AUDITOR-GENERAL
SOUTH AFRICA

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

By email to: stepheniefox@ifac.org

15 June 2011

Dear Madam / Sir

Comment on IPSASB Exposure Draft (ED) 1 *Conceptual framework for general purpose financial reporting by public sector entities*

The Auditor-General of South Africa has taken advantage of the opportunity to comment on ED 1 *Conceptual framework for general purpose financial reporting by public sector entities*. Please refer to the appendix to this letter for the AGSA's commentary.

I trust that the comments will be of use to the IPSASB in finalising the Conceptual framework.

Yours sincerely

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Appendix: AGSA commentary on ED 1 *Conceptual framework for general purpose financial reporting by public sector entities*

A. Specific matters for comment

No.	Specific matter for comment	Comment
1.	Role, authority and scope of the conceptual framework	• Paragraphs 1.6 and BC1.5 of the framework state that the reports of public sector entities have a scope that is more comprehensive than financial statements and their notes. This expansion of the scope of the framework is supported. However, reference is made in the document title and throughout the document to *financial* statements, *financial* reporting, etc. Such references appear to limit the scope to financial information only and are in contradiction to the more comprehensive scope, as set out in paragraphs 1.6 and BC1.5. Consequently, the references to "financial" in the title and elsewhere in the document are inappropriate and should be amended to reflect the wider scope (e.g. integrated reporting). • Consideration should be given to the fact that the reference in paragraph 1.1 to "accrual accounting" is only relevant to financial information; it is not relevant to service delivery and other non-financial information. • The GPFR should not be limited to reporting on the current reporting period, but should specifically extend to reporting on the short-, medium- and long-term and a discussion to this effect should be included in the framework.
2.	Objectives of financial reporting by public sector entities and the primary users of GPFRs of public sector entities and their information needs	• Legislation is fundamental to and defines the operating environment and activities of all public sector entities. As such it should be a reporting concept in itself. The conclusion reached in paragraph BC3.33 that although many public sector entities may be impacted by legislation it is not a reporting concept in itself, is not supported. Similar to service delivery, the extent of compliance or non-compliance with applicable laws and regulations should be reported on in the GPFR. The framework should therefore be updated throughout to give prominence to reporting on compliance with the applicable laws and regulations as a reporting concept in itself. • The information needs of users of GPFRs, may also include information on the following: o the circumstances/operating context under which the entity operates o the entity's strategic objectives and how it intends to achieve them o risk identification and management, taking into account material financial, social, economic, environmental and governance issues Consideration should therefore be given to expanding the framework to incorporate the above.
3.a.	Qualitative characteristics of, and constraints on, information included in	• The use of "faithful representation" rather than "reliability" is not supported. It is suggested that "reliability" rather than "faithful

No.	Specific matter for comment	Comment
	GPFRs of public sector entities: Should "faithful representation" rather than "reliability" be used in the conceptual framework?	representation" should be used. This will ensure consistency with the acceptability criteria set out in the International Standards on Auditing (ISAs). "Reliability" should be defined consistently with the definition in appendix 2 to ISA 210 *Agreeing the terms of audit engagements*: Reliability - the information provided in the financial statements reflects the economic substance of events and transactions and not merely their legal form" • Further, "faithful representation" and "reliability" do not automatically imply such information is "complete" and "neutral". Consequently, it is suggested that "completeness" and "neutrality" be added to the qualitative characteristics in the framework. This will again be consistent with the ISAs that list "completeness" and "neutrality" as separate criteria. • In summary, it is suggested that "faithful representation" should be replaced with three separate characteristics of "reliability", "completeness" and "neutrality".
3.b.	Qualitative characteristics of, and constraints on, information included in GPFRs of public sector entities: Should materiality be classified as a constraint on information that is included in GPFRs or as an entity-specific component of relevance?	• Elevating the prominence of "materiality" by including it as a separate criterion and not as a component of "relevance" is supported. • There appears to be no clear motivation or reason for classifying the criteria into the sub-categories of "qualitative characteristics" and "constraints". It is suggested that such a sub-classification is unnecessary and can be done away with and that all the criteria can simply be qualitative characteristics for inclusion of information in the GPFR. • However, if a decision is made to retain the sub-categories of "qualitative characteristics" and "constraints", then consistent reasoning should be applied in classifying the criteria between "qualitative characteristics" and "constraints". If "materiality" is classified as a constraint, then "timeliness" should also be classified as a constraint and not as a qualitative characteristic.
4.	The basis on which a public sector reporting entity is identified and the circumstances in which an entity should be included in a group reporting entity	The inclusion of part 4 *The reporting entity and group reporting entity* in the framework is not supported for the reasons indicated below. It is recommended that paragraphs 4.1 – 4.13 be deleted from the framework. • Entities, organisations, programs, activities, etc. that are required to prepare GPFRs are specified and defined in legislation. The discussion in part 4 of the framework may be seen as defining a "reporting entity". It is not appropriate for the framework to define a "reporting entity". • Paragraph 4.5 states that a reporting entity may have a separate legal identity or be an arrangement, program or activity within a separate legal entity. Inclusion of such a statement in the framework may be construed as requiring components of a legal entity to prepare GFRs, which would be unacceptable. • The inclusion of "group/consolidation" issues in the framework is not appropriate. These issues would be more appropriately addressed at the level of the specific standard dealing with consolidations.

B. Other matters for comment

No.	ED reference	Comment
1.	Page 11, footnote 2	Footnote 2 states that "reference in this document to inclusion of information in GPFRs does not mean inclusion of that information in every GPFR that may be prepared." This statement may cause problems from an audit point of view. As the auditors will audit adherence with the IPSAS standards clear guidance must be set in each standard developed in line with this framework regarding when information must be included and when not; keeping in mind that the requirements in the standards will be subject to the qualitative characteristics and constraints in the framework.
2.	3.22	Paragraph 3.22 states that "comparability differs from consistency". In order to make it clear that "comparability" and "consistency" are not the same it is suggested that either the heading to paragraphs 3.21 – 3.25 be amended to "Comparability and consistency" or that a separate qualitative characteristic for "consistency" be added.
3.	3.34- 3.39	The discussion on "cost-benefit" is not clear enough on the following two issues: • It should be stressed that the "cost-benefit" assessment is made by the IPSASB in drafting the standards; it is not an assessment made by the entity in deciding what to include or exclude from the GPFR. • It should be emphasized that "cost-benefit" is assessed primarily from the users' perspective, not the entity's, as service recipients and resource providers ultimately bear the cost of providing information in the GPFR (paragraph 3.36).
4.	General	Auditors may be required to audit adherence to the framework and standards developed based on the framework. Consequently the audit requirements, as set out in e.g. the International Standards on Auditing (ISAs) and the International Standards of Supreme Audit Institutions (ISSAIs), should be kept in mind in drafting the framework.

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Date 14 June 2011
Our ref **0614.mju.ipsasb exposed draft cf-ed1**
Pages **1** of 2

Dear Stephenie Fox

IPSASB Exposure Draft CF-ED1

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

The Auditor General for Wales welcomes the opportunity to comment on this exposure draft. This response has been prepared on behalf of the Auditor General by the Wales Audit Office.

The Auditor General, and the auditors he appoints, are responsible for audits of the Welsh devolved public sector, which includes:

- the Welsh Government;
- Welsh Government sponsored and other related bodies;
- local government bodies in Wales; and
- local health bodies in Wales.

The WAO welcomes the development by IPSASB of its conceptual framework. At present in the UK, public sector financial reporting is based on the IASB's IFRS. However these have been developed with a purely for profit private sector locus and consequently do not fully address the needs of public sector financial reporting. As a result IPSAS are increasingly informing the development of public sector financial reporting in the UK.

We consider that the development of the conceptual framework will further facilitate the development of IPSAS that will better reflect the needs of the public sector.The conceptual framework is designed to provide a framework for the development of

standards and non authoritative guidance, which incorporates the following aspects of financial reporting:

- financial statements;
- prospective financial information; and
- non financial information.

We fully agree that the two latter areas of reporting form an important part of financial reporting in the public sector. However we have concerns regarding whether IPSASB will have the resources required to deliver such an ambitious programme which incorporates aspects of financial reporting that have not previously been subject to international codification.

It is also possible that the work required to maintain and develop the current suite of IPSAS will increase in future:

- current IPSAS are based closely on IFRS and ,following the introduction of the new IASB/FASB Conceptual Framework, future IFRS may require more modification to make them suitable for the public sector;
- the new IPSASB Conceptual Framework could result in more extensive changes to IFRS when adapting them for the public sector than were required previously; and
- the IPSASB Conceptual Framework may result in further standards that are unique to the public sector and not based on IFRS.

We therefore welcome the statement in Paragraph BC1.8 that the initial focus will be on financial statements and that the other aspects of financial reporting will be considered at a later date. However we urge caution in addressing these other issues until the basics requirements of financial statements under the new Conceptual Framework are substantially met.

We set out in Appendix 1 our response to the specific matters for comment.

I hope that you find the comments helpful. If you require further information, please contact my colleagues Iolo Llewelyn (iolo.llewelyn@wao.gov.uk).

Yours faithfully



Mike Usher

Group Director – Technical

Appendix 1

Specific Matters for Comment

1. Role, authority and scope of the Conceptual Framework

We agree with

- *the role and authority of the Conceptual Framework as set out in the Exposure Draft; and*
- *the scope of financial reporting*

as set out in the Exposure Draft.

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 objectives of financial reporting by public sector entities; and*
- *the primary users of GPFRs of public sector entities and their information needs*

as set out in the Exposure Draft.

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;

(a) We note the difficulties that IPSASB has identified with the use of the term 'reliability' in certain jurisdiction (BC 3.12). We also note that the IASB found a 'lack of common understanding of the term' (IASB: The conceptual framework for Financial Reporting 2010, BC3.23).

We therefore agree with the use of 'faithful representation'.

(b) We consider that materiality can be regarded as either:

- *a constraint on information, in that below a certain threshold (the materiality level) it may not be practical or cost effective to:*

- *provide discrete information on financial transactions and balances;*
- *ensure that the financial reports are free from misstatements;*
- *apply accounting standards to financial transactions and balances; or*

- *a qualitative characteristic, being linked to the 'relevance' characteristic, requiring financial reports to concentrate on items that could influence users of the accounts, by excluding extraneous detail that is not relevant to the needs of users.*

We consider that if materiality is considered as a constraint, there is a risk that compilers of accounting standards and/or practitioners may seek to 'overcome' the constraint which may result in financial reports containing superfluous detail.

Conversely if materiality is considered to be an entity-specific component of 'relevance' it results in a more neutral and objective to materiality, which is more consistent with 'faithful representation'.

We therefore consider materiality to be an entity-specific component of 'relevance'.

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 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*

as set out in the Exposure Draft.

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Paris, 9th June 2011

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Re: Conceptual Framework Exposure Draft 1

Dear Ms Fox,

I am writing on behalf of the French "Conseil de normalisation des comptes publics" (CNOCP)[1] to express its views on the above-mentioned Exposure Draft[2].

The CNOCP supports the publication of the three consultation papers on the Conceptual Framework for public sector entities by the IPSAS Board. This consultation on a fundamental subject represents a significant step towards the development of an accounting framework for public sector entities. The CNOCP considers that the exposure draft is a particularly important phase in the development of a conceptual framework, since it addresses the issue of the users of the financial statements and their objectives, as these two elements are the pillars on which the Conceptual Framework is built.

The CNOCP is pleased to note the positive developments in the exposure draft as compared to the consultation paper published in 2008, particularly in respect of the definition of the primary users of financial statements, namely service recipients and resource providers.

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1 See Appendix 2
2 See the French original version in Appendix 3.

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Indeed the CNOCP does not consider that the users of financial statements are limited to investors, as this theory, derived from private sector international accounting standards, is unsuitable and inappropriate for the public sector. The concept of primary users determines the nature and objectives of the financial statements, and affects the Conceptual Framework and the concepts which are ultimately selected. It seems reasonable to think that clear, understandable information which is readily comparable to budget data will satisfy users' needs. In this respect, the revenue and expense-led approach appears the most suitable although this approach must enable recognition of the elements of net assets in the balance sheet.

The CNOCP does however note that citizens, represented by members of Parliament or by general meeting members in other entities are first and foremost primary users. This point is made in the exposure draft but deserves greater emphasis.

The CNOCP wishes nevertheless to express a reservation about the scope of the consultation on the Conceptual Framework. The CNOCP regrets that the issue of the scope is not addressed specifically by a request for comment, because it considers that the Conceptual Framework should only apply to the financial statements, that is to say the balance sheet, the income statement and the notes and not to the additional information which the IPSAS Board proposes to include in the General Purpose Financial Report. The CNOCP believes that information additional to that provided in the accounts should be given, but that the Conceptual Framework is not necessarily applicable to this additional information, and this is even more the case where the revenue and expense-led approach is adopted.

I hope you find these comments useful and would be pleased to provide any further information you might require.

Yours sincerely,

Michel Prada

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Conseil de normalisation des comptes publics

APPENDIX 1

DETAILED COMMENTS

As a preliminary remark, the CNOCP considers that the Conceptual Framework for public sector entities should apply exclusively to the financial statements, that is to say the income statement, the balance sheet and the notes, and not to the additional information which the IPSAS Board proposes to include in the General Purpose Financial Report.

Consequently, the scope of the CNOCP's comments and responses to the questions is limited to the financial statements alone.

In spite of this, the CNOCP is not against providing users with additional information that gives them a better understanding of the financial statements. The CNOCP does however consider that the additional information cannot, because of its nature, be subject to the same qualitative characteristics as accounting information.

1. Role, authority and scope of the Conceptual Framework

- **Role and authority of the Conceptual Framework**

  The CNOCP supports the publication of the three consultation papers on the Conceptual Framework for public sector entities by the IPSAS Board. This consultation on a fundamental subject represents a significant step towards the development of an accounting framework for public sector entities.

  The CNOCP considers that the role of the Conceptual Framework is to establish the fundamental financial reporting concepts for public sector entities that adopt accrual accounting, and therefore agrees with the terms of the exposure draft.

- **Scope**

  As stated in the preliminary remarks, the CNOCP considers that the Conceptual Framework for public sector entities should be of a strictly accounting nature and that it therefore applies exclusively to the financial statements, that is to say the balance sheet, the income statement and the notes.

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Nevertheless, the CNOCP is not opposed to the idea of enhancing the information given in the financial statements, which is of a purely accounting nature, by providing additional information that improves the users' understanding of the latter.

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

- **The objectives of the General Purpose Financial Report**

  The CNOCP agrees with the objectives fixed by the Conceptual Framework which are to account for and enable an assessment to be made of the way the public entity has carried out its mission, to assist with decision taking, and to enable the users of financial statements to make informed choices.

- **The primary users and their information needs**

  The CNOCP agrees with **the IPSAS Board that service recipients and resource providers and their representatives are the primary user group for which the financial statements are intended.**

  The CNOCP strongly supports the inclusion of service recipients in the primary user group. Indeed, this is the approach adopted in France, particularly for Central Government, where the Constitutional By-law on Budget Acts adopted in 2001 sets out the objectives assigned to the missions and programmes of Central Government by reference to users, citizens and taxpayers.

  The CNOCP fully agrees with the choice of the IPSAS Board in the exposure draft not to establish a hierarchy of primary users of the financial statements.

  However, the CNOCP proposes that the notions of citizen and Parliament should be given more emphasis in the future Conceptual Framework, even though the CNOCP recognizes that these notions are already included in the primary user group made up of service recipients covered by the exposure draft.

  Likewise, the CNOCP regrets that the notion of citizen, included in the notion of service recipients, is only considered from the point of view of customers (service recipients), and suppliers (resource providers), when citizens form first and

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foremost the electorate represented by the members of Parliament, who approve the annual budget and the financial accounts.

Lastly, the CNOCP would like to point out that the notion of primary user is fundamental, as it determines the nature and objectives of the financial statements. It also has an effect on the Conceptual Framework and the concepts which are ultimately selected. It seems reasonable to think that clear, understandable information which is readily comparable to budget data will satisfy users' needs. In this respect, the revenue and expense-led approach appears the most suitable although this approach must enable recognition of the elements of net assets in the balance sheet.

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.

- **Qualitative characteristics**

The CNOCP considers that five of the six qualitative characteristics proposed in the exposure draft are satisfactory for pure accounting information. They are relevance, understandability, timeliness, comparability and verifiability.

With regard to faithful representation, and in order to answer question (a), the CNOCP considers that a true and fair view is preferable to faithful representation. In fact, it is of the opinion that faithful representation does not imply a true representation but rather a sincere presentation of the financial statements. However, a sincere presentation is not sufficient in itself as it lacks the additional quality of being true. Thus, if a true and fair view conveys the idea that the presentation of the financial statements is sincere, it also enables a better

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representation of the economic reality of the public entity. This is why the CNOCP prefers the true and fair view to that of faithful representation.

Moreover, the CNOCP considers that a true and fair view necessarily complies with the requirement of reliability, which is a condition for high quality accounting information. Lastly, the CNOCP believes that a true and fair view should be combined with, on the one hand, the requirement that substance should prevail over form, and on the other hand the principle of prudence, even if the CNOCP agrees that the latter should not be a main characteristic.

The CNOCP has no specific comments on the qualitative characteristics of relevance, verifiability, understandability and timelines.

The CNOCP would however like to make a point in respect of comparability. The CNOCP wishes to make a distinction between the comparison of different periods for the same entity and the comparison of the accounts of different entities ("cross-country" comparability). The CNOCP considers that consistent application of accounting policies throughout time is a condition for achieving comparability between periods for the same entity, whilst the application of coherent accounting policies is a condition for cross-country comparability. However, the consistent application of accounting policies should not prevent the true representation of transactions. As a result, changes in accounting policies are possible but must be documented. In the same way, the requirement for comparability should not prevent the accounting representation of each entity's business model.

- **The constraints on the financial statements**

  The CNOCP agrees with the three constraints on the financial statements described in the exposure draft, that is the cost-benefit ratio, materiality and the balance between the different qualitative characteristics.

  More specifically, with regard to the question raised in point (b), the CNOCP is in favour of introducing materiality as a constraint on the financial statements.

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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.

- **Identification criteria for public sector entities**

  The existence of primary users (service recipients and resource providers and their representatives) and the necessity to satisfy the information requirements of the latter are key characteristics for the preparation and communication of financial statements.

  The CNOCP agrees that the existence of primary users and their needs is a criterion for identifying a reporting entity. It therefore agrees with the position adopted in the exposure draft of not establishing a precise legal definition of a public sector reporting entity or group of entities.

  The CNOCP also agrees with the provisions of the exposure draft which stipulate that the legislation or regulations in operation in each country determine which entities or group of entities are required to produce and publish financial statements.

- **The circumstances in which an entity should be included in a group reporting entity**

  The CNOCP agrees with the exposure draft that an entity should be included in a group reporting entity where the group reporting entity may, in the course of its mission, generate profits or losses or financial commitments.

  In these circumstances, the CNOCP considers that it is preferable for the group reporting entity, to publish financial statements as if it were a single entity.

APPENDIX 2

CONSEIL DE NORMALISATION DES COMPTES PUBLICS (CNOCP)

1. Establishment of the "Conseil de normalisation des comptes publics" as Public Sector Accounting Standards Council and jurisdiction.

The Public Sector Accounting Standards Council was established by a Budget Amendment on the 30th December 2008 and supersedes the Public Accounting Standards Committee.

This new Council is in charge of setting the accounting standards of all entities with a non-market activity and primarily funded by public funding, including compulsory levies.

The Central Government and the agencies working for the Central government, Local authorities and local public institutions, Social Security and affiliated agencies are all within the jurisdiction of the CNOCP.

Extending the scope of the former Public Accounting Standards Committee which used to only regulate the French Central government accounting standards has empowered Public Finances with the ability to develop consistent accounting standards for the whole of French Public Administrations.

2. Organisation of the "Conseil de normalisation des comptes publics".

The Council is an advisory body under the authority of the Minister for the Budget which publishes preliminary advice on all the legislative texts concerning accounting issues relevant to any entity within its jurisdiction. It can also put forward new and innovative provisions and participates actively in the regulation of accounting standards on a national and international level. All this information is available to the public.

The Council is managed by a President appointed by the Minister for the Budget and any decisions are taken consensually by a College made up of eighteen members of whom nine are statutory and nine are external experts. The President and the College are supported by three standing commissions and a steering committee. The three standing commissions are as follows: "the Central Government and the agencies working for the Central government", "Local authorities and local public institutions", "Social Security and affiliated agencies"

The Council has at its disposal a permanent team of specialists who report to the President and who are managed by a General Secretary.

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APPENDIX 3

Here is the French original version of our response to the Conceptual Framework Exposure Draft 1 dedicated to the French speaking people

Le Conseil de normalisation des comptes publics approuve la publication par l'IPSAS Board des trois documents de consultation relatifs au cadre conceptuel des entités du secteur public. Cette consultation constitue un réel progrès s'agissant d'un sujet fondamental pour la construction d'un référentiel comptable des entités du secteur public. Le Conseil considère notamment que l'exposé-sondage est particulièrement important dans le processus d'élaboration d'un cadre conceptuel, puisqu'il aborde la question des utilisateurs des états financiers et des objectifs de ces derniers, ces deux éléments constituant la clef de voûte du cadre conceptuel comptable.

Le Conseil souligne avec satisfaction les évolutions de l'exposé-sondage par rapport au document de consultation publié en 2008, notamment concernant la définition des utilisateurs premiers des états financiers que sont les bénéficiaires de services et les contributeurs financiers.

Le Conseil considère en effet que les lecteurs des états financiers ne sont pas réduits aux seuls « investisseurs », cette thèse, inspirée du référentiel comptable international pour le secteur privé étant inadaptée et inappropriée pour le secteur public. La notion d'utilisateur premier permet de définir la nature et les objectifs des états financiers, et a des conséquences sur le cadre conceptuel comptable et les notions qui seront *in fine* retenues. En effet, il est légitime de penser qu'une information intelligible, compréhensible et permettant de faire le lien avec les données budgétaires est celle dont ont besoin les utilisateurs. A cet égard, l'approche par les flux économiques est celle qui répond le mieux semble-t-il à ces critères, étant précisé que cette approche doit permettre de prendre en compte les éléments liés à la comptabilité patrimoniale.

Le Conseil note toutefois que parmi les utilisateurs premiers des états financiers figurent en premier lieu les citoyens ceux-ci étant normalement représentés par les assemblées parlementaires pour les Etats ou des assemblées ou conseils délibérants pour els autres organismes. Ce point, rappelé dans l'exposé-sondage, pourrait être utilement souligné de façon plus affirmée.

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Le Conseil souhaite néanmoins exprimer une réserve qui touche au périmètre sur lequel porte la consultation du cadre conceptuel comptable. Le Conseil regrette en effet que la définition du périmètre ne fasse pas l'objet d'une question spécifique de cette consultation et ne soit pas soumise à commentaires, car il considère que le cadre conceptuel comptable ne devrait s'appliquer qu'aux seuls états financiers, c'est-à-dire au bilan, au compte de résultat et aux notes annexes aux comptes et non aux éléments complémentaires que l'IPSAS Board propose d'inclure dans les rapports financiers à usage général. Le Conseil indique toutefois qu'une information venant compléter celle figurant dans les comptes peut être donnée, sans pour autant que le cadre conceptuel comptable ne s'applique à cette information complémentaire, et ce d'autant plus si l'approche par les flux est privilégiée.

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ANNEXE 1

COMMENTAIRES SPECIFIQUES

A titre liminaire, le Conseil de normalisation des comptes publics considère que le cadre conceptuel comptable des entités du secteur public ne devrait s'appliquer qu'aux seuls états financiers, c'est-à-dire au compte de résultat, au bilan et aux notes annexes, et non aux éléments complémentaires que l'IPSAS Board propose d'inclure dans les rapports financiers à usage général.

En conséquence, le Conseil a circonscrit ses commentaires et ses réponses aux questions posées au périmètre des seuls états financiers.

Pour autant, le Conseil n'est pas opposé à ce qu'une information complémentaire vienne éclairer le lecteur des états financiers. Le Conseil considère cependant que l'information complémentaire ne peut être soumise aux mêmes caractéristiques qualitatives que l'information comptable en raison de la nature même de cette information.

1. Rôle, autorité et champ d'application du cadre conceptuel

- **Rôle et autorité du cadre conceptuel**

  Le Conseil de normalisation des comptes publics approuve la publication par l'IPSAS Board des trois documents de consultation relatifs au cadre conceptuel des entités du secteur public. Cette consultation constitue un réel progrès s'agissant d'un sujet fondamental pour la construction d'un référentiel comptable des entités du secteur public.

  Le Conseil considère que le cadre conceptuel a pour rôle d'établir les concepts fondateurs de l'information comptable pour les entités du secteur public qui adoptent la comptabilité d'engagement, et est donc en accord avec les dispositions de l'exposé-sondage.

- **Champ d'application**

  Comme cela a été indiqué dans ses propos liminaires, le Conseil considère que le cadre conceptuel des entités du secteur public doit être un cadre conceptuel strictement comptable qui ne doit s'appliquer qu'aux seuls états financiers, c'est-à-dire au bilan, au compte de résultat et aux notes annexes.

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Pour autant, le Conseil ne s'oppose pas à l'idée de compléter l'information de nature strictement comptable fournie par les états financiers, par des éléments

2. Les objectifs du rapport financier à usage général des entités du secteur public, les utilisateurs premiers des rapports financiers à usage général ainsi que leurs besoins d'information

- **Les objectifs du rapport financier à usage général**

  Le Conseil de normalisation des comptes publics est d'accord avec les objectifs fixés par le cadre conceptuel comptable, à savoir le rendu de comptes, qui permet d'évaluer la manière dont l'entité publique a accompli sa mission, et la prise de décision, en ce qu'elle permet aux utilisateurs des états financiers de faire des choix éclairés.

- **Les utilisateurs premiers et leurs besoins d'information**

  Concernant les utilisateurs premiers des états financiers**, le Conseil approuve le choix de l'IPSAS Board de retenir les bénéficiaires de services et les contributeurs financiers, ainsi que leurs représentants respectifs, comme groupe d'utilisateurs premiers auxquels les états financiers doivent s'adresser en premier lieu.**

  Le Conseil de normalisation des comptes publics approuve tout particulièrement l'introduction des bénéficiaires de services dans le groupe d'utilisateurs premiers. En effet, cette approche est celle retenue en France, notamment pour l'Etat, la loi organique relative aux lois de finances votée en 2001 déclinant les objectifs assignés aux missions et programmes de l'Etat en fonction des usagers, citoyens et contribuables.

  Concernant l'absence de hiérarchie entre les utilisateurs premiers des états financiers, le Conseil de normalisation des comptes publics approuve pleinement ce choix effectué par l'IPSAS Board dans l'exposé-sondage.

  Le Conseil propose cependant que les notions de citoyens et de Parlement soient davantage soulignées dans le futur cadre conceptuel, même si le CNOCP comprend que ces notions sont déjà inclues dans le groupe d'utilisateurs premiers que constituent les bénéficiaires de services et leurs représentants, visés par l'exposé-sondage.

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Conseil de normalisation des comptes publics

De même, le Conseil regrette que la notion de citoyen, telle que comprise dans la notion de bénéficiaires de services, ne soit envisagée qu'à travers les notions de clients (bénéficiaires de services), et de fournisseurs (contributeurs financiers), dans la mesure où les citoyens sont en premier lieu des électeurs, représentés par un parlement, qui approuve en règle générale les budgets et les comptes.

Enfin, le Conseil tient à préciser que la notion d'utilisateur premier est fondamentale, car elle permet de définir la nature et les objectifs des états financiers. Elle a aussi des conséquences sur le cadre conceptuel comptable et les notions qui seront *in fine* retenues. En effet, il est légitime de penser qu'une information intelligible, compréhensible et permettant de faire le lien avec les données budgétaires est celle dont ont besoin les utilisateurs. A cet égard, l'approche par les flux économiques est celle qui répond le mieux semble-t-il à ces critères, étant précisé que cette approche doit permettre de prendre en compte les éléments liés à la comptabilité patrimoniale.

3. Les caractéristiques qualitatives et les contraintes des rapports financiers à usage général, et notamment :

(a) L'expression « image honnête » doit être préférée à celle de « fiabilité » lorsque l'on souhaite, dans le cadre conceptuel, désigner une caractéristique qualitative qui a pour objet de décrire un phénomène économique ou autre de manière neutre, complète et sans erreur

(b) La significativité doit être classée parmi les contraintes pesant sur les informations comprises dans les rapports financiers à usage général

- **Les caractéristiques qualitatives**

Le Conseil de normalisation des comptes publics considère que cinq des six caractéristiques qualitatives retenues par l'exposé-sondage sont satisfaisantes pour l'information strictement comptable. Il s'agit de la pertinence, l'intelligibilité, la diffusion en temps opportun, la comparabilité et la vérifiabilité.

Concernant l'image honnête, et afin de répondre à la question (a), le Conseil considère que l'image fidèle devrait être préférée à l'image honnête. En effet, il

estime que l'image honnête n'implique pas une représentation nécessairement fidèle, mais plutôt une présentation de bonne foi des états financiers. Or une présentation de bonne foi ne suffit pas en elle-même car elle doit nécessairement être complétée par la caractéristique qualitative de la fidélité. Ainsi, si l'image fidèle traduit le fait que les états financiers ont été présentés de bonne foi, elle permet également d'avoir une meilleure perception de la réalité économique de l'entité publique. C'est pourquoi le Conseil souhaite retenir la caractéristique qualitative de l'image fidèle plutôt que celle de l'image honnête.

Par ailleurs, le Conseil considère que l'image fidèle implique nécessairement l'exigence de fiabilité de l'information, qui est une condition pour une information comptable de qualité. Enfin, le Conseil estime que l'image fidèle doit être combinée avec, d'une part, la caractéristique qualitative qui a pour objet de faire primer le fond sur la forme, et, d'autre part, la prudence, même s'il est d'accord pour ne pas en faire une caractéristique principale.

Concernant les caractéristiques qualitatives de la pertinence, la vérifiabilité, l'intelligibilité et la diffusion en temps opportun, celles-ci n'appellent pas de commentaire particulier de la part du Conseil.

Le Conseil souhaite cependant apporter une précision concernant la comparabilité. En effet, le Conseil souhaite établir une distinction entre la comparaison dans le temps des comptes d'une même entité et la comparaison des comptes d'entités différentes (comparabilité « spatiale »). Le Conseil considère que la permanence des méthodes est une condition de la comparabilité dans le temps, tandis que l'homogénéité des méthodes comptables est une condition de la comparabilité spatiale. Toutefois, la permanence des méthodes ne doit pas empêcher la traduction fidèle des opérations. En conséquence, des changements de méthodes sont possibles mais ils doivent être clairement documentés. De la même façon, l'exigence de comparabilité ne doit pas faire obstacle à la traduction comptable des modèles de gestion propres à chaque entité.

- **Les contraintes pesant sur les états financiers**

  Le Conseil s'exprime en faveur des trois contraintes pesant sur les états financiers telles qu'elles sont décrites dans l'exposé-sondage, c'est-à-dire le rapport coûts/bénéfices, la significativité ainsi que l'équilibre entre les différentes caractéristiques qualitatives.

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Plus particulièrement, sur la question posée au point (b), le CNOCP est favorable à l'introduction de la significativité parmi les contraintes devant peser sur les états financiers.

4. Les critères d'identification d'une entité du secteur public ainsi que les circonstances à partir desquelles une entité devrait être incluse dans un groupe d'entités consolidées

- **Les critères d'identification des entités du secteur public**

  L'existence d'utilisateurs premiers (bénéficiaires de services et contributeurs financiers ainsi que leurs représentants respectifs) et la nécessité de répondre aux besoins d'information de ces derniers sont des caractéristiques essentielles pour établir et communiquer des états financiers.

  Le Conseil est favorable à ce que le critère de détermination d'une entité tenue de présenter des états financiers soit caractérisé par l'existence d'utilisateurs premiers et de leurs besoins. Il est donc favorable à la position adoptée par l'exposé-sondage de ne pas retenir une définition juridique précise afin d'identifier l'entité du secteur public ou le groupe d'entités du secteur public tenus d'établir et de communiquer des états financiers.

  Le Conseil est également d'accord avec les dispositions de l'exposé-sondage qui précisent que la législation, ou la réglementation de chaque pays peut déterminer quelles sont les entités, ou le groupe d'entités, tenus d'établir et de présenter des états financiers.

- **Les circonstances à partir desquelles une entité devrait être incluse dans un groupe d'entités de reporting**

  Le Conseil est d'accord avec l'exposé-sondage pour inclure une entité dans un groupe d'entités de reporting dès lors que ce groupe d'entités, en accomplissant sa mission, peut générer des profits, dégager des pertes, ou créer des engagements financiers.

  Dans une telle situation, le Conseil considère qu'il est souhaitable pour ce groupe d'entités de reporting, de communiquer des états financiers comme s'il s'agissait d'une seule entité.

CNOCP
Conseil de normalisation des comptes publics

ANNEXE 2

CONSEIL DE NORMALISATION DES COMPTES PUBLICS (CNOCP)

1. Création du Conseil de normalisation des comptes publics et champ de compétence

Le Conseil de normalisation des comptes publics a été créé par la loi de finances rectificative du 30 décembre 2008, et remplace le Comité des normes de comptabilité publique.

Ce nouveau Conseil est en charge de la normalisation comptable de toutes les entités exerçant une activité non marchande et financées majoritairement par des ressources publiques et notamment des prélèvements obligatoires.

Entrent dans son périmètre l'Etat et les organismes dépendant de l'Etat, les collectivités territoriales et les établissements publics locaux, et la Sécurité sociale et les organismes qui lui sont assimilés.

Cette extension de périmètre par rapport à l'ancien Comité des normes de comptabilité publique qui était en charge de la normalisation des comptes de l'Etat français se justifie par la nécessité de définir une politique de normalisation comptable cohérente au niveau de l'ensemble des administrations publiques.

2. Mode de fonctionnement du Conseil de normalisation des comptes publics

Le Conseil est un organisme consultatif placé auprès du Ministre chargé des comptes publics qui doit donner un avis préalable sur tous les textes réglementaires comportant des dispositions comptables applicables à des entités entrant dans son champ de compétence. Il peut également proposer des dispositions nouvelles et doit participer aux réflexions sur la normalisation comptable au niveau national et international. Ses avis sont publics.

Le Conseil est dirigé par un Président nommé par le Ministre chargé des comptes publics et ses attributions sont exercées par un Collège composé de dix huit membres dont neuf membres de droit et neuf personnalités qualifiées. Le Président et le collège sont assistés par trois commissions permanentes et un comité consultatif d'orientation. Les trois commissions permanentes sont les suivantes : « Etat et organismes dépendant de l'Etat », « Collectivités territoriales et établissements publics locaux », « Sécurité sociale et organismes assimilés ».

Le Conseil dispose d'une équipe technique permanente placée sous l'autorité du Président et dirigée par un secrétaire général.

By e-mail

Stephenie Fox
International Public Sector Accounting Standards Board (IPSASB)

Ref: TECH-CDR-1011

13 June 2011

IPSASB Exposure Draft CF-ED1
Conceptual Framework for General Purpose Financial Reporting by Public Entities: Role, authority and scope; objectives and users, qualitative characteristics; and reporting entity

ACCA (the Association of Chartered Certified Accountants) welcomes the opportunity to comment on the above Exposure Draft. ACCA is the global body for professional accountants. We aim to offer business-relevant, first-choice qualifications to people of application, ability and ambition around the world who seek a rewarding career in accountancy, finance and management. We support our 147,000 members and 424,000 students throughout their careers, providing services through a network of 83 offices and centres.

GENERAL COMMENTS

ACCA provided supportive comments on IPSASB's previous consultation paper in 2008, which formed the draft of this Exposure Draft. We welcome the work that IPSASB is undertaking to establish a conceptual framework which will make explicit the concepts, definitions and principles that will be applied in developing public sector accounting standards (IPSASs). We are also pleased to note that the IPSASB is closely monitoring the development of IASB's conceptual framework and any potential implications it may have for public sector reporting.

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SPECIFIC MATTERS FOR COMMENT

1. Role, authority and scope of the conceptual framework

We agree that a more comprehensive scope for financial reporting is necessary to ensure that financial information responds to users needs and will allow financial reporting to evolve and develop in the future. We also agree that this should be addressed through non-authoritative guidance.

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

In our view this section goes on at great length to arrive at a conclusion on who are the primary users of financial statements. Although citizens (quite rightly so) have been identified as the primary users of financial statements, we are concerned that the Exposure Draft is only reflecting on them as service users. As a result the Exposure Draft fails to capture wider accountability to the public/citizens as a whole for ensuring that their taxes are spent wisely and represent value for money. In our view this section is confusing and would benefit from some clarification.

Also, we have concerns that the Exposure Draft underplays the importance of the role of the Legislature as a primary user of financial statements. In our experience Parliament is the most engaged user of financial statements and its engagement is critical for accountability of the stewardship of public funds. The Exposure Draft gives inadequate recognition to the institutional context in which governments operate and the role of Parliament in ensuring accountability. In our view this needs to be addressed in the conceptual framework.

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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 fee for material error; and

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

We agree with the proposed qualitative characteristics and constraints on financial reporting. Therefore, we agree with 'faithful representation' rather than 'reliability' and the classification of materiality as a constraint.

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

We agree with how the conceptual framework addresses the above.

If you would like to discuss any of the above further please contact Gillian Fawcett, head of public sector, on tel: 020 7059 5674 or e-mail: gillian.fawcett@accaglobal.com



Gillian Fawcett
Head of Public Sector, ACCA

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Stephenie Fox
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14 June 2011

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Dear Stephenie Fox

I would like to offer a brief, but I believe important, comment on IPSASB's Conceptual Framework (CF hereafter) for General Purpose Financial Reporting by Public Sector Entities. The focus for my comments is on the proposals on scope, objectives and primary users contained in the Exposure Draft (ED).

Let me introduce myself. I have, until very recently, been a member of the UK's Accounting Standards Board's Committee for Accounting for Public-Benefit Entities (CAPE). The ASB will be making a submission on the Exposure Draft based on the discussions at CAPE. I have had an input into these discussions. However, whilst there has been some recognition of my views in this submission I was encouraged by John Stanford to offer a personal comment. John Stanford, Ian Carruthers and Mike Hathorn are also members of CAPE and know of my views, and may be willing to explicate them further if the following is not as clear as it should be.

As indicated above my substantive concerns relate to scope, objectives and primary users which I believe are inextricably intertwined. The starting point is that the CF of IPSASB is related to General Purpose Financial Reports (GPFRs) within which are General Purpose Financial Statements (GPFSs). This is clearly related to the scope question. By default this says that specific reports for specific users for specific decision making purposes are outside the scope of interest. Part of the scope, therefore, is to define what should be included in these GPFRs and GPFSs and this can only be clarified by knowing the objectives of the information content to be included in these reports and statements. The objectives, as currently proposed, are two – accountability and decision usefulness – yet it is impossible to fully satisfy *both* objectives through GPFRs and GPFSs. Accountability can be satisfied through GPFRs and GPFSs, if a suitable understanding of accountability can be derived and operationalised. This will be *relevant* for decision making purposes but not directly *useful* for specific users' actual decisions. As an aside this does not mean, and I don't think the ED implies this but it is worth saying nevertheless, that accountability equals past information and decision usefulness equals future information. That is a gross simplification. What it does mean is that the concentration is on finding out what information is required to make an public sector organisation accountable. This information will always be necessary for

decision making but not necessary *and sufficient* for these purposes. In that sense there is actually no need for having a primary user in mind. It is *all* users who are interested in accountability information. The result of this is that if the CF is to be 'restricted' to GPFRs then it is only possible to have one, rather than two objective(s) for financial reporting vis accountability that is *relevant* for decision purposes but not *useful* as in the sense of satisfying the information needs and wants of every user. As a result the decision useful objective, as a separate objective, should be dropped. The primary and only objective should be accountability that is *relevant* for decision users. This will also have the considerable advantage of reducing the possibilities of lobbying from specific users to define what they need/want to be in the contents of GPFRs and GPFSs. Concentration is then given only to involving these users in helping to define what constitutes accountability.

I believe accepting that there is one (accountability) rather than two (accountability *and* decision usefulness) objective(s) has wide-ranging implications for the rest of the proposed CF. The concentration on GPFSs would involve a justification of these in terms of their ability to satisfy some aspects of the accountability objective. It would also encourage an urgency to move rather faster towards GPFRs to satisfy the other accountability elements.

The alternative of continuing with two objectives rather than one would need a much wider and more complex CF as I highlight in a paper I published in 2008 in *Public Money and Management* (Laughlin, R. ''A Conceptual Framework for Accounting for Public-Benefit Entities', *Public Money and Management*, Vol. 28, No. 4 (2008) pp.247-254). If you would like a PDF copy of this paper please do not hesitate to contact me.

Equally if you would like any further explication of the above points please again do not hesitate to contact me.

I hope this comment is given due consideration when you come to revise the Exposure Draft.

Yours sincerely

Richard Laughlin
Emeritus Professor of Accounting

Federation of European Accountants
Fédération des Experts comptables Européens

Ms Stephenie Fox
Technical Director
International Public Sector Accounting
Standards Board
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E-mail to: EDComments@ifac.org,
StephenieFox@ifac.org

26 May 2011

Ref.: PSC/PRJ/TSI/SRO

Dear Ms Fox,

IPSASB Exposure Draft CF-ED1
Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Role, Authority and Scope; Objectives and Users; Qualitative Characteristics; and Reporting Entity

1. FEE (Fédération des Experts-comptables Européens - Federation of European Accountants) is pleased to submit its views on this Exposure Draft.

General comment

2. We strongly support IPSASB's programme which helpfully combines IFRS converged IPSASs on matters which are common to both private and public sectors, public sector specific IPSASs on matters which are unique to the sector, and conceptual work which will inform the development of standards in future, seeking to achieve the optimum balance between maintaining comparability and addressing sector specific issues.

3. FEE provided comments in IPSASB's 2008 Consultation Paper which formed the basis of this Exposure Draft. As noted in that response, FEE welcomes the work which the IPSASB is carrying out on developing a conceptual framework, particularly in the light of developments in IFRS which may make it more difficult to apply those standards, or indeed the IASB conceptual framework, directly to the circumstances of public sector entities.

Specific Matters for Comment

4. FEE's views are set out below on each of the Specific Matters on which IPSASB would particularly value comments.

1. Role, authority and scope of the Conceptual Framework

5. In line with our overall comments and our comments on Preliminary View 1 and Preliminary View 5 of the 2008 Consultation Paper, FEE agrees with

- The role and authority of the Conceptual Framework as set out in the Exposure Draft
- The scope of financial reporting as set out in the Exposure Draft.

6. We agree that it is appropriate that the widening of the scope is accompanied by an acknowledgement that IPSASB may address wider reporting needs through non-authoritative guidance.

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

7. In line with our comments on Preliminary View 4 of the 2008 Consultation Paper, FEE agrees with the objectives as set out in the Exposure Draft.

8. However, FEE still has reservations about the designation of primary users and the specific treatment of the legislature as a primary user. In our view, inadequate recognition is given to the institutional context in which governments operate, and the responsibilities which they exercise on behalf of citizens, without particular regard to whether those citizens are electors, service recipients or resource providers.

9. In line with our comments on Preliminary View 3 of the 2008 Consultation Paper we would note that the legislature is both a primary user and one of the most engaged users of GFPRs. We agree with the IPSASB view that governments should only be considered as primary users of GFPRs while acting as representatives of other primary users, but consider that it is inadequate to characterise them only as representatives of service recipients and/or resource providers without further explanation. In a democratic society, the principal line of accountability is from public sector entities to representative bodies, and from representative bodies to citizens.

10. We note that the Basis for Conclusions discusses the position of Citizens (BC2.6) and the Legislature (BC2.8-9) as Primary Users, concluding that these fit within the proposals in the Exposure Draft by virtue of equating Citizens with Service Recipients and/or Resource Providers. While we understand the overlaps between the various user categories, we are concerned that, for example, conceiving of citizens while only reflecting on them being service recipients may not fully capture all relevant aspects of accountability.

11. Having said this, we find it quite difficult to conceive of user information needs for citizens, within the context of GFPRs, where there is a significant difference to the needs of service recipients or resource providers. The Exposure Draft may therefore get to the right result. We would however suggest that it would be better to achieve this with a more complete explanation, explicitly noting the IPSASB view that a recipient/provider perspective is expected to be close enough in most circumstances.

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;

12. In line with our comments on Preliminary View 7 of the 2008 Consultation Paper, FEE agrees with the proposed qualitative characteristics and constraints on financial reporting. We therefore support the use of 'faithful representation' rather than 'reliability' and the classification of materiality as a constraint. We note that the Exposure Draft does not include the distinction between 'fundamental' and 'enhancing' characteristics which is made in the IASB Conceptual Framework.

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.

13. The Exposure Draft has restructured the material in the Consultation Paper, taking the view that certain matters should be dealt with at standards level. In line with our supportive comments on Preliminary View 8, and our additional comments on Preliminary View 9 of the 2008 Consultation Paper, we are content with the proposals in the Exposure Draft.

14. We would be pleased to discuss any aspect of this letter you may wish to raise with us.

Yours sincerely,



Philip Johnson
President

THE TREASURY
Kaitohutohu Kaupapa Rawa

10 June 2011

The Technical Director
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Dear Stephenie

Conceptual Framework Exposure Draft 1: Conceptual Framework or General Purpose Financial Reporting by Public Sector Entities: role, authority and scope; objectives and users; qualitative characteristics; and reporting entity.

Thank you for the opportunity to comment on the above Exposure Draft.

The Treasury considers this project of fundamental importance to the development of public sector financial reporting. We are very supportive overall of the approach that has been taken in this Exposure Draft.

There are however two particular areas that require further thought and clarification in any final framework:

- Clarification of the scope of general purpose financial reports; this is currently inadequately expressed for a conceptual framework that seeks to establish the concepts that underpin developments in general purpose financial reporting.
- Clarification of the meaning of accountability purposes and decision making purposes; two fundamental but undefined concepts that are at the core of the conceptual framework.

Our submission suggests some ideas to clarify these concepts that we urge the IPSASB to explore further.

Our submission highlights some concerns with the discussion of the group reporting entity, of information provided by general purpose financial reports and of differential reporting.

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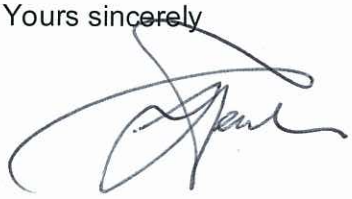
If you have any queries or wish to follow up any of these issues, please do not hesitate to contact me.

Yours sincerely



Hugh Packer
Manager, Financial Reporting
For Secretary to the Treasury

ROLE AND AUTHORITY OF THE CONCEPTUAL FRAMEWORK AND THE SCOPE OF GENERAL PURPOSE FINANCIAL REPORTING

Scope of General Purpose Financial Reporting

In our comments on the initial consultation paper, the Treasury congratulated the IPSASB on its consideration of the scope of financial reporting and the meaning of general purpose financial reports but expressed some discomfort at the diagram that was presented in that document. We are therefore disappointed that the IPSASB appears to have retreated from its attempt to clarify what is meant by general purpose financial reports, confining itself to the observations that the scope of financial reporting is determined by the needs of the primary users, that it is more comprehensive than financial statements and that the scope of financial reporting will evolve.

These statements are valid, but are inadequate for a conceptual framework that seeks to establish the concepts that underpin general purpose financial reporting. It is not clear from the exposure draft how the needs of the primary users determine the scope of general purpose financial reports, how comprehensive general purpose financial reporting is, and how the scope of financial reporting will evolve.

The Treasury urges the IPSASB to better explain general purpose financial reporting. This is critical to adequately define the scope of IPSASB activities, to gain general acceptance of deliberations on matters beyond the financial statements, to enable the IPSASB's agenda and priorities to be established within a clearer set of boundaries and to provide comfort that effort will not be expended inappropriately.

The Treasury recognises that there are challenges in explaining what is meant by general purpose financial reporting, and that an easy definition is not available. The Treasury does however have some suggestions for the IPSASB's consideration in developing an explanation of general purpose financial reporting.

We propose that further clarification be provided of the two main components of the term.

General purpose *financial reporting*

Information provided in reports can be specified either

- by preparers,
- independently (i.e. by standard setters) or
- by users (special purpose).

Which of these categories reported information falls under will depend on conditions or criteria that should be able to be articulated.

Information specified by preparers
Information is specified by users where they have the power to do so, and they find that to be efficient. Accounting literature generally terms this type of reporting as "special purpose". In the public sector, the legislature often has the power and desire to establish detailed reporting requirements for appropriation and other budget information as part of their role in agreeing the Government's budget. Such cases are beyond the scope of general purpose reporting, although that is not to suggest that

such users may not make use of independently set measurement and recognition rules. For example, a legislature may specify detailed information on appropriation spending, and also provide for fiscal forecasts to be prepared on the same basis as GAAP based actual information.

Information specified by users
Public sector preparers will also have the power to provide information publicly. A responsive government will meet ad hoc requests for information, which are not covered by any standards, and should be free to express their own interpretations and their own analysis of their finances. Much information is not usefully "standardisable" and this should be recognised in any conceptual framework.

Information specified by standard-setters
The value of standard setting, it appears to the Treasury, comes from the value of independently set requirements established in the public interest, aimed at meeting the needs of users who cannot otherwise efficiently require that information. In the context of setting standards for financial reporting, there needs to be clarity in the conceptual framework over when it is appropriate to

- regulate (bringing in concepts of whether there is sufficient public interest because of users that would value the information but not be efficiently able to demand it) and
- to standardise (bringing in the concept of comparability between entities and whether a regulatory cost/benefit test is met).

*General purpose **financial reporting***

The conceptual framework proposes that the general purpose financial reports serve accountability and decision-making purposes of primarily resource providers and service recipients. The Treasury agrees with this but suggests that the conceptual framework does not sufficiently link that overarching statement with the discussion on the content of financial reports. Such a link is essential to make the conceptual framework coherent, and is needed to clarify how the agreed purposes are met by general purpose financial reports.

Resource providers and service recipients appear to the Treasury to be primarily interested in the sources and applications of economic resources, as this is what impacts on them. They will seek to make assessments of and decisions about:

- the sustainability of the entity (i.e. the ability of the entity to meet its commitments as and when they fall due and the sustainability of the policy model being employed).
- the flexibility of the entity (i.e. the ability of the entity to change its financial structure, to achieve optimal funding costs, to take advantage of operational opportunities or respond to rising demand, and to weather adverse events).
- the vulnerability of the entity (i.e. the degree to which the entity is dependent and therefore vulnerable to funding or demand pressures outside of its control or influence).
- the performance of the entity (i.e. the success of the entity in meeting its operating, investing and financing objectives).

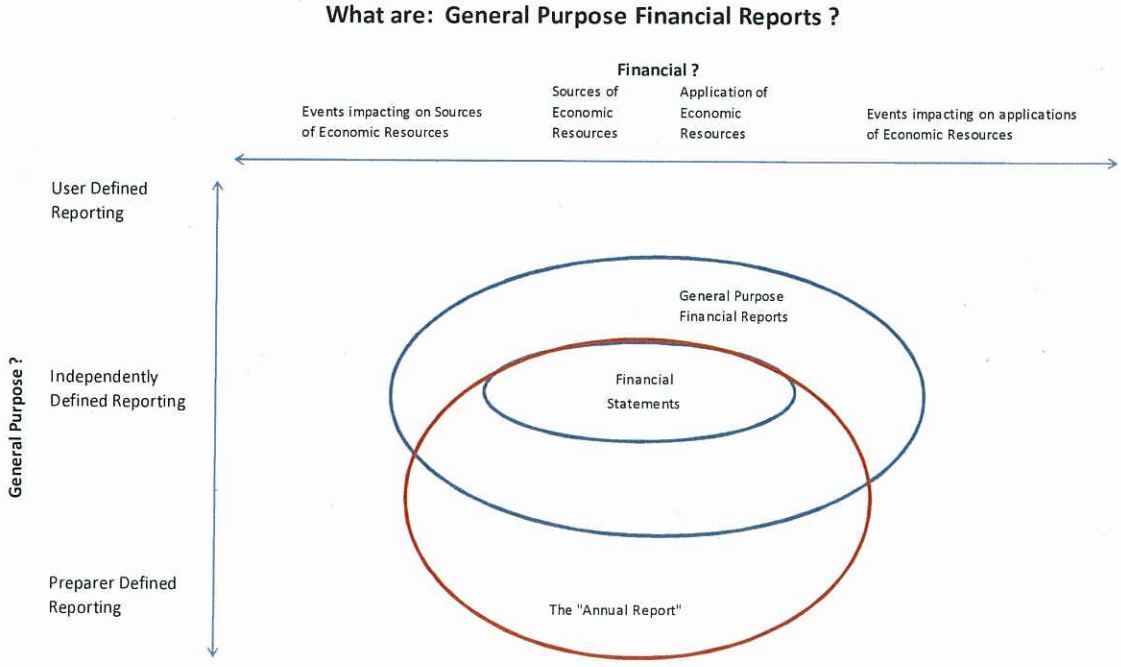
These concepts are not new. They have been drawn from CICA's work on indicators of government financial condition and a recent paper of the AASB considered by the National Standard Setters. The concepts are inter-related, different users may value some more than others, but they provide a starting point for describing what is trying to be conveyed by financial reporting. They provide a means of focussing on financial reporting that is most relevant, and a means of distinguishing between financial reporting and other reporting.

More than that, they provide an essential link between this first and the following phases of the conceptual framework. They provide a basis for determining the components and elements of financial reporting, measurement objectives and a basis for presentation and disclosure decisions,

The Treasury recommends that the concepts of sustainability, flexibility, vulnerability and performance be added into the discussion about the scope of general purpose financial reports, both to provide a focus on what financial reports are seeking to convey, and to provide a essential link between the objectives of reporting and the recognition, measurement and disclosure concepts that follow.

Linking the ideas: ***General purpose*** *and* ***Financial Reports***

The Treasury therefore is proposing to the IPSASB that general purpose financial reporting should be thought of as the intersection between two dimensions as suggested in the following table.



The Treasury suggests such a graphical illustration is useful in demonstrating that there are items outside the annual report that may be considered general purpose financial reports (such as long term fiscal sustainability reports), and also that not all

the items in the annual report (currently or in the future), are prescribed by general purpose financial reporting requirements.

The graphical illustration also is suggestive that the core of IPSASB work will be the financial statements (at the centre of the diagram). Beyond that core, there are areas that the IPSASB will have some influence but will not necessarily exert control. The boundaries may not be fixed and may change over time, for example by what is defined as a financial statement, but to the extent that the IPSASB attempts to prescribe requirements over reports that are not "financial" or not "general purpose" then valid questions will be posed as to whether it is exceeding its mandate.

OBJECTIVES OF FINANCIAL REPORTING AND USERS OF GENERAL PURPOSE FINANCIAL REPORTING

Accountability and Decision Making Purposes

The Treasury urges the IPSASB to clarify its position with respect to accountability and decision-making processes.

The Treasury observes that while the term "accountability and decision-making purposes" is extensively used in the exposure draft, and a significant number of examples are provided, the Exposure Draft is notably silent of any discussion that differentiates between the two terms, and how the use of both ideas may affect the development of financial reporting, nor is there any material in the basis of conclusions that provides the reasoning behind the use of "accountability and decision-making purposes" terminology.

This is unfortunate as it fails to acknowledge a significant debate within accounting literature. For example Yuri Ijiri[1] and Andrew Lennard[2] have both argued that stewardship or accountability has a role that has had too little attention, and that separate consideration of accountability is important for standard setters. John Christensen and Joel Demski[3] have suggested that there are two schools of accounting theory; a "value school" based on wealth measurement and an "information school" based on measuring and disclosing informative events. The first school considers that the objective of accounting is to facilitate economic decision making, and therefore financial reports will focus on economic resources or value. The second school considers that accounting provides a recorded history of an entity and has value to the extent it measures and discloses informative events. For accounting information to be valuable it must be related to the information used in decision-making, but it need not be available at the time decisions are made for it still to have value for accountability purposes. Gary Sundem[4] has suggested that a revenue/expense approach better aligns with the objectives of accounting as defined by the information content school and an asset/liability approach with the objectives of accounting as defined by the value school.

The Treasury supports the recognition of both decision-making and accountability purposes for accounting for the following reasons:

- Given the debates noted above, for the conceptual framework to be overarching and coherent, unifying the accounting system as a whole, both accountability and decision-making needs to be addressed.

- We regard the concepts as being complementary rather than in being in competition. As an analogy they are similar to the differentiation that

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[1] see: Yuri Ijiri, Theory of Accounting Measurement, Studies in Accounting Research, 1975

[2] see Andrew Lennard, Stewardship and the Objectives of Financial Statements: A Comment on IASB's Preliminary Views on an Improved Conceptual Framework for Financial Reporting, 2007

[3] see John Christensen and Joel Demski Accounting Theory: An information content perspective, 2003

[4] see Gary Sundem, A note on the Information Perspective and the Conceptual Framework, 2007

sometimes is made between process and result. Positive results depend on good process, but good processes, if they are to be sustainable, also require positive results to be achieved. A focus in the conceptual framework on one without the other would be incomplete.

- We regard both accountability and decision-making as broad concepts. For example, we regard decision making as including both choices about resource allocation and decisions to exercise 'voice' in such matters as electing officials, partaking in consultation processes and lobbying for change. We regard accountability as encompassing both processes and relationships between two groups; those providing an account, and those holding to account. We consider the benefits of accountability to include the actions of both parties being aligned with expectations and trust between the parties being enhanced.

Given the lack of information in the Exposure Draft and the Basis of Conclusions, the Treasury is unsure the degree to which those views are shared by the IPSASB. A different rationale could lead to IPSAS taking different directions but it is not possible to determine such a direction from the proposals.

The Treasury is aware others could take a different view. For example, to some observers the focus on decision-making by the IASB appears attributable to concerns that separate consideration of accountability might lead to an undesirable emphasis being placed on faithfully representative as opposed to relevant information, on historic rather than current measurement, and on the provision of additional information that may not be decision facilitating.

Will the focus on the two objectives make it more likely that IPSASB will end up in a different place than IASB on such issues? Is the IPSASB seeking to straddle or to unify the two accounting schools of theory described above? Will a view about accountability or decision-making predominate in the IPSASB's consideration of issues?

The Treasury therefore urges the IPSASB to clarify its position with respect to accountability and decision-making processes. We suggest in particular, that the IPSASB may wish to consider including the ideas in the three bullets above in its basis of conclusions.

THE REPORTING ENTITY AND THE GROUP REPORTING ENTITY

The Group Reporting Entity

The discussion in 4.1 to 4.6 of the consultation paper identifies that a key characteristic of a reporting entity is the existence of users dependent on information about the activities of particular governmental organisations, programs or other identifiable programs. The Treasury considers that this is correct, but questions whether any further guidance is more appropriate at a standards level rather than a conceptual framework level.

The determination of the boundaries of a group reporting entity, in the Treasury's view, based on accountability or decision-making rights will likely require judgements over such matters as protective or participatory rights, rights of other stakeholders, residual and non-residual benefits, and financial or non-financial benefits. Such matters are matters for standards rather than the framework.

Further, users may not wish to define a group solely on the proposed basis. For example, Treasury observes that one significant group of users, the fiscal analyst community, often seek information on entities within the General Government Sector, a grouping that is not based on a concept of control, but rather is based on an assessment as to whether the entities major activities are market or non-market. The Conceptual Framework should not necessarily preclude standards for such a group being devised, where there are users that cannot otherwise demand the information.

The Treasury therefore suggests that paragraphs 4.7 to 4.14 and relevant BC paragraphs be deleted from the framework. However, if these paragraphs are not removed, the Treasury wishes to highlight a specific concern with them. .

Paragraphs BC4.12 –BC4.14 explain why the IPSASB has moved from a criteria of "power to govern the strategic financing and operating policies of other entities" to "authority and capacity to direct the activities of other entities, when the results of such direction can generate financial or other benefits for the government or expose it to a financial loss or burden.

Essentially we understand the IPSASB to be driven by a concern that the original criteria "may result in the inclusion of additional or unintended entities in the group reporting entity". Treasury is now concerned however that the revised criteria may result in the unintended exclusion of entities from the Government reporting entity.

Governments often establish and operate entities that are provided with operational autonomy, commonly through restrictions on the Executive from having the "authority and capacity to direct their activities". This may occur through the operation of "checks and balances" principle within Governments (e.g. the legislative branch), it may occur because operational independence from Government is critical for the entity to achieve the objectives the Government desires (e.g. independent central bank, regulators' mandates extending to public sector entities), or where professional independence is important such as in research institutions or statistical offices.

For such entities, there may be the "power to govern the strategic financing and operating policies" but not the "authority and capacity to direct the activities". We doubt the IPSASB necessarily intended such types of entities to be excluded.

Other Issues

Information provided by General Purpose Financial Reports (2.14 – 2.26)

This section appears to the Treasury to be a means to explain why a number of current sets of information may be considered general purpose financial reports. The Treasury questions their inclusion in the manner prescribed. They are presented as examples that are not necessarily comprehensive, may "lock-in" current reporting practices, and in some cases, e.g. narrative reporting, are not particularly persuasive.

Treasury would prefer this section to be a more conceptual discussion, as follows:

- The overarching concept is that the objectives of financial reporting by public sector entities are to provide information about the entity that is useful to resource providers and service recipients for accountability and decision-making purposes.

- Such users need to make assessments of and decisions about the sustainability, flexibility, vulnerability and performance of the entity.

- The information provided by general purpose financial reports follows from those needs

- To meet such needs general purpose financial reporting may include information on stocks and flows, budget compliance, service delivery achievements, prospective and actual information, and graphic, tabular and narrative information.

If this section is reorganised in such a manner, the objectives of the conceptual framework are more likely to be met. For example, such a reorganisation provides a framework for considering if and how voluntary services should be measured and presented. The current discussion of the content of financial reports fails to assist such considerations.

Cost benefit trade-offs may differ between entities (BC3.36)

The IPSASB in this paragraph notes it has determined that the Conceptual Framework will not deal with issues related to differential reporting. It has made this decision in response to the Treasury and other submitters' concern that a lack of acknowledgement that cost-benefit trade-offs may differ between different public sector entities, and that this may be a useful principle to be applied when considering differential reporting issues.

Treasury was not seeking that the IPSASB deal with issues related to differential reporting in the Conceptual Framework. Rather, we are seeking they be acknowledged, so that they may be considered at some future time. Without such an acknowledgement, it is not possible for the IPSASB to ever consider a differential reporting approach *within its framework*. Treasury is therefore concerned that by taking this approach, the IPSASB is signalling it will never deal with this issue, rather than signalling, as we believe was intended, that it will not deal with this issue now.

Saskatchewan

Ministry of Finance

Provincial Comptroller's Office

2350 Albert Street
Regina, Canada
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June 28, 2011

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

Dear Ms. Fox: Stephanie

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

Thank you for the opportunity to comment on the Exposure Draft of the International Public Sector Accounting Standards Board (Board) entitled Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities. We are pleased that the development of the conceptual framework has reached the exposure draft stage and have provided the following comments from a Canadian perspective for what we believe is an integral step in the standard setting process.

Generally, we are in agreement with the views and positions expressed in the exposure draft. The objectives, qualitative characteristics, and definition and criteria for a group reporting entity are for the most part consistent with Canadian public sector standards. We have the following concerns primarily with the scope and definition of a reporting entity in the proposed framework.

We continue to question the appropriateness of including non-financial and prospective information in a conceptual framework for accounting standards. The Board should focus its mandate on the development of accounting standards for historical-based financial information.

Comparability and verifiability of any prospective information would be questionable without a standard agreed upon method of measuring and presenting the information. The inclusion of such information in reports that have been traditionally limited to historical accounting information is a new concept and the current expertise of professional accounting organizations, audit firms and other stakeholders is limited and would require extensive time and resources to achieve the desired goal of the proposed framework.

.../2

Acid-free Paper

Currently in Canada, our accounting standards for the public sector are in transition as we work to implement a new standard for measuring and recording government grants and a fair value measurement of certain financial instruments. The development of accounting standards alone is extensive in terms of time and resources to our Canadian standard setters. A broad scope that includes non-financial and prospective information may take away from the availability of your Board's resources to focus on the development of the initial accounting standards.

Similar to our concerns with the scope of the framework, we feel the definition of a reporting entity is too broad. It seems that by specifically including in the definition of a reporting entity *". . . program or identifiable activity that prepares general purpose financial reports"* (paragraph 4.1) in conjunction with the statement that a key characteristic of a reporting entity is the existence of users reliant on it for information (paragraph 4.2), any government department/ministry or material government program would be required to prepare separate financial statements under the proposed framework. We do not believe that having to prepare separate ministerial financial statements is always useful to public sector users and the definition should be amended to give entities the option of presenting such information.

A key criterion in determining a group reporting entity is the authority and capacity to direct the activities of another entity to derive benefit from such activities (paragraph 4.7). While we are in general agreement with the criterion, from a Canadian perspective, we believe additional guidance must be given to ensure the separate accounting for individual levels of government. Given the substantial levels of funding that occur between federal, provincial and municipal governments in Canada, such a broad criterion could lead to the consolidation of one or more levels of government into a group reporting entity. The independence of each level of government would need to be protected by the proposed framework before it would ever be accepted in a Canadian context.

The Board has asked for specific comments on whether or not the term "faithful representation" or "reliability" should be used in the conceptual framework. We do not believe that the term "faithful representation" is misleading. The term "representational faithfulness" is used to describe the overall qualitative characteristic of "reliability" in the Canadian public sector standards and thus either term with the proper supporting information contained in the proposed framework could be used interchangeably.

The Board has asked for specific comment on the concept of materiality. We agree that materiality is a broad concept that can potentially impact all qualitative characteristics and all aspects of financial reporting and should be left as a general constraint on information. The Board should emphasize that materiality is a matter of professional judgment and both the amount and nature of the item must be weighed against the particular circumstances of the entity.

Thank you again for the opportunity to comment on the Exposure Draft.

Sincerely,

Terry Paton, FCA
Provincial Comptroller

cc: Chris Bayda, Executive Director, Financial Management Branch, Provincial Comptroller's Office, Ministry of Finance
Jane Borland, Manager, Financial Management Branch, Provincial Comptroller's Office, Ministry of Finance
David Langen, Analyst, Financial Management Branch, Provincial Comptroller's Office, Ministry of Finance

ØKONOMISTYRELSEN

Memo

19. maj 2011
ØKO/MOB

Comments on Conceptual Framework Exposure Draft 1

Below, the comments from the Danish Agency for governmental management are divided into a number of general comments and a number of specific comments regarding the conceptual framework exposure draft.

1. General comments

We generally agree with the guidelines presented in IPSASBs conceptual framework.

Our main divergence from the framework is concerning the users and the coherence with objectives of the financial reporting. We stress the importance of identifying parliament, legislators or similar bodies, as a primary user of GPRF's and downsizing citizens to be secondary users. Our argument is that GPRS's are mainly used for decision making and citizens mostly have low or no use of GPRS's.

2. Specific comments concerning role and authority of the Conceptual Framework and scope of GPFRs;

We agree with the proposed view of role and authority of the Conceptual Framework.

The requirements for financial reporting in Denmark are already targeted towards information needs of the users and are consistent with the objectives for financial reporting. We can therefore on a general level support the proposed view regarding the scope of GPFRs. Even though the Danish model differs regarding users of GPFRs, we will address this in the following section (3) of our comment paper.

3. Specific comments concerning objectives of financial reporting by public sector entities and the primary users of GPFRs of public sector entities and their information needs;

In Denmark the primary recipients of the GPFR are defined as the ministries, the treasury and The Audit of the State Account. In Denmark the Audit refers directly to the parliament, and represents their interests.

The Danish view is, that the GPFR should primarily focus on recipients within the government and legislature (parliament). In a democracy the governmental

agencies/institutions are primarily accountable to legislature, which represents both the service recipients and the resource providers in general.

Furthermore is may be difficult to conceive the relevant information for both service recipients and service providers within the same framework. Instead it might be a more fruitful approach to let agencies/institutions produce supplemental and more targeted information for such groups if relevant.

4. Specific comments concerning qualitative characteristics of, and constraints on, information included in GPFRs of public sector entities.

In Denmark, the purpose of the GPFR is to provide an accurate picture of reporting entity's financial and operational results. This means that the annual report should explain the goal achievement, resource usage, assets and liabilities. To strengthen performance management, the main focus of the GPFR is public objectives and financial information.

The proposed qualitative characteristics of information included in GPFRs are more explicitly defined than those in the guidance on GPFRs in Denmark, but at the same time they are identical to the criteria for information included in the Danish GPFRs.

IPSASB proposes that the non-financial elements deserve great emphasis in the GPFRs. This is an approach Denmark applauds.

We therefore agree in IPSASB's general definition of the GPFR (3.1)

The qualitative characteristics of information included in GPFRs of public sector entities are relevance, faithful representation, understandability, timeliness, comparability, and verifiability. (3.2)

Furthermore IPSASB describes that in some cases, a balancing or trade-off between qualitative characteristics may be necessary to achieve the objectives of financial reporting. The relative importance of the qualitative characteristics in each situation is a matter of professional judgment. The aim is to achieve an appropriate balance among the characteristics in order to meet the objectives of financial reporting. (3.41)

This is identical with definitions used by private sector standards (IASB). We suggest IPSASB identical to IASB, rank the qualitative characteristics, as a pragmatic approach when identifying GPFR- information.

A new trend when presenting financial information is that relevance is weighted higher than other qualitative characteristics. This causes a conflict with the

qualitative characteristic reliability, as relevant information not always is reliable. We therefore agree that the qualitative characteristic; faithful representation, should be used, rather than reliability.

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

Reporting entity
In Denmark, a public sector reporting entity is a state entity with administrative responsibility for one or several appropriations in the state budget. This definition is similar to the presented considerations about the reporting entity's legal or organizational independence, with which we agree.

A group reporting entity
In Denmark we undertake group reporting for the whole state. This means we view the state as a group reporting entity. At present time the group reporting is a totalization of the financial information across all reporting state entities.

We're considering whether we should enhance our group reporting in two ways;
1. Consolidation of the state group financial information.
2. Undertake group reporting for already defined group entities within the state.

The main reason we haven't undertaken nor dismissed either of the two ways is that we have to perform an analysis regarding, whether the extra information actually would benefit to decision-making.

If we were to implement group reporting, our view of group reporting entities is mainly identical to IPSASBs statement in paragraph 4.11. We therefore generally agree with IPSASB definitions of group entities.