Comments on "International Public Sector Accounting Standards Board. (2010). *Conceptual Exposure Draft 1*"

This submission is in three sections. Each is on a separate topic and was compiled by a pair of participants from the Bachelor of Commerce (Honours) (Accounting and Information Systems) programme at the University of Canterbury (*Te Whare Wānanga o Waitahā*), Christchurch, New Zealand. The topics were chosen by the participants themselves. All six authors are young adults and although what they have to say may reflect some immaturity in knowledge and understanding of accounting, it also reflects what they see as significant long-term issues, ones that will still be with them when this writer and the members of the IPSASB have passed on. So, I hope that what they have to say is given due weight.

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Cultural Differences: Islamic vs. Western Culture

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Submission Argument

This submission responds to the call for comments from the International Public Sector Accounting Standards Board (IPSASB) on its recently released exposure draft containing a proposed conceptual framework for general purpose financial reporting by public sector entities. The submission is concerned with how appropriate the present proposed framework is to countries dominated by the Islamic religion because of the significantly different culture of these countries compared to Western countries. We note that there is a much wider range of religions and cultures around the world than the very basic distinction we have made between Western culture and Islamic culture. We have used the Western and Islamic cultural differences simply to illustrate our point that culture has an impact on both accounting and politics; and therefore, a 'one-size-fits-all' approach to a conceptual framework and future accounting standards is not the appropriate course of action.

Background of Muslim Religion and Islamic Culture

The Muslim religion accounts for around a quarter of the world's population. Being such a large proportion of the world, the way the Muslim culture impacts on accounting and the public sector needs to be taken into careful consideration. Muslims must accept all commandments, rules and values as they are Allah's (God's) rule. This means they often cannot agree with Western laws as they are not based on religion and therefore they may be in conflict with their beliefs

Islam can never be separated from social, political, or economic life, since religion provides moral guidance for every action that a person takes. Islamic accounting should regulate and establish a harmonious integration among the parties of these various diverse domains. In Islamic countries, God is acknowledged as the sole sovereign of human affairs, so there has never been a distinction between religious and state authority. The vision of an Islamic state and the purpose of its political authority are to implement the divine law. The function of the Islamic state is to provide security and order so that Muslims are able to carry out both their religious and worldly duties. Islamic law is possible under a monarchy or a democracy. However, it is a question over how Sharia (Islamic law) is interpreted as to whether it can be applied in a democracy. The form of state depends on the interpretation of Koran (sacred text of Islam) and Sharia. For example, in Iran the political leader insists on the interpretation that Sharia and democracy are often in conflict, just to assure his power.

There is a certain level of flexibility in regards to the system of governance and its establishment in Islam. However, religion must be implemented fully into state and society. The Muslim religion influences all aspects of life, as value judgment and rules of behaviour are seen as a divine instruction.

Background of Western Culture

We understand that in Western countries, religion is considered to be more about beliefs than

following rules, and no one religion drives law making. This is in contrast to the Islamic culture described above. The Western culture is also focused on individual welfare, emphasising the individual's needs rather than society as a whole. Religion is often only one aspect of life within Western countries, with many other aspects guiding the individuals.

How the Differences in Culture Affect Accounting in General

We believe that because Islamic and Western countries have such fundamentally different cultures they require their own accounting systems, including their own conceptual framework and accounting standards. Western accounting is based on modern commercial law. The focus is on what you can get away with legally, rather than what is ethical.

Western accounting only provides for limited disclosure. The provision of information is subject to public interest. It focuses on profit maximisation, and accountability is focused on the individuals who control the resources. Conversely, accounting in Islamic countries is based on ethical law, requires full disclosure (not only what is deemed to be of interest to the public), and the focus is on public accountability.

Specific Issues with the Conceptual Framework

The framework states that the board recognises the diversity of forms of government, social and cultural traditions, and service delivery mechanisms that exist in many jurisdictions that may adopt IPSA, and that the framework has attempted to respond to and embrace that diversity. However, we believe this diversity has not been sufficiently considered, and therefore we believe it is still a significant concern.

We believe the scope of the conceptual framework is too wide, in terms of the scope of the countries it will apply to. In particular, we believe it should not be intended for application in Islamic countries, and it is only appropriate for use in Western countries.

In particular we have identified two key concepts in the exposure draft that we consider being inappropriate to apply in the same manner to countries dominated by Islamic beliefs, as opposed to countries with a Western culture. These two concepts are information usefulness and information relevance. The relevance of information also influences the usefulness of the information.

Usefulness of information is one of the fundamental ideas driving the conceptual framework. Islamic culture believes in full disclosure to satisfy any reasonable demand for information in accordance with the Sharia. Therefore, the idea of "useful information" might be irrelevant in Islamic accounting. In Western cultures, the focus is only on providing useful information. Useful information is determined with reference to what the public is seen to be interested in. This raises concerns about what is considered to be useful information and who is responsible for determining this. We question whether the IPSASB, with its headquarters in a country with a Western culture, should be responsible for determining what is defined to be useful information to countries with Islamic cultures, because of the fundamental culture differences.

According to the framework, information is considered relevant if it has confirmatory value, predictive value, or both. Confirmatory value is when information confirms or changes past

or present expectations. Predictive value is when information provides information about the future. In Islamic countries they are not focused on what information has confirmatory and predictive value. Relevant information is considered to be all information, in other words, full disclosure. This is partly because they believe every individuals information needs should be met, and for this to occur, full disclosure is necessary.

The framework talks about "discharging responsibilities". However, because in Islam the overall responsibility is to God, these reports are not sufficient to discharge this responsibility. This may suggest that to be of use to the public Islamic countries require their own framework that takes these additional responsibilities into consideration.

Academic Research

To back up our comments about the problems with having a single conceptual framework applying to two very different cultures, we have examined academic research on related topics.

One academic research paper describes different cultures between countries and its relation to the public sector (Brown & Humphreys, 1995). The authors suggest the models, theories, and frameworks developed to assist efficient and effective administration in one nation may not be directly applicable in another. We suggest that this means systems and ideas that have been developed in the Western world, may need to be modified and adapted in order to fit the cultural beliefs, values and expectations of Islamic nations.

Further research has shown that the Muslim countries do not have the same level of economic freedom as Western countries (Facchini, 2011). For example, this paper uses various indicators of economic freedom to demonstrate the measure of freedom in the Muslim world, which has a low average. These include business freedom, fiscal freedom, free trade and monetary freedom. One explanation for this is that Islamic law, as emphasised above, differs in many respects to the ideal of liberal order: in particular, it justifies an economic model of rent. This law restricts the freedom of ownership on moral principles and promotes the collective ownership of natural resources. Overall this paper highlights the fundamental differences between Western and Muslim countries.

Further academic research attempts to explain the inapplicability of internationally developed administration models to the developing world (Ohemeng, 2010). The authors state that a "one-size-fits-all" model is not appropriate internationally when it comes to the public sector. In particular, the authors consider the implementation of new public management across developing countries, leading to a "one-size-fits-all" method for reforms. The authors state that *"what may work in one country may not work in another because of different environmental constraints"* (Ohemeng, 2010, p.470). They also emphasise the importance of understanding the local environment and that the country's history, system of governance, and relationship with the outside world should all be considered in determining policies. We believe these factors should be considered in determining the contents of the conceptual framework for different countries.

Another paper looks at cultural differences in relation to accounting in general (Gray, 1988). The author provides a framework to assess the impact of culture on the form and functioning

of accounting. The paper looks at four key dimensions relating to the differences in culture. One of these relates to the idea of individualism versus collectivism. Individualism is where individuals are supposed to take care of themselves and their immediate families only, which is characteristic of Western culture. Collectivism is where society is seen as being made up of individuals who are all inter-dependent on one another, and everyone takes care of each other. This is common in Muslim cultures. This paper highlights a fundamental culture difference which affects all aspects of life.

In summary, we believe that academic research has established the importance of recognising the differences in cultures and the need to fully consider these before attempting to implement international policies. This research supports our belief that the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities is not appropriate to be applied in the same form to countries dominated by the Islamic religion because of the significantly different culture of these countries compared to Western countries.

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The use of financial and non-financial information in the IPSASB exposure draft

By Hayden Shivas and Kurt Gurden

This submission responds to the call for comments from the International Public Sector Accounting Standards Board (IPSASB) on its recently released exposure draft containing a proposed conceptual framework relating to how public sector entities report information to stakeholders. The submission is concerned with how the exposure draft refers to financial and non-financial information. Firstly, the primary users of public sector financial information are discussed, with the authors providing an alternative view of this issue. Secondly, the authors provide recommendations to improve financial disclosures with specific regard to the understandability of financial information, and the disclosure of human resource expenses. Finally, non-financial information is discussed, with particular regard to sustainability reporting and performance budgeting. The authors believe that these factors should be included in the final conceptual framework.

Financial Information

Primary Users of Financial Information

The IPSASB exposure draft makes reference to two primary users of financial information in public sector reports. This can be found in section BC2.4, which states "service recipients and their representatives and resource providers and their representatives" are considered to be primary users (IPSASB, 2010). However, the authors are of the belief that financial information should primarily be prepared for the government, specifically the executive branch and cabinet ministers, and resource providers.

It is agreed that resource providers should be classified as primary users of financial information in public sector reporting. This is because, as a main funding source of public sector entities, it is important that these entities are accountable to these users for the financial performance and efficient operation of a public sector entity. This assists resource providers in making informed decisions when supporting a political party at an election. Many academics including Wayne (2004), and Bolívar, Perez and Hernandez (2007) also support resource providers as primary users of financial information in public sector entities.

The authors believe that financial information in public sector reports should be prepared for the executive branch of government as a primary user. This branch is responsible for decisions with regards to the creation of policy within the public sector, the implementation of new objectives leading to potential outcomes, and is accountable to parliament and citizens. Therefore members of this branch require high quality financial information from public sector entities, such as those provided in budgets and financial statements, to ensure they discharge these responsibilities in a way that is efficient, viable and meets the needs of citizens. Financial information in public sector reporting should therefore be generated for the executive level of government as a primary user. This view is supported by Jubb and Kelso (1998) who highlights the importance of financial accountability in the upper level management of public sector entities.

Finally, the view that service recipients should be a primary user of financial information in public sector reporting is not supported by the authors. Service recipients experience the operations of a public sector entity first-hand and do not necessarily require public sector reports to understand the body's financial performance. For example, someone on a long hospital waiting list will already be aware of a lack of staff funding in the hospital's budget. It can be argued that financial reports may help service recipients understand the source of problems (such as the one described previously). However, the authors believe that service recipients will seek this information directly from the public-sector entity as opposed to using their reports. Therefore it is believed that service recipients should only be classified as users as opposed to primary users.

Understandability of Financial Information

Section 3.18 of the exposure draft states that users are assumed to have a reasonable knowledge of a public entity, and have the ability to understand information in reports with reasonable diligence. This assumption appears to be drawn from private sector reporting principles where it is fair to assume that investors are financially literate. However, public sector users may not necessarily have "reasonable knowledge" and an understanding of financial information, such as accounting assumptions or different types of assets and liabilities. Therefore the authors believes that, even though some accounting concepts can be complex, information should be prepared for citizens who may not have reasonable financial literacy, especially since citizens are a primary user of this information. Therefore the exposure draft should include recommendations for public sector entities to disclose a sufficient amount of explanatory, qualitative information to assist users who do not possess "reasonable knowledge" to improve their understandability of public sector reports. Other methods could also be recommended such as the setup of a hotline or a website. This may reduce a user's dependence on an external advisor (currently recommended in section 3.18). This view is supported by Barton (2005) who states that understandability is when users' can comprehend what information means. Holzer and Yang (2004) also recognise that understandability is important in assisting the public in understanding performance measurement in public sector reporting.

Disclosure of Human Resource Expenses

Finally on the subject of financial information, the authors believe that a recommendation for the breakdown and disclosure of funding allocated to human resources in public sector entities should be included in this exposure draft. Human resources are usually the largest expense item in these entities with obvious examples being education and public health systems. Jurkiewicz, Massey and Brown (1998) state that employee compensation is the largest budget item in the public sector; while Edwards (2010) notes that half of all public spending in the United States is attributable to employee benefits. In New Zealand, a lack of investment in human resources in some public sector entities has resulted in a lack of quality and sufficient number of staff, such as a lack of doctors or school teachers in some areas. Therefore, a complete breakdown of human resource expenses in public sector reporting may be considered an important form of accountability to citizens. Public sector employees play an important role in determining the level of satisfaction provided by a public sector entity.

Therefore citizens who experience low satisfaction due to a lack of funding in human resources may view this financial information as an important form of accountability, and may base their voting decisions on supporting a larger investment in human resources. This recommendation should be considered in section two of the exposure draft under the heading "Information Needs of Service Recipients and Resource Providers".

Non-financial Information

Sustainability Reporting

The authors believe that the exposure draft should contain more non-financial information within it. Throughout this report there are no paragraphs solely dedicated to non-financial information, as this is grouped with financial information in all paragraphs that refer to it. The report mentions nothing about sustainability reporting which is a type of non-financial information that should be recommended in this report, as its use has increased over the last 20 years. Ernst and Young (2009) describe sustainability reporting as the "Practice of measuring, disclosing and being accountable to internal and external stakeholders for organisational performance towards the goals of sustainable development." Sustainability reporting is important because it bears on the ability of organisations to continue into the future, and many are becoming more conscious of the environment because of political, economic and environmental movements pushing for a greener Earth. The Australian Government recently moved towards sustainability reporting as a result of demand from stakeholders, including investors, regulators and customers, who wanted great transparency from corporations (Ernst & Young, 2009).

Ernst and Young (2009) discuss the principles that make up sustainability reporting. We believe that these should be included in the exposure draft under a separate non-financial information section, as follows:

- Inclusivity: the commitment to be accountable to the stakeholders.
- Materiality: the analysis on information that takes into consideration sustainability drivers, and accounts for needs, concerns and expectations of the organisation and stakeholders.
- Responsiveness: relates to how an organisation demonstrates its response and accountability to stakeholders.
- Stakeholder inclusiveness: when reporting should identify its stakeholders and explain how they responded to their expectations.
- Completeness: includes "coverage of the material topics" and the "definition of report boundary that significantly reflects economic, environmental and social impacts".
- Sustainability context: presents the organisation's wider context of sustainability.

Performance Budgeting

The exposure draft does not make any recommendations with regards to performance budgeting. This is a practice that is growing in many countries, including New Zealand. It is based on linking policy, services, resources and finance, indicated by Shah and Shen (2007):

> A system of budgeting that presents the purposes and objectives for which funds are required, costs of programs and associated activities proposed for achieving those objectives and outputs to be produced or services to be rendered under each program(me).

The components of performance budgeting as:

- Inputs: resources to produce outputs
- Outputs: quantity and quality of goods and services produced
- Outcomes: progress in achieving program objectives
- Impact: which consists of the goals
- Reach: the people that benefit or are hurt by the programme (Shah & Shen, 2007).

New Zealand's movement towards accounting for outputs and outcomes started in the late 1980s with the introduction of the Public Finance Act 1989 which shifted the budget emphasis from inputs to outputs. This was followed by the Fiscal Responsibility Act 1994 which positioned New Zealand as a pioneer of performance oriented budgeting. This was aimed at improving budget transparency through the requirement of outlining the fiscal objectives and the reporting process to achieve them (Webber, 2004). The New Zealand Government argued that outcomes should be the primary focus of non-financial information; therefore a shift from an outputs to an outcomes focus in public expenditure management has occurred consistently since 1999, when the Labour-led Coalition Government was determined to remove some policy reforms from the previous years of National-led Coalition Government. This was undertaken to implement more effective approaches to public sector management. As a result of these movements towards outputs and outcomes, performance budgeting began to flourish.

There are several additional reasons given by Shah and Shen (2007) as to why performance budgeting should be included in the exposure draft. Firstly, it results in enhanced communication between budget actors and citizens, which assists public managers in communicating more effectively about their activities to members of executives and legislatures, and the public. Performance budgeting also improves management in government agencies, as it helps programme managers specify organisational goals and achievements, and it provides a better knowledge of problems with program structure and operation. It also assists in making better informed budgetary decisions because politicians are able to exert pressure for improvements and can better understand the issues involved. Performance budgeting also provides higher transparency and accountability by making it easier for the public to obtain a better sense of major government activities and achievements.

Conclusion

The IPSASB conceptual framework has included many sensible recommendations for the disclosure of information in public sector reporting. However some financial disclosures are in need of improvement. The authors believe that the exposure draft should make an increased distinction between the users of financial information in public sectors and private sectors. Specifically increased disclosures are required to assist users in understanding public sector financial information, which will assist them in making more informed voting

decisions. With regard to non-financial information, the report appears to have a lack of separation between financial and non-financial information. The report should also recommend the disclosure of practices such as sustainability reporting and performance budgeting to meet the demand of current and future stakeholders. We hope these views on the disclosure of financial and non-financial information are thoroughly considered by the IPSASB.

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Public Sector Sustainability Reporting

By Kirti Patel and Siew Ping Wong

This submission responds to the call for comments from the International Public Sector Accounting Standards Board (IPSASB) on its recently released exposure draft containing a proposed conceptual framework relating to how public sector entities report. It argues that the IPSASB Exposure draft should incorporate sustainability reporting as essential because there are increasing public expectations and concerns about sustainability. Sustainable development has become increasingly important in public sectors as, internationally, these sectors represent approximately 40% of all economic activity (Ball and Grubnic, 2007, p. 243). We subscribe to the view that the issue of whether public sectors should contemplate their social responsibility or the impacts of their actions on the stakeholders should no longer be debated (Farneti and Guthrie, 2008). As Epstein (2008) argues, we should no longer focus on "why" sustainability reports should be produced, but on "how" we should construct them.

Definition of Sustainability Reporting

Sustainability reporting (SR) is described as "the practice of measuring, disclosing, and being accountable to internal and external stakeholders for organizational performance" (Global Reporting Initiative (GRI), 2011, p.3). By referring to the New Zealand Business Council for Sustainable Development (NZBCSD), Milne *et al*. (2009) depicted that SR comprised stating economic, environmental, and social impacts. The economic component of this definition demonstrates how an organisation performs financially and is usually presented in the financial report. The economic factor in the context of SR differs from the financial reporting as it refers to the organisation's contribution towards the sustainability of the larger economy (GRI). The environmental element of sustainability deals with how the organisation affects "the living and non-living natural systems including land, air and water" (p. 29). The final aspect of sustainability is social. The social dimension portrays the interaction with the community and how any risk associated with the interaction is managed (GRI). The proposed collaboration of the three components can be portrayed in Figure 1.

Sustainability reports are quite similar to Statements of Service Performance (SSP), which are the form of performance reports used across public sector entities in New Zealand. However, there are two key factors that distinguish SSP from sustainability reports. Firstly, a SSP largely consists of non-financial information whereas a sustainability report encompasses both financial and non-financial information (Thomson, 1995). A SSP also is produced on the basis that it will reveal how efficient the public sector is in providing the services to the community. A sustainability report, on the other hand, is more concerned about the general accountability and transparency of the public sector and its effect on the social, environment and economic aspects of the community in general; rather than how efficiently the public sector's services are being delivered.

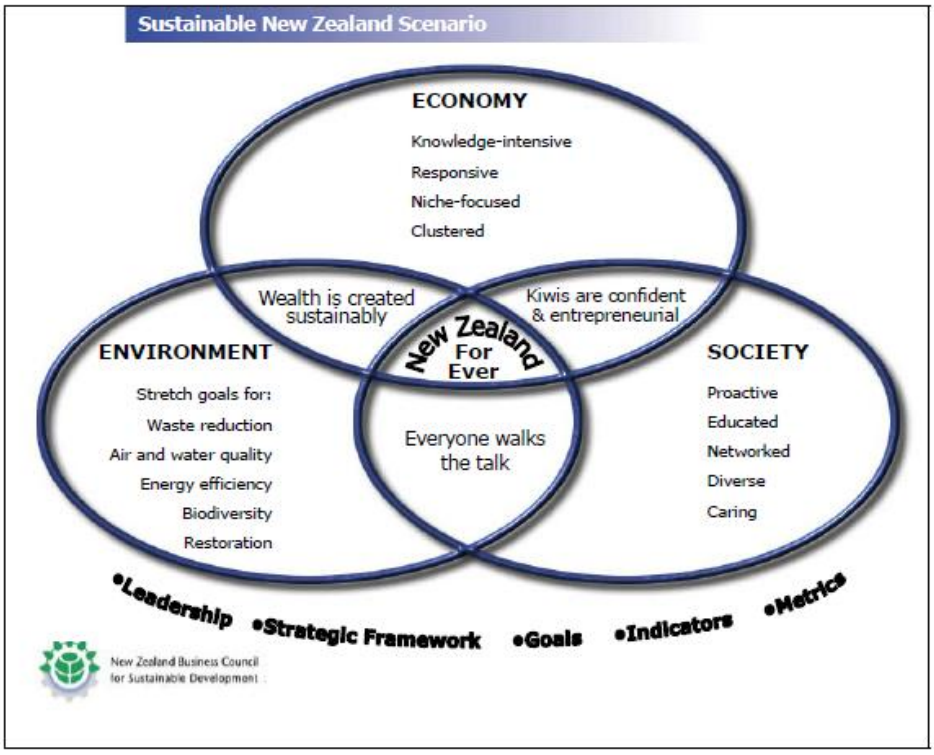

Figure 1: Sustainable NZ scenario with economy, environment and society dimensions.

Why the IPSASB should incorporate Sustainability Reporting

The IPSASB Exposure draft currently does not include guidelines on SR for public sectors. The exposure draft states that the "IPSASB recognizes the diversity of forms of… *social traditions*, and in developing this Conceptual Framework, the IPSASB has attempted to respond to and embrace that diversity" (2010, p. 3). From this quote, it signifies that the IPSASB intends to acknowledge and include "social traditions" in the annual reports. It can be argued that sustainability reporting could be a form of an upcoming social norm; therefore it should be recognised in the IPSASB. By referring to Gray *et al.* (1995) and Owen (2008), Bellringer *et al.* (2009) suggest that legitimacy is one of the persuasive incentives for sustainability reporting. Legitimacy theory relates to the generalisation that certain activity or concept is in the 'norms' or 'standards' "within some socially constructed system" (Suchman, 1995, p.574). This is particularly true as public sustainability reporting has become more evident in some jurisdictions, including France and New South Wales, Australia (Kolk, 2005; Frost and Seamer, 2002). Hence, it seems to be only a matter of time before public sectors in others begin to produce such statements. Furthermore, a sustainability report endorsed by the IPSASB will have the advantage of containing information which is comparable with all jurisdictions that adopt the IPSASB's guidelines for SR. Countries will be able to evaluate the outcomes and possibly generate new ideas for achieving sustainability objectives, as well as identifying appropriate benchmarks to ensure that they are in-line with other countries in terms of results (Leeson *et al.*, 2006*).* Apart from that, public sectors ought to raise SR amongst private sectors by taking the lead as SR is still in its infancy (Farneti and Guthrie,

2009). In short, public sectors play vital roles in promoting national and worldwide progress towards SR.

Another emphasis of the need for sustainability reporting guidelines relates to one of the main objectives of most public sectors: 'accountability' and 'transparency' to the public (Coy et al., 2001). The IPSASB's (2010, p.3) purpose is interpreted as: "develop[ing], concepts, definitions and principles that respond to the objectives, environment and circumstances of governments and other public sector entities."

To respond to expectations of public sectors being accountable for the resources they used and how they use them, the IPSASB should provide guidelines on sustainability reporting. Production of a sustainability report will enable more transparency in the public sector's transactions and will therefore provide useful information to decision makers, which is one of the primary objectives of the ISASB's Conceptual Framework project. Moreover, as public sectors begin to report on sustainability development of their countries, this will increase the community's concern and awareness about diverse sustainability issues arising nowadays (Bellringer *et al.*, 2009). It is important that the information about sustainability is understandable and accessible by the public since public sectors are responsible for the effects of their actions on society and environment.

By referring to Gray *et al.* (1995) and Owen (2008), Bellringer *et al*. (2009) contended that stakeholder theory is another persuasive motive for SR. In the context of public sectors, stakeholder theory depicts those with a 'stake' as interested parties such as managers, taxpayers, beneficiaries of public services, businesses, and other government departments or ministries. The majority of these stakeholders would be interested in the sustainability aspects of public sectors (Argandoña, 1998); including economic, social and environmental factors like local air and water pollution, global climate change, political upheaval in human rights and the economic impacts of the public sector through society (Epstein, 2008). Nevertheless, it is doubtful that these stakeholders will read the sustainability reports thoroughly. Consequently, Bellringer *et al.* (2009) identifies employees and taxpayers as the groups that are most likely to be concerned about public sectors' sustainable development. As public sectors require their employees to act in a sustainable manner, they will need to serve as the role model. Hence, sustainability reports can demonstrate to employees the way that they can behave sustainably. On the other hand, sustainability reports provide relevant information to taxpayers on how their resources are being consumed to promote sustainability development within public sectors. Sustainability reports are essential mediums to inform the stakeholders about public sector' roles as an employer and consumer; therefore IPSASB should incorporate SR into annual reports.

Last but not least, the IPSASB should recommend SR for public sectors so as to make more non-financial information available. Sustainability reports encourage both financial and non-financial information to be disclosed. This aligns with the IPSASB Exposure Draft, which also encourages the disclosure of non-financial information (Farneti and Guthrie, 2008). According to Bellringer *et al.* (2009), SR is also driven by financial motives in terms of saving money and enhancing investments prospects as well as concern on environmental impacts. Therefore, as more non-financial information can be obtained, it is easier to measure

the effects of public sectors' actions on the environment. This relieves the burden to produce sustainability reports compared to previous periods.

Steps in Developing a Public Sustainability Report

Maclaren (1996) employed the plan-formulation process as a model to build a nine-step sustainability reporting process. As shown in Figure 2, this is a circular process and contains several feedback loops. This allows for frequent revision of the indicators that play vital roles in measuring the reliability and accountability of public sustainability reports. The steps involve the following.

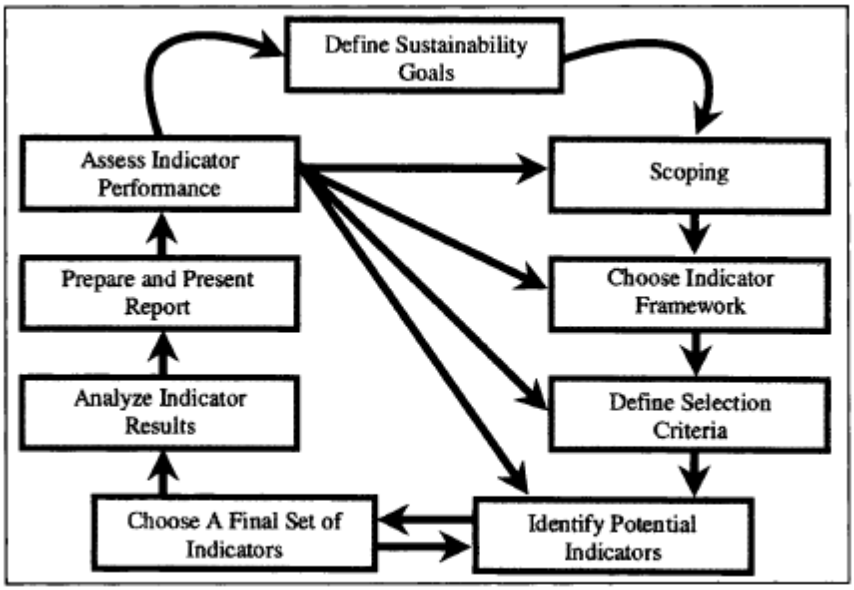

Figure 2: Steps in sustainability reporting progress

Firstly, public sustainability targets should be identified for which indicators are needed. Goals should be developed specifically for sustainability reporting if they are not included in other strategy formulation proposals. The second step is the scoping stage. This stage will classify the users of public sustainability reports and then determine the format to display indicators according to the needs of users. For instance, the media and the community may prefer a simple set of indicators that are easily understandable and have direct link to their interests.

Thirdly, a conceptual framework should be selected properly to develop sustainability indicators. Public sectors are highly recommended to apply the GRI framework in generating their sustainability report as it is recognized world widely, thereby allowing comparison between reports to be done easily. The fourth step is to identify the general criterion to choose indicators. Characteristics of good sustainability indicators embed "scientifically valid, representative of a board range of conditions, responsive to change…unambiguous" (Maclaren, 1996, p.196). The fifth step is to determine a set of potential indicators. Hence, both experts and non- expert (members of the public) stakeholders should participate jointly in the process as experts can contribute their professional suggestions whereas the non-experts provide guidance to the experts in classifying indicators that are relevant to users.

In the sixth step, the indicators are examined and chosen in order to comply with the requirement of the conceptual framework selected in step 3 and satisfy the criteria of good sustainability indicators as illustrated in step 4. The seventh step involves data collection and interpreting results they indicate. This is recognized as the hardest stage as people will have diverse opinions and principles in evaluating indicators. Therefore, the sustainability report should clarify the rationales underlying the interpretations of indicator results. After that, the format of the sustainability report is prepared according to the target audience. It should at least include the illustration, importance and assessment of each indicator. Lastly, performance indicators should be evaluated periodically to ensure that they are functioning satisfactorily to measure what they were supposed to measure. Performance indicators may not be assessed simultaneously due to the availability of data.

Although the steps recommended by Maclaren (1996) are meant for a standalone sustainability report, they can be adapted so as to be applicable and compatible for incorporating a sustainability development section in public sector entity annual reports, as will be produced according to the IPSASB conceptual framework.

Potential Contents for a Public Sector Sustainability Report

Public sectors are encouraged to employ "comply or explain" approach when producing sustainability report. This indicates that they are required to adhere to provision or provide explanation on why they have not done so. Apart from that, comments about the impacts from implementing sustainability development should also be included in the report. Both positive and negative results should be reported fairly in order to assess the strategy effectiveness and improve the sectors' performance.

Moreover, the report should comprise comprehensive environmental, economic and social aspects. These could include greenhouse gas emissions; consumption of energy, including use of gas and water; health and safety measures; development and impact of infrastructure investments; and other important areas like business travel, waste and recycling. Appendix 1 shows a feasible template for a sustainability report produced by the UK Treasury. Although this template only contains environmental aspects, further economic and social criteria for adoption by IPSASB and public sectors can be found in the GRI guidelines.

Sustainability supply chains are another key aspect that should be reported. A supply chain relationship in the public sector could comprise of contractors and suppliers. The relationship should be evaluated on its social, environmental and economic factors. A good relationship with supply chain partners can "enable…lower transaction costs, react more quickly to changes in the market, and respond more promptly to requests" (Markley and Davis, 2007, p.766). Similarly, by focusing on supply chain sustainability and emphasizing supplier codes of conducts, public sector can reduce risk and avoid negative consequences. This is to ensure that society well-being is being looked after from the beginning of the process.

Furthermore, sustainability report which comprises the incorporation of public sectors with well-known environmental groups would enhance the accountability and reliability of the report to its users. Each key product or line of service that implants sustainability principles should also be included in the report.

Global Reporting Initiative

After specification of what aspects can be potentially included in sustainability reports, one of the obstacles is to measure the public sector's performance against its initial targets. The GRI framework has potential for adoption by IPSASB, modifying it to suit public sector sustainability reporting. It is currently the most extensively used sustainability reporting framework. It is evident that the GRI guidelines are influential in private companies, especially in their benchmarking practices (Veleve *et al.,* 2003). Presently, a public sector and not-for-profit framework is being piloted by the sustainability committees. In the near future, this is likely to be appropriate for IPSASB to commend as a guideline for sustainability reporting.

Furthermore, GRI is also supported by most of the public sector sustainability report advocates such as Guthrie and Farneti (2008), Lesson *et al.* (2006) and Epstein (2008). In particular, Guthrie and Farneti analysed how GRI measurement and performance indicators had been used by some states in Australia for sustainability reporting in their public sectors. They discovered that GRI indicators on the whole could be used for sustainability reporting provided that the indicators were modified specifically for public sectors. Appendix 2 portrays some of the aspects measured by the seven Australian states using GRI reporting indexes. This can provide the IPSASB with some ideas on what to incorporate for public sector sustainability reporting. Examples of environmental indicators from GRI are provided in Appendix 3. In addition, the GRI reporting guide identifies several other economic and social indicators and guidelines on how to measure specific economic, social and environmental criteria.

Discussion and Conclusion

We contend that IPSASB should incorporate sustainability reporting in the conceptual framework for general purpose financial reporting by public sector entities. This would enhance the transparency and accountability of public sectors as viewed by the public. The significance of SR is increasing gradually and globally. Milne *et al*. used the 'journey' metaphor to "encourage participation in worthy endeavours…to signal worthy participants" (2005, p.15). It is a long term commitment to sustainable development that should underlie an organization's impacts on society, the economy and the environment. Although there may be hardships and challenges in the journey of SR, GRI serves as a comprehensive framework and public sectors can refer to it as a useful guideline to produce sustainability reports. The outcomes for SR by public sectors can only be reaped in the long run but are beneficial to the overall community.

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Appendix 1

HM TREASURY — HMT Guidance
Sustainability Reporting in the Public Sector

EXAMPLE: Public Sector Carbon Account Format

Department/Agency Yellow Carbon Account For the Year ended 31 March 20XX	20XX-XX Tonnes CO_{2e}		20XX-XX (Prior Year) Tonnes CO_{2e}	
ADMINISTRATIVE EMISSIONS (Related to Admin Expenditure Activity – See Note 1 below)				
SCOPE 1 EMISSIONS				
Fuels combustion (e.g. boilers, furnaces or turbines)	XX		XX	
Owned Transport				
Admin vehicles	XX		XX	
Process Emissions (e.g. waste processing)	XX		XX	
Fugitive Emissions				
Air conditioning	XX		XX	
Refrigeration	XX		XX	
TOTAL SCOPE 1 GROSS ADMINISTRATIVE EMISSIONS		XXX		XXX
SCOPE 2 EMISSIONS				
Purchased Energy Consumption				
Office Electricity Consumption	XX		XX	
Office Gas Consumption	XX		XX	
TOTAL SCOPE 2 GROSS ADMINISTRATIVE EMISSIONS		XXX		XXX
SCOPE 3 EMISSIONS ACCOUNTED FOR				
Administrative Travel				
Private Vehicles use for Duty purposes.	XX		XX	
Hire Vehicles	XX		XX	
Taxis	XX		XX	
Bus/Coach	XX		XX	
Rail/Underground	XX		XX	
Air	XX		XX	
Embodied Carbon in Resources Consumed				
Office Water Usage	XX		XX	
Non Recycled Waste	XX		XX	
Recycled Waste	XX		XX	
Aggregates	XX		XX	
Cement	XX		XX	
Other Administrative Emissions	XX		XX	
TOTAL SCOPE 3 GROSS ADMINISTRATIVE EMISSIONS		XXX		XXX
TOTAL GROSS ADMINSTRATIVE EMISSIONS		XXX		XXX
Reducing Factors				
Permitted reduction from purchase of Renewable Energy	(XX)		(XX)	
Purchased Offsets for Administrative Air Travel through the GCOF	(XX)		(XX)	
		(XX)		(XX)
NET ADMINISTRATIVE EMISSIONS		XXX		XXX
OPERATIONAL EMISSIONS (Related to Programme Expenditure Activity)				
SCOPE 1 EMISSIONS				
Operating a Service				
Fuel Consumption by owned operational vehicles	XX		XX	
Process Emissions (e.g. operational waste processing)	XX		XX	
TOTAL SCOPE 1 GROSS OPERATIONAL EMISSIONS		XXX		XXX
SCOPE 2 EMISIONS				
Operational buildings, including outbuildings and compounds.				
Electricity Consumption	XX		XX	
Gas Consumption	XX		XX	
Op Technology Electricity Consumption (Lighting, CCTVs, etc)	XX		XX	
TOTAL SCOPE 2 GROSS OPERATIONAL EMISSIONS		XXX		XXX

HM TREASURY — HMT Guidance
Sustainability Reporting in the Public Sector

SCOPE 3 EMISSIONS				
Embodied Carbon in Uniformed Service Activities				
Vehicles & equipment – embodied carbon	XX		XX	
Maintenance Activities through contractors		XXX		XXX
Embodied carbon in assets consumed	XX		XX	
Fuel Consumption in maintenance activities	XX		XX	
Maintenance Vehicles & equipment – embodied carbon	XX		XX	
Improving the Managed Assets through contractors				
Resource Consumption				
Electricity Consumption in construction	XX		XX	
Gas Consumption in construction	XX		XX	
Water Usage in construction	XX		XX	
Non Recycled Waste in construction	XX		XX	
Other	(XX)	XXX	(XX)	XXX
Embodied Carbon in Construction Materials used				
Aggregates	XX		XX	
Cements	XX		XX	
Metals	XX		XX	
Plastics	XX		XX	
Timber	(XX)	XXX	(XX)	XXX
Construction-related travel				
Private Vehicles use for Duty purposes.	XX		XX	
Hire Vehicles	XX		XX	
Taxis	XX		XX	
Bus/Coach	XX		XX	
Rail/Underground	(XX)	XXX	(XX)	XXX
Other Operational Emissions		XX		XX
TOTAL SCOPE 3 OPERATIONAL EMISSIONS		XXX		XXX
TOTAL GROSS OPERATIONAL EMISSIONS		XXX		XXX
Reducing Factors				
Permitted reduction from purchase of Renewable Energy	(XX)		(XX)	
Recycled Waste	(XX)		(XX)	
		(XX)		(XX)
NET OPERATIONAL EMISSIONS		XXX		XXX
TOTAL GROSS EMISSIONS	XX		XX	
TOTAL REDUCTIONS	XX		XX	
TOTAL NET EMISSIONS		XXX		XXX

Notes
Classification of administrative and programme emissions to relate to the public expenditure classification (confirms to the HM Treasury definitions as laid down in 'Managing Publiic Money).

Source: HM Treasury (2010)

Appendix 2

Table 1. The public sector sustainability reporting disclosure instrument.

Categories	*Aspects*	*Elements*
1. Environmental (EN)	Materials	EN1 EN2
	Energy	EN3 EN4 EN5 EN6 EN7
	Water	EN8 EN9 EN10
	Biodiversity	EN11 EN12 EN13 EN14 EN15
	Emissions, effluents, and waste	EN16 EN17 EN18 EN19 EN20 EN21 EN22 EN23 EN24 EN25
	Products and services	EN26 EN27
	Compliance	EN28
	Transport	EN29
	Overall	EN30
2. Social—human rights (HR) (HR)	Investment and procurement practices	HR1 HR2 HR3
	Aspect: non-discrimination	HR4
	Freedom of association and collective bargaining	HR5
	Child labour	HR6
	Forced and compulsory labour	HR7
	Security practices	HR8
	Indigenous rights	HR9
3. Social—labour practices and decent work social performance: labour practices and decent work (LP)	Employment	LA1 LA2 LA3
	Labour/management relations	LA4 LA5
	Occupational health and safety	LA6 LA7 LA8 LA9
	Training and education	LA10 LA11 LA12
	Diversity and equal opportunity	LA13 LA14
4. Social—product responsibility (PR)	Customer health and safety	PR1 PR2
	Product and service labelling	PR3 PR4 PR5
	Marketing communications	PR6 PR7
	Customer privacy	PR8
	Compliance	PR9
5. Social—society (SO)	Community	SO1
Corruption		SO2 SO3 SO4
Public policy		SO5 SO6
Anti-competitive behavior		SO7
Compliance		SO8
6. Public agencies—specific (PA)	New disclosure elements for public agencies and new social indicators for public agencies	PA2 PA3 PA4 PA5 PA6 PA7 PA11 PA12 PA13 PA14
	Administrative efficiency	PA15

Source: Guthrie and Farneti (2008)

Appendix 3

Sustainability Reporting Guidelines

Environmental Performance Indicators

ASPECT: MATERIALS

CORE **EN1** Materials used by weight or volume.

CORE **EN2** Percentage of materials used that are recycled input materials.

ASPECT: ENERGY

CORE **EN3** Direct energy consumption by primary energy source.

CORE **EN4** Indirect energy consumption by primary source.

ADD **EN5** Energy saved due to conservation and efficiency improvements.

ADD **EN6** Initiatives to provide energy-efficient or renewable energy based products and services, and reductions in energy requirements as a result of these initiatives.

ADD **EN7** Initiatives to reduce indirect energy consumption and reductions achieved.

ASPECT: WATER

CORE **EN8** Total water withdrawal by source.

ADD **EN9** Water sources significantly affected by withdrawal of water.

ADD **EN10** Percentage and total volume of water recycled and reused.

ASPECT: BIODIVERSITY

CORE **EN11** Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas.

CORE **EN12** Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas.

ADD **EN13** Habitats protected or restored.

ADD **EN14** Strategies, current actions, and future plans for managing impacts on biodiversity.

ADD **EN15** Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk.

ASPECT: EMISSIONS, EFFLUENTS, AND WASTE

CORE **EN16** Total direct and indirect greenhouse gas emissions by weight.

CORE **EN17** Other relevant indirect greenhouse gas emissions by weight.

ADD **EN18** Initiatives to reduce greenhouse gas emissions and reductions achieved.

CORE **EN19** Emissions of ozone-depleting substances by weight.

CORE **EN20** NO, SO, and other significant air emissions by type and weight.

CORE **EN21** Total water discharge by quality and destination.

CORE **EN22** Total weight of waste by type and disposal method.

CORE **EN23** Total number and volume of significant spills.

ADD **EN24** Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III, and VIII, and percentage of transported waste shipped internationally.

ADD **EN25** Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the reporting organization's discharges of water and runoff.

Potential performance indicators on how to measure certain aspects of sustainability report

Source: GRI Report (2011)

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Stephenie Fox
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CANADA

25 June 2011

Dear Stephenie

Re: Conceptual Framework 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 Entity***.

1. The Accounting Standards Board (ASB) welcomes the opportunity to respond to the above Exposure Draft (ED).
2. We consider that it would be unfortunate if the Conceptual Framework for public sector entities were to diverge markedly from that used in the private sector. We therefore emphasise the importance of the IPSASB and the IASB continuing to work closely together to minimise any differences between their projects on this subject, and to ensure that any significant differences are limited to issues where the differences are required by the different economic circumstances that prevail in each sector.
3. Whilst we agree with many of the proposals in the ED, there are some we have concerns, namely:

- Some aspects of the Scope;
- The current description of 'faithful representation'; and
- Materiality is entity–specific and should not be considered a constraint on information.

4. Each of these issues and some other comments are expanded upon in the Appendix which addresses the Specific Matters for Comment.

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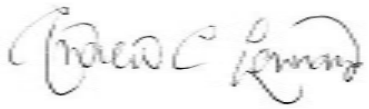
5. If you require any further information please contact me or Joanna Spencer (j.spencer@frc-asb.org.uk or telephone +44 (0) 20 7492 2428).

Yours sincerely



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Specific Matters for Comment

SMC 1

Role of the Conceptual Framework

We agree that the role of the Conceptual Framework (CF) is to establish the concepts that underpin general purpose financial reports (GPFRs) by public sector entities applying accrual accounting.

Authority of the Conceptual Framework

We agree that the CF should not establish authoritative requirements for the preparation of public sector GPFRs, but rather be used as guidance for issues not dealt with specifically by IPSASs.

Scope of the Conceptual Framework

Whilst we agree that the scope of the CF could include all financial reporting, in our view this may in reality prove to be difficult.

Scope of financial reporting

We are concerned that although the ED states that the scope of financial reporting establishes the boundary around what should be reported in the GPFRs, the proposals do not actually articulate what this boundary should be. Therefore, the scope appears to be open-ended and consequently too wide. Paragraph BC1.5 of the Basis for Conclusions, for example, clarifies what may be included in GPFRs and therefore could be elevated to be included in the main text as this may assist in understanding the intended scope. Further clarity could be obtained by including the helpful diagram 'Figure 1: Information needs of users' that was given in paragraph 1.14 of the 2008 Consultation Paper.

We note that phases 2 and 3 of the CF project have focused on financial statements rather than financial reporting as a whole; it would also be important to establish clear boundaries for financial statements.

Scope of information

We agree that it is important that the scope includes both past and forward-looking information but these should be based on the same qualitative characteristics.

Process for determining the scope

We are also concerned that the ED states that the scope will be determined by the objectives of financial reporting and the needs of users. However, neither of these

issues were discussed prior to the scope being determined. In order to determine what should be included in the GPFR, surely it is necessary to determine first what the objectives of the GPFR are. In redeliberating the CF, only once the objectives have been determined, should the scope of the CF be revisited.

SMC 2

Objectives

We agree that the objectives of financial reporting for public sector entities should be to provide information which will assist in fulfilling accountability and be useful for decision-making purposes.

However, we are of the view that not all information can fulfil both objectives equally well and that some information may be weighted more heavily towards one objective than the other e.g. accountability may be a more important objective for past events. Whilst decision usefulness may be more relevant for prospective information this is not to imply that the two objectives are mutually exclusive but the weighting of each objective may be dependent on the type of information provided. It is important to determine which objective is principally being addressed by different parts of financial reporting.

Users

We agree that the users of GPFRs are service recipients and resource providers and therefore citizens should be considered to be primary users. Whilst it would obviously never be possible to produce GPFRs that every citizen could easily understand, we agree that citizens are informed by their representatives and others such as the media and therefore GPFRs should be produced to address these needs.

SMC 3

Relevance

We agree that any information provided in GPFRs must be relevant in achieving the objectives of accountability and/or decision making. We further agree that such information must also have either a confirmatory and/or predictive value.

Faithful Representation

Reliability and faithful representation

We do not consider that the terms 'reliability' and 'faithful representation' are interchangeable as they embody different concepts. Both should be identified as qualitative characteristics.

We support the principle of reliability, which is presently defined as "free from material error and bias, and can be depended on by users to represent faithfully that which it purports to represent or could reasonably be expected to represent" (see BC3.10).

In our view, faithful representation does not adequately focus on information representing what it purports to represent. Although the idea of 'what it purports to represent' appears in the first sentence of paragraph 3.10, it is not developed or discussed further, but is followed by a statement that appears to define faithful representation. There appears to be a risk that the concept of 'purports to represent' is lost by reading the definitional sentence in isolation.

This can suggest that there is only one 'representationally faithful' representation of an asset or liability which is its fair value. We would disagree with this view especially where it is used to justify a 'mark to model' technique which often does not result in a useful number. In our view, it is inevitable that accounting can often only report a selected attribute of an asset or liability. For example, it may be representationally faithful for an asset to be stated at historical cost, which is a complete statement of its acquisition cost. This would not reflect other aspects of the asset, such as its fair value, but would reflect all that a historical measure purports to represent.

The use of the term 'economic phenomenon' may be unhelpful as it can imply that there is only one true answer for any economic phenomenon, which we consider to be incorrect. For example, if there is an accounting policy choice available over the capitalisation of borrowing costs there will be two answers for one economic phenomenon – one which includes those costs in the carrying amount of the asset and one that does not. In many cases the economic phenomenon will be a transaction; it might be preferable to make this clear, by referring to a 'transaction or other economic event.

Summary

In summary we suggest the *Framework* should include use of both reliability and faithful representation as qualitative characteristics provided that the discussion of faithful representation adequately encompasses 'what it purports to represent', and the use of 'economic phenomenon' is reconsidered

Understandability
We agree that understandability is a qualitative characteristic that information should possess.

Timeliness
We agree that timeliness is a qualitative characteristic that information should possess.

Comparability
We agree that comparability is a qualitative characteristic that information should possess.

Verifiability
Although we have no specific concerns with the use of the term 'verifiability' we note that it is a difficult concept to use in relation to prospective information. Therefore we suggest that a term such as 'supportability' be used instead as it is wider in concept and can be applied to both past and forward-looking information.

Materiality
We do not agree that materiality should be classified as a constraint on information or that standard-setters should be making the determination as to what is and is not considered material.

Materiality is an entity-specific component of relevance, because what is material to one entity may not be material to another, therefore it is for the preparers of GPFRs to make this determination. We agree with the IASB that a CF cannot specify a uniform quantitative threshold for materiality or predetermine what could be material in a particular situation.

SMC 4

The Reporting Entity and the Group Reporting Entity
We agree that a key characteristic of a reporting entity is the existence of users by which we mean that there is a legitimate demand for the information that the GPFRs would provide. In determining whether individual GPFRs should be produced this must of course be tempered by a consideration of the costs and benefits of involved.

To achieve the objective of accountability to citizens it follows that all entities that raise or consume resources are reporting entities and we agree that in practice

legislation, regulation or another authority will identify which entities will be required to prepare GPFRs. However, we note that paragraph 4.4 suggests that GFPRs might be prepared for individual activities. We question this; in our view a reporting entity should be a cohesive economic unit (see ASB 'Statement of Principles for Financial Reporting' paragraph 2.3). Where information is required about, say individual activities, users' needs are more likely to be met by special purpose reports that do not contain all the components required for GPFRs.

Regarding group reporting entities, we consider that the proposed text is not as articulate as it could be. The CF would benefit from having a definite statement about when a group exists, for example by stating that a group reporting entity will exist where one entity has the authority and capacity to direct the activities of another entity. As noted before, we found that some of the text in the Basis to be more helpful than the actual CF text (e.g. paragraphs BC4.11 and BC4.14 are particularly helpful).

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2011/06/15

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Dear Ms. Stephenie Fox,

I welcome the opportunity to comment on the exposure draft. I have indicated below several general comments.

1. **A description of going concern should be specifically added to the conceptual framework of the IPSASs.**

   In IPSAS 1, the interpretation of the going concern is expanded, by making additions to IAS 1" Presentation of Financial Statements" published by the IASB, in order to take into consideration the distinctive features of the public sector. Therefore, statements about going concern should be included in the conceptual framework, because a description of the distinctive features of the public sector is expanded in the IPSAS.

2. The meaning of public interest, as interpreted by the IPSASB, should be clearly defined.

I believe that the regulatory framework within basis of capitalism, which is to increase people's wealth through the market system, is not only main area of public interest. The requirement to apply the IPSASs, to raise the transparency of the financial affairs of governments and global entities, has been significantly increased due to serious impact of the global financial crisis.

Therefore, provision of information to taxpayers and the citizens of one's own country relating to governments' financial assistance to foreign governments and/or key financial institutions (IMF, World Bank, etc) is also in the public interest in the context of financial reporting, based on the IPSASs. The IASB's conceptual framework in 2010 directly focuses on resource providers. Although the IASB recognizes that there is an information requirement by users who do not directly provide resources, the IASB does not regard such users as being major users.

Under these circumstances, it should be clarified how the IPSASB will pursue the public interest by overcoming the difference of linguistic, legal and economic conditions.

I believe that these comments will prove useful in the development of the conceptual framework for public sector entities.

Yours sincerely
Kazutoshi Ishii (Mr.)





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April 29, 2011

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Dear Ms. Fox:

1. The International Consortium on Governmental Financial Management (ICGFM) welcomes the opportunity to respond to the Exposure Draft for Phase 1 of the Conceptual Framework. We are pleased to see the IPSASB move forward in developing the conceptual framework.

2. Working globally with governments, organizations, and individuals, ICGFM is dedicated to improving financial management by providing opportunities for professional development and information exchange. ICGFM conducts two major international conferences each year and publishes an international journal twice each year. Services are provided to its membership through an international network. ICGFM welcomes a broad array of financial management practitioners (accountants, auditors, comptrollers, information technology specialists, treasurers, and others) working in all levels of government (local/municipal, state/provincial, and national). Since a significant number of our members work within government and audit institutions around the world, our response to this exposure draft is one from an international perspective.

3. We agree with the Role, Authority, and Scope of the Conceptual Framework expressed in Section 1 of the ED but would like the following comments to be considered:
    a. There should be a linkage to the appendices in Section 1. We suggest the following be added to paragraph 1.1: "In establishing these concepts, the IASB Conceptual Framework (Appendix 1A) and the Statistical Bases of Reporting of the 1993 System of National Accounts (Appendix 1B) were taken into consideration."
    b. Some recognition should be given to other public sector entities, such as the UN, OECD, and NATO. We suggest the following be added to the second sentence in

paragraph 1.8: "as well as other public sector entities, such as the UN, OECD, and NATO. These concepts will help avoid any mis-understandings that may occur during implementation."

4. We also agree with the Objectives of Financial Reporting and Users of General Purpose Financial Reports in Section 2 except for the following:
    a. A lead-in to Appendix 2A (IFRS) and Appendix 2B (SNA) is needed to explain why it is included. We suggest the following be added to paragraph 2.1: "The objectives of financial reporting and users of financial reports considered those previously established by the IASB (Appendix 2A) and the SNA (Appendix 2B). In particular, these include the objectives in the GFSM 2001 and the Public Sector Debt Statistics to be issued in early 2011."
    b. Many service recipients do not fully understand accrual accounting but they want to assure that their children and grandchildren will enjoy the same or higher level of services that they currently receive. Thus, we would add the following to the last sentence in paragraph 2.8: "(otherwise known as inter-period equity). For government financial statements, we believe that the primary users are citizens (and their elected representatives). A government's accountability to their citizens is the fundamental basis for democracy. Tax payers may provide the bulk of the revenue for governments to fund services for their service recipients, but neither of these two groups of stakeholders can hold a government to account without adequate financial information. Financial statements are the way that governments are held to account, ultimately in the ballot box, for the management of their finances."
    c. Fiscal sustainability is a major concern for many public sector entities and it needs to be included in the conceptual framework. Thus, we recommend the following be added to paragraph 2.10: "Is providing sufficient resources to maintain fiscal sustainability in the future."
    d. Fiscal sustainability should be reiterated in paragraph 2.12. Suggest the following be added to the first bullet: "These decisions are especially crucial to assure that the public sector entities sustain their fiscal viability."

5. We also agree with the Qualitative Characteristics in Section 3 but would add the following to paragraph 3.1 since a lead-in to the appendices is needed: "The qualitative characteristics considered those previously established by the IASB (Appendix 3A) and the SNA (Appendix 3B)." In addition, we prefer the following:
    a. A qualitative characteristic of "reliability" should be used in lieu of "faithful representation" since the users of the financial information should be able to rely on the faithful representation of the information provided.
    b. Materiality should be kept separate as a constraint on the qualitative characteristics in lieu of inclusion under relevance since a balance must be maintained between the cost/benefit decision to assure that the financial information can be relied upon.

6. We also agree with Section 4 on the Reporting Entity but would add the following to paragraph 4.6 since a lead-in to the appendices is needed: "The conceptual foundation for a reporting entity considered those previously established by the IASB (Appendix 4A) and the SNA (Appendix 4B)." Also, in Section 4, it is not clear how there can ever be a generic

definition of a group reporting entity in the public sector. The conclusion seems to be that the definition will vary between jurisdictions.

7. Our broader concern is that this is not in fact a Conceptual Framework. There is no overarching model that can be used as framework. Instead what we have is a series of quite useful general rules that do provide a framework for specific IPSAS. We look forward to integration of the Consultative Papers into this Exposure Draft as an overarching model is developed.

8. We appreciate the opportunity to comment on this exposure draft and would be pleased to discuss this letter with you at your convenience. If you have questions concerning this letter, please contact Dr. Jesse Hughes, CPA, CIA, CGFM at jhughes@odu.edu or 757.851.0525.

Sincerely,



ICGFM Accounting Standards Committee
Jesse W. Hughes, Chair
Masud Mazaffar
Michael Parry
N. Tchelishvili
Andrew Wynne

Cc: Linda Feeling
President, ICGFM

INTERNATIONAL MONETARY FUND
WASHINGTON, D.C. 20431

Facsimile Number
1-202-623-4661

June 9, 2011

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

Dear Ms. Fox:

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

We welcome the publication of this exposure draft (ED) for comments. The ED should help promote debate on an appropriate conceptual framework for public sector financial reporting, a topic that is receiving increasing attention in the context of the current financial crisis.

We are of the opinion that, as explained below, some of the wording in the ED and the "Basis for Conclusions" (BC) could leave significant uncertainty about what would constitute a group reporting entity. This could provide too much flexibility to jurisdictions to decide which entities to include in any consolidated financial statements. In turn, this could help perpetuate the current disparity of practices under which financial statements often fail to provide a comprehensive view of the public finances and also lack international comparability.

First, the ED proposes that where a government has the authority and capacity to direct the activities of other entities, and such direction can lead to benefits for the government or expose it to financial burden, consolidated financial statements should be prepared for all such entities or a group reporting entity. The ED does not, however, provide sufficient guidance on what these concepts actually mean in the context of the public sector. In particular, the ED does not address the fundamental public sector specific conceptual issue of the circumstances in which an entity that has some type of independence or autonomy granted by the Constitution or statute would be considered to be one over which the government nevertheless "has the authority and capacity to direct the activities." Instead, BC 4.15 to 4.17 indicate that this issue will be considered at the standard development level.

IPSASB justifies this approach by indicating that this issue falls under "applications of the principles."

We have reservations with this approach. We consider the question of whether independent or autonomous entities are included in a government group reporting entity to be a fundamental conceptual, rather than an application, issue. This is particularly important in the case of central banks that have the professional independence to conduct monetary policy. Australia and New Zealand consolidate central banks in their government financial statements, while most other governments do not. In the context of the financial crisis, where governments have often used the central banks to provide significant support to the financial sector, the issue of whether or not to consolidate central banks is critical for an appreciation of the financial implications of the government interventions.

We would, therefore, suggest that any conceptual framework on public sector reporting should address the issue of autonomous or independent entities and provide clear guidance with a view to moving towards more comprehensive and comparable public sector financial statements. Although central banks are the most important such entities, the conceptual framework should also address the manner in which other independent bodies, such as the legislature, judiciary, independent regulatory agencies, and the supreme audit institution should be treated in defining a group reporting entity.

Second, BC 4.2 appears to imply that notwithstanding the principles set out in the ED, governments—through legislation, regulation or other authority—would be able to decide what is a reporting entity or a group reporting entity. We question the merit of the inclusion of such a provision in a conceptual framework. While sovereign governments may choose to not comply with particular accounting standards or concepts, we do not consider it appropriate for a conceptual framework to effectively sanction such non-compliance. Instead, we believe that international standard setters should set out the appropriate conceptual bases and principles to facilitate the preparation, analysis, and interpretation of high quality financial statements. It is also important that a supreme audit institution is able to review a particular accounting policy adopted by a government—for example, on group reporting entity—for consistency with the requirements of an accounting standard or, in its absence, the relevant conceptual framework, to assess whether to express an unqualified audit opinion. This can be an incentive for compliance with standards or concepts as governments generally seek to avoid a qualified audit opinion. BC2 would appear to remove even this minimum incentive for compliance.

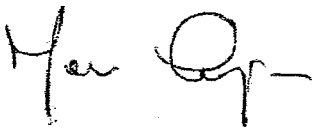
The cumulative effect of the above would appear to be that the ED on conceptual framework, as drafted, would not advance the cause of comprehensive financial reporting about a particular level of government. It may even have the effect of encouraging governments to exclude entities from their consolidated accounts by simply passing a law or regulation. Thus a minister of finance—usually authorized to issue regulations—could simply decide not to

consolidate entities with significant liabilities (or contingent liabilities) and this would still be in compliance with the conceptual framework. This would appear to be a move in the wrong direction and inconsistent with the lessons learned from the financial crisis about the need for adequate coverage of financial statements.

Finally, we note that *GFSM2001* requires consolidation of, among others, controlled entities and does not allow governments to simply exclude entities from consolidation by passing laws or regulations. In particular, *GFSM2001* requires central banks to be included as part of the public sector.

We hope that these comments are helpful and we look forward to continuing the dialogue on this important project.

Sincerely yours,



Marco Cangiano
Assistant Director
Fiscal Affairs Department

June 15, 2011

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

Comments on "Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Role, Authority and Scope; Objectives and Users; Qualitative Characteristics; and Reporting Entity"

Dear Sir :

The Japanese Institute of Certified Public Accountants ("we", "our", and "JICPA") is pleased to provide you with our comments on the above-captioned matter. Based on our review, we have the following comments.

Specific Matters for Comment

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

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.

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

We agree with the view of the IPSASB. "The *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*" (the Conceptual Framework) establishes the concepts that underpin general purpose financial reporting by public sector entities that adopt the accrual basis of accounting, other than Government Business Enterprises (GBEs)". However, we believe that the basis for the requirement to apply the accrual basis of accounting, and the reasons for the exception relating to GBEs should be stated because of the following reasons

With regard to the accrual basis, the basis for the requirement of the accrual basis should be stated in the Conceptual Framework, because the full benefits of potential adoption of the accrual basis is not often recognized in countries and jurisdictions in which the accrual basis has not been adopted. For instance, it should be stated that a requirement to apply the accrual basis is necessary in order to fulfill information needs of users who require comprehensive information concerning of use of resources. This is because the concept of use of resources in the accrual basis is broader than by applying the cash basis.

With regard to the GBEs, the accounting treatment should be clearly stated in the Conceptual Framework because there are many countries and jurisdictions where the roles of the GBEs in the public sector are extensive.

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 view of the IPSASB.

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

Concerning "classification of the qualitative characteristics and order of their application" discussed in BC3.28, the appropriate approach should be the same as adopted by the IASB. The reason for this is that relevance and faithful representation are also the major qualitative characteristics of financial statements applicable in the public sector, and there is no reason for a requirement of a different classification, etc.

We agree with the view of the IPSASB except for the above. However, statements concerning the matters stated below should be given consideration.

Generally, it is more difficult for users of financial reporting of public sector entities to obtain timely financial information compared to users of financial reporting of companies. Therefore, statements concerning timeliness should include not only the preparation of financial reporting by public sector entities in a timely manner, but also delivery of the financial reporting to various users.

With regard to comparability, in a country or jurisdiction where implementation of the accrual basis of accounting is in progress ,comparability of financial information in the public sector within the country or jurisdiction is poor. Therefore, comparability with public sectors providing similar services in other countries and jurisdictions and comparability with different public sector entities in a country or jurisdiction should also be mentioned.

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;

We agree with the view of the IPSASB because of the following reasons.
It is necessary to replace the term "reliability", which has been used, with the term "faithful representation", being substantially the same concept, in order to be consistent with the term of used by the IASB. However, it should be clearly stated that "faithful representation" includes "substance over form" and "prudence", which are demanded by users of financial reporting, and are included in "reliability".

3. Qualitative characteristics of, and constraints on, information included in GPFRs of public sector entities. In particular, whether:
   (b) Materiality should be classified as a constraint on information that is included in GPFRs or as an entity-specific component of relevance;

Materiality should be classified as an entity-specific component of relevance because of the following reason. Materiality of information is determined based on whether or not omission or misstatement of the information affects the decision-making of users, or fulfillment of accountability by preparers of financial statements, which shows that materiality and relevance are closely related. Materiality should not be treated in the same way as other qualitative characteristics, as stated in BC3.32.

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 view of the IPSASB. Even if group reporting entities for financial statements are determined based on whether or not entities have the authority and capacity to direct the activities of other entities, with regard to financial reporting by countries or jurisdictions, there is strong demand for financial information of the entire government of the countries or jurisdictions from the perspective of public finance system structure in the countries or jurisdictions and the national economy, regardless of whether or not entities have such authority and capacity. Therefore, the view of the IPSASB on such financial information in financial reporting should be stated.

Tadashi Sekikawa
Executive Board Member － Public Sector Accounting and Audit Practice
Naohide Endo
Executive Board Member － Public Sector Accounting and Audit Practice

Montreal, June 15, 2011

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 Madam/Sir:

Please find enclosed the comments of the Exposure Draft Review Committee of the Ordre des comptables agréés du Québec on the "Conceptual Framework Exposure Draft (CF–ED1), *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities"*

Please note that neither the Ordre des comptables agréés du Québec nor any of the persons involved in preparing the comments, shall have any liability in relation to their use and no guarantee whatsoever shall be provided regarding these comments, as specified in the following disclaimer.

Yours truly,

Annie Smargiassi, CA
Secretary to the Exposure Draft Review Committee

Encl.: Disclaimer and comments

Subject to the conditions described herein, the documents prepared by the Exposure Draft Review Committee of the Ordre des comptables agréés du Québec (the Ordre), hereinafter referred to as the "comments," provide the opinion of members on statements of principles, documents for comment, associates' drafts and final exposure drafts published by the CICA, Accounting Standards Board, Auditing and Assurance Standards Board, Public Sector Accounting Board, Risk Management and Governance Board and by other organizations.

The comments submitted by the Committee should not be relied upon as a substitute for engagements entrusted to professionals with specialized knowledge in their field. It is important to note that the legislation, standards and rules on which the comments are based may change at any time and that, in some cases, the comments may be controversial.

Neither the Ordre nor any person involved in preparing the comments shall have any liability in relation to their use and no guarantee whatsoever shall be provided regarding these comments. The comments provided are not binding on the members of the Exposure Draft Review Committee, the Ordre or the Office of the Syndic in particular.

Users of the comments shall take full responsibility for, and assume all risks relating to, the use of the comments. They agree to release the Ordre from any claim for damages that could result from a decision they made based on these comments. They also agree not to mention the comments in the opinions they express or the positions they take.

The terms of reference of the Exposure Draft Review Committee of the Ordre des comptables agréés du Québec are to collect and channel the views of practitioners in public practice and members in business, industry, government and education, as well as those of other persons working in related areas of expertise.

For each exposure draft or other document reviewed, the Committee members share the results of their analysis. The comments below reflect the views expressed, and unless otherwise specified, all of the Committee members agree on these comments.

The Ordre has not acted upon and is not responsible for the comments expressed by the Committee.

The Committee generally agrees with the conceptual framework as a whole because most of the concepts are consistent with the actual framework they use in Canada, though they have some concerns about certain aspects of it

The Committee members represent many types of financial statements users and as such, have responded to many questions in all the different categories.

1. Role, authority and scope of the Conceptual Framework

Members that are preparers and auditors of financial information of public sectors entities believe that the scope of the conceptual framework shouldn't be extended to information other than the financial statements (F/S).

Information other than F/S, which includes financial and non-financial information about the achievement of financial and service delivery objectives, cannot always meet the same criteria and goals of the F/S. Actually, this information should have different requirements than those established for the information contained in the financial statements.

In that context, the members indicated that there may be a need to a conceptual framework for information other than F/S, and if so, the conceptual framework for the F/S and the one for the information other than F/S should be in separate documents.

Furthermore, the users of the financial statements and the users of information other than F/S are not always the same, thus the objectives ands goals of the information disclosed shouldn't be the same neither. The information other than F/S is by nature more subjective and less verifiable and, moreover, it would be almost impossible to assess its completeness.

Members that represent taxpayers and other members of the community that benefit from the services provided by the public sector entities, believe that the conceptual framework should be the same for financial statements and for other information provided by public sector entities.

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

As indicated previously by the members that are preparers and auditors of financial information of public sectors entities, goals and objectives of the F/S and information other than the F/S as well as those of their users are different. They agree that the primary user of financial statements is the public (citizens, electors or their representatives) as the public sector entities are primarily accountable to the citizens or the representatives acting on behalf of citizens. This is not the case of financial information other than F/S. In fact, the primary user of the information other than F/S can sometimes be the public but not always. It depends on the type of information produced.

They believe that it is unlikely that a general framework can respond to the information needs of all users because those needs are not the same for all of them. Therefore, they think that identifying users of F/S and users of information other than F/S with related separate framework could ease identifying main users, goals and objectives of the information provided.

They agree with the objective of financial reporting, worded as "to provide information about the entity that is useful to users of GPFRs for accountability purposes and for decision-making purposes". They note that it is the same objective as defined by IFRS, and they believe it is as proper in the context of public sector entities.

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

Members notice that the qualitative characteristics are the same as those used in the IFRS, with the exception that the IFRS identifies relevance and faithful representation as fundamental qualitative characteristics and the others as enhancing qualitative characteristics.

Members that are preparers and auditors of financial information of public sectors entities, who are in the view that the scope of the conceptual framework must be limited to financial statements, believe that the characteristics of information in the F/S should be at the same level, whatever is the financial reporting framework.

They believe that there is no circumstance where the relevance and faithful representation should be diminished as to fulfill another characteristic. The enhancing characteristics (understandability, timeliness, comparability, verifiability) are the only ones which should be balanced when necessary, to achieve relevance and faithful representation, which allows the achievement of the objectives.

Members that represent taxpayers and other members of the community, who are in the view that the scope of the conceptual framework should apply to both F/S and information other than F/S believe that the classification is adequate.

All members agree with the use of the expression "faithful representation" instead of the term "reliability", as it is the term used by IFRS and as it is consistent with the terminology used in Canada in the conceptual framework for public sectors entities.

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

Members believe that identifying materiality as a constraint, negates the achievement of the objective of GPFRs. In fact, doing so can promote the view that only the material information needs to be disclosed correctly, which they believe is inappropriate. In there view, materiality belongs more to the definition of relevance than being a constraint. They noticed that materiality has been included in the definition of reliability in the IFRS and that it should be the same in the GPFRs.

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

Members believe that the concept of reporting entity shouldn't be included in the conceptual framework as this concept relies to consolidation criteria. They consider that the circumstances of inclusion of an entity in the reporting group should be well established elsewhere than in a framework i.e. in an accountant standard.

5. Other matters

Members noticed that Government Business Enterprises (GBE) are excluded of the scope of the GPFRs and are also excluded for now, from the scope of the concepts of the reporting entity of IFRS. Guidance will need to be given to these entities.



The University Of Sheffield.

Management School.

Technical Director
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277 Wellington Street West
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14th June 2011

Professor Ron Hodges

Management School
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Dear Sir

Conceptual Framework Exposure Draft 1

I am writing to support the proposals contained in the exposure draft. The comments here reflect personal views and observations and should not necessarily be taken to represent those of the University of Sheffield or any of the professional, academic or public sector organisations with whom I work.

I responded to the Consultation Paper (CP) issued in September 2008 and I am pleased to see that the broad principles in the CP have been retained in the exposure draft.

I comment below on the specific matters on page 6 of the exposure draft.

1. Role, Authority and Scope

   I support the proposal (par. 1.5 to 1.7) that the scope of public sector GPFR should be drawn widely.

2. Objectives and primary users
   I support the proposal (par. 2.1) that the objectives of financial reporting for public sector entities should encompass both purposes of accountability and decision-making. In particular, it is important that IPSASB moves away from the much narrower objectives of economic decision-making by capital market participants expressed in the IASB conceptual framework. What is needed for public sector entities is a wider and holistic view of reporting, linking financial and non-financial results beneficial to a wide group of stakeholders.

   I support a view that Service Recipients (& representatives) and Resource Providers (& representatives) are primary users of public sector GPFRs. I think that these two groups of primary users are sufficient to encompass many different types of users, including members of legislative bodies. I referred in my comments on the CP to providers or commissioners of services being users but, again, I think they do so as primarily as representatives of service recipients or resource providers.

3. I support the list of Qualitative Characteristics described in the exposure draft. I drew attention in my comments on the CP of the importance of 'substance over form' and think that is dealt with satisfactorily in paragraph 3.10 as an element of 'faithful representation'. I am disappointed that the Board felt it necessary to relegate the concept of prudence from the exposure draft, but appreciate that it would be difficult to take a different view from that in the IASB framework.

   I support the view that Timeliness is a qualitative characteristic. A long delay in the publication of public sector financial reports after the entity's financial year end reduces significantly the value of such reports both for accountability and decision-making purposes.

   In respect of 3(a) I think there is nothing to gain by replacing 'faithful representation' with reliability, given the use of that term in private sector conceptual frameworks of the IASB and national standard setters. I continue to hold concerns that 'faithful representation' may be used to support a 'fair value' approach to measurement which I believe to be inappropriate generally to public sector financial reporting.

   In respect of 3(b) I see materiality as a general constraint on inclusion of information in financial statements. However, the concept is applied in practice in an entity-specific manner. I therefore support the treatment in the exposure draft, but suspect that whatever treatment is adopted here will have little effect on its application in practice.

4. I support the view that a Group Reporting Entity should be determined on what I see as representing broadly a control perspective giving rise to financial benefits and burdens. This is something on which, I am sure, the Board will have to return to seek to provide more helpful and specific guidance, if consistency to support comparability between financial reports of public sector entities is to be achieved. For example, as discussed in my comments on the CP, it is still not readily apparent how public sector interests arising from bank bail-outs and public private partnerships would be accounted for based on paragraphs 4.7 to 4.13.

Please contact me if you require any further information.

Yours faithfully



Ron Hodges
Professor of Public Services Accounting

Comments on Conceptual Framework 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 Entity

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;

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

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

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.

Role, authority and scope of the Conceptual Framework

Role of the Conceptual Framework

NAO agrees that the role of the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities is to regulate the financial reporting by public sector entities that adopt the accrual basis of accounting, except for financial reporting by government business enterprises.

NAO is of the opinion that an additional section be introduced in the conceptual framework to provide guidance to public sector entities who prepare financial statements on the cash basis of accounting and to government business enterprises (GBEs) in instances where these are consolidated with central government Financial Reporting.

Authority of the Conceptual Framework
NAO is of the opinion that the requirements of the Conceptual Framework are authoritative, however, they are of lesser authority than IPSASs and do not override the latter's requirements.

Moreover, although the Conceptual Framework is not an IPSAS, it forms the basis upon which the IPSASB develops future IPSAS and reviews existing IPSASs and assists preparers of public sector financial statements in applying IPSASs. This fact is to be stated in the framework itself rather than in the basis for conclusions.

Scope of the Conceptual Framework
NAO agrees with the concept that General Purpose Financial Reports (GPFRs) of public sector entities are to be more comprehensive than private sector financial statements including their notes, although the latter remain at the core of financial reporting. NAO also opines that GPFRs are to be prepared to meet users' information needs.

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

NAO agrees that 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. NAO also opines that the IPSASB, in preparing financial reporting standards, is to seek to provide information that will meet the needs of the maximum number of primary users.

Moreover, NAO agrees that the primary users of GPFRs are service recipients and resource providers. GPFRs should therefore be prepared to respond to the needs of these users for accountability and decision-making purposes. NAO further agrees that GPFRs may also provide information useful to other parties and for other purposes.

NAO also agrees with the information to be provided by GPFRs on:

1. Financial Position, Financial Performance and Cash Flows;
2. Compliance with the Budget;
3. Service Delivery Achievements;
4. Prospective Financial and Non-Financial Information;
5. Narrative Reports.

A brief mention is to be made to assets, liabilities and equities under financial position, and income, expenses and capital maintenance adjustments under performance. Reference is to be then made to Phase 2 of 4, namely to the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Elements and Recognition in Financial Statements.

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

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

Relevance
NAO agrees that financial and non-financial information is relevant if it is capable of making a difference in achieving the objectives of financial reporting and in the decisions made by users. NAO also agrees that financial and non-financial information is capable of making a difference when it has confirmatory value, predictive value, or both.

Faithful representation
The true and fair view is still to feature in the Conceptual Framework since it is one of the overarching qualities that financial reporting is to achieve or aspire to. The concept of faithful representation must have the overall objective of ensuring a true and fair view of the Department's financial and operational results and achievements.

However, NAO agrees with the IPSASB that the term *faithful representation* should be used rather than the term *reliability* 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. Information that faithfully represents an economic or other phenomenon is also reliable.

NAO also agrees that it is sufficient that the concept of substance over form and prudence be embedded in the notion of faithful representation and not identified as separate qualitative characteristics.

Understandability
NAO agrees that information in GPFRs is to be presented in a comprehensible format. Complex information is also to be included in GPFRs, however, it should be presented in a way that is understandable to a wide range of users.

Timeliness
NAO agrees that timeliness is an important qualitative characteristic as it renders information more useful rather than a constraint on relevant and reliable information. NAO also concurs with the IPSASB's opinion that some items of information may

continue to be useful long after the reporting period or reporting date such as determining the effects of some service delivery programmes.

Comparability
NAO agrees that comparability is a qualitative characteristic. NAO also concurs with the distinction identified in the Conceptual Framework between comparability, consistency and uniformity. Moreover, NAO agrees that information on a Government Department's results can be rendered more useful if it can be compared to the budget for that entity, results for the same Department pertaining to previous years, and similar information relating to other entities.

Verifiability
NAO is of the opinion that verifiability should form part of faithful representation since it is one of the qualities that ensures that information is fully complete, neutral, and free from material error.

Constraints on Information Included in General Purpose Financial Reports

Materiality
NAO opines that materiality should be identified as an entity-specific aspect of relevance based on the nature and/or magnitude, of the items to which the information relates in the context of an individual entity's GPFR rather than as a constraint. In order for information to be relevant, it must include all material items.

Cost-Benefit
NAO agrees with the IPSASB that disclosure and other requirements which result in the presentation of information useful to users of GPFRs for accountability and decision-making purposes and satisfy the qualitative characteristics are to be prescribed by IPSASs unless the cost of compliance with those requirements are assessed by the IPSASB to be greater than their benefits.

NAO is of the opinion that relevance and faithful representation are to be considered as fundamental qualitative characteristics; and comparability, verifiability, timeliness and understandability as enhancing qualitative characteristics. This is due to the fact that the latter category of characteristics tends to form part of relevance and faithful representation.

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.

NAO agrees 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.

In particular, it agrees that a public sector reporting entity may have a separate legal identity or may be an organisational structure, administrative arrangement, programme or activity without a separate legal identity but with the authority to raise or deploy public

monies, acquire or manage public assets, incur liabilities, undertake activities to achieve service delivery objectives or otherwise implement government policy. In both cases, entities would be required to prepare GPFRs.

NAO also agrees that an entity should be included in a group reporting entity when the Government (or other public sector entity) has the authority and capacity to direct its activities.