for accountability and decision making purposes and satisfy the qualitative characteristics are prescribed by IPSASs unless the cost of compliance with those requirements are assessed to be greater than their benefits.

*Balance Between the Qualitative Characteristics*

- 3.40 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.
- 3.41 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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**The Qualitative Characteristics of, and Constraints on, Information included in GPFRs - “clean” draft**

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### **Section 3: 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 dealing with this phase of the Conceptual Framework and from the qualitative characteristics identified in Appendix B of IPSAS 1 “Presentation of Financial Statements, and the reasons for those changes.*

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

- BC3.1 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 considered to satisfy the qualitative characteristics and constraints that are identified in this Conceptual Framework.
- BC3.2 IPSASs will not deal with all financial and non-financial 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**

- BC3.3 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”.
- BC3.4 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 IPSASB is also of the view that the notion of “regularity” as noted by some respondents is related to the notion of

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“compliance” as used in this Conceptual Framework – therefore, regularity is not identified as an additional qualitative characteristic.

### **Relevance**

- BC3.5 The Conceptual Framework explains that financial and non-financial 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 are relevant to the achievement of the objectives of financial reporting – that is, are relevant to the discharge of the entity’s obligation to be accountable and to decisions that users may make.
- BC3.6 Appendix B of IPSAS 1 *“Presentation of Financial Statements”* explains that information is relevant if it can be used to assist in evaluating past, present or future events or in confirming, or correcting, past evaluations. IPSAS 1 also notes that to be relevant, information must be timely.
- BC3.7 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.

### **Faithful Representation**

- BC3.8 The Conceptual Framework explains that to be useful information must be a faithful representation of the economic and other phenomena that it purports to represent. 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 and cost 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. As appropriate, individual IPSASs will provide guidance on representations of particular economic and other phenomena that are complete.
- BC3.9 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

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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 phenomenon 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.

**See covering memorandum Issue #6**

**Potential amendments to paragraph BC3.9**

BC3.39 “Completeness and neutrality of estimates (and inputs to those estimates) and freedom from material error 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 phenomenon 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. Where necessary, IPSASs will establish minimum thresholds of completeness, neutrality and freedom from material error that are to be satisfied by information that qualifies for inclusion in GPFRs.”

*Faithful Representation or Reliability*

- BC3.10 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 same concept. In addition, it does not explicitly identify substance over form and prudence as components of faithful representation.
- BC3.11 Some respondents to CP#1 did not support the replacement of reliability with the term faithful representation noting that their experience was that reliability is widely used and well understood in the public sector. Some have also expressed the view that reliability is a more accurate reflection of the substance of this qualitative characteristic than is faithful representation, particularly as it applies to qualitative and prospective information included in GPFRs. However, some of these respondents also noted that in the interests of alignment with IASB terminology, faithful representation should be adopted.

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BC3.12 The IPSASB has also been advised that:

- In some jurisdictions, reliability is sometimes interpreted to mean “verifiable” or “free from error” or “complete” or “neutral”, rather than its intended meaning of broadly representing faithfully the economic and other phenomena that it purports to represent;
- Difficulties in interpretation and application of “reliability” may be overcome by using the term “faithful representation” and re-expressing its role and components; and
- Faithful representation is less dependent 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.

BC3.13 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.

*Substance over Form and Prudence*

BC3.14 Some respondents to CP#1 expressed concern that substance over form and prudence are not 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.

BC3.15 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.

BC3.16 IPSAS 1 Appendix B explains that prudence refers to the exercise of caution in making estimates under conditions of uncertainty, such that assets or revenue are not overstated and liabilities or expenses are not understated. However, it does not allow for the deliberate understatement or overstatement of assets, liabilities, revenues, or expenses.

BC3.17 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 as a component of faithful representation, and the acknowledgement of the need to exercise caution in dealing with uncertainty. Therefore, like substance over form, prudence is not identified as a separate qualitative characteristic because its intent and influence in identifying information that is included in GPFRs is already embedded in the notion of faithful representation.

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### **Understandability**

- BC3.18 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.
- BC3.19 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.
- BC3.20 The qualitative characteristic of understandability in this Conceptual Framework possesses similar characteristics to those identified in IPSAS 1 Appendix B. However, certain aspects of understandability 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 in some circumstances, users may need to seek assistance to understand complex economic and other phenomena presented in GPFRs.

### **Timeliness**

- BC3.21 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.
- BC3.22 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**

- BC3.23 IPSAS 1 Appendix B identifies comparability as a qualitative characteristic. 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

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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 more comprehensive scope of financial reporting.

- BC3.24 Some degree of comparability may be attained by maximizing the qualitative characteristics of relevance and faithful representation. For example, 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 sector 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**

- BC3.25 CP#1 explains that verifiability encompasses, and in some cases may be described as, supportability when applied to qualitative and prospective information disclosed in GPFRs. However, whether referred to as verifiability or supportability, the characteristic is substantially the same.
- BC3.26 Some respondents to CP#1 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 separate qualitative characteristics with essentially the same features may be confusing to preparers and users of GPFRs and others. However, the Conceptual Framework does acknowledge that supportability is sometimes used to refer to the quality of information that helps assure users that explanatory information and prospective financial and non-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 explanatory and prospective financial and non-financial information is central to the achievement of faithful representation.
- BC3.27 In addition, 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.

**Classification of the Characteristics and Order of their Application**

- BC3.28 Some respondents to CP#1 expressed the view that the IPSASB’s Conceptual Framework should identify:
- Relevance and faithful representation as fundamental qualitative characteristics, and explain the order of their application; and

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- Comparability, verifiability, timeliness, and understandability as enhancing qualitative characteristics.

They note that this would provide useful guidance on the sequence of application of the qualitative characteristics and reflect the approach adopted by the IASB.

BC3.29 In developing the qualitative characteristics the IPSASB considered whether some characteristics should be identified as fundamental and others identified as enhancing. The IPSASB also considered whether the order of application of the characteristics should be identified and/or explained. The IPSASB is of the view that such an approach should not be adopted because, for example:

- Matters identified as “fundamental” may be 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, or to specify the sequence of their application, no matter what information is being considered for inclusion in GPFRs, and irrespective of 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 and decision making purposes could be considered as relevant information – therefore, these characteristics are themselves fundamental to the achievement of the objectives of financial reporting; and
- GPFRs of public sector entities may encompass historic and prospective information about financial performance and the achievement of service delivery objectives over a number of reporting periods. This provides necessary input to assessments of trends in service delivery activities and resources committed thereto – for such trend data, reporting on a consistent basis may be as important as, and cannot be separated from, faithful representation of the information.

### **Constraints on Information Included in General Purpose Financial Reports**

#### *Materiality*

BC3.30 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

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that the accounting policies set out in IPSASs need not be applied when their effect is immaterial.

- BC3.31 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 by providing guidance on matters to be considered by public sector entities in assessing the materiality of particular items.
- BC3.32 The IPSASB considered whether materiality should be identified as an entity-specific aspect of relevance rather than a constraint to be considered in setting financial reporting standards. However, the IPSASB is of the view that materiality relates to, and can impact, a number of the qualitative characteristics of information included in GPFRs, and is therefore better reflected as a broad constraint. 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 of financial and non-financial information presented in GPFRs.
- BC3.33 Some respondents to CP#1 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. 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, and the IPSASB has not identified it as such in 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.

*Cost-Benefit*

- BC3.34 IPSAS 1 Appendix B identifies the balance between cost and benefit as a pervasive constraint and explains that the evaluation of benefits and costs is substantially a matter of judgment. This Conceptual Framework also identifies consideration of costs and benefits as a pervasive constraint that standards-setters, as well as preparers and users of financial reports, should be aware of and should consider in determining whether to provide a new item of information in GPFRs.



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- BC3.35 Some respondents expressed concern that CP#1 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 recognition, measurement, presentation, and disclosure in GPFRs are specified in IPSASs. Disclosure and other requirements are prescribed by IPSASs only when the benefits of compliance with them are assessed to be greater than their costs.
- BC3.36 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 a useful principle to be applied when considering differential reporting issues. The IPSASB has considered these matters and determined that the Conceptual Framework will not deal with issues related to differential reporting.

**See covering memorandum Issue #8 –  
Potential additional paragraph BC3.37**

- BC 3.37 In some cases, it may not be possible for the IPSASB to identify and/or quantify all benefits that are likely to flow from the inclusion of a particular requirement in an IPSAS. In other cases, the IPSASB may be of the view that the benefits of a particular requirement may be marginal for users of GPFRs of some reporting entities. In applying the cost-benefit test to determine whether particular requirements should be included in an IPSAS in these circumstances, the IPSASB’s deliberations may also include consideration of whether imposing such requirements on reporting entities are likely to involve undue cost and effort.

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## **Appendix 3A**

### **The IASB Conceptual Framework (as at XXX 2010)**

The International Accounting Standards Board (IASB) Conceptual Framework (updated XX 2010) applies to business entities in the private sector. It 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;
- cost as a pervasive constraint that limits the information provided by financial reporting; and
- materiality as an entity-specific aspect of relevance.

*(This is indicative of style only. It reflects recent public drafts of the Qualitative Characteristics Chapter of the proposed updated IASB Conceptual Framework. It is anticipated that the final Chapter of this component of the IASB Conceptual Framework will be issued before release of this ED. This Appendix will be updated if the final Chapter of the IASB Conceptual Framework is issued or, if that final Chapter is not issued, revised to reflect the position in the current IASB Conceptual Framework.)*

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## **Appendix 3B**

### **The statistical bases of reporting of the 1993 System of National Accounts (updated in 2008) and other guidance derived from it (ESA 95 and GFSM 2001)**

The 2008 System of National Accounts identifies the qualitative characteristics that source data included in the national accounts are to possess as part of the accounting rules imbedded in the system. Source data may be adjusted to be brought into line with SNA compilation principles.

Some data included in the SNA is drawn from data in GPFRs, or prepared for inclusion in GPFRs which comply with IFRSs, IPSASs or national accounting standards. Such data will also satisfy the qualitative characteristics specified by those accounting standards, and/or related Conceptual Frameworks.

The qualitative characteristics of statistical data are further elaborated in the Special Data Dissemination Standard (SDDS) and the General Data Dissemination System (GDDS) of the International Monetary Fund. These documents identify minimum requirements with which the data and data reporters should comply. The “quality” of these statistics are measured and confirmed in Reports on the Observance of Standards and Codes (ROSC). They are assessed against a Data Quality Assessment Framework (DQAF) which provides a structure for assessing existing practices against best practices. The IMF DQAF is drawn from the United Nations code of “Fundamental Principles of Official Statistics” which identify qualitative requirements for all “official” statistics.

The IMF DQAF identifies a set of prerequisites and five dimensions of data quality. The dimensions of data quality comprise: assurances of integrity, methodological soundness, accuracy and reliability, serviceability, and accessibility. Each quality dimension identifies 3 – 5 elements of good practice with indicators relevant for specific data sets.

Consistent with 2008 SNA, the Government Finance Statistics Manual 2001 (GFSM 2001) and the European System of Accounts (ESA 95) identify particular qualitative characteristics and constraints of information embedded in the statistical bases of financial reporting prepared in accordance with their requirements. The “Fundamental Principles of Official Statistics,” SDDS and GDDS also apply to these data sets.

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**The Reporting Entity and Group Reporting Entity - “clean” draft**

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## **4 The Reporting Entity and Group Reporting**

- 4.1 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.
- 4.2 GPFRs are prepared to report information useful to users for accountability and decision making purposes. Service recipients and their representatives and resource providers and their representatives 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.
- 4.3 For accountability and decision making purposes, service recipients and resource providers will often require information about the group of separate entities that make up 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 dependent on GPFRs prepared in respect of the group for the information they need for accountability and decision making purposes.
- 4.4 The factors that are likely to signal the existence of users of GPFRs of a government or other public sector organization, program or identifiable activity (or groups thereof) 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.
- 4.5 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 authority to transact and enter contracts in its own right. However, public sector organizations, programs and activities without a separate legal identity may also raise or deploy public monies, acquire or manage public assets, incur liabilities, undertake activities to achieve service delivery objectives or otherwise implement government policy. 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.
- 4.6 In most cases, legislation, regulation or other authority will require a public sector organization, program, or identifiable activity to prepare GPFRs. In some 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.

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**The Group Reporting Entity**

- 4.7 A government frequently has the authority and capacity 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 entities whose activities it has the authority and capacity to direct. Other public sector reporting entities, including government departments, agencies or programs may also have the authority and capacity to direct the activities of other entities and to benefit and/or be exposed to a financial burden or loss as a result.
- 4.8 The benefits derived by the government (or other public sector entity) from the entities whose activities it has the authority and capacity to direct may be financial, such as a dividend or other distribution of the surplus of a GBE or a reduction in the loss or financial burden that it would otherwise have been exposed to. 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, or to assume the provision of services that the entity would otherwise provide.
- 4.9 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 authority and capacity 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.
- 4.10 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 prospective financial and non-financial information as required by IPSASs.

*The Authority and Capacity to Direct the Activities of Another Entity*

- 4.11 A government (or other public sector entity) may possess the authority and capacity to direct the activities of another entity even though it chooses not to exercise that authority. In many cases, it will be clear when a government (or other public sector entity) has the authority and capacity 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

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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 authority and capacity does not exist – for example the government (or other public sector entity) will not possess that authority and capacity if it requires changes in legislation, establishment of new (or renegotiation of existing) contracts and agreements or changes in ownership rights for that authority and capacity to be effective.

- 4.12 However in other cases, the exercise of professional judgment may be necessary in determining whether such authority and capacity exists.

**See covering memorandum Issue #11(b)**

**Proposal for relocation of paragraph BC4.15 to become paragraph 4.13**

- 4.13 In some cases, a public sector entity may have the authority and capacity to direct the activities of another entity in the capacity of a trustee or agent, but cannot exercise that authority and capacity 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 comprises the public sector entity and these other entities will not achieve the objectives of financial reporting

*Jurisdictional Differences*

- 4.13 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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## **Section 4: 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. 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 dealing with this phase of the Conceptual Framework and the reasons for those changes.*

### **Which Entities and Activities are Reporting Entities**

- BC4.1 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.
- BC4.2 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 GPFs 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 GPFs.

#### *Separate Legal Identity*

- BC4.3 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 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 GPFs of such administrative units, programs or other identifiable activities, they may be identified as a public sector reporting entity.

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- BC4.4 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.
- BC4.5 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. The IPSASB assumes 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.

**See covering memorandum Issue #11(a) –**

**Proposal to delete the final sentence of BC4.5.**

**The Group Reporting Entity**

- BC4.6 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 entity. The glossary of definitions to IPSASs explains that “administrative entity”, “financial entity”, “financial reporting entity”, “consolidated entity” and “group” are also used to refer to a group of entities comprising the controlling entity and controlled entities.
- BC4.7 CP#1 explained that groups of public sector organizations or programs that prepare GPFRs to present information as if they are 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.
- BC4.8 The IPSASB is aware that different interpretations of the meaning of the term “economic” are possible and this may have consequences for what is considered to be a public sector reporting entity or group reporting entity. It is also aware that the term



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“economic entity” may be (and, on occasion, 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.

*Determining the Group Reporting Entity*

- BC4.9 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 considered included those described as the “majority of risks and rewards basis”, “common control basis”, “operations covered by a public budget”, and “operations with a similar function or purpose”.
- BC4.10 Many of these bases have common features and, in some cases, GPFs 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.
- BC4.11 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, including those 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.

*The Authority and Capacity to Direct the Activities of Other Entities*

- BC4.12 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.
- BC4.13 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

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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*

BC4.14 This Conceptual Framework reflects the view that, to satisfy the objectives of financial reporting, GPFRs of a group reporting entity should present financial and non-financial information as specified in IPSASs about the government (or other public sector entity) and the entities whose activities it has the authority and capacity to direct, when the results of such direction can generate financial or other benefits for the government (or other public sector entity) or expose it to a financial burden or loss.

BC4.15 Authoritative and other guidance on the circumstances that may give rise to the authority and capacity to direct the activities of another entity will be included in IPSASs that deal with the preparation of GPFRs for a group reporting entity.

**See covering memorandum Issue #11(b)**

**Proposal to combine paragraph BC4.14 and BC4.15 as identified in mark-up above.  
Paragraph BC4.14 would then read as follows:**

BC4.14 This Conceptual Framework reflects the view that, to satisfy the objectives of financial reporting, GPFRs of a group reporting entity should present financial and non-financial information as specified in IPSASs about the government (or other public sector entity) and the entities whose activities it has the authority and capacity to direct, when the results of such direction can generate financial or other benefits for the government (or other public sector entity) or expose it to a financial burden or loss. Authoritative and other guidance on the circumstances that may give rise to the authority and capacity to direct the activities of another entity will be included in IPSASs that deal with the preparation of GPFRs for a group reporting entity.

BC4.16 In some cases, a public sector entity may have the authority and capacity to direct the activities of another entity in the capacity of a trustee or agent, but cannot exercise that authority and capacity 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 comprises the public sector entity and these other entities will not achieve the objectives of financial reporting.

**See covering memorandum Issue#11(b)**

**Proposal to relocate paragraph BC4.16 to follow paragraph 4.12.**

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*Application of the Principles in Particular Circumstances*

BC4.17 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.

BC4.18 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 of an entity 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.

BC4.19 The IPSASB found these concerns persuasive. It 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.

**See covering memorandum Issue#11(c) –**

**Proposal to delete highlighted phrase in paragraph BC4.19.**

BC4.20 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.

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*Jurisdictional Differences*

- BC4.21 In centralized or planned economies, governments may have the authority and capacity to direct the financial and other activities of a wide range of entities, and to instruct those 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 the economic activity undertaken within that jurisdiction by non-government business entities as well as by government departments and other public sector entities, including other levels of government.
- BC4.22 In some market economies, national governments may have the authority and capacity 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.
- BC4.23 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.

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**Appendix 4.B**

**The IASB Conceptual Framework (as at XXX 2010)**

The International Accounting Standards Board (IASB) Conceptual Framework (adopted by the IASB in 2001) explains: “A reporting entity is an entity for which there are users who rely on the financial statements as their major source of financial information about the entity”.

(Staff note: The IASB issued Exposure Draft, “Conceptual Framework for Financial Reporting: The Reporting Entity” in March 2010 but has not yet approved the final Chapter of the IASB Conceptual Framework dealing with the reporting entity. Staff do not anticipate that a final updated Chapter dealing with the reporting entity will be issued by the time of issue of this exposure draft. This Appendix will be updated if a final Chapter of the IASB Conceptual Framework dealing with the reporting entity is issued prior to release of this ED.)

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## **Appendix 4.B**

### **The statistical bases of reporting of the 1993 System of National Accounts (updated in 2008) and other guidance derived from it (ESA 95 and GFSM 2001)**

The focus of the 2008 System of National Accounts (2008 SNA) is on institutional units which are 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.

An institutional unit is an economic entity that is capable, in its own right, of owning assets, incurring liabilities and engaging in economic activities and in transactions with other entities.

A similar focus on institutional units and sectors is reflected in the Government Finance Statistics Manual 2001 (GFSM 2001), the European System of Accounts (ESA 95) and other statistical bases of reporting derived from it.

As a rule the entries in the SNA are not consolidated. However, there is a summation of entries of all resident institutional units belonging to a sector, and for the economic territory (referred to as economy-wide aggregates).

The GFSM 2001 requires that data presented for a group of units be consolidated so that flows and positions of entities within such a grouping are eliminated and the data are presented as flows and positions with the remainder of the economy.