INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS BOARD

Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities

SUBMISSIONS RECEIVED

STAFF ANALYSIS OF RESPONSES TO CONCEPTUAL FRAMEWORK ED 1

List of Respondents:

Response #	Respondent Name	Country	Function
001	KPMG IFRG Limited	UK	Accountancy Firm
002	Australasian Council of Auditors-General (ACAG)	Australia	Audit Office
003	Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC)	Australia	Preparer
004	Ministry of Finance Ontario	Canada	Preparer
005	Swedish National Financial Management Authority	Sweden	Standard Setter/Standards Advisory Body
006	New South Wales Treasury	Australia	Preparer
007	Provincial Government of Newfoundland and Labrador	Canada	Preparer
008	Association of Government Accountants	USA	Other: national professional body
009	Federation of Professional Councils of Economic Sciences (FACPCE)	Argentina	Other
010	The Institute of Chartered Accountants of Pakistan (ICAP)	Pakistan	Member or Regional Body
011	Institut der Wirtshaftprufer (IDW)	Germany	Member or Regional Body
012	Instituto de Censores Jurados de Cuentas de España (ICJCE)	Spain	Member or Regional Body
013	The Institute of Chartered Accountants of Scotland	UK	Member or Regional Body
014	Swiss Public Sector Financial Reporting Advisory Committee	Switzerland	Standard Setter/Standards Advisory Body
015	University of Canterbury	New Zealand	Academic
016	Accounting Standards Board	UK	Standard Setter/Standards Advisory Body
017	Kazutoshi Ishii (Aoyama Gakuin University)	Japan	Academic
018	The International Consortium on Governmental Financial Management (ICGFM)	Supranational	Other
019	International Monetary Fund	Supranational	Other
020	The Japanese Institute of Certified Public Accountants	Japan	Member or Regional Body
021	Ordre des Comptables Agrees du Quebec	Canada	Member or Regional Body)
022	Prof. Ron Hodges (University of Sheffield)	UK	Academic
023	National Audit Office	Malta	Audit Office
024	Auditor-General of South Africa	South Africa	Audit Office
025	Wales Audit Office	UK	Audit Office
026	Conseil de Normalisation des Comptes Publics (CNOCP)	France	Standard Setter/Standards Advisory Body
027	Association of Chartered Certified Accountants (ACCA)	UK	Member or Regional Body

Response #	Respondent Name	Country	Function
028	Prof. Richard Laughlin (King's College London, University of London)	UK	Academic
029	Federation of European Accountants (FEE)	Supranational	Member or Regional Body
030	The Treasury of New Zealand	New Zealand	Preparer
031	Ministry of Finance of Saskatchewan	Canada	Preparer
032	Danish Agency for Governmental Management	Denmark	Preparer
033	Province of British Columbia	Canada	Preparer
034	Chartered Institute of Public Finance and Accountancy (CIPFA)	UK	Member or Regional Body
035	United Nations Systems	Supranational	Preparer
036	Zambia Institute of Chartered Accountants	Zambia	Member or Regional Body
037	Government of Nova Scotia	Canada	Preparer
038	Government of Canada	Canada	Preparer
039	HM Treasury	UK	Preparer
040	Ministry of Finance Quebec	Canada	Preparer
041	New Zealand Institute of Chartered Accountants	New Zealand	Standard Setter/Standards Advisory Body
042	Prof. Martin Dees (Nyenrode Business University)	Netherlands	Academic
043	The Charity Commission for England and Wales	UK	Other
044	Joint Accounting Bodies	Australia	Member or Regional Body
045	Public Sector Accounting Board (PSAB, from staff)	Canada	Standard Setter/Standards Advisory Body
046	Australian Accounting Standards Board (AASB)	Australia	Standard Setter/Standards Advisory Body
047	Direction Générale des Finances Publiques	France	Preparer
048	Public Sector Accounting Board (PSAB)	Canada	Standard Setter/Standards Advisory Body
049	Cour des Comptes	France	Audit Office
050	Office of the Auditor General	New Zealand	Audit Office
051	Denise Silva Ferreira Juvenal	Brazil	Other: Accountant
052	Accounting Standards Board	South Africa	Standard Setter/Standards Advisory Body
053	Dr. Joseph S. Maresca	USA	Academic
054	Comptroller's Division of Manitoba	Canada	Preparer

KPMG IFRG Limited
8 Salisbury Square
London EC4Y 8BB
United Kingdom

Tel +44 (0)20 7694 8871
Fax +44 (0)20 7694 8429
mary.tokar@kpmgifrg.com

Ms Stephanie Fox
Technical Director
International Public Sector Accounting
Standards Board
International Federation of Accountants
277 Wellington Street West, 6th Floor
Toronto,
Ontario M5V 3H2
CANADA

Our ref MT/288
Contact Mary Tokar

15 June 2011

Dear Ms. Fox

Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities

Summary comments

We appreciate the opportunity to respond to the International Public Sector Accounting Standards Board's ('IPSASB' or the 'Board') Exposure Draft ('ED') titled *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*, dated December 2010. We have consulted within the KPMG network in respect of this letter, which represents the views of the KPMG network.

We strongly support the IPSASB's efforts to establish an international conceptual framework for general purpose financial reporting by public sector entities (the 'Framework'). The Framework is very important for the development of International Public Sector Accounting Standards ('IPSAS') that are consistent and forms the basis for the evolution to a more effective and efficient standards-setting process.

The Framework, once complete, together with relevant standards, could affect the general purpose financial reporting of national, state/provincial, and local governments and other public sector entities around the world for years to come. While this ED addresses only the first of four phases to the Framework, we believe it is a significant step toward its development.

While supportive of the development of the Framework, we have comments on the undertaking of the Framework project, as well as comments on specific matters addressed in the ED. These comments follow below.

KPMG IFRG Limited, a UK company limited by guarantee, is a member of KPMG International Cooperative, a Swiss entity.

Registered in England No 5253019
Registered office: Tricor Suite, 7th Floor, 52-54 Gracechurch Street, London, EC3V 0EH

Comments on the Framework Project

We acknowledge the need to approach the development of the Framework in phases as is the current approach being undertaken by the Board. However, we do not believe that the final result should be separate documents issued for each individual phase of the Framework. Instead, we believe one Conceptual Framework document, incorporating the complete Framework, should be issued. The Framework is a single project and a single document will make this clearer and easier for users to understand how the different aspects relate with each other and form part of the whole. Later phases of the Board's joint framework project may need to include amendments to parts of the Framework completed in previous phases.

We believe the complete Framework should therefore be exposed in proposal form for public comment prior to issuance in a final document. We believe the relationships between the concepts addressed in each phase of the Framework are sufficiently interdependent such that an opportunity to provide commentary should be provided once all phases are tentatively completed.

Within the Background section of the ED, it is stated that many IPSASs currently in issue are based on International Financial Reporting Standards ('IFRSs') to the extent that the requirements of those IFRSs are relevant to the public sector. Furthermore, it is the IPSASB's strategy to maintain the alignment of IPSASs with IFRSs where appropriate for the public sector. The Basis for Conclusions refers to the current International Accounting Standards Board ('IASB') Framework project. We believe it would be helpful to extend that discussion to identify where the IPSASB Framework has reached different conclusions to those reached within the IFRS Framework, so as to highlight to the users that there are differences between the two Frameworks. As an example, we note the IASB's distinction between fundamental and enhancing qualitative characteristics is discussed within the Basis of Conclusions of IPSASB's Framework, but is not highlighted as a difference with the IASB's Framework. We would encourage the IPSASB to be flexible during the development of its own Framework to react to changes that may arise from the IASB Framework project.

Specific matters for comment

The IPSASB stated they would particularly value comments on whether constituents agree with certain areas and we have structured our comments by reference to those matters for comment:

1. Role, authority and scope of the Conceptual Framework.

We agree with the role, authority and scope of the Framework. The scope of financial reporting is determined by the information needs of the primary users of General Purpose Financial Reports ('GPFR'). However, the Framework might better refer to either the 'common information' needs of primary users, which are finite, rather than simply the 'needs', which are hard to define and probably infinite.

We agree that the scope of the Framework should cover GPFR, which include much more comprehensive information than financial statements (and associated disclosure notes to those statements). We note, however, the practical requirements, for example around consistency of reporting and verifiability, that will need consideration as the Framework's intention to address non-financial qualitative and prospective information is included in GPFR. When IPSASB addresses these reporting requirements, we would expect such matters to be detailed in future guidance or standards that would introduce the reporting of service delivery and prospective information.

2. Objectives of financial reporting by public sector entities and the primary users of GPFRs of public sector entities and their information needs.

We agree with the Framework's comments regarding the Objectives, Users and Information needs of users of GPFR.

The ED discusses the information needs of users. We agree that certain information topics clearly fall within the scope of GPFR, namely: Financial Position, Financial Performance, Cash Flows, Compliance with Budget, and other narrative reports such as management commentary.

In order to respond to these user demands, the Framework includes within GPFR both financial *and non-financial information that covers 'service delivery activities,' 'plans and objectives for* service delivery in the future, including anticipated amounts and sources of the resources needed to support those plans and objectives' and 'narrative reports.' These additional elements broaden the scope of GPFR beyond the more narrow financial statement objectives.

The expansion of a public sector entity's GPFR to include other information is likely to impact the role and responsibility of the auditor. Currently, auditors are required under standards issued by the International Auditing and Assurance Standards Board (IAASB) to read the information in documents that contain the audited financial statements and the auditor's report and to report inconsistencies with the audited financial statements or material misstatements of fact in the other information, when such misstatements are identified by the auditor. If GPFR is expanded to include non-financial information such as service delivery or prospective financial reporting then auditors may be asked to provide some form of assurance on that information (see comments above). ISAE 3000, *Assurance Engagements,* is the generic international standard that would be the relevant when providing such assurance. In order to provide assurance, auditors require suitable criteria that they can use to evaluate the subject matter of the engagement. We encourage the IPSAS Board to liaise with the IAASB in terms of the type of criteria auditors would require in order to provide assurance and any additional guidance over that provide in ISAE 3000 that auditors may require for reporting on items such as service delivery and prospective financial information.

We would suggest, with the Framework's emphasis on reporting non-financial and prospective information within GPFR, that IPSASB includes guidance that reviews the issues surrounding the provision of forward looking and assumptive-based information, or explain that this will be

detailed in the standards that introduce the reporting of service delivery and prospective information.

3. Qualitative characteristics of, and constraints on, information included in GPFRs of public sector entities. In particular, whether:

(a) "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; and

(b) Materiality should be classified as a constraint on information that is included in GPFRs or as an entity-specific component of relevance.

Faithful representation

We agree with the qualitative characteristics as depicted within the proposed Framework, and have no further comments on the use of 'Faithful Representation' as a characteristic for information included in GPFR.

Materiality

The issue of Materiality is described in the Framework as a constraint. We do not disagree with the inclusion of the concept of materiality in the Framework, but believe that materiality should be discussed in the context of the application of the Framework as each entity produces its own GPFR. Therefore, we believe materiality would be better described as an entity-specific aspect of relevance.

Timeliness

We note the Framework's comments that a lack of Timeliness makes information less useful. However, we believe that producing information, even if late, may be better for the users of information than giving no information at all or unreliable information. An auditor would not qualify an audit opinion because information is late, if that information remains robust and in compliance with authoritative standards. As such we might describe Timeliness as a constraint as well as an enhancing characteristic of information in GPFR, as the speed of provision of financial information may be a trade off with the reliability of that information.

Verifiability

The Framework, rightly, describes Verifiability as a quality of information that helps assure users that information in GPFRs faithfully represents the phenomena that it purports to represent. We agree with the inclusion of this characteristic in the Framework. However, we would raise the issue that the further the GPFR broadens its remit away from financial statement

information, the more difficult it becomes for the information to meet this Verifiability characteristic.

The Framework states that the factors and circumstances that support opinions expressed or disclosures made should be 'transparent,' particularly with reference to prospective and non-financial qualitative information. The transparency as described should enable users of GPFR to form judgments about the appropriateness of those assumptions. We would welcome IPSASB guidance on what transparent means in the context of GPFR.

We believe that users will look to state auditors and external audit firms to opine over the financial statements included in GPFR, and also may expect some assurance regarding the reasonableness of assumptions utilized in the preparation of information, whether prospective or historic. We would therefore re-iterate that we would welcome guidance from IPSASB as to how the characteristic of verifiability relates to the wider information outside financial statements, as provided within the Framework's GPFR, upon which users may form their own judgments.

4. The basis on which a public sector reporting entity is identified and the circumstances in which an entity should be included in a group reporting entity.

We agree with the Framework's approach that adopts a principles-based view over the Reporting Entity and the Group Reporting Entity.

The ED states 'a public sector reporting entity may be….a program or activity without a separate legal identity.' Generally we agree that what constitutes a reporting entity should not be limited to those activities that are structured as legal entities. We also believe that a reporting entity could be a program or activity that is not within a separate (or single) legal entity. However, we note the practical accounting issues that exist when reporting entities do not align with a separate legal entity, specifically the allocation of assets, liabilities, revenues and costs that may relate more generally to a legal entity. As such, IPSASB may wish to issue guidance so as to assist preparers in identifying what constitutes a program or activity and/or how the boundaries should be drawn between one such program or activity and other programs / activities within the same legal entity.

We believe that the Board should include in the description of a reporting entity the concept that a reporting entity would not exclude economic activities that are controlled at the same or lower level within the group so as to prevent arbitrary carve-outs or combinations of legal entities. In this regard, a reporting entity could include one or more circumscribed programs or activities, each of which could be a reporting entity in its own right. We believe the concept that, the boundaries of a reporting entity generally should be determined in the first instance on the basis of control of an entity, is important and therefore should be addressed within the Framework.

The Group Reporting Entity is defined as the 'Authority and capacity to direct the activities of another entity, so as to benefit (and be exposed to the financial burden) from the activities of those entities.' We support the approach outlined in the Framework that directs the application of these Group Reporting principles down at the IPSAS levels. We note the relevant IPSASs will need clarity of definition over each of the Group Reporting Entity terms noted, being: 'authority', 'capacity', 'activities', 'benefits' and 'financial burden'.

Notwithstanding the application of Group Reporting principles within specific IPSAS standards, we also believe that the Framework might consider raising these Group Reporting Entity principles to a higher-level than currently described within the ED. IPSASB might consider that Group Reporting, per the Framework, should simply be defined as where accountability and decision making are undertaken. This would be consistent with the overall objectives of Financial Reporting noted earlier in the Framework.

KPMG appreciates the opportunity to respond to this ED. Please contact Archie Johnston at +1 604 527-3757, Peter Greenwood at +1 604 691 3187 or Mary Tokar at +44 207 694 8871 if you wish to discuss any of the issues in this letter.

Yours sincerely

KPMG IFRG Limited

KPMG IFRG Limited

ACAG AUSTRALASIAN COUNCIL OF AUDITORS-GENERAL

22 June 2011

Ms Stephanie Fox
Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street West, 6th Floor
Toronto, Ontario M5V 3H2 CANADA

Dear Ms Fox,

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

- **Role, Authority And Scope;**
- **Objectives And Users;**
- **Qualitative Characteristics; And**
- **Reporting Entity.**

Phase 1: Exposure Draft

Attached is the Australasian Council of Auditors-General (ACAG) response to the exposure draft referred to above. We appreciate the extension of the deadline for comment by one week.

The views expressed in this submission represent those of all Australian members of ACAG.

Overall, ACAG supports those concepts outlined in the exposure draft, but draw the IPSASB's attention to the specific comments made in our response.

The opportunity to comment is appreciated and I trust you will find the attached comments useful.

Yours sincerely

Simon O'Neill
Chairman
ACAG Financial Reporting and Auditing Committee

PO Box 275, Civic Square ACT 2608, Australia
Phone/Fax: 1800 644 102 Overseas phone/fax: +61 2 9262 5876
Email: soneill@audit.sa.gov.au
Website: www.acag.org.au
ABN 13 922 704 402

Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities

Phase 1: Exposure Draft

ACAG provides the following comments in response to specific questions raised by the IPSASB.

(1) Agree with the role, authority and scope of the Conceptual Framework

ACAG generally supports the role, authority and scope proposed. However, ACAG notes the exclusion of government business enterprises (GBEs) and is concerned as to how the IPSASB will address the issues arising from this exclusion i.e. the practical implications for consolidating GBEs in whole-of-Government financial statements.

Consistent with our letter of 31 March 2009 in response to the Consultation Paper on this topic, ACAG considers that a single global reporting framework for all sectors is preferable.

(2) Agree with the objectives of financial reporting by public sector entities and the primary users of GPFRs of public sector entities and their information needs

Objectives and primary users

ACAG does not find the distinction between 'primary users' and 'parties which may find GPFR information useful' helpful. This notion seems to contradict the overall principles that the objectives of GPFRs are intended to meet the needs of 'users'. Further, such a distinction is likely to cause confusion and differing interpretations.

Notwithstanding, ACAG provides the following comments.

We draw the IPSASB's attention to 'the Federal Government Reporting Study' released in 1986[1].

This study focused on identifying typical users of public sector financial reports and their information needs. Among the findings in this report was the importance of the intermediary role played by the media and analysts. It was found that a large portion of users, such as citizens and legislators, rely on information disseminated by the media and analysts to make decisions. As a result, the study notes that 'Federal government financial reports will serve the needs of legislators, citizens and corporations well only if the needs of the media and analysts are adequately met'.

ACAG recommends greater acknowledgement of the importance of this intermediary relationship within the proposed conceptual framework. For example, ACAG finds the discussion of the legislature and its members somewhat confusing. The legislature itself is said to be a primary user (paragraph 2.4), despite the fact that many legislatures possess the authority to require disclosure of information for accountability and disclosure purposes. Sub-committees of the legislature are included among those who are not primary users (paragraph 2.6). If the differentiation of primary users is retained, explicitly regarding the legislature and its sub-committees as representatives of primary users, rather than primary users themselves, would seem to resolve this confusion.

---

[1] Office of the Auditor General of Canada and the United States General Accounting Office 1986, *Federal Government Reporting Study*

Information needs

ACAG strongly agrees that financial reporting should provide users with information about the past and future. This allows financial reports to demonstrate the sustainability of government and provides accountability information by demonstrating the impact of policy decisions on current and future resources.

(3) Agree with the qualitative characteristics of, and constraints on, information included in GPFRs of public sector entities. In particular, whether:

(a) "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;

ACAG agrees with the use of 'faithful representation' as a qualitative characteristic.

(b) Materiality should be classified as a constraint on information that is included in GPFRs or as an entity-specific component of relevance.

ACAG considers materiality to be an aspect of relevant information instead of a reporting constraint. When considering qualitative characteristics preparers should consider material transactions as having greater relevance for users. In contrast, transactions which are considered immaterial are likely to be considered less important for users and therefore assigned a lower relevance. Although the concept of materiality could be applied to several qualitative characteristics, the qualitative characteristics should not be seen in insolation. Characterising materiality as an aspect of relevance does not preclude its consideration in regards to the remaining qualitative characteristics.

(4) Agree with the basis on which a public sector reporting entity is identified and the circumstances in which an entity should be included in a group reporting entity.

The proposed definition of a reporting entity is an entity that prepares general purpose financial statements. ACAG believes an entity should prepare general purpose financial statement when it satisfies the criteria for being a reporting entity. ACAG recommends the IPSASB adopts a similar definition of reporting entity as outlined in the IASB's *Framework for the Preparation and Presentation of Financial Statements*.

ACAG agrees with the ED proposals regarding the circumstances in which an entity should be included in a group reporting entity.

Other matters

Information provided by general purpose financial reports

ACAG believes that decisions made in Phases 2 - 4 of the Conceptual Framework project are likely to shape the type and format of information provided by general purpose financial reports. It is therefore recommended that the statements outlined in Section 2.14 – 2.26 be reconsidered after completion of the framework project to ensure they address all types of information that should be provided by general purpose financial reports. In particular, ACAG is concerned that paragraph 2.20 could be read as stating that general purpose financial statements must be the vehicle for a range of compliance disclosures. This may or may not be the case, depending on regulatory arrangements in individual jurisdictions.

Compliance with budget

ACAG is concerned with the mandatory nature of paragraph 2.20 which requires budgeted information to be included for all public sector general purpose financial statements. While this information may be useful to users, especially at a whole of Government level, there may be reduced usefulness (as well as practical compilation issues) in presenting budget information for individual reporting entities within the group.

To address this ACAG recommends the wording in paragraph 2.20 be changed from 'is included in GPFRs' to 'may be useful to users in GPFRs'.

Department of Treasury and Finance

1 Treasury Place
GPO Box 4379
Melbourne Victoria 3001
Telephone: (03) 9651 5111
Facsimile: (03) 9651 2062
DX 210759

Contact: Peter Gibson
Phone: 02 6215 3551
Our Ref: RMS11/00309

Ms Stephenie Fox
The Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street West, 6th Floor
Toronto, Ontario M5V 3H2 CANADA

Dear Ms Fox

ED – Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities Phase 1

The Australian Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC) welcomes the opportunity to provide comments to the International Public Sector Accounting Standards Board (IPSASB) on the Exposure Draft: *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities Phase 1*.

HoTARAC is an intergovernmental committee that advises Australian Heads of Treasuries on accounting and reporting issues. The Committee is comprised of the senior accounting policy representatives from all Australian States, Territories and the Australian Government.

HoTARAC commends the IPSASB's efforts in drafting a comprehensive Conceptual Framework (the Framework) for public sector entities. HoTARAC acknowledges that IPSASB has actioned several issues raised in HoTARAC's previous submission on this matter. HoTARAC is generally supportive of the proposed Framework; in particular the emphasis placed on the existence of dependant users in determining whether it is appropriate to prepare General Purpose Financial Reports (GPFRs).

However, HoTARAC does have particular concerns with the following:

- divergence between the IPSASB and International Accounting Standards Board Frameworks, with the exception of specific public sector issues;
- the exclusion of Government Business Enterprises (GBEs) from the Framework;
- the non-authoritative status of the Framework; and
- the omission of high level principles in the Framework in relation to:
    - differential reporting (in particular acknowledging the existence of different user needs); and
    - the distinction between audited information, and other unaudited material requiring a lower level of assurance.

HoTARAC acknowledges that there may be circumstances unique to the public sector where it is appropriate to differ from the IASB's Framework. HoTARAC also notes that "the purpose of the IPSASB's project is not to interpret the application of the IASB Framework to the public sector". However, HoTARAC's preference is that the IASB and IPSASB work more closely to achieve minimise divergence of their respective standards. HoTARAC would similarly prefer that the IPSASB Framework converge with that of the IASB where possible.

HoTARAC is also of the view that as public sector entities, GBEs should be within scope of the Framework. HoTARAC considers that it is unclear in the Exposure Draft on what basis GBEs have been excluded.

While HoTARAC recognises that the Framework should not have the same authority as International Public Sector Accounting Standards (IPSASs), HoTARAC considers that it should be an authoritative requirement. HoTARAC is of the view that jurisdictions complying with IPSAS should be required to apply the Framework in the absence of specific guidance in IPSASs. HoTARAC suggests developing a hierarchy similar to the one underpinning the Australian accounting framework.

HoTARAC also considers that the Framework should acknowledge differential reporting, as HoTARAC recognises that dependant users of certain smaller entities have different information needs to other public sector entities.

In addition, given the broader definition of GPFRs, HoTARAC identifies the need for the Framework to acknowledge that the appropriate levels of verifiability and assurance will differ for audited financial statement information and other, unaudited material in various reports. HoTARAC considers that users require this distinction in order to assess how much reliance to place on this information for accountability and decision-making purposes.

Comments by HoTARAC on the Specific Matters for Comment in the exposure draft are attached.

If you have any queries regarding HoTARAC's comments, please contact Peter Gibson from the Australian Department of Finance and Deregulation on 612 6215 3551.

Yours sincerely

for Grant Hehir
CHAIR
HEADS OF TREASURIES ACCOUNTING AND REPORTING ADVISORY COMMITTEE

10 June 2011

International Public Sector Accounting Standards Board

Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities Phase 1 - Exposure Draft

General comments

Overall the Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC) supports the proposals, subject to the specific comments below.

HoTARAC believes that the following items are particular strengths of the proposed International Public Sector Accounting Standards Board (IPSASB) Conceptual Framework (the Framework):

- the emphasis placed on General Purpose Financial Reports (GPFRs) being "intended to meet the information needs of users who are unable to require the preparation of reports tailored to meet their specific information needs" (paragraph 1.3). Further, the focus on dependent users in relation to preparing GPFRs for whole of government (or other group reporting entities) rather than being reliant on the existence of a legal entity (e.g. crown entity) is consistent with the substance over form principle (paragraph 4.6);
- that "the scope of financial reporting will evolve in response to users' information needs consistent with the objectives of financial reporting" (paragraph 1.5); and
- inclusion of useful guidance around factors likely to signal the existence of dependent users where it is not clear whether or not a reporting entity exists (paragraph 4.4) as well as on how to apply the principles of paragraph 4.7 in determining whether a group reporting entity exists (paragraphs 4.11 and 4.12).

In addition, we note that the following issues previously raised by HoTARAC have been actioned:

1. acknowledging that GPFRs will not necessarily provide all information useful for accountability and decision making purposes and that not all GPFRs will be consistent in their coverage;
2. including some clarification around the information provided by GPFRs;
3. mentioning substance over form as a component of faithful representation – originally this was suggested as a separate characteristic;
4. replacing "govern" with "direct" in relation to group reporting entities;
5. replacing the term "legislature" with "Parliament" in defining users of GPFRs; and
6. removing the term "other parties, including special interest groups and their representatives".

However HoTARAC has identified the following issues in relation to the proposal:

- **Divergence between IPSASB and International Accounting Standards Board (IASB) Frameworks**

HoTARAC previously expressed concerns that "the proposed IPSASB framework approach may be inconsistent with some of the IPSASs, which are implicitly based on the IASB Framework, and could be interpreted to represent a fundamental change in approach that could promote divergence rather than convergence with International Financial Reporting Standards (IFRS)".

HoTARAC's view is that the IPSASB and the IASB Frameworks should where possible be consistent, acknowledging that there may be circumstances where divergence is appropriate to better address situations and transactions unique to the public sector. In certain situations, HoTARAC believes that IPSASB should consider the issues on their merits from a public sector perspective. For example, HoTARAC supports the inclusion of an acknowledgment of differential reporting in the IPSASB's Conceptual Framework and strengthening the Conceptual Framework's authoritative status.

HoTARAC's preference is that the IPSASB and IASB work more closely to achieve convergence of their respective conceptual frameworks and other pronouncements. The greater the potential for divergence between pronouncements applicable to government business enterprises (GBEs) (issued by the IASB) and pronouncements applicable to other public sector entities (potentially issued by the IPSASB), the more significant are the practical difficulties in preparing consolidated financial statements for a whole-of-Government reporting entity.

HoTARAC believes the IPSASB's "Process for Reviewing and Modifying IASB Documents" is applicable (at least in part) to the development of a conceptual framework – particularly if alignment (to the degree possible) with IFRS is to remain an objective. HoTARAC suggests that IPSASB includes in its Basis for Conclusions the rationale for major differences between the two frameworks.

- **GPFRs vs audited financial statements**

HoTARAC notes that the IPSASB's Conceptual Framework project is stated as applicable to general purpose financial reporting (which is a wider concept than general purpose financial statements). However, the IPSASB's Consultation Papers for Phases 2 and 3 of this project appear to more directly relate to general purpose financial statements.

Since some concepts (like measurement) could be applied beyond the boundaries of general purpose financial statements, HoTARAC recommends that the IPSASB clarify the application of all phases (particularly Phase 1) of its Conceptual Framework.

- **Authority of the Framework**

The Framework needs to be an authoritative pronouncement to jurisdictions that have adopted International Public Sector Accounting Standards (IPSASs), not just guidance. HoTARAC acknowledges that the authority should not be the same as IPSASs.

Preparers should rely on the Framework to determine an accounting treatment, when no specific standard on the matter exists. Alternatively, a hierarchy could be developed similar to that contained in the Australian accounting framework.

This approach will ensure comparability, consistency, and provide a principles-based approach in resolving accounting issues.

In addition, HoTARAC is of the view that the following paragraph BC3.2 below should be included in the Framework rather than forming part of the Basis of Conclusions:

"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".

- **High-level principles**

HoTARAC strongly recommends that the IPSASB's Framework (as the term implies) be restricted to high-level principles that are appropriate to reporting by a broad range of public sector entities. HoTARAC believes that issues relating to the practical application of those high-level principles only be dealt with in IPSASs.

Accordingly and as outlined below, HoTARAC is of the view that the Framework should include high-level principles in relation to differential reporting and the different levels of assurance associated with information contained in GPFRs.

- **Differential reporting**

The IPSASB has determined that the Framework will not deal with issues related to differential reporting (paragraph BC3.36). However, HoTARAC believes it is important to include in the Conceptual Framework an acknowledgment of the existence of different information needs of users' of GPFRs. This would provide a basis for the development of IPSASs on differential reporting as and when required. This is consistent with HoTARAC's previous remark on the Consultation Paper that "consideration needs to be given to the fact that in some circumstances a restricted or differential form of GPFRs may be adequate to meet the objectives".

HoTARAC is of the view that there are arguments to support differential reporting based on the different information needs of dependent GPFRs users for certain smaller entities. HoTARAC also notes that it previously expressed concerns around "the resources available to the entity" in preparing GPFRs. HoTARAC believes that the emphasis should be on user needs in the context of the reporting entity concerned, whilst also factoring in cost/benefit considerations.

- **Verifiability**

The IPSASB has proposed that GPFRs contain different types of information, some based on historical or current data (financial statements), some on forecast estimates and future events (plans and budgets), and some on management's perspective (narrative report). There is a need for the Framework to acknowledge in broad terms that different levels of verifiability/assurance are required for the various types of information contained in GPFRs (e.g. financial statements information to be fully audited; fiscal sustainability reports, requiring a lower level of assurance as these include forecasts/estimates).

As mentioned above, HoTARAC is of the view that it is not appropriate for the Framework to provide detailed guidance on this matter, rather this would be better dealt with at a standard level. At most, the Framework could include indicative factors of verifiability (similar to the exposure draft proposal regarding "faithful representation").

- **Qualitative characteristics**

Paragraph 3.5 states that "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". HoTARAC suggests users of the Framework would benefit from clarification in the Basis for Conclusions now about whether information that extends the scope of financial reporting beyond financial statements (prospective information, etc.) will be covered by specific IPSASs and/or other pronouncements, or whether the expectation is that entities will simply apply the concepts outlined in the Framework (and that IPSASB will not issue any IPSASs on this type of information requirement).

- **Structure of final conceptual framework**

Given the IPSASB's arrangements for release of separate documents for each phase of its Conceptual Framework project, HoTARAC would prefer more clarity about how the finalised Conceptual Framework documentation will be issued e.g. will it be issued as –

- one inter-connected document with self-contained chapters for particular matters (e.g. elements and recognition, measurement etc),;
- one document setting out the over-arching principles, which HoTARAC presumes would relate to Phase 1, with separate documents that deal with specific aspects (e.g. elements and recognition, measurement etc) that are subject to the over-arching principles; or
- some other arrangement.

- **Statistical financial reporting models**

On page 4 of the Consultation Paper the IPSASB is considering the potential for convergence with the concepts underlying statistical financial reporting models in developing the Conceptual Framework. HoTARAC prefers that the focus instead be on the underlying conceptual merits for general purpose financial statements. However, should the IPSASB identify more than one approach

as being suitable, HoTARAC would support selection of that basis that most closely aligns with the Government Finance Statistics (GFS) statistical model.

- **Government budgets and forecasts**

HoTARAC notes that "government budgets and forecasts" are listed as being outside the scope of GPFRs in paragraph 2.26, however compliance with the budget and prospective financial information are included under the heading 'Information Provided by General Purpose Financial Reports'. HoTARAC suggests that the IPSASB clarify whether or not it is their intent that government budgets in their entirety should be included in GPFRs. If it is included, IPSASB would need to consider the level of verifiability/assurance for such estimates information and in HoTARAC's opinion, this should be at a lower level than for information included in the financial statements (refer comment above).

- **Group reporting entity**

HoTARAC suggests clarifying the statement in paragraph 4.13 that IPSASs "will need to respond to operational and implementation issues that may arise in different jurisdictions" as HoTARAC is of the view that the IPSASB needs to determine common principles to be applied across jurisdictions based on dependent users' needs in developing an international accounting standards framework. Each jurisdiction would then implement the principles based on their circumstances.

- **Linking objectives, decisions and information in GPFRs**

This relates to concerns previously expressed by HoTARAC that the IPSASB needs to research the objectives of financial reporting further to determine how they will be met. HoTARAC is of the view that the objective and/or nature of decisions made by users is not specific enough to determine the appropriate information (both nature and amount) to be included in GPFRs, but HoTARAC concedes this is a broader issue that is unlikely to be addressed in this project.

- **Conceptual framework background**

HoTARAC recommends that the IPSASB include some discussion around the differences between the private sector and public sector, in terms of context, environment, legislation, main function, objective (i.e. not-for-profit) and funding sources to explain the reasons for a public sector specific Framework. Alternatively, a reference to the "Key Characteristics of the Public Sector" document once finalised would be useful.

However, a minority of HoTARAC members considers that there is no need to include extra contextual background distinguishing between the private and public sectors.

- **Communication processes**

HoTARAC also recommends that the IPSASB clearly communicate to constituents how and when the eventual outcomes of the IPSASB's Conceptual Framework project will be reflected in existing IPSASs, to ensure consistency across all IPSASB pronouncements.

HoTARAC notes that this should not form part of the Framework.

1. Do you agree with the role, authority and scope of the Conceptual Framework?

Responses to specific matters for comment

Role

HoTARAC broadly **supports** the role of the Framework.

In contrast with paragraph 1.1, HoTARAC is of the view that Government Business Enterprises (GBEs) should be acknowledged within the Framework as they form part of the public sector, as stated in the IPSASB ED *Key Characteristics of the Public Sector with Potential Implications for Financial Reporting*. Furthermore, GBEs are accountable to Parliament for use of resources (paragraph BC2.3) and provide services to recipients (paragraph BC2.5). HoTARAC believes that the concepts in the Framework should be broad enough to encompass GBEs while recognising that users of GBEs'financial statements are likely to have different needs to those of other public sector entities.

If the IPSASB elects to exclude GBEs from the Framework, HoTARAC notes that additional reporting will be required by GBEs (outside their financial statements) where they form part of a group reporting entity that does apply the Framework. HoTARAC also notes that GBEs are reported in the Australian Government's Whole of Government financial statements.

As outlined in the general comments, HoTARAC reiterates the view that the IPSASB should only depart from the IASB Framework where there is a rationale due to the differing natures of the public and private sector or where areas for improvement have been identified. HoTARAC notes that the IASB framework does include GBEs.

Authority

HoTARAC **does not support** the lack of authority of the Framework.

HoTARAC supported the preliminary authority of the Framework, in that the framework is not an IPSAS and does not define standards for measurement or disclosure requirements. Although HoTARAC agrees that the framework should not have the same status as an accounting standard. HoTARAC is of the view that entities applying IPSASs should also comply with the Framework, and that it should be authoritative in instances where there are no relevant IPSASs.

HoTARAC believes a hierarchy similar to the Australian Accounting Standard AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* (AASB 108) may be appropriate. In the instance where there is no specific standard dealing with the issue, the AASB 108 hierarchy requires management to consider the following in descending order:

- the requirements in Australian Accounting Standards dealing with similar and related issues;

- the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses in the Australian *Framework for the Preparation and Presentation of Financial Statements*; and
- the most recent pronouncements of other standard setting bodies that use a similar conceptual framework, other accounting literature and accepted industry practices to the extent that these do not conflict with the sources listed above.

Alternatively, IPSASB may wish to include a statement to the effect that the IPSASB Framework is an integral part of applying IPSASs.

In contrast, a minority of HoTARAC members believes that the Framework should not be authoritative.

HoTARAC also notes that "After the Conceptual Framework is issued, the IPSASB will . . . address any circumstances where there is substantial conflict between an IPSAS and the Conceptual Framework" (paragraph BC1.2). To ensure transparency and independence of the process as well as a consistent approach, HoTARAC recommends that IPSASB clarifies, , as discussed in the general comments above, a process for resolving any existing or future conflicts between IPSASs and the Framework, particularly where the inconsistencies are a result of "adopting" IASB standards.

Scope

HoTARAC **broadly agrees** with the scope of the Framework, subject to the comments below. HoTARAC reiterates its previous comment that an evolving scope that responds to users' information needs is desirable "as long as the scope is based on an open and transparent consultation process".

While the majority of HoTARAC considers that the broad scope of information in GPFRs will be useful for users, it has concerns with the lack of clarity around which information will be audited, as well as the appropriate level of assurance for information that will not be audited. Acknowledging in the Conceptual Framework that there should be a distinction between audited and unaudited information is critical.

HoTARAC is of the view that users need to be able to clearly distinguish between unaudited material with a lower level of assurance (e.g. narrative reports, budgets and forecasts) and audited information in order to assess how much reliance to place on this information for accountability and decision-making purposes.

Although paragraph 1.6 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", there is still confusion in the HoTARAC jurisdictions as to whether all information contained in GPFRs is required to be presented in an entity's annual report. HoTARAC suggests that IPSASB explicitly state in the Framework that information in GPFRs may be disclosed

outside the annual report, given the general preconception that GPFRs cover only financial statements.

A minority of HoTARAC members does not agree with including prospective information, in particular budget estimates, in GPFRs.

2. Do you agree with the objective of financial reporting by public sector entities and the primary users of GPFRs of public sector entities and their information needs?

Objectives

HoTARAC **supports** the objective of the Framework.

HoTARAC suggests that it could be very useful to include a definition of accountability, although recognises that it may be difficult to settle on one acceptable definition.

However a minority's view is that it is not appropriate to define accountability in the Framework.

Primary users of GPFRs of public sector entities and their information needs

HoTARAC broadly **agrees** with the users identified and their information needs.

HoTARAC acknowledges that the primary users included in the Framework are consistent with its previous comments on the consultation paper, noting that "recipients of goods and services" would be a more appropriate term than "recipients of services".

However, there are mixed views with regards to the identification of 'primary users' of GPFRs:

- One view is that the primary user group should only include resource providers;

- Another one is that given the breadth of scope of primary users, there is no merit in distinguishing between primary users and users more broadly. Further, there is some concerns that if the focus is on primary users some information used by 'secondary ' users, for example detailed balance sheet information, may not be provided.

HoTARAC also reiterates its previous remark that "stewardship and accountability are two distinct concepts and the IPSASB should discuss the stewardship of resources separately from accountability", noting that the IASB Framework no longer includes 'accountability' or 'stewardship' because the IASB equates 'accountability' with 'stewardship'(IASB Framework September 2010).

3. Do you agree with the qualitative characteristics of, and constraints on, information included in GPFRs of public sector entities? In particular, whether:

    a. **"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; and

    b. **Materiality** should be classified as a constraint on information that is included in GPFRs or as an entity-specific component of relevance?

Qualitative Characteristics

HoTARAC **agrees** with the proposed qualitative characteristics, subject to the previous comments on verifiability and **disagrees** with materiality being classified as a constraint on information.

HoTARAC supports the use of "faithful representation" rather than "reliability" in the Framework.

HoTARAC is of the view that materiality should be classified as an entity-specific component of relevance, consistent with the IASB Framework. The literal interpretation of "constraint" is a limitation or restriction. This is not the case with "materiality" – it relates instead to the relative usefulness of information. As explained in the IASB's Framework, "the relevance of information is affected by its nature and materiality". Also, as explained in the AASB's standard AASB 1031 *Materiality*, "materiality is a matter of professional judgement influenced by the characteristics of the entity and the perceptions as to who are, or are likely to be, the users of the financial statements, and their information needs". HoTARAC cannot identify any reason why these views are not applicable in a public sector context; hence, the concept of materiality is better classified as an entity-specific component of relevance.

Conversely, a minority in HoTARAC agrees that materiality should be classified as a constraint on information.

4. The basis on which a public sector reporting entity is identified and the circumstances in which an entity should be included in a group reporting entity.

Reporting entity

HoTARAC **supports** the basis on which a public sector reporting entity is identified.

HoTARAC agrees that the 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 organisations, programs or other identifiable activities for accountability or decision-making purposes.

However, as GPFRs are traditionally only prepared for reporting entities, as defined in the Framework, rather than parts thereof, HoTARAC would urge the IPSASB to carefully consider the practical application (particularly the cost burden) of inferences that GPFRs may be appropriate for parts of a reporting entity (like programs or identifiable activities).

HoTARAC recommends that IPSASB defines clearly the concept of 'entity', otherwise segments or parts of an entity may be required to prepare GPFRs.

To address this, HoTARAC suggests that the IPSASB should:

(a) replace 'a government or other public sector organization, program or identifiable activity' with 'an entity' in paragraph 4.1 and then define or describe what constitutes an 'entity', and

(b) provide more details around indicative factors or characteristics of a reporting entity (e.g. separation of management from economic interest, economic or political importance / influence and financial characteristics) to help clarify the distinction between an 'entity' and a 'segment'.

HoTARAC notes that the IASB has delayed its work on the reporting entity phase of its Framework.

The exposure draft provides good guidance where it is not clear whether an entity is a reporting entity. The following paragraph is particularly useful for preparers:

> paragraph 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"*.

Regarding the last sentence of paragraph BC 4.5, which indicates that insignificant entities may not be identified as reporting entities, HoTARAC is concerned that in contrast with the private sector all public sector entities (ranging from very large to very small) by their very nature would meet the proposed "criteria" for preparing GPFRs (due to the existence of service recipients, resource providers, etc). Therefore, the Framework should expand (in the Basis for Conclusions) the rationale for its expectation in paragraph BC4.5, and the IPSASB needs to allow for this by revising the discussion in the body of the Framework so that public sector entities that are immaterial in terms of their nature and relative size are not identified as reporting entities.

Group reporting entity

HoTARAC **agrees** with the proposed key characteristics of a public sector group reporting entity.

HoTARAC notes that the key characteristics support the substance over legal form principle. In addition, they apply whether or not there is a 'crown entity'; the criterion is whether or not dependent users exist.

In addition, the characteristics described in paragraph 4.7 align with the current concept of control in Australia and focus on service potential rather than financial return in contrast to the IASB Framework.

Paragraphs 4.11 and 4.12 provide good guidance on how to apply this principle in practice. For example, the entity would be included in the group where government may possess the authority and capacity even though it does not exercise it or it would not be included where an entity may direct the activities of another entity but cannot exercise the authority to direct benefits for its own use (e.g. trustee or agent).

Regarding the situations described in paragraphs BC4.19 and BC 4.20, HoTARAC suggests clarifying that all the factors (including exposure to benefits and losses) would need to be met to determine the boundary of a group reporting entity. Also, the IPSASB should consider whether the resulting aggregation of entities into consolidated GPFRs would present meaningful information.

Further, HoTARAC is particularly concerned about the pre-emptive exclusion of GBEs from the scope of the Framework (paragraph 1.1). Based on paragraph 4.7 and perhaps paragraph 4.11, the IPSASB acknowledged that GBEs are controlled by the whole of Government (or other public sector entities controlled by the Government). This clearly suggests that GBEs should be part of a public sector group reporting entity (e.g. the group reporting entity being the whole of Government or other public sector entity). However, HoTARAC notes that the IPSASB has excluded GBEs without a sound justification. Therefore, as mentioned above, HoTARAC recommends that the IPSASB acknowledge that GBEs are public sector entities and develop the Framework so that concepts are broad enough to be applied to GBEs.

A minority of HoTARAC members does not support the group reporting entity concept in the exposure draft. In their opinion, as there is no public-sector reason for deviating from IASB framework, IPSASB should retain IASB definitions and terminology.

Other comments

- paragraphs 2.7 and 2.8: "non-exchange transactions" and "cost recoveries" need to be defined within the Framework; paragraph 2.10: HoTARAC believes that the words "that were" should be inserted between the words funds and raised in the second dot point for clarity ;
- paragraph 2.14: for clarity, financial position, financial performance, cash flows and changes in net assets should be presented as the first dot point. As an example, the paragraph could state the following: "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;

- service deliveries/outcomes; and
- future plans (i.e. budget). In addition, a comparison between actual and budget information should be included;

- paragraph 3.16: HoTARAC is of the view that " . . . the process used to produce the reported information has been applied as described" should be reworded to " . . . the qualitative information about the process and/or technique to obtain the information applied has been correctly described"; and
- paragraph 4.10: HoTARAC suggests replacing "about, for example" with "including" as in HoTARAC's view this is a requirement rather than an example.

Ministry of Finance
Office of the Budget and Treasury Board
Office of the Provincial Controller Division
Frost Building South, 2nd Floor
7 Queen's Park Crescent
Toronto ON M7A 1Y7
Tel. (416)325-8017
Fax. (416)325-2029

Ministère des Finances
Bureau du budget et du conseil du trésor
Bureau du contrôleur provincial
Édifice Frost Sud, 2e étage
7 Queen's Park Cr.
Toronto ON M7A 1Y7
Téléphone: (416)325-8017
Télécopieur: (416)325-2029

Ontario

June 22, 2011

Ms. Stephanie Fox
Technical Director
International Public Accounting Standards Board
International Federation of Accountants
277 Wellington Street West
Toronto, Ontario
M5V 3H2

Dear Ms Fox:

Thank you for the opportunity to comment on the International Public Sector Accounting Board's Exposure Draft 1 "Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Roles, Authority and Scope; Objectives and Users; Qualitative Characteristics; and Reporting Entity". I also appreciate you granting us an extension to June 22nd to submit, which allowed us to fully brief the executive management team.

As you are aware, governments in Canada, although sovereign, have been preparing historic financial reports based on Public Sector Accounting Board (PSAB) standards for many years now, and most also prepare their summary budgets on the same basis in acknowledgement of the synergies and benefits of aligning budget and actual results under a common balanced budget accountability framework.

The conceptual framework and accounting standards for the public sector must understand and reflect the difference between the public's expectations of government, which is fundamentally different from what a shareholder or a lender would expect of a commercial enterprise. The unilateral power to tax and to fund the delivery of public services is not an exchange transaction, which may also involve a redistribution of wealth for the benefit of society. This is fundamentally very different than a shareholder who chooses to invest in a company and expects to receive back their investment plus an economic return in the future.

.../2

Ms. Fox
Page 2

In our response to the specific questions posed by the Exposure Draft and the other consultation papers on the conceptual framework, the following key issues appear:

1. The IPSASB conceptual framework needs to specifically address the role of government and the accountability it has to the public. The conceptual framework needs to acknowledge the existence of constitutional and legislative structures that exist which can impact how governments should report.
2. The IPSASB conceptual framework should be limited to supporting the preparation of General Purpose Financial Statements (GPFS) that meet the informational needs of the general public and not try to encompass broader financial reporting.
3. The conceptual framework should recognize and support the financial accountability relationship governments have to the public, and not try to change the relationship by implementing a sector neutral approach for financial reporting.
4. The public sector in Canada is driven by balanced budget concepts and delivering appropriate services to the public, and not the accumulation of equity or profit maximization. As a result, a revenue/expense approach to measuring government performance aligns best with the objectives of GPFS users in the public sector.
5. The primary users of public sector financial statements need clear and understandable information to gauge a government's performance against approved budgets. GPFS are a cornerstone in accountability reporting showing how the government balanced inflows with outflows of resources. Historical cost provides reliable measurement and faithful representation of government's use of resources, and supports the accountability relationship the government has with the public.

In light of our suggestion that IPSASB reconsider and re-focus its scope for the conceptual framework, we have provided additional details in the attachment which respond to the specific questions posed in the Exposure Draft.

I should point out that the jurisdictions across Canada established a Joint Working Group to advise PSAB on the requirements for a public sector conceptual framework for Canadian governments. This project continues through the development of the required framework. I understand PSAB has provided input in the development of the IPSASB framework and I expect that the Joint Working Group's comments have been appropriately considered.

…/3

Ms. Fox
Page 3

Thank you for the opportunity to comment on the Exposure Draft and I look forward to updates on IPSASB's continuing conceptual framework development efforts, that would make this a viable option for Canadian governments.

Yours sincerely,



Murray Lindo
Assistant Deputy Minister and Provincial Controller (Acting)
Office of the Provincial Controller Division

Attachment: 1

c. Peter Wallace, Deputy Minister of Finance
Greg Orencsak, Associate Deputy Minister,
Office of the Budget and Treasury Board

ATTACHMENT

Comments from the Province of Ontario on Conceptual Framework Exposure Draft 1

Specific Matters for Comment

1. Role, authority and scope of the conceptual framework

The Province of Ontario does not agree with IPSASB's proposed role, authority and scope of the Conceptual Framework (CF).

In particular, while the Exposure Draft states that the CF is intended to apply to "general purpose financial reporting (GPFR)", the proposed scope is clearly broader than the IPSASB's existing Terms of Reference which refer to standards for financial reporting for general purpose financial statements (GPFS). The IPSASB's terms of reference state clearly on page 4 "…establish the International Public Sector Accounting Standards Board (IPSASB) to develop high-quality accounting standards for the use by public sector entities around the world in the preparation of **general purpose financial statements**".

The key reasons we disagree with the role, authority and scope of the conceptual framework are:

- The proposed role and scope is beyond IPSASB's approved mandate. A rationale to support the broader scope is not substantiated or validated.
- The broad scope adds risk to the development of a conceptual framework that is clear and understandable to guide standards for General Purpose Financial Statements.
- There is limited information available related to the specific need of primary users for financial and non-financial information beyond what is in historical financial statements and should be excluded from scope until further work is done.
- Since there is still significant work to develop a complete set of standards for historical financial statements, this should, in Ontario's opinion, be IPSASB's primary focus.

The conceptual framework is the foundation for the development of public sector accounting standards. These standards should reflect the conceptual framework unless, based on significant analysis and due process, an exception is deemed to be in the best interest of the needs of the primary users. If a secondary source of GAAP is consulted, Ontario believes that it is more important to reflect the public sector concepts than complying with an alternative standard. As a result, we support the conceptual framework being recognized as an authoritative source in the preparation of financial statements; however, specific IPSASs should remain as the primary source for standards. This positioning would ensure that areas not addressed by specific IPSASs would require alignment with the conceptual framework before it is can be used.

…/2

As the public sector is fundamentally different than the private sector, this will ensure due consideration to unique public sector implications is given to emerging topics. It would be inappropriate to assume, for example, that private sector standards can be directly adopted for the public sector given the very different user needs and environments.

2. Objectives of financial reporting by public sector entities and primary users of GPFRs of public sector entities and their information needs

Ontario agrees that financial statements by public sector entities are used for accountability purposes.

Ontario disagrees with section 2.4 of the Exposure Draft, where primary users are segregated into two categories; 'service recipients and their representatives' and 'resource providers and their representatives'. Ontario views the primary users of a government's financial reports as "the general public", without further delineating between service recipients and resource providers.

We consider:

- this creates conflicting objectives and accountability issues for government because these roles have different interests and reporting needs not satisfied by historical financial statements;
- the segregation of the primary user diminishes the importance of the collective group being the public (and the legislature working on their behalf);
- it introduces additional complexity into the standard setting process to accommodate needs beyond what the general public needs from GPFS; and,
- a development of a level of consensus and voluntary compliance is necessary before a codification of a framework or standards can exist that can meet the needs of resource providers and service recipients.

Ontario believes that in a democracy all citizens have a right to access financial information about the government's fiscal policy decisions, and that the preparation and presentation of such financial information should be geared to meeting the information needs of a "reasonable user". As a service recipient or resource provider, GPFS would unlikely address the level of detail these specific types of individuals may desire.

As such, Ontario would suggest that the IPSASB consider adopting a simple description of the primary users as "the public and their representatives" for purposes of its conceptual framework. This simple definition best aligns with a conceptual framework focus that will focus on providing general purpose financial statements intended to meet the needs of the general public on use of their tax dollars.

3. **Qualitative characteristics of, and constraints on, information included in GPFRs of public sector entities. In particular, whether:**

   (a) "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; and

   (b) Materiality should be classified as a constraint on information that is included in GPFRs or as an entity-specific component of relevance; and

   As stated earlier GPFR statements are not appropriate for Canadian governments at this time. Relative to GPFS requirements:

   (a) Faithful representation and reliability are both excellent descriptors for characteristics needed for general purpose financial statements. However, Ontario feels that the conceptual framework should use reliability. Although faithful representation is the more descriptive choice as it implies the importance of financial statements to go beyond reliability to reflect the economic substance and intention of fiscal policy decisions. As well, it takes into consideration the perpetual nature of governments and the unique non-reciprocal nature of public sector transactions. We have found that there are concerns that the term faithful representation may imply fair value accounting. For example, in the case of financial instruments, Canadian governments have struggled with PSAB's introduction of fair value concepts into government financial statements on the basis that recognition of unrealized gains and losses in government reports would not reflect the economic substance of the government's activities, nor the intention of governments holding those instruments (i.e. not for speculative purposes, and with intention to hold until maturity which eliminates the potential for unrealized gain/loss).

   b) Materiality is a complex relationship as it acts both a pervasive constraint for the external audit of financial information contained within GPFS as well as a component of relevance for meeting accountability reporting to the public. Materiality definition should recognize the objectives and purpose of general purpose financial statements that are prepared for the primary users, and not just as a cost benefit compromise to providing the information needed by all users. Materiality is particularly significant in the presentation and disclosure and must align to the needs of the primary users. Generally, when the information needed is of interest to a significant number of users which may be more specific than what is needed by a general user, it will be made available outside the GPFS as determined by the government.

4. **The basis on which a public sector reporting entity is identified and the circumstances in which an entity should be included in a group reporting entity.**

In general, the concepts for consolidation in the Exposure Draft are very similar to Canadian concepts of the reporting entity under PSAB standards; however, we found IPSASB's wording very broad and frequently too vague to interpret.

In particular, we are concerned that the exposure draft does not recognize the constitutional separations of sovereign levels of government. Ontario believes it is important to acknowledge the existence of different levels of government and they cannot be controlled entities for a higher level of government.

The PSAB standards acknowledge this specific factor in Canadian government and provide the specific clarification as follows:

> PS 1300.02 The standards are intended to apply to the financial statements of the federal, provincial, territorial and local governments. Each of these governments is a separate financial reporting entity and would be excluded from the financial reporting entity of any other government.

Ontario recommends enhancing the conceptual framework to ensure clarity on this key concept.

EKONOMISTYRNINGSVERKET

Date
June 22, 2011
Your date

Reference number
51-785/2011
Your reference number

Our reference
C-G Gustavsson

Comments on Conceptual Framework ED 1 Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities

The Swedish National Financial Management Authority (ESV) appreciates the opportunity to comment on the ED 29 Revenue from Non-Exchange Transactions.

ESV is the government agency responsible for financial management and development of GAAP in the Swedish central government. Full accrual accounting was introduced in 1993 and we hope that our experience will be a contribution in your work with various accounting issues.

We support the ED and agree with all the specific matters for comment. As a clarification we however would like to make clear that when translated into Swedish the difference between the wordings “faithful representation” and “reliability” are of no importance so in that perspective we are indifferent on matter 3 (a).

We hope the comments given will be useful in your continuing work. We would like to take this opportunity to express our support for the development of International Public Sector Accounting Standards and a framework for financial reporting.

Curt Johansson and Claes-Göran Gustavsson have prepared the comments given in this report.

Yours sincerely,

Ingemar Härneskog

Deputy Head of Department,
Department of Central Government Accounting and Finance

The Swedish National Financial Management Authority
Drottninggatan 89
P.O Box 45316
SE-104 30 Stockholm
Phone +46 8 690 43 00
Fax +46 8 690 43 50
www.esv.se
registrator@esv.se
Postal giro 865800-7
Company Reg.no
202100-5026
SE202100502601 (EU)
Invoicing address
Ekonomistyrningsverket
FE 27
SE-833 83 Strömsund

EKONOMISTYRNINGSVERKET

Ingemar Härneskog
Deputy Head of Department
Direct: +46 8 690 43 90
E-mail: claes-goran.gustavsson@esv.se
Fax: +46 8 690 43 50

Claes-Göran Gustavsson
Senior Advisor
Direct: +46 8 690 43 26
Mobile: +46 708 90 43 26
E-mail: claes-goran.gustavsson@esv.se
Fax: +46 8 690 43 50

Curt Johansson
Senior Advisor
Direct: +46 8 690 43 26
Mobile: +46 708 90 43 26
E-mail: curt.johansson@esv.se
Fax: +46 8 690 43 50

NSW GOVERNMENT | The Treasury

Stephenie Fox
Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street West, 6th floor
Toronto
Ontario M5V 3H2
CANADA

Contact: B. Richardson
Telephone: (02) 9228 4832
Our Reference: T06/01080
Your Reference:

20 May 11

Dear Ms Fox

IPSASB Exposure Draft *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Role, Authority and Scope; Objectives and Users; Qualitative Characteristics; and Reporting Entity*

New South Wales Treasury welcomes the opportunity to provide comments on the above Exposure Draft.

NSW Treasury believes that the IPSASB approach is contrary to long term convergence between the IPSASB and IASB requirements. Our view is consistent with the overall view we expressed on the Consultation Paper on this topic. By having a separate IPSASB project on the Conceptual Framework, the IPSASB risks losing the discipline of rigorously analysing and justifying departures from the IFRS, which is the IPSASB's approach to individual IFRSs. The IPSASB document *Process for Reviewing and Modifying IASB Documents* states that a separate project should only proceed where the public sector issues are so significant that a public sector specific project is justified. From our analysis, we do not believe that is the case for the Framework.

Where there is overlap / duplication between the content of the IPSASB and IASB Framework (e.g. qualitative characteristics), we believe that the original text of the IASB document should be used, wherever possible. Further, where differences between the public and private sector are apparent, these differences could be minimised in the Exposure Draft if the IPSASB adopted the approach of modifying the IASB terminology. For example, by using the term 'resource providers' rather than 'existing and potential investors, lenders and other creditors', the differences between the IPSASB and IASB would be reduced with no loss of meaning.

NSW Treasury also continues to encourage the IPSASB and IASB to work together on not-for-profit entity issues so that their Frameworks are consistent. It is noted that the IASB will be considering the application of the Framework to not-for-profit entities as part of Phase G of its Conceptual Framework project. Therefore, some of the IPSASB issues may be addressed as part of that process.

Detailed comments are attached.

If you have any queries regarding New South Wales Treasury's comments, please do not hesitate to contact me on 612 9228 3019 or Barbara Richardson on 612 9228 4832.

Yours sincerely

R Williams

Robert Williams
for Secretary

IPSASB Exposure Draft *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: • Role, Authority and Scope; • Objectives and Users; • Qualitative Characteristics; and • Reporting Entity*

Specific Matters for Comment

1. Role, authority and scope of the Conceptual Framework

NSW Treasury notes that the IASB has not considered the role, authority and scope of the Framework (Phases E and F of its Conceptual Framework project). The IPSASB should monitor the IASB's progress on these phases closely and should not proceed ahead of the IASB.

Role of the Conceptual Framework

> 1.1 The *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (the Conceptual Framework) establishes the concepts that underpin general purpose financial reporting (hereafter referred to as financial reporting) by public sector entities that adopt the accrual basis of accounting, 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.

NSW Treasury does not support the proposed role of the IPSASB Conceptual Framework.
We are concerned that the IPSASB Framework project is not simply interpreting the IASB Framework to the public sector, but rather developing a separate public sector conceptual framework to guide the development of future IPSASs. This approach is inconsistent with the transaction neutrality principle. It is different to the approach in many of the existing IPSASs, which are based on IFRS and draw on the IASB's definitions etc underlying the IASB Framework. Consequently, the proposed approach could lead to divergence from, rather than convergence with, IFRS.

The Authority of the IPSASB Framework

> 1.2 This Conceptual Framework does not establish authoritative requirements for financial reporting by public sector entities that adopt IPSASs, nor does it override the requirements of IPSASs. However, it can provide guidance in dealing with financial reporting issues not dealt with by IPSASs or 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.

NSW Treasury agrees that the proposed IPSASB Conceptual Framework does not establish authoritative requirements and does not override the requirements of IPSASs.

The Scope of Financial Reporting

> 1.6 GPFRs of public sector entities include, but are more comprehensive than, financial statements including 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 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.

First, NSW Treasury does not support the proposed scope of the IPSASB Conceptual Framework. The scope of the Framework is stated to be for "general purpose financial reporting by public sector entities that adopt the accrual basis of accounting, other than Government Business Enterprises (GBEs)" (para 1.1). The exclusion of GBEs reduces the Framework from a framework for the Public Sector to a framework for a section of the Public Sector, that is, the General Government Sector (as that term is used in International Statistical Frameworks).

The Basis for Conclusions BC4.18 states that "The Conceptual Framework does not specify the basis on which financial statements for a group reporting entity are to be prepared ... The IPSASB is of the view that these are also matters that should be dealt with at the standards level". NSW Treasury agrees and therefore asserts that para 1.1 of the exposure draft is contrary to BC4.18 by pre-emptively excluding GBE entities from the Framework scope, when they are theoretically in scope. Further, whilst BC4.21 asserts the potential argument of relevance in centralised or planned economies, that argument does not apply to all or most non-centralised western economies. To state the argument in reverse, GBEs are equally in the scope of the proposed Framework level, unless otherwise determined at the level of accounting standards. The counter argument to BC4.18 is that the scope of Government is the *entire* Government, without exclusions. Therefore, a current section of the Government, e.g. GBEs, should not be excluded.

Importantly, such pre-emptive exclusion at para 1.1 creates a totally unnecessary divergence from the IASB Framework.

Second, NSW Treasury does not support including prospective information and information regarding the achievement of service delivery objectives in financial statements and notes. However, if the IPSASB believes that this type of information should be included in the scope of financial reporting, we believe that the distinction between financial (audited) and non-financial (unaudited) information must be explicitly acknowledged. At present, prospective management information and information about service delivery objectives generally do not form part of the audited financial statements.

When considering the proposed IPSASB scope of financial reporting, there should be consideration of the parameters placed on annual disclosure of such information in the financial statements to ensure they can be faithfully represented, and verifiable (auditable). In addition, the practicability and cost versus benefit of capturing, collating and reporting prospective information and information regarding the achievement of service delivery objectives need to be considered.

Evolution of the Scope of Financial Reporting

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

NSW Treasury considers that the IPSASB Framework should state the criteria it plans to use in assessing how the scope of financial reporting should evolve in response to users' information needs.

Further, we believe that, while the concept of what is included in a GPFR will evolve (e.g. the current trend of reporting on sustainability), it is not realistic or desirable for it to ever envisage such reports as providing **all** information that is useful for accountability and decision making purposes (refer IASB Framework September 2010, paragraph OB6[1]). Therefore, it is preferable to limit any non-financial and prospective information that may form part of a GPFR to information best communicated in financial statements.

2. Objectives of financial reporting by public sector entities and the primary users of GPFRs of public sector entities and their information needs

The Objectives of Financial Reporting

2.1 The objectives of financial reporting by public sector entities are to provide information about the entity that is useful to users of GPFRs for accountability purposes and for decision-making purposes (hereafter referred to as "useful for accountability and decision-making purposes").

NSW Treasury agrees with the IPSASB ED's view that accountability should feature in the definition or description of the objectives of financial reporting.

[1] "OB6 However, general purpose financial reports do not and cannot provide all of the information that existing and potential investors, lenders and other creditors need. Those users need to consider pertinent information from other sources, for example, general economic conditions and expectations, political events and political climate and industry and company outlooks."

Also, arguably, accountability should be a separate objective for both public and private sector entities. However, we note that the current version of the IASB Framework (September 2010) no longer includes 'accountability' (or 'stewardship', because the IASB equates 'accountability' with 'stewardship') in its discussion on the objective of general purpose financial reporting. The current IASB Framework Basis for Conclusions discusses at BC1.24-BC1.28 the reasons why the IASB decided to describe what 'stewardship' encapsulates rather than using the actual term. The only relevant reference to what we would refer to as 'accountability' in the current IASB Framework is at the end of paragraph OB4, which states that

> 'Information about management's discharge of its responsibilities is also useful for decisions by existing investors, lenders and other creditors who have the right to vote on or otherwise influence management's actions'.

NSW Treasury believes that the exposure draft should clarify the link between accountability and decision-making; i.e. discharging accountability is realised by providing information useful for decision-making.

The Primary Users of GPFRs

2.4 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 require 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 a 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.

NSW Treasury believes the primary user group should exclude 'service recipients and their representatives', as we do not believe that the primary purpose of the financial report is to address customer needs (in the public *or* private sectors). However, there is minimal impact of excluding this group because, in the public sector context, most, if not all, customers are also resource providers, as potential taxpayers.

A possible approach is to identify 'resource providers' as the primary user group, which would represent the public sector equivalent to the IASB's primary user group of 'existing and potential investors, lenders and other creditors'. The advantage of this approach is that it would promote convergence with the IASB's Framework.

Information Needs of the Primary Users of GPFRs

2.8 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 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.
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 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 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.

2.11 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 economically, efficiently, effectively and as intended. They will also need information about the entity's anticipated future service delivery activities and resource needs. In most cases, governments that provide resources to international governmental organizations are dependent on GPFRs of those organizations for information for accountability and decision-making purposes.

NSW Treasury believes that service recipients and their representatives might be interested in information about service delivery objectives (as described in para 2.8), which is generally excluded from the scope of financial (audited) reporting (refer our comments above on the scope of financial reporting). Meanwhile, service recipients are less likely to be interested in financial (audited) information of the reporting entity. Therefore, consistent with our prior comments, we do not consider them to be primary users of GPFRs.

We consider the discussion around the information needs of resource providers and their representatives in paragraphs 2.10 and 2.11 appropriate and sufficient.

3. Qualitative characteristics of, and constraints on, information included in GPFRs of public sector entities

Whether:

(a) "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; and

(b) Materiality should be classified as a constraint on information that is included in GPFRs or as an entity-specific component of relevance;

The Qualitative Characteristics of Information Included in GPFRs

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.

(a) NSW Treasury agrees with the qualitative characteristics, and notes that, with the exception of the omission of the distinction between 'fundamental' and 'enhancing' characteristics, the qualitative characteristics are identical to the IASB Framework. This illustrates that the differences between the public and private sector are not fundamental. Therefore, consistent with the IPSASB document *Process for Reviewing and Modifying IASB Documents*, we believe that the IPSASB text should be consistent with the IASB text (as much as possible), rather than using different words to say, in essence, the same thing.

Consistent with the above view, we believe 'faithful representation' rather than 'reliability' should be used. We do not see any justifiable public sector-specific reason for departure from the IASB.

Further, we do not see a justifiable public sector-specific reason to omit the IASB distinction between 'fundamental' and 'enhancing' characteristics. While commentators may debate the validity of making such a distinction, arguments for it have not differentiated the public sector.

(b) We believe materiality should be treated as an entity-specific aspect of relevance, rather than as a constraint on reporting useful information. Again, we do not see any justifiable public sector-specific reason for departure from the IASB.

4. The basis on which a public sector reporting entity is identified and the circumstances in which an entity should be included in a group reporting entity

Reporting Entity Definition

4.1 A public sector reporting entity is a government or other public sector organization, program or identifiable activity that prepares general purpose financial reports.

NSW Treasury broadly agrees with the proposed reporting entity definition. However, we note the ED does not use 'control' in terms of defining a single reporting entity. In Australian Accounting Standards, control is incorporated into the definition of an 'entity', as "...the capacity to deploy scarce resources in order to achieve objectives" (SAC 1, para 6).

Without considering control, a 'segment' as currently defined in IAS 8[2] could be considered a reporting entity under the proposed reporting entity definition, even though the segment has no capacity to control or deploy resources (however, we do not regard a 'segment' as a reporting entity). To address this, we believe that the IPSASB should:

(a) replace 'a government or other public sector organization, program or identifiable activity' with 'an entity' in paragraph 4.1 and then define or describe what constitutes an 'entity', and
(b) provide more details around indicative factors or characteristics of a reporting entity (e.g. separation of management from economic interest, economic or political importance / influence and financial characteristics) to help clarify the distinction between a 'reporting entity' and a 'segment'.

NSW Treasury also notes that the IASB has delayed its work on the reporting entity phase of its Framework, which could result in differences between the two Frameworks once the IASB publishes its reporting entity document.

Characteristics of a Reporting Entity

4.2 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.

NSW Treasury agrees in principle. However, we suggest changing the reference 'service recipients or resource providers' to 'users' in describing the key characteristic of a reporting entity in paragraph 4.2. We consider the needs of all users (not just primary users) important and relevant in identifying a reporting entity.

Group Reporting Entity

4.1 .... A public sector group reporting entity comprises two or more separate entities that present GPFRs as if they are a single 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.

[2] Operating segment is defined as follows in AASB 8.A:
"An operating segment is a component of an entity:
(a) that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity),
(b) whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and
(c) for which discrete financial information is available."

> 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 hold a majority shareholding or other equity interest that confers rights to direct the financing and operating policies of that other entity....

NSW Treasury does not support the group reporting entity concept in the exposure draft in its current form.

We question the IPSASB's decision to avoid using the term 'control' when it discusses the composition of a group reporting entity.

We are unclear why the IPSASB has amended the IASB working definition of control by changing the reference to 'reducing the amount or incidence of losses' to a reference to 'financial burden'. We recommend retaining the IASB wording as we do not see any significant difference between exposure to a financial burden (IPSASB) and reducing the incidence of losses (IASB). Again, as much as possible, we would prefer that IPSASB retain IASB terminology whenever there is no public-sector reason to deviate from the IASB Framework.

Further, NSW Treasury is particularly concerned about the pre-emptive exclusion of GBEs from the scope of the Framework (para 1.1). Based on paragraph 4.7 and perhaps 4.11, the IPSASB acknowledged that GBEs are controlled by the whole of Government (or other public sector entity controlled by the Government). This clearly suggests that GBEs should be part of a public sector group reporting entity (e.g. the group reporting entity being the whole of Government or other public sector entity). However, we note that the IPSASB has excluded GBEs without a sound justification. Therefore, we strongly encourage the IPSASB to re-consider the scope of the Framework for the inclusion of GBEs.

Government of Newfoundland and Labrador
Department of Finance
Office of the Comptroller General

June 15, 2011

Ms. Stephenie Fox, Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street West
Toronto, Ontario
M5V 3H2

Dear Ms. Fox:

Re: IPSASB CF-ED1-Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities (Phase I)

I offer the following comments to IPSASB on the Conceptual Framework Exposure Draft CF-ED1-*Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* on behalf of the Provincial Government of Newfoundland and Labrador.

General Comments

While it is recognized that significant differences that exist across countries and jurisdictions create challenges in developing an international conceptual framework, it is none the less that the foundational concepts and principles of such a framework must allow a government to provide financial reporting that reflects jurisdictional attributes and constitutional structures. In this respect, if a conceptual framework develops principles that do not appreciate unique characteristics or legislative structures across governments and its government organizations, it will not provide financial information that is useful and informative for the primary user.

In relation to CF-ED1, we have concerns with the extension of the scope to areas beyond the financial statements and the proposal relating to the basis in which a public sector reporting entity is identified and the circumstances in which an entity should be included in a group reporting entity. We previously provided these concerns to IPSASB (April 14, 2009) in comment to the consultation paper during that phase of the project. These particular proposals are not supported as they do not appear to respect the unique constitutional framework here in Canada and intends to provide guidance in reporting areas that should remain within the authority of individual jurisdictions. These concerns are detailed below in relation to specific matters for comment. Further, it is to be noted that our concerns are to be reiterated in relation to continuing reference within the consultation papers of Phase II and III of the Conceptual Framework project.

Role, Authority and Scope

While it is agreed that the scope of the framework should be determined by the information needs of the primary user and the objectives of financial reporting, IPSASB's proposal to extend the scope beyond the financial statements, to report on information that includes non-financial information is not supported. Extending the scope is beyond the "Terms of Reference" of the IPSASB (authority to issue standards to be applied by members of the profession in the preparation of general purpose financial statements of public sector entities). Further, such an extension to the scope extends guidance in areas that are outside the profession's expertise in certain circumstances (non-financial performance and service delivery outcomes). It is our position that guidance in such areas should be left at the discretion of the individual reporting jurisdictions which may have their own legislative and/or regulatory reporting requirements on matters such as non-financial performance.

Objectives and Users

It is agreed that the objectives should provide information that is useful to the users which support accountability and decision-making. However, in extending the scope beyond financial statements, these objectives are to be applied in many areas of financial reporting of a government that may already be subject to certain objectives or guidance. Hence, it is not seen as appropriate that the conceptual framework of an accounting standards board should be the authoritative guidance in reporting outside of the financial statements.

While in essence, the ED proposes users to be the public and their representatives, it is questioned as to why it is necessary to split the public into two groups: service recipients and resource providers. The proposal to include the legislature (or similar body) in the capacity as representatives of the interests of service recipients and resource providers is similar to the concept within the current PSAB conceptual framework. It is understood that the public does receive services and are resource providers as well as the beneficial owners of public money; however, tailoring this group into components with different information needs is not seen as necessary in relation to preparing general purpose financial statements and therefore is not supported.

Qualitative Characteristics

The proposed qualitative characteristics are generally supported; they are similar to the characteristics within the current PSAB conceptual framework, with some variation in the organization of certain concepts. However, we provide the following comments.

Conservatism has been excluded from the IPSASB's proposed conceptual framework. This has long been a characteristic of reliability within Canadian conceptual frameworks; it should be recognized in the IPSASB's conceptual framework as its use under conditions of uncertainty affects neutrality of financial statements in an acceptable manner in our profession.

Per IPSASB's proposal, the concept of faithful representation has been used instead of reliability. However, it notes that faithful representation is achieved when a transaction or event is presented based on substance over form and it is complete, neutral and free from material error. Therefore, it appears that the concepts upon which reliability are based are still given consideration in determining the faithful representation of financial statements. While it is not a significant concern if reliability is replaced with faithful representation, such a change in terminology is not seen as necessary in developing an international conceptual framework.

In response to requested comment, it is our position that materiality is viewed to be more appropriate as a constraint on information than an entity-specific component of relevance. It is perception within the accounting profession in Canada that materiality is a matter of professional judgment and a consideration in determining if an event or transaction should be subject to public sector accounting standards and guidelines. In this regard, it is our view that it should be considered in relation to all qualitative characteristics and not just from the perspective of relevance. It should be given the same consideration as cost-benefit in relation to determining if an event or transaction would be considered significant by the primary users of financial statements in making assessments and judgments.

Further, the concern with the extension of the scope beyond the financial statements is reiterated in relation to its reference in the discussion of the various qualitative characteristics. Application of the qualitative characteristics in relation to the proposed scope is seen as problematic especially from an audit perspective.

Public Sector Reporting Entity

Another concern is the basis on which a public sector reporting entity is identified and the circumstances in which an entity should be included in a group reporting entity. The proposals in this ED do not adequately address our concern, as a senior government, that was identified in response to the consultation paper. While it is understood that the proposals reflect an approach that may allow flexibility in dealing with the diverse needs from an international perspective; it remains too broad and is subject to interpretation which does not provide adequate assurance that the constitutional framework within Canada will be protected. The PSA Standards support the reporting of federal, provincial, territorial and local governments as separate financial reporting entities. In this respect, there continues to be concern that under the proposed international framework, of the possibility of a senior government reporting entity (provincial government) having to include a local government (municipalities) in preparing consolidated financial statements.

In particular, IPSASBs current proposal to only identify circumstances and principles for inclusion of an entity or activity within a public sector group reporting entity rather than defining a potential base (e.g. control, accountability) is an approach that is broad; it can lead to many interpretations in defining a reporting group. Further, to replace the concept of the "power criterion", previously proposed in the consultation paper, with the "authority and capacity to direct" only adds to the confusion in defining a reporting entity.

In addition, the proposals include "the existence of users who are dependent on general purpose financial reports (GPFRs) for information about the activities of particular governmental organizations, programs or other identifiable activities for accountability or decision-making purposes" as a key characteristic of a reporting entity. It is our position that this creates additional uncertainty in our ability to protect our constitutional framework within the financial reporting requirements being proposed from an international perspective.

While, it appears that the proposed guidance may allow for consideration of institutional and operational differences among jurisdictions per paragraph 4.13; it is suggested that a separate standard be developed. A separate standard would allow consideration or preservation of particular circumstances of jurisdictions in developing the authoritative requirements that give effect to the principles in the framework. It may be appropriate to include wording similar to the PSA Standards which state that "The standards are intended to apply to the financial statements of the federal, provincial, territorial and local governments. Each of these governments is a separate financial reporting entity and would be excluded from the financial reporting of any other government."

Thank you for the opportunity to provide my comments on this issue. If you require further information, please contact myself or Carmalea Gillingham, Accounting Research Specialist, at (709) 729-4049.

Yours truly,

RONALD A. WILLIAMS, CA
Comptroller General of Finance

cc: Terry Paddon, Deputy Minister of Finance

P.O. Box 8700, St. John's, NL, Canada A1B 4J6 t 709.729.5926 f 709.729.7627

June 15, 2011

Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street West, 6th Floor
Toronto, Ontario M5V 3H2 Canada

Advancing
Government
Accountability

2208 Mount Vernon Ave
Alexandria, VA 22301

(703) 684-6931
(703) 548-9367 (fax)

To the Director:

On behalf of the Association of Government Accountants (AGA), the Financial Management Standards Board (FMSB) is pleased to submit comments to the International Public Sector Accounting Standards Board (IPSASB) on the Exposure Draft (ED) entitled "Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities, Phase 1". With more than 15,000 members, the AGA is a leading United States organization supporting the careers and professional development of government finance professionals working in the federal, state and local governments as well as the private sector and academia.

We strongly support the efforts by the International Public Sector Accounting Standards Board (IPSASB) in developing this Conceptual Framework.

Both U.S. standard setting bodies for this community, the Federal Accounting Standards Advisory Board (FASAB) and the Governmental Accounting Standards Board (GASB) have issued Concept statements for their particular public sectors which are appropriately tailored for the unique elements of their respective constituents. This draft Concept Statement incorporates many of the strengths of these documents but has the opportunity to provide a global strategic direction that may enhance the usefulness of all public sector financial reporting.

We have noted that Phase 4 of this project is expected to evaluate how to present financial and non-financial information in General Purpose Financial Reports (GPFRs). However, we believe Phase 1 of the framework project provides a better opportunity to emphasize that the GPFRs should provide users with information on historical financial performance as well as current financial performance and condition. Financial statements by themselves (even comparative financial statements) provide a limited snapshot of the public sector entity, which is insufficient to effectively evaluate its performance and meet the needs of the users. We recommend that IPSASB should note in Phase 1 that public sector entity financial reports are generally more useful when historical financial performance information (along with historical operating performance information and prospective operating plans) accompanies the financial statements.

We were pleased to see the issuance of the IPSASB exposure draft on Key Characteristics of the Public Sector with Potential Implications for Financial Reporting and we believe the inclusion of such a discussion in a conceptual framework would support the specific objectives as well as introduce certain unique concepts that are discussed in more detail in this document.

Specific Matters for Comment

1. Role, authority and scope of the Conceptual Framework

We agree with the general role, authority and scope of the Conceptual Framework. The document acknowledges the broad differences in public entities and the operating environments in which they operate and the framework is effectively high-level. Many of the explicit statements in the exposure draft are appropriate and were also a fundamental implicit foundation for U.S. federal, state and local standard setting bodies. As noted above, we support the recognition of the other elements of the GPFR beyond the financial statements.

2. Objectives of financial reporting by public sector entities and the primary users of GPFRs of public sector entities and their information needs.

As noted above in General Comments, we believe it would be valuable to include here a discussion of the structural and operating differences that drive the differences in objectives for financial reporting, as was done in FASAB and GASB Concept Statements. While their standards address the unique elements of each broad type of public sector, we believe certain characteristics of all governmental entities (e.g., the significance of non-exchange transactions, focus on performance outcomes and the regulatory role of government, etc.) are fundamental to these objectives and should be addressed here. Such an introduction would allow for a better understanding of certain concepts introduced later on in the framework. Its omission was notable in our review of this document.

Users of general purpose financial reports (ED ¶ 2.3 – ¶ 2.6). We support the deliberate classification by IPSASB of the users of GPFRs as "service recipients and their representatives" and "resource providers and their representatives". Both constituencies should be considered in public sector financial reporting but this grouping better highlights the differences in their information needs.

Information Needs of Service Recipients and Resource Providers (ED ¶ 2.7 – ¶ 2.13). We found this section somewhat confusing and the IPSASB should consider reorganizing this section.

- ¶ 2.9 further defines "resource providers". We believe this should be included with the discussion on the definitions in the section "Users of General Purpose Financial Statements" (ED ¶ 2.3 – ¶ 2.5).
- It is unclear why the accountability needs for service recipients and service providers are grouped together under a subcaption. We believe these should be discussed respectively in conjunction with ED ¶ 2.8 and 2.11.
- ¶ 2.12 includes a further definition of voluntary and involuntary resource providers. The definitional components of the section should be discussed in the "Users of General Purpose Financial Statements" section (ED ¶ 2.3 – ¶ 2.5).

Information Provided by General Purpose Financial Reports (ED ¶ 2.14 – ¶ 2.25). As a point of reference, the FASAB's Concept Statement No.1 categorizes the objectives of federal financial reporting as:

- Budgetary Integrity
- Operating Performance
- Stewardship
- Systems and Control

The IPSASB categorizations are generally consistent with those of FASAB. However, we believe there are certain clarifications or areas of emphasis that would make the setting of specific standards more effective.

Financial Position, Financial Performance and Cash Flows (¶ 2.15 - ¶ 2.18). In general, we believe that IPSASB should emphasize the need for GPFRs to put the current financial statements in their proper historical context to ensure the relevance of the information to the users.

We concur with the statements in this section as they relate to the current financial presentation but we believe the IPSASB could emphasize that the financial statements provide the most relevant information on the current financial position and condition, and that they should be reviewed in context with historical information and information on future service delivery objectives.

Service Delivery Achievement (¶2.21). As discussed above, we believe it is critical for effective GPFRs to provide information on historical as well as current service delivery achievements (SDAs) along with their related cost information. Discussions of SDAs should be aligned with the mission and goals of the entity. Historical SDA information should be provided at a summary level and only for the most relevant and significant SDAs, as context for the assessment of the current SDAs and future service delivery objectives.

Although discussed in ¶ 2.25, we believe that ¶ 2.21 is a better place to discuss that SDAs should be reasonably representative of the overall financial performance of the entity.

Prospective financial and non-financial information (¶ 2.22 - ¶ 2.23). We concur with the statements made by IPSASB in ¶ 2.22 and ¶ 2.23. The current discussions in the United States over the nation's ability to fund future service delivery activities illustrate how prospective financial information may serve as the most relevant component of a GPFR for many users.

Narrative reports (¶ 2.24 - ¶ 2.25). We appreciate IPSASB's discussion of how narrative reports can supplement financial statements in providing information to users for accountability and decision-making purposes. We believe it would be helpful to distinguish the reporting of objectively presented information (SDAs, cost information, etc.) from the reporting of more subjective views and analysis from entity management.

Other sources of information (¶ 2.26).We believe IPSASB should also recognize the role that a concise "Citizen's Report" or other abbreviated financial and performance report can serve in meeting the needs of users.

We note that IPSASB has not addressed two objectives outlined by FASAB categorized as "stewardship" and "systems and control". We believe these objectives are relevant to all public sector entities and should also be recognized by the IPSASB. We suggest these elements be combined with budgetary compliance under a broader "stewardship" section addressed by IPSASB and considered in future phases of this project.

3. Qualitative characteristics of, and constraints on, information included in GPFRs of public sector entities
    a. Should "faithful representation" rather than "reliability" be used in the Conceptual Framework to describe the qualitative characteristic that is satisfied when the depiction is complete, neutral, and free from material error?

We believe that the term "faithful representation" is better than "reliability". There are instances when balances, analyses, performance data or forecasts can be "reliable", but may not be a "faithful representation" of the matter they intend to portray. The latter implies that it is reported in the proper context, showing how that data impacts the entity's performance, condition or future plans.

    b. Should materiality be classified as a constraint on information that is included in GPFRs or as an entity-specific component of relevance?

We believe materiality is appropriately classified as a constraint on information. We believe that IPSASB should also consider discussing the qualitative characteristics of the GPFRs themselves, such as readability, conciseness, structure and integration. Overall, GPFRs should contain information that is considered "useful" by readers.

4. The basis on which a public sector reporting entity is identified and the circumstances in which an entity should be included in a group reporting entity.

The FASAB is currently considering whether certain principles can be applied to define a "core" versus "non-core" component of a government, in determining whether an entity requires consolidation. These principles are:

- Is the entity included in the budget?
- Does the government have a majority ownership interest?
- Does the government exercise control with expected benefits or risk of loss?

The application of these specific (or any) principles to all situations is likely to be very subjective and problematic. We found the emphasis by IPSASB on the "authority and capacity to direct the activities of other entities" may result in quasi-governmental self-funded commissions and boards arguing against their consolidation. Supplemental principles or contributing factors that should be considered may be needed.

We believe IPSASB may also need to consider stating that GPFRs should adequately disclose "implicit financial or control relationships" with entities that are not within the group reporting entity. The concept of "intergovernmental dependence" is unique within the public sector, but the impact on the reliability of financial reporting is not. Such explicit relationships in the commercial sector, usually through inadequately disclosed loan guarantees, have resulted in unexpected and significant changes to an entity's financial condition, impacting their usefulness to readers. The existence of "implicit" relationships and intergovernmental dependence requires more guidance under a concept statement, due to their subjective nature.

We appreciate the opportunity to comment on this document and would be pleased to discuss this letter with you at your convenience. A majority of members approved the issuance of this letter. If you have questions concerning the comments in this letter, please contact me at cpaesp@att.net.

Sincerely,



Eric S. Berman, CPA, Chair
AGA Financial Management Standards Board

cc: Lisa Casias, CPA
AGA National President

Association of Government Accountants
Financial Management Standards Board

July 2010 – June 2011

Eric S. Berman, Chair
Katherine J. Anderson
Frank D. Banda
Robert L. Childree
Irwin T. David
Jeanne B. Erwin
Jeffrey W. Green
J. Dwight Hadley
David R. Hancox
Ruthe Holden
Rashad A. Holloway
David C. Horn
Albert A. Hrabak
Drummond Kahn
Simcha Kuritzky
Valerie A. Lindsey
Edward J. Mazur
Craig M. Murray
Suesan R. Patton
Clarence L. Taylor, Jr.
Roger Von Elm
Donna J. Walker
Stephen B. Watson
Sheila Weinberg

Relmond P. Van Daniker, Executive Director, AGA (Ex-Officio Member)

Opinions of the Federation of Professional Councils of Economic Sciences (FACPCE)

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

Specific matters for comment

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

Paragraph No.	Paragraph Reference	Opinion
1.2	**Authority of the Conceptual Framework** This Conceptual Framework does not establish authoritative requirements for financial reporting by public sector entities that adopt IPSASs, nor does it override the requirements of IPSASs. However, it may provide guidance in dealing with financial reporting issues not dealt with by IPSASs or 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 identify circumstances where the definitions and other concepts in this Conceptual Framework have authoritative status.	**Authority of the Conceptual Framework** This Conceptual Framework does not establish authoritative requirements for financial reporting by public sector entities that adopt IPSASs, nor does it override the requirements of IPSASs. Nevertheless, **it will provide** guidance in dealing with reporting issues …. Rationale: For the future IPSASs there must be a hierarchy in the CF related to the standards to be projected, as they are the essence and methodological process via which the fundamental concepts are established in one and broken down in the others. In this way, it is in concordance with the definition in paragraph 1.1.
1.6	**Scope of Financial Reporting** GPFRs of public sector entities includes, but are more comprehensive than financial statements, including these notes.	The comments should be included in the body, not as footnotes.

	They can report information about the past, present and 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.[1]. GPFRs are likely to compromise 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.	
1.8	**Applicability of the Conceptual Framework:** 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. It also applies to a wide range of other public sector entities, including 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.	As a generic definition, "Decentralized and Deconcentrated" entities should be incorporated, understanding that: **Decentralized:** Entities within the General Government Sector (GGS) with autonomy and autarky for funds management. **Deconcentrated:** Entities within the General Government Sector (GGS) with autonomy and autarky for funds management, but with authority issued by law with more autonomy, for political or economic reasons, which allows them to remain outside the financial administrative circle, such as Tax Authorities (AFIP) or entities that manage retired people's health care and other matters (PAMI).

2. Goals of the financial reporting and General Purpose Financial Reporting Users

[1] The reference hereby to the inclusion of information in the GPFRs does not imply that the inclusion of such information in all the GPFRs may be prepared.

Paragraph No.	Paragraph Reference	Opinion

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

Paragraph No.	Paragraph Reference	Opinion
BC 3.8	**Faithful Representation** The Conceptual Framework explains that to be useful information, it 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.	We agree on the FAITHFUL REPRESENTATION terminology.

4. The Reporting Entity and Group Reporting Entity

Paragraph No.	Paragraph Reference	Opinion
4.6	In some cases, GPFRs for these entities may be prepared on a voluntary basis.	Every entity managing public funds must submit reports or financial statements; to account for such funds, that information should never be "on a voluntary basis".
4.8	The benefits derived from 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..."	I understand that "specific transactions" should be added where "capacity to direct" is shown, beyond their autonomy, such as: • Grants (Contributions from the Treasury) to the different government levels (provincial and local); • Debt collateral from a sector of the government to another; • Assumption of liabilities by the Central Government; and • Debt forbearance from a sector of the government sector to another;
w/pn	w/p	I understand that, as a guideline, the classification established by the 2001 Ministry of Economy and Public Finance

		(MEFP, its Spanish acronym) should be adopted, as stated in IPSAS 22 (GGS that includes a QMS, PMO and SGL), this would simplify the topic and make it more understandable, with enough flexibility for the countries' legal frameworks to adjust it according to their own characteristics.



The Institute of Chartered Accountants of Pakistan

HEAD OFFICE

Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street West, 6th Floor
Toronto, Ontario M5V 3H2,
CANADA

June 15, 2011

Subject: **Comments On Exposure Draft 1 'Conceptual Framework For General Purpose Financial Reporting By Public Sector Entities: Role, Authority And Scope; Objectives And Users, Qualitative Characteristics; And Reporting Entities'**

Dear Sir,

The Institute of Chartered Accountants of Pakistan welcomes the opportunity to offer comments on the above mentioned exposure draft.

Please find enclosed the comments of the relevant Committee of the Institute for your perusal.

If you require any further clarification, please do not hesitate to contact us.

Yours faithfully,

Haroon Tabraze
Director Technical Services
The Institute of Chartered Accountants of Pakistan
haroon.tabraze@icap.org.pk

COMMENTS ON CONCEPTUAL FRAMEWORK FOR GENERAL PURPOSE FINANCIAL REPORTING BY PUBLIC SECTOR ENTITIES: ROLE, AUTHORITY AND SCOPE; OBJECTIVES AND USERS, QUALITATIVE CHARACTERISTICS; AND REPORTING ENTITIES

Specific Matters for Comment

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

1. Role, authority and scope of the Conceptual Framework;

Comments

The exposure draft defines the broad principal on the basis of which specific standards will be developed their general authority and its wide scope caters for all the future requirements.

2. Objectives of financial reporting by public sector entities and the primary users of GPFRs of public sector entities and their information needs;

Comments

Objective of the financial reporting by public sector organization is fairly straight forward and covers both the aspect of accountability and decision making.
Definition of Primary Users of General Purpose Financial Reports (GPFRs) and description their information need is broad enough to encompass all the possible stakeholders and their required information relating to a Public Sector Organization.

3. Qualitative characteristics of, and constraints on, information included in GPFRs of public sector entities. In particular, whether:

(a) "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; and

Comments

"Faithfull Representation" is more comprehensive and complete term. Component of Reliability is covered in Framework by including the term "Verifiability". Further the preparer of GPFRs are expected to know about the qualitative characteristic of "Faithfull Representation"

(b) Materiality should be classified as a constraint on information that is included in GPFRs or as an entity-specific component of relevance; and

Comments

Basic qualitative characteristics are broad enough to make all the information to be represented fairly for decision making and accountability purpose. By including "Materiality" as constraint on information serves as extra emphasis on its important.

4. The basis on which a public sector reporting entity is identified and the circumstances in which an entity should be included in a group reporting entity.

Comments

By linking the objective of GPFRs with its users, the existence of service recipient or resource providers is the most appropriate characteristic to identify a reporting entity. In addition to the legislation, authority and capacity to direct activities of another entity is an appropriate characteristic to indicate existence of group.