



**INTERNATIONAL FEDERATION  
OF ACCOUNTANTS**

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

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

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

---

**Date:** February 22, 2011  
**Memo to:** Members of the IPSASB  
**From:** Gwenda Jensen  
**Subject:** Draft Consultation Paper: The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Phase 4: Presentation and Disclosure

---

**Objectives**

- To provide directions to Staff on the key issues in this memorandum, in particular whether there should be presentation concepts and, if so, what those concepts should be; and
- To review a preliminary draft of the Consultation Paper (CP).

**Agenda Material**

**2A.1 Preliminary Draft Consultation Paper**

**Background**

1. Presentation and Disclosure (P&D) is Phase 4 of the IPSASB's Conceptual Framework (Framework) project. During 2010 the IPSASB made a number of tentative decisions related to this phase. Those decisions addressed issues of P&D's scope and the basic approach to be applied in developing P&D concepts. The key decisions relevant to this first draft of the CP were that Staff should:

**Meaning of "Presentation and Disclosure"**

- Include explanations of the meanings of 'presentation' and 'disclosure' in the CP, but not attempt to propose precise definitions of these two terms;
- Treat "disclosure" as distinct from "presentation"; and
- Use the description of "presentation" provided in paragraph 3.5 of the November 2010 Issues Paper as a basis for development of the draft CP, which should cover principles for *where* information should be reported, *what* information should be disclosed, and *how* information should be reported.

Meaning and Development of P&D “Concepts”

- Develop principles applicable to the more comprehensive scope of General Purpose Financial Reports (GPFRs), not just to financial statements;
  - Adopt a high level principles based approach that would not recommend detailed formats for statements and would keep the focus away from standards-level issues;
  - Apply the qualitative characteristics developed in Phase 1 of the Conceptual Framework to presentation and disclosure rather than attempt to develop a second level of presentation principles; and,
  - Focus on users’ needs, rather than attempt to identify functions applicable to individual reports or statements, although function could be explored at a broad level.
2. The November minutes relating to presentation and disclosure are included in Appendix A
3. Since November Staff has been working to develop these agenda papers. A draft structure for the CP was circulated to the Task Based Group (TBG) in November and comments received. Subsequently Staff identified a number of issues requiring Board Members’ further input. These include some issues that have previously been considered where Staff is not fully clear about the directions received or where there may be tension between directions. Those issues are set out in this memorandum. A preliminary draft CP has been prepared in order to facilitate discussion of the issues identified by Staff, presentation concepts, and CP structure.

**Key Issues**

*Key Issue 1: Relationship between “Presentation” and “Disclosure”*

4. The Board’s discussion at its November 2010 meeting indicated that “presentation” should include “disclosure” and also that “disclosure” should be treated as a distinct topic. While these two views may seem to conflict, they can be reconciled, if what was meant is that note disclosures should receive separate, distinct coverage within presentation.
5. Considerations that need to be taken into account include:
- “Presentation” is traditionally viewed as referring exclusively to information shown on the face of the statements and “disclosure” is the term used to refer to information disclosed in the notes to the statements;
  - An attempt to describe note disclosure as a subset of presentation could present problems of understandability and expectations without helping the development of disclosure concepts;

- There is a strong inter-relationship between information shown on the face of a statement and information shown in the notes with face disclosures tending to drive note disclosures;
  - In practice preparers are able to choose whether detailed breakdowns of recognized amounts are presented on the face of a statement or in the notes to the statements, which blurs the traditional distinction between “presentation” and “disclosure”; and,
  - In practice the words “disclosure” and “presentation” are applied to information reported in both locations i.e. in the notes and on the face of a statement, with the word “disclosure” also having a broad meaning of information disclosed somewhere, not necessarily in the notes.
6. Members are asked for clarification of whether they wish for:
- a) “Presentation” to be treated as including note disclosures; or
  - b) “Presentation” and “note disclosures” are to be treated as separate and distinct and meaning different things.
7. The preliminary draft CP has been prepared on the basis that note disclosures are a distinct sub-category of presentation i.e. approach (a) above. However Staff seeks the Board’s confirmation that this is in accordance with their directions.

*Key Issue 2 - High Level Principles and Application of Qualitative Characteristics*

8. In November 2010 the IPSAS took a tentative view that the Consultation Paper should consider how the qualitative characteristics apply to presentation rather than attempting to develop a second level of principles specific to presentation beneath the qualitative characteristics. Staff is not fully clear whether this view was based on dissatisfaction with the specific principles discussed in November (and noted in paragraph 9 below) or a more general view that presentation principles are inappropriate. Further clarification is therefore needed on whether the application of the qualitative characteristics to presentation is expected to generate presentation principles or whether, instead, the Consultation Paper will discuss the application of the qualitative characteristics to presentation in more general terms.
9. At the November meeting Members rejected three proposed presentation principles (functional design, information sufficiency and integration). One concern was that the approach of developing presentation principles did not add to the qualitative characteristics developed in Phase 1. A second concern was that the specific principles were either not helpful or inappropriate in terms of addressing presentation issues. For example, the principle of “integration” conflicts with the IPSASB’s view that GPFs are likely to comprise multiple reports.

10. The Board is asked to provide further clarification of what is meant by the application of the qualitative characteristics to presentation and disclosure. Specifically, does the Board envisage a CP that:
  - (a) Proposes a set of high level presentation concepts that interpret the qualitative characteristics for presentation; or,
  - (b) Provides a general discussion applying the qualitative characteristics to presentation.
11. The preliminary draft CP has been prepared based on the first approach, approach (a) above.

*Key Issue 3 - Separate GPFRs*

12. CF ED-1 states that 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. Phase 1 did not identify specific GPFRs. Instead Members preferred not to be specific and to allow flexibility so that practice could develop.
13. The Staff View is that the CP should focus on how information should be presented once a new information area is identified. The Paper should not seek to develop concepts to indicate whether a new information area should be presented in an existing GPFR, a new GPFR, or a combined GPFR. The preliminary draft CP takes this approach.
14. Board Members are asked to confirm the view that Phase 4 of the Framework should not be establishing principles for guiding whether a new information area should be presented in an existing GPFR, a new GPFR, or a combined GPFR.

*Key Issue 4 – Concepts Illustrated in Preliminary Draft Consultation Paper*

15. The preliminary draft CP provides a possible structure for the CP and the following illustrative presentation concepts:
  - Concept 1. Presentation should make clear any important relationships between information displayed in different parts of a GPFR.
  - Concept 2. Presentation should ensure that information in a GPFR is at the right level of detail to support achievement of users' needs.
  - Concept 3. Information complementary to the financial statements and necessary to achieve financial reporting objectives and users' needs should be presented in GPFRs.
  - Concept 4. Presentation should remain consistent over time for the same reporting entity to the extent appropriate.
  - Concept 5. The benefits of presenting information should exceed the costs.

16. These concepts have been developed through application of the qualitative characteristics to presentation i.e. by applying the approach in Issue 2 (a) above.
17. The Board is asked to provide comment on:
  - (a) The paper's draft structure; and.
  - (b) The illustrative presentation concepts contained therein.

## **APPENDIX A: MINUTES RELATED TO PRESENTATION AND DISCLOSURE**

*November 2011 IPSASB Meeting*

### **2.5 Presentation and Disclosure – Discuss Issues (Agenda Item 2D)**

Staff presented an issues paper on presentation and disclosure concepts. Four issues related to Phase 4 of the Conceptual Framework, “Presentation and Disclosure” were presented and the IPSASB was asked to provide direction to staff on how to address those issues.

#### ***Issue 1 – Descriptions of “Presentation” and “Disclosure”***

With respect to Issue 1, Members re-confirmed that the Phase 4 CP should cover GPFRs (broad scope), although concerns were expressed that there also be sufficient coverage of presentation and disclosure issues specific to financial statements. The description of “presentation” in paragraph 3.5 of the issues paper (Agenda Item 2D) was supported as a basis for next steps. The consultation paper should explore different methods of showing information. Members generally considered that “disclosure” should be treated as distinct from “presentation”. The CP should not include discussion of “fair presentation”.

#### ***Issue 2 – Description and Identification of GPFR Components and Issue 3 – Proposed GPFR Presentation Principles***

With respect to Issue 2 and Issue 3, the Phase 4 CP should not include discussion of components or a list of components making up a GPFR. Members emphasized that, as established in Phase 1 of the Conceptual Framework, GPFRs are a collection of separate reports rather than components that form an integrated whole. There is no single GPFR. An approach of applying the qualitative characteristics developed in Phase 1 of the Conceptual Framework to presentation and disclosure was viewed as a better approach than attempting to develop a second level of presentation and disclosure principles such as the three principles proposed in the issues paper (i.e. functional design, information sufficiency, and integration).

#### ***Issue 4 – Significance of GPFR Statements***

With respect to Issue 4, Members emphasized that a focus on meeting users’ needs should be the primary consideration. The issues paper asked whether proposed functions (also called “objectives”, “aims”, or “purposes”) for the individual financial statements

should be included in the Phase 4 CP. The IPSASB decided that no attempt should be made to identify specific functions for particular statements. Reporting by function could be explored at a broad general level, but without attempting to link individual functions to particular reports. There needs to be recognition that users' needs will evolve and change over time. Presentation and disclosure principles should be equally relevant and applicable to small parts of a report as to a report as a whole. The Phase 4 CP should not include a description of a "statement".

The next step is for staff to prepare a draft of the presentation and disclosure CP for the IPSASB's consideration at its March 2011 meeting.

**PRELIMINARY ‘DRAFT CONSULTATION PAPER’  
CONCEPTUAL FRAMEWORK FOR GENERAL PURPOSE FINANCIAL  
REPORTING BY PUBLIC SECTOR ENTITIES:  
PRESENTATION**

**Background to the Conceptual Framework**

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 International Public Sector Accounting Standards (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 International Public Sector Accounting Standards Board (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. In developing this Conceptual Framework, the IPSASB has attempted to respond to and embrace that diversity.

**The Accrual Basis of Accounting**

This Consultation Paper (CP) deals with concepts that apply to general purpose financial reporting (hereafter referred to as financial reporting) under the accrual basis of accounting.

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 under the accrual basis of accounting inform users of those 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 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 basis or other bases of accounting and financial reporting.

**Project Development**

The IPSASB is developing the Conceptual Framework with input from an advisory panel comprising a number of national standard setters and similar organizations with a role in establishing financial reporting requirements for governments and other public sector entities in their jurisdictions.

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.

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 also includes maintaining the alignment of IPSASs with IFRSs where appropriate for the public sector.

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 to interpret the application of the IASB Framework to the public sector.

The concepts underlying statistical financial reporting models, and the potential for convergence with them, are also being 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 Drafts**

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

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

Phase 2—the definition and recognition of the “elements” of 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 and non-financial information in GPFRs.

The project initially involves the development and issue for comment of CPs that draw out key issues and explore the ways in which those issues could be dealt with. The CP dealing with Phase 1 was issued in September 2008<sup>1</sup>. CPs dealing with Phase 2 and Phase 3, and the Exposure Draft (ED) dealing with Phase 1 were issued in December 2010<sup>2</sup>.

---

<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*.

<sup>2</sup> Consultation Paper, *Elements and Recognition in Financial Statements*, Consultation Paper, *Measurement of Assets and Liabilities in Financial Statements*, and Conceptual Framework Exposure Draft 1 (CF-ED1),

The IPSASB's current intention is to issue Exposure Drafts dealing with each of Phases 2, 3 and 4 of the Conceptual Framework after consideration of responses to the CPs dealing with those Phases. The process for developing the finalized Conceptual Framework will be determined in light of the responses received to the CPs and EDs, and may include issue of an umbrella ED of the full Conceptual Framework.

### **Objective of the Consultation Paper**

The Consultation Paper The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Presentation sets out the specific matters on which comments are requested. The IPSASB has not provided preliminary views on the issues so as to get the widest possible consultation. Respondents may choose to address all or just selected matters, and are welcome to comment on any other matter they think the IPSASB should consider in forming its views.

### **Guide for Respondents**

The IPSASB would welcome comments on all of the matters discussed in this Consultation Paper. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate and contain a clear rationale.

The Specific Matters for Comment requested in the Consultation Paper are provided below.

### **Specific Matters for Comment**

*To be included during a later drafting stage.*

### **Executive Summary**

*[To be further developed, once the project is further advanced.]*

## **1 Introduction**

- 1.1. This Consultation Paper (CP) is Phase 4 of the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities. The CP explores presentation concepts that could be adopted for public sector GPFRs, including the financial statements. It considers presentation within the context of the more comprehensive scope for GPFRs that was identified in Phase 1 of the Framework, applying concepts developed in Phase 1. It particularly considers how the qualitative characteristics proposed in the Exposure Draft of Phase 1 of the Conceptual Framework (CF-ED1) relate to presentation.
- 1.2. The CP builds on and is intended to be read within the context established in CF-ED1. CF-ED1 covers the scope, objectives, users and qualitative characteristics of financial reporting by public sector entities. For example, CF-ED1 states that GPFRs of public sector entities include, but are more comprehensive than financial statements including their notes. CF-ED1 states that financial reporting objectives are to provide information about the entity that is useful to users of GPFRs for accountability purposes and for decision making purposes. The form of presentation should support those objectives. Presentation concepts generally need to be applicable to this more comprehensive scope for financial reporting. They also must relate to the objectives, users and users' needs established in Phase 1, and meet the qualitative characteristics developed in Phase 1. Further information on the scope, objectives and primary users and users' needs proposed in CF-ED1 is provided in Appendix A.
- 1.3. The qualitative characteristics of information included in GPFRs of public sector entities are relevance, faithful representation, understandability, timeliness, comparability, and verifiability. (The descriptions of these six qualitative characteristics in CF-ED1 are provided in full in Appendix 2.) Each of the qualitative characteristics is integral to, and works with, the other characteristics to provide 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. CF-ED1 further notes that 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 financial and non-financial information.
- 1.4. Materiality, cost-benefit, and achieving an appropriate balance between the qualitative characteristics are pervasive constraints on information included in GPFRs.

### *Relevance of Work Done in Phase 2 Elements and Phase 3 Measurement*

- 1.5. Phase 2 Elements and Phase 3 Measurement cover the definition, recognition and measurement of the elements reported in the financial statements. A Consultation Paper has been issued for each Phase. The Consultation Paper for Elements (CP-Elements):

- Comments on the boundary between financial elements and presentation, explaining that sub-classifications within an element and aggregations or combinations of elements fall within presentation rather than elements.
  - States that disclosure of information in the notes to the financial statements does not compensate for a failure to recognize items that meet the definitions and specified recognition criteria of elements and that certain types of note disclosures with respect to recognized items can enhance information for decision making and accountability, because notes provide further details about recognized items.
  - Notes that how financial elements are defined can impact on what needs to be presented on the faces of the different financial statements.
- 1.6. The Consultation Paper for Measurement, CP Measurement, states that good presentation and disclosure can ensure that the measurement bases used and the amounts reported on each basis are clear.

## 2 Meaning of presentation

- 2.1. This section explores what is meant by ‘presentation’. It also discusses the relationship between ‘presentation and disclosure’.
- 2.2. ‘Presentation’ is the selection, organization and display of information to meet GPFs’ objectives, users’ needs and qualitative characteristics. Effective presentation provides the right information, organized in a manner that clearly communicates that information and achieves the qualitative characteristics of financial reporting. In the case of the financial statements, presentation involves taking items or values generated through the process of element identification, recognition and measurement and making decisions on how such items will be displayed. Those financial statement related decisions include whether to disaggregate values that have already been selected, through application of financial element definition and recognition criteria, for recognition on the face of a statement. They also relate to decisions on further disaggregation in the notes to the financial statements and provision of supporting information related to amounts recognized as elements on the face of the statement in the notes.
- 2.3. This description of presentation contrasts with a view commonly held within the context of financial statements that presentation addresses what information is reported on the face of a statement, while disclosure addresses what information is reported in the notes. This description treats these two types of information disclosure – disclosure on the face of a statement and disclosure in a statements’ notes – as both being aspects of presentation. They involve decisions on how information is selected, organized and displayed.
- 2.4. Presentation concepts guide the specific presentation decisions that the IPSASB makes as it develops standards. In order to develop such concepts, it is useful to consider the type of specific decisions that these concepts will need to guide. Presentation decisions include consideration of:
  - *What* information needs to be displayed. For example decisions about:
    - What “parts” (particular statements, notes, sets of supplementary information, other items) should be included in a GPFR in order to achieve GPFR objectives, consistent with users’ needs and GPFR scope.
    - At the level of an individual part of a GPFR such as a statement, what particular line items, comparatives, totals, sub-totals, explanations and supporting schedules are needed in order to achieve that part’s function.
  - *How* information should be organized. For example, decisions about:
    - The use of a statement to show information (as opposed to using narrative, a table or a graph); and,
    - A statement’s overall structure (use of columns and line items, location of the explanatory notes before or after the face of the statement, use of titles and headings, and use of different distinct sections within a single statement.).

- *Where* information should be displayed (sometimes called ‘disclosure placement’).  
For example, decisions about:
  - Where within a GPFR information should be displayed, including whether information should be included within statements or somewhere else within the GPFR
  - Whether particular information belongs on the face of a statement, in the notes, or in related narrative information?

### 3 High level approach to presentation concepts

- 3.1. This section describes the IPSASB's approach to presentation concepts.

*Presentation concepts versus presentation decisions at the standards level*

- 3.2. Presentation concepts are high level, generally applicable ideas or principles that will guide how standard setters make decisions on presentation requirements for inclusion in standards and guidance. Presentation concepts are not the resulting decisions, which are at the standards level. These concepts should be relevant to the development of any GPFR.
- 3.3. This approach to presentation concepts contrasts with that used by some national standard setters, where presentation concepts include, for example, a list of financial statements and the basic content expected in each statement. This paper takes the view that, the objective(s), content and structure of specific GPFRs are standards level concerns. Consistent with this approach, this paper does not attempt to specify a set of GPFRs that an entity should prepare in order to meet the objectives of financial reporting, nor does it attempt to specify types of information that should be included in different GPFRs, even in broad terms. With respect to the financial statements, there is no attempt to identify a list of financial statements or the broad content of the financial statements.

*Presentation concepts applicable to GPFRs and evolving users' needs*

- 3.4. Presentation concepts need to be applicable to a wide range of different types of information reported in GPFRs. Some types of such information are identifiable. Standards have been produced on reporting budget information and general government disclosures on the statistical basis of reporting. Projects have been initiated to develop guidance on service performance reporting, reporting on the sustainability of the public finances, and narrative information. However, the evolution of user needs is such that future financial reporting information cannot be fully predicted. It is possible that, in the future, guidelines or standards will be needed to provide information on governance, environmental sustainability, human resource management, or heritage items.

#### **4 Presentation concepts (Illustrative)**

*[This section illustrates possible presentation concepts for the purpose of an initial discussion of what is meant by presentation concepts. This section will be further developed based on input from the IPSASB.]*

##### *Application of the qualitative characteristics to presentation*

- 4.1. This section proposes high level presentation concepts in order to meet financial reporting objectives. These concepts have been developed through application of the qualitative characteristics to presentation.
- 4.2. Information included in a GPFR should meet the six qualitative characteristics of relevance, representational faithfulness, comparability, neutrality, verifiability, and timeliness, as well as the three constraints of materiality, cost-benefit, and balance between the qualitative characteristics. The addition of either a large amount of information, for example a new statement, or a small amount of information, for example the addition of a new line item or footnote, requires a review of that new information to ensure that it meets the qualitative characteristics and pervasive constraints on information.
- 4.3. An important consideration when applying qualitative characteristics to presentation issues is that there may need to be trade-offs between different qualitative characteristics. In some cases highly relevant information may warrant inclusion, even though its level of verifiability is lower than that for other types of information, while in other cases issues related to faithful representation may lead to the conclusion that relevant information should either be excluded entirely or treated as narrative disclosures rather than be included in values shown on the face of a statement. Another example of trade-offs can be seen within the context of reporting on the sustainability of the public finances, where producing a statement that shows projections at the end of a 75 year horizon may be understandable, but the extent to which it is representationally faithful may be more questionable. On the other hand, providing a columnar analysis for every year until the expiry of the time horizon may be representational faithful, but such detail may undermine understandability.
- 4.4. It may also be the case that different types of information involve different ways to demonstrate the qualitative characteristics. For example, one type of information may be verifiable through review of the financial information system that generates it. Another type of information may be verifiable through review of the publicly available documents on which it is based; or the assumptions, statistical sampling, formal process etc used to create the information. The qualitative characteristics of relevance and representational faithfulness will need to be demonstrated through reference to the particular user need(s) for which information is being presented. When considering how disclosures proposed for inclusion in GPFRs can be verified, a wider set of verification approaches may apply to wide scope information than the approaches presently considered in the context of the financial statements.



*Concept 1: Presentation should make clear any important relationships between information displayed in different parts of a GPFR*

- 4.5. This concept involves consideration of ways that presentation can help to signpost and clarify important relationships between information displayed in different parts of a GPFR. Important relationships include those of similarity or of shared purpose.
- 4.6. A “relationship of similarity” exists where information reported in one area is based on information reported in another area, appears similar, and either has had relatively minor adjustments or even no adjustment at all. An example of a relationship of similarity is the relationship between financial values included in service performance information and financial statement values. If service performance reporting includes services costs or the value of assets dedicated to different service areas then it may be helpful to show how those totals relate to expenses and assets reported in the financial statements. Another example is that of relationships between the total expenses/expenditures reported for budget actuals and total expenses reported in other financial statements, where the two amounts are similar but not the same. A reconciliation between the two different amounts can support users’ understanding of both amounts.
- 4.7. A “relationship of shared purpose” exists where information reported in different areas contribute to a shared purpose. An example of a situation where information in different areas may contribute to a shared purpose is that of the different financial statements contributing to the purpose of providing information that is useful for resource allocation decisions. The International Accounting Standards Board’s (IASB’s) and Financial Accounting Standards Board’s (FASB’s) joint project on financial statement presentation proposes ways to improve how information presented in the different financial statements can be related so as to better meet this user need. One proposed approach is the application of a ‘cohesiveness principle’, to relate information in different statements. Appendix 3 provides a brief overview of the IASB-FASB’s cohesiveness principle.
- 4.8. Presentation techniques relevant to this concept include the use of:
- Consistent labelling and ordering of items across different parts of a GPFR;
  - Standardized sequences and structures across different statements (to support identification of related information);
  - Reconciliations between different numerical totals in different parts of a GPFR; and
- 4.9. Presentation that clearly identifies important relationships is likely to enhance the understandability, relevance, representational faithfulness, comparability and verifiability of a GPFR and better achieve financial reporting objectives. Presentation should aim to ensure that, as much as possible, key messages are understandable without further explanation or information.

- 4.10. One question raised by the concept of making clear important relationships between information displayed in different locations is whether relationships with information presented outside of GPFRs might also be important. When GPFRs, including financial statements, are issued at the same time as or close to other reports and consistency with other sources of information outside of the GPFRs is important, then arguably it is important for the GPFRs to include an explanation of the relationship with the information reported outside the GPFRs.
- 4.11. The idea of presenting information so that important relationships within a GPFR are made clear could be described as ‘reconciliation’, ‘connectedness’, ‘cohesiveness’, ‘articulation’ or ‘integration’.

*Concept 2: Presentation should ensure that information in a GPFR is at the right level of detail to support achievement of users’ needs*

- 4.12. This concept relates to finding the right balance between having too much detail and having too little detail. A GPFR does not need to report on every single transaction or event affecting an entity. Presentation involves decisions to summarize, prioritize, select and reject information. In some situations raw data or total amounts must be broken down into smaller parts – disaggregated - in order to ensure that the qualitative characteristics of relevance and representational faithfulness are met. In other situations, it will be important for simpler summaries of very detailed information to be presented – aggregations – in order for GPFR information to be understandable, while still providing sufficient detail to achieve the qualitative characteristics of relevance and representational faithfulness.
- 4.13. Presentation techniques relevant to this concept include the use of:
- Summary sub-totals and totals;
  - Restraint with respect to line items and note disclosure requirements; and
  - “Layering” of information through the use of brief overview summaries, followed by more detailed breakdowns and supporting information in other parts of a GPFR.
- 4.14. The idea of presenting information at the right level of detail to support achievement of the GPFR’s objective(s) could be called ‘aggregation and disaggregation’ or ‘layering’. “Layering” is a term used in communication literature and is often illustrated within the context of a speaker making a presentation. The speaker begins with an overview of the information that will be presented, then provides more detail in the main part of the presentation, with supporting documents (handouts) potentially providing a further level or “layer” of detailed information.

*Concept 3: Information complementary to the financial statements and necessary to achieve financial reporting objectives and users’ needs should be presented in GPFRs*

- 4.15. Information reported in the financial statements may not be sufficient to fully report the significance of past decisions, to meet users’ needs. In order to hold an

entity accountable for its performance, or to support particular types of decision-making the information in the financial statements needs to be complemented. The idea of information ‘complementary to the financial statements’ recognizes this potential information gap and emphasizes the development of ways to include this information in GPFRs as an important presentation concept.

- 4.16. The inclusion of information complementary to the financial statements is likely to be necessary to enhance the understandability of GPFRs, provide information that is relevant and representationally faithful, and therefore better achieve financial reporting objectives and users’ needs. The process of identifying complementary information involves considering what further information needs to be provided in order to help achieve the financial reporting objectives and users’ needs identified in CF-ED-1. For example, fiscal sustainability and service performance information may be needed to supplement information in financial statements that does not sufficiently convey the impact of past decisions and therefore does not fully meet users’ needs.
- 4.17. One question that arises is whether the identification of the specific users’ needs expected to be met through development of particular information sets should be a guiding principle. For example, when developing presentation requirements for provision of the set of information consisting of the financial statements and notes the IPSASB should identify the user needs that the financial statements are intended to meet. CF ED-1 identifies users’ needs and types of information that will meet users’ needs, but does not attempt to develop specific links between users’ needs and particular presentations of information, which is a standards level issue. While each particular set of presentation requirements is standards levels, the general idea that presentation products should always be clearly linked to users’ needs and then developed to meet those identified needs could be considered a high level presentation concept.
- 4.18. Another question is whether the idea of ‘complementary’ information implies that more comprehensive scope information supports the information in the financial statements rather than has a basis independent of the financial statements and, if so, whether this view of the relationship between financial statements and more comprehensive scope information will necessarily hold true in the future as the scope of financial reporting evolves. For example, information on public finance sustainability can be viewed as complementing the financial statements, but other types of information such as information on environmental impact could, arguably, be seen as independent of the financial statements and equally important rather than complementary to the financial statements.
- 4.19. Presentation techniques relevant to this concept include the use of:
- Supporting narrative information;
  - New and additional statements; and
  - Ways to communicate information involving, for example, trends, projections, discussion of alternative assumptions, and scenario analyses.

- 4.20. The idea of including information complementary to the financial statements and necessary to achieve financial reporting objectives and users' needs in GPFRs could be called information 'complementarity' 'inclusivity', 'enrichment,' or 'supplementation.'

*Concept 4: Presentation should remain consistent over time for the same reporting entity*

- 4.21. CF-ED-1 explains that consistency differs from comparability. 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 quality of information that enables users to identify similarities in, and differences between, two sets of phenomena. Comparability is the goal, and consistency helps in achieving that goal. The concept of consistent presentation relates to the need for information in a GPFR to generate a reliable, comparable chronological series of data points, which supports accountability and decision-usefulness. Such a series can be used to compare information in one year with information reported in previous years, either the immediate prior year or a multi-year period. Data points have the capacity to be used to develop forward-looking projections. This information need argues in favor of consistency with respect to all three aspects of presentation; the information itself (what information) and its organization and display (where information is located and how it is organized).

- 4.22. Consistency must not be so rigidly applied that it deters appropriate changes to presentation. For example, a reporting entities' accounting policies for the same phenomenon should remain constant over time, unless extenuating factors apply. Two extenuating factors for accounting policy change would be that:

- A financial reporting standard has changed, requiring a policy change; and,
- The phenomenon reported has changed with the result that a different accounting policy would better achieve GPFRs' qualitative characteristics, objectives, or users' needs.

- 4.23. Presentation techniques relevant to this concept include the establishment of requirements to ensure that, to the extent appropriate, information will be:

- Prepared on the same basis from year to year, applying the same accounting policies.
- Disaggregated into the same subsets from year to year.
- Located in the same locations from year to year, using the same structure, headings, and location cues (e.g. footnote numbering).

- 4.24. The idea of presentation remaining consistent over time for the same reporting entity could be called 'inter-period consistency,' 'inter-period comparability,' or 'inter-period standardization.'

*Concept 5: The benefits of presenting information should exceed the costs.*

- 4.25. This concept relates to the need for the usefulness of information to exceed the costs that it generates. The value of information comes from its predictive and

feedback value. The expected value of information can be determined as being equal to its value in reducing expected opportunity losses. In such a formulation, the expected opportunity losses are represented by the chance of being misinformed times the cost of being misinformed. The expected costs that information generates include the costs of its preparation, the costs of assurance necessary to substantiate its inclusion in GPFRs and in the effort required of users to comprehend its meaning. It is notable that these costs are likely to be borne by resource providers, who provide much of the resources to enable the costs to be incurred, or by service recipients as resources are directed to accountability purposes away from direct service delivery.

4.26. Presentation techniques relevant to this concept include:

- Determining what particular line items, comparatives, totals, sub-totals, explanations and supporting schedules are needed;
- Determining a materiality base and level.

4.27. Presentation of only that information where the benefits exceed the costs is likely to enhance the relevance and understandability of the information. The idea that benefits should exceed costs could be described as ‘efficiency’, ‘ensuring no undue effort’, or ‘incurring appropriate compliance costs’.

## **5 Note disclosures** [*Illustrative*]

*[This section illustrates possible presentation concepts related to note disclosures to support an initial discussion of what concepts should be applied to note disclosures. This section will be further developed based on input from the IPSASB.]*

### *CF-ED-1 and the qualitative characteristics*

- 5.1. CF-ED-1 explains the need for note disclosures within the description of the qualitative characteristic ‘*faithful representation*.’ Faithful representation is attained when information is, inter alia, ‘*complete*.’ A ‘complete depiction’ of an economic or other phenomenon includes ‘all information that is necessary for faithful representation of the phenomenon that it purports to depict.’
- 5.2. CF-ED-1 explains that faithful representation is attained when the depiction of a phenomenon is complete, neutral, and free from material error. Note disclosures are then mentioned within the CF-ED-1’s descriptions of what it is to be neutral and free from material error. With respect to neutrality the comment is made that:  
  
‘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.’
- 5.3. With respect to freedom from material error CF-ED1 explains that:  
  
Where the accuracy of an estimate of the value or cost of an item or the effectiveness of a service delivery program cannot be determined the estimate will be free from material error if the amount is clearly described as an estimate, the nature and limitations of the estimation process are explained, and no material errors have been identified in selecting and applying an appropriate process for developing the estimate.
- 5.4. Note disclosures are mentioned within the description of verifiability, which includes the statement that:  
  
To help assure users that prospective financial and non-financial 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 judgments about the appropriateness of those assumptions and the method of compilation, measurement, representation and interpretation of the information.

### *The need for note disclosures and recent developments*

- 5.5. It is generally accepted that some level of supporting information provided in the notes to the financial statements is essential to an understanding of the information reported on the face of the financial statements. The information reported on the face of a financial statement is summarized. Further supporting information in the note to the statements is necessary in order to make statements understandable and achieve a representationally faithful portrayal of the information on the face of the statements.
- 5.6. Note disclosures have increased over the past decades. This can be seen as a response to changing financial reporting needs, caused by greater complexity in

business models, sources of risk and uncertainty, as well as greater sophistication in how risk is managed. Disclosures have expanded their role to include the provision of a wider set of information, beyond that of breakdowns of the line items on the face of financial statements. Alternatively, it could be argued that disclosures are developed in response to the needs of particular users rather than users' common needs, with the result that, as disclosures attempt to meet a myriad of individual needs, they become ever more complex and lengthy. One question that arises is how new technology such as XBRL, designed to allow users to access information at different levels of detail to suit their individual needs, could impact on GPFs' disclosure requirements.

5.7. Recent developments with respect to note disclosures have raised a number of issues, including:

- Concerns about the quantity of disclosures and their relevance;
- Whether disclosure requirements have gone through a sufficiently rigorous review process during standard setting;
- Whether the costs of required disclosures exceed their benefits;
- The extent to which disclosure complexity and quantity may be impacting negatively on financial statement understandability;
- The criteria applicable to note disclosure decisions;
- How best to stipulate disclosure requirements; and
- Whether all of the different types of information now included in the notes should be located there.

5.8. This summary of disclosure concerns, which can be grouped under the single heading of disclosure overload, suggests that the disclosure problem is one directional. But two opposing forces appear to be at work. On the one hand there is work-in-progress to address concerns that the quantity of required disclosures is already too high. The Financial Accounting Standards Board's and European Financial Reporting Advisory Group's disclosure framework projects are examples of such work. At the same time, work continues that appears to imply more disclosures, in order to meet users' needs. The IASB-FASB's work on financial statement presentation and creation of the concept of objective-based disclosure requirements arguably are examples<sup>3</sup>. This work focuses on disclosures being sufficient to meet users needs. Perhaps the question is not whether there are enough or too many disclosures so much as whether the right disclosures are required?

---

<sup>3</sup> The IASB included disclosure objectives in IFRS 7, Financial Instruments: Disclosures and decided in March 2010 that disclosure objectives should be developed for four Standards then in progress (ED Pensions, ED Revenue Recognition, ED Leases, and ED Insurance contracts). ED Revenue from Contracts with Customers introduces an open-ended disclosure approach, focused on 'as much disclosure as is necessary' rather than on specific requirements, when it states that "If the disclosures provided in accordance with this [draft] IFRS and other IFRSs do not meet the objectives in paragraph 69, an entity shall disclose whatever additional information is necessary to meet that objective."

- 5.9. What is common to both perspectives is that note disclosures are viewed as an important and evolving area of financial reporting; an area that deserves more attention and that could benefit through development of clear applicable criteria, principles, or frameworks.

*Concepts applicable to note disclosures – Coverage similar to existing Frameworks*

- 5.10. The two statements with respect to note disclosures most commonly included in standard setters' conceptual frameworks are that:
- Notes to the financial statements are an integral part of the statements; and
  - Note disclosures are no substitute for recognition.
- 5.11. In addition, a description of the different types of information that disclosures provide and a general statement about their role within financial statements – similar to the discussion and list of notes information above – may be included.
- 5.12. This type of coverage could be generalized to apply to disclosures in more comprehensive scope GPFRs. An example of how the two statements above could be re-written for more comprehensive scope GPFRs' is provided below:

**Example: Two statements about GPFRs' notes**

- Notes to statements are an integral part of a GPFR that includes statements; and
  - Note disclosures are no substitute for recognition, in the case of financial statements, and no substitute for reporting of information about the fundamental building blocks of a GPFR on the face of the relevant statement(s), in the case of wide-scope GPFRs.
- 5.13. An example of how the purpose of GPFRs' notes could be described is provided below:

**Example: Purpose of GPFRs' notes**

Note disclosures are critical to the effective communication of information in GPFRs. Note disclosures are essential to achievement of the qualitative characteristics. In particular they contribute to reported information's understandability, representational faithfulness and verifiability, through provided supplementary information that ensures that information reported on the face of the statements is understandable, that information reported is complete, and that information necessary to provide assurance about information's verifiability is available. Notes support understandability both in terms of explaining what is reported on the face of a statement (for example through provision of accounting policies) and through providing scope to provide complex but relevant details in the notes, while allowing a concise high level summary to be provide on the face of a statement.

- 5.14. It may also be possible to identify a list of information that is likely to be included in wide scope statement-centered GPFRs, similar to that identified for the traditional financial statements GPFR. The following list of information, based on



that above for financial statements, provides an example of what such a list might look like:

**List of information likely to be included in the notes to a GPFR**

1. Significant accounting policies.
2. Components of line items.
3. Factual information about the entity.
4. Judgments and reasons.
5. Assumptions/models/inputs.
6. Sources of estimation uncertainty/sensitivity analysis disclosures.
7. Descriptions of internal processes.
8. Disclosures related to alternative measurement options for phenomena reported in the statements.
9. Objective-based disclosure requirements.

*Concepts applicable to note disclosures – Disclosure framework*

- 5.15. The issues raised by the increasing quantity of notes disclosures have resulted in calls for the development of disclosure frameworks. A ‘disclosure framework’ is envisaged to include the criteria that should be used when reviewing the need for new and existing note disclosures. It could also provide guidelines for where disclosures should be made. This could address the issue of whether it is appropriate for notes to include a mixture of different types of information or whether they should instead be restricted in terms of the type of information that they can include.
- 5.16. The expected benefits of developing criteria for considering new and existing disclosures would be to provide:
  - A better basis for requiring disclosures;
  - A clear rationale for disclosures;
  - Support for more rigorous review of proposed disclosures for inclusion in financial reporting standards, with the result that the disclosures are both relevant and understood to be relevant by statement preparers and users; and,
  - Principles that preparers could apply when considering areas of choice with respect to disclosures.
- 5.17. One possible approach to developing a notes disclosure framework could be to relate note disclosures to information reported on the face of the relevant statements. This type of approach could generate statements such as those in the example below:

**Example: Principles for note disclosures**

Standard setters should require that sufficient quantitative and qualitative information be disclosed in the notes to:

- (a) Identify and explain the amounts reported on the face of the related statement(s); and
- (b) Describe how items reported on the face of the statement(s) may affect the key phenomena on which the statement(s) aim to report.

Required disclosures should:

- (a) Be sufficient to avoid any omissions that would impact on users' understanding of the information reported on the face of the statement(s).
- (b) Not be so detailed as to obscure relevant information or otherwise cause confusion or misunderstanding.
- (c) Not be so prescriptive and inflexible as to preclude an entity from voluntarily providing information that it believes could provide its users with helpful information.

No disclosure should be required if it is not directly related to the purpose of the relevant statement(s) to which it relates and necessary to achieve that statement(s) purpose, regardless of how relevant that disclosure might be to the general matter being reported.

## **APPENDIX A: CF-ED1 COVERAGE OF SCOPE, OBJECTIVES, PRIMARY USERS AND USERS NEEDS**

### *Scope of Financial Reporting*

- A1. CF-ED1 establishes a scope of financial reporting that is more comprehensive than that encompassed by financial statements, although the information presented in financial statements remains at the core of financial reporting. The scope of financial reporting will evolve in response to users' information needs, consistent with the objectives of financial reporting.
- A2. GPFRs of public sector entities include:
- Financial statements including their notes; and
  - 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 in the current reporting period, and anticipated future service delivery activities and resource needs.
- A3. 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.

### *Financial reporting objectives and the users of GPFRs*

- A4. The objectives of financial reporting are to provide information about the entity that is useful to users of GPFRs for accountability purposes and for decision-making purposes. The primary users of GPFRs are service recipients and their representatives and resource providers and their representatives.

### *Primary users' information needs*

- A5. For accountability and decision-making purposes, service recipients and their representatives 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 amounts and sources of their cost recoveries, are appropriate; and
  - Current levels of taxes or other charges are sufficient to maintain the volume and quality of services currently provided.
- A6. 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.

- A7. 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 resources raised in the current period from taxpayers 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.
- A8. Donors will also need information about the entity's anticipated future service delivery activities and resource needs.

*Information Provided by GPFRs*

- A9. 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 or 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.
- A10. GPFRs also provide:
- Information about the major factors underlying the financial and service delivery performance of an entity during the reporting period;
  - The assumptions that underpin expectations about, and factors that are likely to influence, the entity's future performance;
  - Quantitative measures of the outputs and outcomes of the entity's service delivery activities during the period; anticipated activities—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; and
  - An explanation of the quality of particular services provided or the outcome of certain programs.

## **APPENDIX B: CF-ED1 COVERAGE OF QUALITATIVE CHARACTERISTICS OF, AND CONSTRAINTS ON, INFORMATION INCLUDED IN GPFRs**

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 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 including 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.

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 helping form 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 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 whether 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 phenomenon is complete if it includes all information that is necessary for faithful representation of the phenomenon 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 nonfinancial 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.

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 behavior.

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 behavior. 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 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 estimation 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.

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 for 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 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 nonfinancial 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).

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 it will assure users that the information faithfully represents the phenomena that it purports to represent.

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 non-financial 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 judgments 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 reporting 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 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. The disclosure of information in GPFRs consistent with the concepts identified in this Conceptual Framework and IPSASs derived from them will enhance and reinforce perceptions of the transparency of reporting by governments and other public sector entities and contribute to the more accurate pricing of public sector debt. Therefore, public sector entities may also benefit in a number of ways 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 costs of compliance with those requirements are assessed by the IPSASB 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.

## **APPENDIX C: IASB-FASB COHESIVENESS PRINCIPLE**

C.1 In the IASB-FASB's staff draft of a new financial statement presentation standard, the 'cohesiveness principle' is proposed as one of two 'core principles' of financial statement presentation. The draft Standard proposes that an entity be required to present information in its financial statements in a manner that 'portrays a cohesive financial picture of the entity's activities.' Application of the cohesiveness principle is expected to help enhance the understandability of an entity's financial statement information. The cohesiveness principle involves using a presentation approach that makes clear the relationship among items across the financial statements. Specifically an entity would be required to present disaggregated information in a manner that is consistent across the three financial statements, in the sections, categories and a subcategory defined in the draft standard.

C.2 The draft Standard further comments that:

Financial statements that are consistent with the cohesiveness principle complement each other as much as possible. To that end, an entity shall display and label line items in a way that clearly associates related information across the statements and helps a user understand those relationships. For example, an entity aligns the line item descriptions of information presented in the statements of financial position, comprehensive income and cash flows to help users find an asset or a liability, and the related effects of a change in that asset or liability, in the same place in each financial statement. For example, an entity with long-term debt presents interest expense and cash paid for interest in the same section and/or category as the long-term debt and labels the line items in such a way that a user of the financial statements can understand that the amounts are related.

If a change in an asset or a liability gives rise to one item of income, expense or cash flow, cohesiveness across the financial statements may be at the line item level. If a change in an asset or a liability gives rise to multiple items of income, expense or cash flows, cohesiveness across the financial statements may be at the category level. For example, a change in trade payables could result from various expenses that are presented on separate lines in the statement of comprehensive income, thus the statements would not align at the line item level, but they would align within the category.

C.3 The draft Standard then establishes the structure of financial statements, identifying the following sections, categories and subcategory:

(a) A business section, containing:

- An operating category;
  - An operating finance subcategory; and
- An investing category.

(b) A financing section, containing:

- A debt category; and
- An equity category.

(c) An income tax section.

(d) A discontinued operation section.

- (e) A multi-category transaction section.
- C.4 An entity is required to present information in its financial statements about its assets, liabilities, equity, income, expenses and cash flows in the required structure (i.e. the sections, categories and subcategory above) and these are required to be ‘cohesive’ across the statements of financial position, comprehensive income and cash flows.
- C.5 As at January 2011 the next steps for this project were for staff to present the complete results of the outreach activities that took place during 2010 and outline possible directions for the project to the two boards in early 2011. The boards had planned to issue an exposure draft in the first quarter of 2011. The timetable has been revised. The boards do not now expect to have more detailed discussions of proposals until after June 2011.