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Your Ref:
Our Ref:

Date: 24 May 2011

Dear Ms Fox,

Conceptual Framework Exposure Draft with particular reference to the reporting entity

The Charity Commission for England and Wales is established by law as the regulator and registrar of charities in England and Wales. Our aim is to provide the best possible regulation of these charities in order to increase charities' efficiency and effectiveness and public confidence and trust in them.

We welcome the opportunity to respond to the consultation on the conceptual framework for general purpose financial reporting by public sector entities: role, authority and scope; objectives and users; qualitative characteristics; and reporting entity. Although the focus of the IPSASB is on the development of standards for government and government related bodies in the public sector, the work of IPSASB can be a helpful source of reference when considering issues for other not-for-profit entities such as charities.

In the UK, the Statement of Recommended Practice (SORP) for charities, first issued in 1995, is the primary reference source for charities. It considers a number of features specific to charities and charitable funds including trust law, fund accounting, and the need for a high degree of accountability to donors, funders and the public on the stewardship of charities. A specific feature of charities is that funds are held on trust, not for private benefit, the benefit of the trustee or the charity as an entity but solely for the beneficiaries of the charity. Another key principle is that where funds are gifted with a restriction as to their use, this restriction is binding on the trustees.

It follows that trustees must act in the interests of the charity and its beneficiaries. Where trustees control more than one charitable fund, the general purpose financial statements show the unity of their trusteeship and the structure of the funds differentiating restricted from unrestricted funds. In the context of consolidated financial statements this is particularly important because the reality is a unity of trusteeship and not that of a single economic entity where all funds are available to the entity to generate a return or to repay its creditors. The concept of the single economic entity underpins commercial standards such as IFRS10, and its predecessors IAS27 and SIC-12.

We therefore welcome the recognition that trusts are legally distinct (paragraph 4.5) and that to establish that benefits accrue to the public body there is a need to identify either a financial benefit or 'the ability to direct that other entity to work with the government (or other public sector body) to achieve its service delivery objectives' (paragraph 4.8). We therefore welcome the conclusion in paragraph 4.12 that where the public body as trustee cannot exercise its authority to increase its benefits or where it benefits but cannot direct that trust or entity, the trust or entity is not consolidated.

The conclusion IPSASB has reached accords with a reasoned interpretation about the intention that group accounts portray a single economic entity and is consistent with our understanding of trust law. For example our recent report on our public benefit assessments – *emerging findings for charity trustees from the Charity Commission's public benefit assessment work 2009-11* states (in section H5): 'The charity must be independent and must exist to carry out its charitable aims, and not for the purpose of implementing the policies of a government authority, or of carrying out the directions of a government authority'.

If I can be of any further assistance on matters of UK charity reporting and practice please do contact me.

Yours sincerely,



Nigel Davies. Deputy Head of Accountancy Policy

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CF-ED 1

044

30 May 2011

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Vial email : stepheniefox@ifac.org

Dear Stepehenie

IPSASB Conceptual Framework Exposure Draft 1 Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Role, Authority and Scope; Objectives and Users; Qualitative Characteristics; and Reporting Entity

CPA Australia, the Institute of Chartered Accountants in Australia and the Institute of Public Accountants (the Joint Accounting Bodies) are pleased to respond to the IPSASB Conceptual Framework (CF) Exposure Draft (ED) 1.

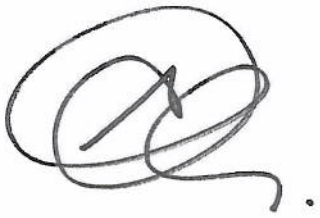
Previous submissions of the Joint Accounting Bodies to the IPSASB and the International Accounting Standards Board (IASB) have communicated our preference for an international reporting framework comprised of a single set of concepts designed for application to all sectors. While this remains our preferred approach, we acknowledge that this is not the way that standard setting internationally is structured today. Nevertheless, we encourage the IPSASB to continue to initiate dialogue with the Trustees of the IFRS Foundation about the imperative for action to expand the objective of the IASB to develop a single set of accounting standards appropriate for all sectors. The Joint Accounting Bodies will continue to make such representations nationally and internationally.

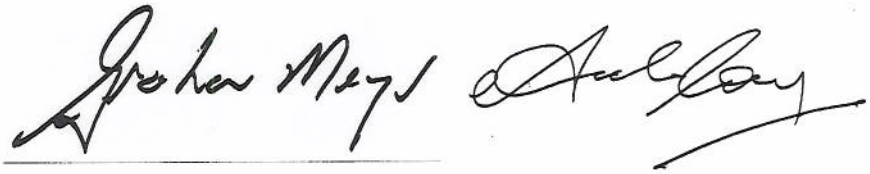
The Joint Accounting Bodies consider the completed conceptual frameworks of the IPSASB and the IASB/Financial Accounting Standards Board (FASB) will represent international best practice for entities of the public sector and the private for-profit sector[1] respectively. However, the journey to completion is not proceeding contemporaneously. The IASB/FASB CF for Financial Reporting consists of issued chapters that articulate the objective of general purpose financial reporting, the qualitative characteristics of useful financial information and an exposed position on the reporting entity. The IPSASB CF ED 1 has a similar coverage. Different decisions may prove problematic for transaction neutral jurisdictions like Australia should jurisdictions choose to maintain the approach of one set of standards and at the same time ensure that international investors understand that the financial reports of for-profit entities accord with the International Financial Reporting Standards (IFRS). Therefore, where possible, we would like the outcomes of IPSASB CF ED 1 to mirror those of the completed chapters of the IASB/FASB project.

[1] The IASB and FASB are yet to decide whether their finalised conceptual framework will have application to the private not-for-profit sector.

The response of the Joint Accounting Bodies to the questions posed is appended. If you require further information on any of our views, please contact Mark Shying, CPA Australia via email mark.shying@cpaaustralia.com.au, Kerry Hicks, the Institute of Chartered Accountants via email kerry.hicks@charteredacccountants.com.au or Tom Ravlic, the Institute of Public Accountants by email tom.ravlic@publicaccountants.org.au.

Yours sincerely





Alex Malley
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Chief Executive Officer
Institute of Public Accountants

cc: K Stevenson

Specific Matters for Comments

Question 1 – Do you agree with the authority and scope of the Conceptual Framework?

The Joint Accounting Bodies support the authority of the IPSASB Framework as articulated by the IPSASB CF ED 1 paragraph 1.2 for the reasons that:

- it does not establish new authoritative requirements for financial reporting by public sector entities: and
- in selecting accounting policies to deal with circumstances not dealt with in IPSASs or other guidance issued by the IPSASB, we believe it appropriate that public sector entities can choose to refer to the IPSASB Framework, and to consider the applicability of, the definitions, recognition criteria, measurement principles, and other concepts.

The Joint Accounting Bodies welcome the decision of the IPSASB that the CF reflects a scope for financial reporting that is more comprehensive than that encompassed by financial statements including their notes. It appropriately acknowledges the importance in this sector of reporting non-financial information and prospective information. The scope of financial reporting will evolve in response to users information needs, consistent with the decision-making objective of financial reporting.

The Joint Accounting Bodies note the IPSASB CF ED 1 paragraph 3.15 makes comment about the economic and other phenomena represented in GPFRs. We believe it important that information about phenomena other than economic be dealt with explicitly within the scope section of the CF, as it is a determinant of which useful information is within the scope of financial reporting and which useful information is outside the scope of financial reporting.

Question 2 – Do you 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?

The IPSASB CF ED 1 paragraph 1.3 states "…GPFRs are financial reports intended to meet the information needs of users who are unable to require the preparation of financial reports tailored to meet their specific information needs.". The Joint Accounting Bodies support this statement. We are aware of the importance of accountability for the entities of the public sector and the acquittal of funds is often the main reason for their financial reporting. The IPSASB CF ED 1 paragraph 2.1 states, "The objectives of financial reporting by public sector entities are to provide information about the entity that is useful to users of GPFRs for accountability purposes and for decision-making purposes." In contrast, the IASB/FASB Conceptual Framework for Financial Reporting Chapter 1 does not make this distinction explicit – rather, the objective of financial reporting is usefulness in making decisions. The IASB/FASB noted at paragraph BC1.28 to Chapter 1 of its conceptual framework that by describing what stewardship encapsulates, the decision-making objective of financial reporting acknowledges that users make resource allocation decisions alongside decisions about management's efficient and effective use of the resources provided. The Joint Accounting Bodies while not particularly opposed to the approach of the IPSASB, question its necessity and prefer the distinction not be made.

The Joint Accounting Bodies note that the IASB/FASB opined "…without a defined group of primary users, the Conceptual Framework would risk becoming unduly abstract or vague." (IASB/FASB Conceptual Framework for Financial Reporting Chapter 1, The Objective of General Purpose Financial Reporting, paragraph BC1.14). We concur. Accordingly, we support the IPSASB proposal to identify primary users of GPFRs as service recipients and their representatives and resource providers and their representatives.

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

a. **"faithful representation" rather than "reliability" should be used in the Conceptual Framework to describe the qualitative characteristic that is satisfied when the depiction of an economic or other phenomenon is complete, neutral, free from material error; and**
b. **Materiality should be classified as a constraint on information that is included in GPFRs or as an entity-specific component of relevance.**

The Joint Accounting Bodies support the included qualitative characteristics, including the use of 'faithful representation' in place of 'reliability'. We note their congruence with those agreed by the IASB/FASB – except that the IASB/FASB dichotomises qualitative characteristics based on fundamental and enhancing factors and treats materiality as an entity-specific component of relevance. Ideally, we would like to see both international frameworks end up with the same approach regarding fundamental and enhancing qualitative characteristics. Accordingly, we encourage the IPSASB to replicate the approach of the IASB and FASB. We agree with the position of the IASB/FASB that information without relevance and faithful representation is not useful, and that deficiency cannot be overcome through the presence of the other qualitative characteristics. We also agree with the IASB/FASB that financial information that presents with relevance and faithful representation can be useful, notwithstanding the absence of the other qualitative characteristics. We are not convinced by the arguments against classification advanced by the IPSASB.

Finally, as we understand materiality as an entity-specific consideration, we agree with the IASB/FASB that it is best described as an aspect of relevance and not as a constraint on information that is included in GPFRs for the reason that immaterial information does not affect a user's decision.

Question 4 – Do you agree with the basis on which a public sector reporting entity is identified and the circumstances in which an entity should be included in a group reporting entity?

The Joint Accounting Bodies agree with the decision of the IPSASB to give attention to the needs of users who are dependent on GPFRs to delineate the boundaries of the reporting entity, be that at the level of the single entity or the group entity. We note that the IASB/FASB have not progressed their work on the Chapter beyond an ED. We consider that this is unfortunate. Were differences to emerge in the way that the term is used in the respective frameworks it may produce unnecessary confusion amongst users of public and private sector financial reports and practitioners – especially those who service both sectors or seek to move between sectors.

The Joint Accounting Bodies support the proposal about the composition of a group reporting entity.

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PSAB Public Sector Accounting Board
Conseil sur la comptabilité dans le secteur public CCSP

June 7, 2011

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Re: PSAB Staff Comments on 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"**

Thank you for the opportunity to provide input on the proposals in this Exposure Draft (CF-ED1). We would like to express our support for the concepts set out in CF-ED1, although we do raise some issues for the consideration of the IPSASB below.

Responses to the Specific Matters for Comment in CF-ED1 are set out in Appendix A to this letter. Additional comments about CF-ED1 by paragraph are provided in Appendix B. As well, we wish to draw the attention of the IPSASB to the following issues:

(i) Implications of Accountability as an Objective of Public Sector Financial Reporting

The case for accountability as an overriding objective for public sector financial reporting must be made and it must be made strongly. Accountability must be described, its importance explained and supported and its implications for public sector financial reporting set out for scrutiny. The text of CF-ED1 does not do this now. Yet the inclusion of compelling text on accountability is fundamental to crafting a conceptual framework that is tailored to the needs of the users of public sector financial reports. A similar weakness downplays accountability in the current Canadian framework and it will be addressed in PSAB's current project, *Concepts Underlying Financial Performance*.

Accountability is greater than stewardship. Accountability is the obligation of a public sector entity to account for its activities, accept responsibility for them, and to disclose the results in a transparent manner. It also includes the responsibility for and stewardship of, public money and other entrusted public resources.

The nature of accountability as a financial reporting objective in the public sector and its implications for financial reporting needed to be explored in more detail and given a higher profile in the IPSASB conceptual framework.

(ii) Integration of Key Characteristics of the Public Sector

The key characteristics of the public sector are the primary reason that the IPSASB chose to do its own conceptual framework project rather than leveraging and converging with the evolving IASB-FASB private sector conceptual framework. Unique aspects of the public sector are mentioned in the Phase 1 ED but their implications are not simply and fully set out. The "Key Characteristics of the Public Sector" Exposure Draft approved by the IPSASB at its March 2011 meeting is a critical, overarching umbrella document that needs to be explicitly linked to all phases of the framework. It is important that Phase 1 content not be finalized until such cross-references are incorporated. The key characteristics document should be the touchstone document in the CIA[1] parts of the IPSASB's timetable for the conceptual framework.

(iii) Appendices to each section

The Introduction to the framework indicates that this is not a convergence project but does not explain why references to the IASB framework and statistical bases are included in the appendices. The appendices may give the wrong impression about the influence they may have in the development of the IPSASB framework.

In lieu of the appendices, to properly reflect the relationship between the IPSASB framework and the IASB-FASB framework and the statistical bases, we recommend that links to the relevant documents (without IPSASB summarization) be provided in the "Project Development" section of the Introduction to the framework where the IASB framework and statistical bases of financial reporting are referred to.

(iv) Relevance should include "accountability value"

In the Canadian Public Sector Accounting (PSA) Handbook, we define information to be relevant if it has predictive, feedback (i.e., confirmatory) and accountability value. Even though the IPSASB ED states that the objectives of financial reporting are to provide information useful for accountability and decision-making purposes, we still believe that accountability value must also be separately articulated in the description of "relevance" in the

[1] As defined in the IPSASB Conceptual Framework Timetable, CIA means: "consider issues arising from other phases of the project". It is scheduled to occur in June 2012 (Phase 1) and Dec 2012 (Phases 2-4).

qualitative characteristics. The PSA Handbook describes accountability value as follows:

Accountability value

Information that helps users assess a government's stewardship of the resources entrusted to it, including how resources have been applied and consumed in providing services, has accountability value. Information in government financial statements must be presented in a manner that assists in discharging this accountability. To provide accountability value, financial statements should reflect the nature and dimensions of financial position and performance that are characteristic of and appropriate to the unique nature of government. Accountability value is enhanced when financial statements identify the financial objectives and targets normally established by formal process and measure actual achievements against those financial objectives and targets. The accountability value of the information in the financial statements is also enhanced when the financial and non-financial performance information disclosed elsewhere in the Public Accounts, annual report or other report of the government can be related to the information in financial statements.

We ask that the IPSASB give consideration to the inclusion of "accountability value" in the more detailed description of relevance that includes the elaborations on predictive and confirmatory value. We believe accountability value needs to be a specifically articulated check on whether information considered for inclusion in GPFSs and GPFRs should be included in the report. One of the key uses of information in the public sector is for demonstrating accountability. The idea of accountability value currently seems to be subsumed under confirmatory value in paragraph 3.7 and we do not believe that this is appropriate.

(v) Cost-benefit assessment to be made by the IPSASB

Paragraphs 3.39 and BC 3.1 (as well as other paragraphs) indicate that the IPSASB will consider the cost-benefit of standards as they are developed and only include those for which compliance will not cost more than expected benefits realized. We are concerned with the implication that this constraint will only be tested up front in finalizing a standard. The PSA Handbook considers this constraint to apply for standard setters in developing standards and for preparers in considering disclosures beyond that required by GAAP. The relevant paragraph is as follows:

.22 The benefits expected to arise from providing information in financial statements should exceed the cost of doing so. This constraint also applies to the development of accounting standards by the Board. It is also a consideration when preparing financial statements in accordance with those standards (for example, in considering disclosure of information beyond that required by the standards). The Board recognizes that the benefits and costs may accrue to different parties and that the evaluation of the nature and amount of benefits and costs is substantially a judgmental process.

We would ask that the IPSASB explicitly consider broadening the application of the cost-benefit constraint as described above.

We appreciate the opportunity to comment on this Exposure Draft. It is the critical first piece of an international public sector conceptual framework. We are very supportive of your conceptual framework initiative and wish you success in integrating this piece of the framework with the other phases and the key characteristics document.

Please note that these comments are the views of PSAB staff and not those of the Public Sector Accounting Board (PSAB). In addition, the comments made in this response are generally consistent with the existing conceptual framework in the Public Sector Accounting (PSA) Handbook. PSAB has initiated a project to review the concepts underlying financial performance in that framework and may be in a position to share developments in that project with the IPSASB in the future.

Sincerely,



Martha Jones Denning, CA
Principal
Public Sector Accounting

Appendix A
Responses to Specific Matters for Comment

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

Yes – with two provisos.

(i) Paragraph 1.2, last sentence: This sentence states, "*In some cases, an IPSAS may identify circumstances in which the definitions and other concepts in this Conceptual Framework have authoritative status.*" We do not feel that this statement is accurate.

The IPSASs have authoritative status. They will be developed within the boundaries of the new conceptual framework. Thus, except as may be indicated in an individual IPSAS, all IPSASs issued will be consistent with the conceptual framework. Individual IPSASs cannot grant authoritative status to concepts (while other IPSASs may not grant such status?). Rather, the authoritative (standards level) IPSASs will bring to life the concepts and indicate how they apply to particular financial statement items. It would be the IPSASB's prerogative to make an exception at the standards level that conflicts with the conceptual framework.

The IPSASs are GAAP. The concepts in the framework should likely not be part of GAAP but should be used as the basis for developing conceptually sound, theoretically consistent GAAP.

(ii) Paragraphs 1.5 and BC 1.6: What are "operating characteristics of public sector entities"? Are these the same as key characteristics set out in the new ED, *Key Characteristics of the Public Sector*? If they are not, then this phrase needs to be defined as these "operating" characteristics would seem to have a significant impact on the scope of financial reporting. Operating characteristics generally exclude financing characteristics, such as the fact there is no "owner" for many public sector entities in the same sense that there would be for a private sector corporation. So should financing characteristics also be mentioned? If "operating characteristics" are the same as the key characteristics, then these two paragraphs are examples of places where links to this umbrella document might be made. Either clarity or consistency in terminology is required.

2. Do you 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?

Yes – with two provisos.

(i) See Issue (i) on page 1 of this response. The nature of accountability as a financial reporting objective in the public sector and its implications for financial reporting needed to be explored in more detail and given a higher profile in the IPSASB conceptual framework.

(ii) A matrix linking the users' needs set out in paragraphs 2.7-2.13 to how/where they would be met in/by GPFRs would be useful once all of the pieces of the framework are put together.

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

(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?

Yes – we agree.

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

Yes – we agree.

4. Do you 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?

We agree with the basis on which a public sector reporting entity and a public sector group reporting entity are identified – i.e., a key characteristic of a reporting entity is the existence of service recipients and resource providers who are dependent on GPFRs prepared in respect of the entity for the information they need for accountability and decision-making purposes. We like the explicit link to accountability and decision-making purposes in paragraphs 4.2 and 4.3.

We agree with the high level basis upon which an entity should be included in a group reporting entity – i.e., when a public sector entity A has the authority and capacity to direct the activities of

another entity B so as to benefit from the activities of entity B or so as to be exposed to a financial burden or loss as a result of the activities of entity B, then entity B would form part of the group reporting entity of public sector entity A.

However, we do believe that the two principles of directing the activities and benefiting from activities/being exposed to loss from activities of another entity should be articulated as more of a principle in paragraph 4.7. It is only the further articulation of these principles in the basis for conclusions part of the document that makes the intent of the IPSASB clear.

We also agree that specific application of these principles should be done at the standards level.

Appendix B
Detailed PSAB Staff Comments on the Exposure Draft

Paragraph BC 1.1, 2nd sentence

Has a decision been reached that the IPSASB will issue "standards" (IPSASs) for reporting beyond the financial statements? Or will some other form of authoritative pronouncement be issued (e.g., "Recommended Practice Guidelines")? This sentence may have to be updated.

Paragraph BC 1.3, 1st sentence

This paragraph (and paragraph BC 3.2) has implications for the IPSASB GAAP hierarchy, yet it is in a Basis for Conclusions document. The current hierarchy is in IPSAS 3. We suggest that a revised hierarchy that references the new conceptual framework be a separate but companion document to the framework when it is issued by the IPSASB.

Paragraph BC 1.3, 2nd sentence

See Specific Matter for Comment #1 (i) above. Also, since the framework will replace the Roadmap in being the reference for standard setting, then the wording should likely be changed from "may also" to "will also" or "are likely to".

Paragraph BC 1.4

The framework is focused on GPFRs so reference to special purpose financial reports in the framework may be confusing. We suggest that this paragraph be removed. However, if it is retained, a new last sentence should be added to put this paragraph in context as follows:

> However, neither the concepts set out in this Conceptual Framework nor the IPSASs are developed specifically for application to special purpose financial reports.

Paragraph BC 1.7, last sentence under bullets

Consider changing to: "… of the IPSASB will continue to focus primarily on responding ~~respond~~ to users' ….."

Paragraph BC 1.9, 2nd sentence

The meaning of this sentence is not clear.

Appendices 1A and 1B

We are not sure what these two appendices really add. They are factual but require the reader to draw inferences about differences at a high level, with little knowledge. We recommend their deletion even if the other appendices in the document are retained as these two in particular do not seem helpful. To be helpful, they would need to be more comprehensive and as the IPSASB conceptual framework project is not an IFRS convergence project, additional detail is unlikely to be appropriate. It is possible to draw some high level conclusions as to differences between the proposals and the IASB/statistical bases from the appendices to the other sections of the ED so it may make sense to retain the other appendices. However, please see the concern raised in issue (iii) in the covering letter.

Paragraphs 2.13 and 2.16, costs and cost recovery

Cost and cost recovery information can only be provided in GPFSs (and likely also GPFRs) at a summary level. Thus the accountability and decision-making value of such information is not as high as when that information is provided and evaluated at a program level. However, the inclusion of high level cost and cost recovery information in GPFSs (and GPFRs) will in most cases mean that the high level information will be audited. The provision of assurance on the information provided in GPFSs (and GPFRs) adds to its credibility and plays a role in ensuring that the more detailed information included in an entity's accounting system is more accurate and credible too.

There are a few places in the ED, including paragraphs 2.13 and 2.16 where we think the accountability and decision-making value of having high level cost and cost recovery information in GPFSs and GPFRs may be overstated.

Paragraph 3.24, 3rd bullet

Add at the end "for the same reporting period"

Paragraph BC 3.24, last sentence

This seems like a policy statement for the development of standards. Is this stated elsewhere for the ongoing consideration of the IPSASB in setting standards or just in this basis for conclusions part of the ED?

Paragraph BC 3.29

The first bullet point and the first half of the second bullet point are reasons that support why the qualitative characteristics should not be distinguished between "fundamental" and "enhancing". The second half of the second bullet point and the third bullet point are examples of either

the second reason or perhaps a third reason – that qualitative characteristics are interrelated or interdependent.

Based on the above observation, we recommend removing ",for example" at the end of the first paragraph. As the second half of the second bullet point and the third bullet point are examples, they should be clearly identified as such under the related reasons 2 or 3 (if added). It should read:

> In developing the qualitative characteristics the IPSASB considered whether some characteristics should be identified as fundamental and others identified as enhancing. The IPSASB also considered whether the order of application of the characteristics should be identified and/or explained. The IPSASB is of the view that such an approach should not be adopted because~~, for example~~:
>
> - Matters identified as "fundamental" may be perceived to be more important than those identified as "enhancing", even if this distinction is not intended in the case of the qualitative characteristics. As a result, there may be unintended consequences of identifying some qualitative characteristics as fundamental and others as enhancing;
> - All the qualitative characteristics are important. The relative importance of a particular qualitative characteristic in different circumstances is a matter of professional judgment. As such, it is not appropriate to identify certain qualitative characteristics as always being fundamental and others as having only an enhancing or supporting role, or to specify the sequence of their application, no matter what information is being considered for inclusion in GPFRs, and irrespective of the circumstances of the entity and its environment.
> - Qualitative characteristics are interrelated or interdependent. For example: ~~In addition,~~
>   - I~~i~~t is questionable whether information that is not understandable or is provided so long after the event as not to be useful to users for accountability and decision making purposes could be considered as relevant information – therefore, these characteristics are themselves fundamental to the achievement of the objectives of financial reporting~~.; and~~ .
>   - GPFRs of public sector entities may encompass historic and prospective information about financial performance and the achievement of service delivery objectives over a number of reporting periods. This provides necessary input to assessments of trends in service delivery activities and resources committed thereto – for such trend data, reporting on a consistent basis may be as important as, and cannot be separated from, faithful representation of the information.

Paragraph BC 3.33, 2nd sentence

What financial reporting requirements would be imposed by "the operation of this Conceptual Framework"? What does "the operation of this Conceptual Framework" mean?



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1 July 2011

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Dear Ms Fox

IPSASB Conceptual Framework Exposure Draft 1 *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Role, Authority and Scope; Objectives and Users; Qualitative Characteristics; and Reporting Entity*

The Australian Accounting Standards Board (AASB) is pleased to provide its comments on the above named Exposure Draft (ED). In formulating these comments, the AASB considered the views received from Australian constituents.

General Comments

Relationship between the IPSASB and IASB Conceptual Framework projects

The AASB supports the IPSASB's development of a conceptual framework for public sector entities as a high priority project. The AASB considers it important that the IPSASB and IASB Conceptual Frameworks are complementary, where differences (if any) exist only to the extent warranted by differences in circumstances. This would support the development of International Public Sector Accounting Standards and International Financial Reporting Standards that differ (if at all) only where necessary to deal with different economic phenomena or with economic phenomena that are much more pervasive in one sector than the other. This approach is also likely to assist users of general purpose financial reports who read financial reports across all sectors in the economy.

Such an outcome would foster the achievement of transaction neutrality, under which a given transaction or other event is accounted for the same way, regardless of the nature of the entity (whether for-profit or not-for-profit) and the sector in which the entity operates. The AASB considers that transaction neutrality is important for ensuring information reported by any entity is relevant, representationally faithful and comparable.

The AASB encourages the IPSASB and IASB to work together as closely as possible to achieve complementary Conceptual Frameworks and, in the development process, to leverage off each other's work.

In jurisdictions, such as Australia, that have a single Conceptual Framework for all reporting entities, complementary IPSASB and IASB Conceptual Frameworks would greatly assist with incorporating aspects of the IPSASB Conceptual Framework to address public-sector-specific issues.

Due process

The AASB acknowledges that this is a substantial project and that the IPSASB is working towards completion of a final Conceptual Framework in March 2013. However, given the interrelationship of the various phases, it encourages the IPSASB to leave open the possibility of issuing an ED of the full Conceptual Framework once EDs have been issued, and comments thereon reviewed, in respect of all phases of the project.

Specific Comments

The AASB has some concerns regarding the proposals in the ED and recommendations for addressing them. The more significant concerns are set out below and elaborated on in Appendix A.

Scope of general purpose financial reporting

The AASB agrees that the scope of general purpose financial reporting should evolve in response to users' information needs. However, the AASB considers that such evolution needs to be supported by conceptual guidance that helps identify the boundaries of general purpose financial reporting. The AASB does not consider usefulness a sufficient criterion, of itself, for determining which information types should fall within the scope of general purpose financial reporting. If the IPSASB does not define the scope of general purpose financial reporting at this stage, it should at least specify criteria for assessing how the scope of general purpose financial reporting should evolve in response to users' information needs.

Objective(s) of general purpose financial reporting

The AASB agrees that discharging accountability is a key role of general purpose financial reporting by public sector entities, and for reporting entities more broadly. However, the AASB considers accountability can more usefully be viewed as a means of facilitating resource allocation decisions, and therefore does not support identifying accountability as a separate objective. Put another way, members of the legislature and other interested users who commonly use general purpose financial reports of public sector entities are positioned to make decisions on the information presented for accountability purposes. Such decisions may lead to a debate or commentary on a particular government programme and its performance or, alternatively, decisions may lead to users taking no further action in the light of the information presented. The AASB considers such an approach would work well and allow consistent objectives to be adopted by both global standard-setting boards.

In this context, the AASB recommends the IPSASB Conceptual Framework identifies a single objective of general purpose financial reporting, namely, to provide information useful for decision making by users of general purpose financial reports; and, in support of that position:

(a) defines 'accountability' as being encompassed by decision making; and

(b) includes a more comprehensive description of decision making, which should include influencing the reporting entity's resource allocation decisions.

Economic and other phenomena

The AASB considers 'economic phenomena' a broad notion encompassing scarce resources, claims to scarce resources, and inflows and consumptions of scarce resources. The AASB is concerned that the references to phenomena other than economic phenomena in the ED implicitly expand the scope of general purpose financial reporting, and considers that such matters should be dealt with explicitly in the 'scope of general purpose financial reporting' component of the Conceptual Framework. It recommends that, if references to these 'other phenomena' are included in the IPSASB Conceptual Framework, their meaning should also be explained.

Some contend that using 'economic' in relation to all phenomena within general purpose financial reports may cause translation problems. However, the AASB considers that such problems can be avoided by including appropriate explanations and, accordingly, translation issues are not a sufficient reason to incorporate 'other phenomena' in the IPSASB Conceptual Framework.

The AASB's responses to the specific matters for comment in the ED are set out in Appendix A.

Other AASB comments on the ED are set out in Appendix B.

If you have any queries regarding matters in this submission, please contact me or Mischa Ginns (mginns@aasb.gov.au).

Yours sincerely



Kevin Stevenson
Chairman and CEO

APPENDIX A

AASB's comments on the Specific Matters for Comment on the ED

1. Role, authority and scope of the Conceptual Framework

Role and authority of the Conceptual Framework

The AASB generally supports the proposed role and authority of the Conceptual Framework.

The AASB recommends that, as a matter of priority, the IPSASB addresses in IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors* the status of its Conceptual Framework in the hierarchy of authoritative guidance for issues not specifically addressed by IPSASs. The AASB considers the status of the IPSASB Conceptual Framework should be equivalent to that of the IASB Conceptual Framework in IFRSs, including in particular IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. The AASB notes that, presently, paragraph 14 of IPSAS 3 refers to the definitions, recognition and measurement criteria set out in other IPSASs, and paragraph 15 of IPSAS 3 refers to the IASB Conceptual Framework.

Scope of general purpose financial reporting

The AASB agrees that the scope of general purpose financial reporting will evolve in response to users' information needs. However, the AASB considers such evolution needs to be supported by conceptual guidance that helps identify the boundaries of general purpose financial reporting. If the IPSASB does not define the scope of general purpose financial reporting at this stage, it should at least specify criteria for assessing how the scope of general purpose financial reporting should evolve in response to users' information needs. The AASB's reasons for these comments are set out below.

The AASB does not consider usefulness a sufficient criterion for determining which information types should fall within the scope of general purpose financial reporting. It is quite probable that not all useful information belongs within that scope. This point is acknowledged in paragraph BC1.10 of the ED's Basis for Conclusions on Chapter 1. Consistent with this point, the AASB's submission on the IPSASB Consultation Paper *Reporting on the Long-Term Sustainability of Public Finances* expresses a view that information about the long-term affordability of a government's policies may be useful for decision making by users of the government's financial reports but would not be suitable for general purpose financial reporting.

Therefore, the AASB considers it unclear which types of useful information the ED would conclude belong within the scope of general purpose financial reporting and which types of useful information fall outside the scope of general purpose financial reporting. It encourages the IPSASB to define the scope of general purpose financial reporting in its Conceptual Framework to help resolve this issue.

Applicability of the IPSASB Conceptual Framework to government business enterprises

The AASB recommends clarifying the statement in paragraph 1.8 of the ED that the IPSASB Conceptual Framework applies to public sector entities other than government business enterprises (GBEs). Given the role of the IPSASB Conceptual Framework for the development of IPSASs, the AASB considers it important to define GBEs, explain the nature of GBEs and the IPSASB's reasons for excluding them from its Conceptual Framework. This explanation should include an articulation of whether GBEs necessarily are for-profit entities and, if not:

(a) the circumstances in which they would be not-for-profit entities; and

(b) why the IPSASB Conceptual Framework should not apply to those not-for-profit entities.

The AASB's view is that all public sector not-for-profit entities should fall within the scope of IPSASs and the IPSASB Conceptual Framework.

The AASB considers it important to clarify in paragraph 1.8 that, whilst general purpose financial reports of for-profit GBEs as separate reporting entities are not within the scope of the IPSASB Conceptual Framework, information about for-profit GBEs included in the general purpose financial reports of governments and other not-for-profit public sector entities is within the scope of the IPSASB Conceptual Framework. The present wording of paragraph 1.8 has caused some confusion in Australia, as noted in submissions to the IPSASB from some Australian commentators on the ED.

Subject to the comments above about any not-for-profit GBEs, the AASB recommends reiterating in the IPSASB Conceptual Framework that GBEs apply IFRSs. The AASB considers it equally important to say this in the IPSASB Conceptual Framework as it is to say it in the *Preface to IPSASs* and in the scope section of individual IPSASs.

2. Objective(s) of general purpose financial reporting by public sector entities and the primary users of general purpose financial reports of public sector entities and their information needs

Objective(s) of general purpose financial reporting

The AASB agrees that discharging accountability is a key role of general purpose financial reporting by public sector entities, and for reporting entities more broadly, and notes that accountability is therefore regarded by many IPSASB constituents as an objective of general purpose financial reporting. However, the AASB considers that accountability can more usefully be viewed as a means of facilitating resource allocation decisions, and therefore does not support identifying accountability as a separate objective. Put another way, members of the legislature and other interested users who commonly use general purpose financial reports of public sector entities are positioned to make decisions on the information presented for accountability purposes. Such decisions may lead to a debate or commentary on a particular government programme and its performance or, alternatively, decisions may lead to users taking no further action in the light of the information

presented. The AASB considers such an approach would work well and allow consistent objectives to be adopted by both global standard-setting boards.

In this context, the AASB recommends that the IPSASB Conceptual Framework identifies a single objective of general purpose financial reporting, namely, to provide information useful for decision making by users of general purpose financial reports. This would help with identifying the financial information needs of users that general purpose financial reports should strive to meet and that Standards should be developed to require. The AASB does not support identifying accountability as a separate objective because:

(a) the information identified in the ED as useful to meet an accountability objective is indistinguishable from the information that is useful for decision making. Therefore, it is unclear how identifying accountability as an objective would affect the remainder of the IPSASB Conceptual Framework or help the IPSASB identify information that should be required by IPSASs, in ways that identifying resource allocation decisions as an objective would not;

(b) accountability is subsumed in the decision making objective and should be explicitly acknowledged as such (see recommendation below). In that way, accountability can be given sufficient acknowledgement in the IPSASB Conceptual Framework without identifying it as a separate objective; and

(c) accountability is an imprecise notion. Therefore, if it were identified as a separate objective, it could unintentionally open up general purpose financial reporting to providing all kinds of information, such as social responsibility reporting. Whilst the AASB acknowledges the interrelationship between objective(s) and scope, the intended scope of general purpose financial reporting should be addressed directly rather than defining it inadvertently through articulation of the objective.

Accordingly, the AASB recommends that the IPSASB Conceptual Framework:

(a) explicitly includes accountability within a decision making objective by defining 'accountability' as "the responsibility to provide information enabling users to make informed judgements about the reporting entity's performance, financial position and compliance for the purpose of making and evaluating decisions about the allocation of scarce resources". These would include judgements about whether that entity's management has made efficient and effective use of the entity's resources; and

(b) explains that users' decisions about the allocation of scarce resources include their decisions about influencing (or attempting to influence) decision making by the reporting entity's management or governing body regarding the allocation of that entity's scarce resources, for example, by voting or lobbying. [In this regard, the AASB notes that the ED identifies voting and lobbying decisions as examples of decision making.]

The AASB notes that some argue decision making would be an inadequate over-arching objective in the absence of investors in the reporting entity or democratic processes in the reporting entity's jurisdiction. The AASB disagrees with that view, which presumes

decision making is limited to investment or voting decisions. For example, regardless of whether users have voting rights, they will make decisions about resource allocations involving governments and their component entities; for example, whether to lend to them, do business with them, be employed by them, or to attempt to influence decision making by the reporting entity's governing body by formally or informally lobbying—or even publicly agitating—for changes in resource allocation decisions they make.

In relation to the foregoing discussion of accountability and decision making, the AASB considers the ED's guidance on decision making should be enhanced in two respects:

(a) it should provide a more comprehensive description of decision making. Although the ED's guidance usefully identifies voting and lobbying decisions as examples of decision making, it does not specifically describe 'decision making'. The AASB recommends elaborating on the nature or types of decisions encompassed by the references to 'decision making'; and

(b) in meeting (a), the discussion of decision making should refer to 'evaluating past decisions'. Information useful for such evaluations would possess confirmatory value. Including this guidance would strengthen the link between decision making and accountability. This could help address concerns that some users, such as recipients of services, do not make decisions about allocating resources to the entity. Even if a user of a general purpose financial report takes no action as a result of evaluating past decisions, this reflects the user's decision not to act.

Primary users

In the absence of the IASB's revised Conceptual Framework having identified 'primary' users of general purpose financial reports, the AASB would not support the proposed identification of 'primary' users of general purpose financial reports in the IPSASB Conceptual Framework. In respect of both the IASB and IPSASB Conceptual Frameworks, the AASB is concerned that, although it is useful to consider categories of users to help identify users' common information needs, identifying 'primary' users may inappropriately imply the needs of some users should be disregarded.

Nevertheless, the AASB considers there is no apparent public-sector-specific reason for the IPSASB's Conceptual Framework to differ from the revised IASB Conceptual Framework on this issue. This is particularly so given the benefits of complementary Conceptual Frameworks for the IPSASB and IASB. Consistent with its view outlined in the covering letter, the AASB considers differences from the IASB Conceptual Framework should only occur when there is a public-sector-specific reason for them. Accordingly, on balance, the AASB supports identifying 'primary' users.

The AASB recommends that, if the IPSASB were to retain its proposal to identify 'primary' users, such users should include, among others, all parties performing a review or oversight function on behalf of other users. The AASB considers it inconsistent to identify as primary users parties performing a representative (review or oversight) function on behalf of other primary users, but only when they are legislators/parliamentarians.

3. Qualitative characteristics of, and constraints on, information included in general purpose financial reports of public sector entities

Faithful representation

The AASB supports using faithful representation instead of reliability as a qualitative characteristic. Consistent with its view outlined in the covering letter, the AASB supports the use of terminology that is consistent with the IASB Conceptual Framework because, in this case, there is not a public sector specific reason for the IPSASB's Conceptual Framework to differ from the revised IASB Conceptual Framework.

Economic and other phenomena

The AASB considers 'economic phenomena' a broad notion encompassing scarce resources, claims to scarce resources, and inflows and consumptions of scarce resources. It would also include phenomena external to the entity that may be assessed in relation to scarce resources and changes therein. This notion would therefore include information such as output information. Therefore, the AASB considers 'economic phenomena' a sufficiently broad notion, rooted in the fundamental economic concept of the allocation of scarce resources, to encompass all of the matters properly regarded as the subject matter of general purpose financial reports. It holds this view in respect of any reporting entity, regardless of its nature or the sector in which it operates.

The AASB is concerned that the references to phenomena other than economic phenomena in the ED implicitly expand the scope of general purpose financial reporting, and considers such matters should be dealt with explicitly in the 'scope of general purpose financial reporting' component of the Conceptual Framework. The AASB is also concerned that references to other phenomena open the door to reporting items, such as deferrals, that do not represent phenomena with a dimension that is external to the entity. The ED does not explain the meaning of such other phenomena, and if retained, the IPSASB should explain its reference to providing information about phenomena other than 'economic phenomena'.

Some contend that using 'economic' causes translation problems (for example, that it is limited to market exchanges) and therefore 'economic phenomena' is too narrow a notion to describe the subject matter of general purpose financial reports. However, this problem could readily be overcome by including a definition of 'economic' that removes the potential for unintended interpretations. Economics is concerned with the allocation of scarce resources, and does not imply or require market exchanges. Its meaning has been comprehended universally in the discipline of economics, and there seems no reason why its meaning could not be comprehended in the discipline of general purpose financial reporting.

Materiality

The AASB does not support treating materiality as a constraint on reporting useful information in general purpose financial reports. Consistent with the IASB's revised Conceptual Framework, the AASB considers materiality to be an entity-specific aspect of relevance. This is because, unlike cost, materiality is not a constraint on a reporting entity's ability to report information; and materiality does not affect standard setters' decisions because it is an entity-specific consideration.

The AASB does not support the IPSASB's reasoning for treating materiality as a constraint set out in paragraph BC3.32 of the ED's Basis for Conclusions. The AASB considers that, if an item of information is irrelevant, meeting the other qualitative characteristics does not make it useful.

'Fundamental' and 'enhancing' qualitative characteristics

The AASB notes the ED does not replicate the revised IASB Conceptual Framework's dichotomy between 'fundamental' and 'enhancing' qualitative characteristics. Although the AASB has concerns, in principle, with that dichotomy adopted by the IASB, it considers there is no apparent public-sector-specific reason for the IPSASB's Conceptual Framework to differ from the revised IASB Conceptual Framework on this issue. This is particularly so given the benefits of complementary Conceptual Frameworks for the IPSASB and IASB. Consistent with its view outlined in the covering letter, the AASB considers that differences from the IASB Conceptual Framework should only occur when there is a public sector specific reason for them.

4. The Reporting Entity and Group Reporting Entity

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 AASB supports the IPSASB's intention to identify the boundaries for determining those entities that should prepare general purpose financial reports and identify the circumstances in which consolidated financial statements should be prepared. However, it considers that, in the public sector, there is likely to be a need for criteria to identify which entities should, in concept, be required to prepare general purpose financial reports. For example, it may be debatable whether government departments should prepare separate general purpose financial reports. It is more difficult than in the private sector to identify which entities that are components of entities preparing general purpose financial reports should also prepare general purpose financial reports. The AASB therefore suggests including guidance for identifying the characteristics of entities with users dependent on their general purpose financial reports for decision making, and that should therefore prepare general purpose financial reports. The focus of the guidance could, in effect, be on identifying which public sector entities need not prepare general purpose financial reports.

The AASB considers the proposed boundaries of a group reporting entity are in principle consistent with the notion of control adopted by standard-setters in various jurisdictions and recommends explicitly acknowledging this in the IPSASB Conceptual Framework. Although the AASB acknowledges the reasons for the IPSASB's approach that focuses on the components of group reporting entity relationships without referring to 'control', it considers the arguments for referring to 'control' are stronger. The arguments include that IPSASs are developed with reference to IFRSs and are applied or referred to by many parties who are strongly conversant with IFRSs. Therefore, it is important not to create the appearance of substantive differences from IFRSs where none exists.

The AASB is concerned that paragraph BC4.21 of the ED's Basis for Conclusions implies the concept of a group reporting entity is incomplete. This is because it says that whether applying the proposed boundaries of a group reporting entity will provide useful

information in various circumstances will need to be considered in developing authoritative requirements in each jurisdiction.

APPENDIX B

Other AASB Comments on the ED

Paragraphs	Comment
1.6	Footnote 2 on page 11 of the ED clarifies that information about "anticipated future service delivery activities and resource needs" need not be provided in every general purpose financial report. The AASB supports that position. However, paragraph 2.14 (second sentence, particularly third bullet point) says general purpose financial reports will need to provide information about such matters and paragraph 2.23 gives a similar impression. It would seem best if the IPSASB Conceptual Framework were to say such information is included within the scope of general purpose financial reporting in view of its usefulness, but that a broad scope is not intended to indicate each general purpose financial report should provide this information.
2.12	The first sentence of each bullet point in paragraph 2.12 refers to an "exchange transaction". The AASB notes that this term is not defined in the ED and presumes that, at a conceptual level, the distinction between exchange and non-exchange transactions is important, without explaining that presumption. The AASB considers that the issue of whether to distinguish exchange and non-exchange transactions is a standards-level issue only, and that the terms 'exchange' and 'non-exchange' should not (and need not) be used in the IPSASB Conceptual Framework. Accordingly, in the above-mentioned sentences, the AASB recommends using a generic description of the transaction, such as "a transaction in which the parties directly exchange approximately equal value". The AASB's recommendation above is consistent with its comments on references to 'exchange transactions' and 'non-exchange transactions' in its submission on the IPSASB's Conceptual Framework CP on Elements and Recognition. This issue is given greater prominence in that submission because references to those terms are much more pervasive in that CP.
2.24 and 2.25	The AASB considers paragraphs 2.24 – 2.25 imply that narrative reports would only include information about financial and service delivery performance. This could unintentionally narrow the scope of the information that should be included in a narrative report. The AASB suggests amending the wording and including some examples of other information that may be included in a narrative report, such as information about risks, resources, objectives, strategies, relationships and nature of business/activities.
3.40	The AASB suggests replacing "relevant" with "useful" in the last sentence. Under the present wording, timeliness and understandability are components of relevance, although Chapter 3 identifies them as qualitative characteristics in their own right (see paragraph BC3.7, third sentence).

Paragraphs	Comment
4.8	The second sentence implies services delivered are not financial benefits. The AASB disagrees with that implication, and therefore suggests replacing "financial" in the second line of the first sentence with "in the form of cash flows".
BC4.14	This paragraph essentially repeats the proposal in Chapter 4 regarding the boundaries of a group reporting entity, and therefore is not a basis for a conclusion. The AASB suggests providing the basis for concluding that these boundaries are necessary to satisfy the objective(s) of general purpose financial reporting.

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Référence : 2011/06/2748

Paris, le 10 juin 2011

Ms Stephenie FOX
Technical director
International Public Sector Accounting Standards Board
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Ontario M5V 3H2 CANADA

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

Dear Ms Fox,

I am writing on behalf of the French "Direction Générale des Finances Publiques" to comment on the IPSASB Exposure Draft "Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Role, Authority and Scope; Objectives and Users; Qualitative Characteristics; and Reporting Entity" ('the ED').

We welcome the decision of the Board to issue a consultation on the elaboration of a conceptual framework for public sector entities.

Le directeur,
adjoint au directeur général des finances publiques

Vincent MAZAURIC

MINISTÈRE DU BUDGET
DES COMPTES PUBLICS
DE LA FONCTION PUBLIQUE
ET DE LA RÉFORME DE L'ÉTAT

French original version of our response to the ED "Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Role, Authority and Scope; Objectives and Users; Qualitative Characteristics; and Reporting Entity"

Nous vous prions de bien vouloir trouver ci-après la réponse de la Direction générale des Finances publiques (DGFiP) sur l'exposé sondage susmentionné.

1. Le rôle, l'autorité et le champ d'application du cadre conceptuel :

- *Rôle du cadre conceptuel :*

La DGFiP se félicite de la démarche entreprise par l'IPSAS Board qui soumet à consultation un projet de cadre conceptuel comptable à la lumière duquel la lecture et l'interprétation des normes internationales applicables aux entités du secteur public seront facilitées.

Comme le présente à juste titre l'ED dont il est question ici, le cadre conceptuel aura pour ambition de présenter les concepts fondateurs de l'information financière et comptable pour les entités du secteur public appliquant le système de la comptabilité d'exercice.

- *Autorité du cadre conceptuel :*

Les dispositions de l'ED traitant de l'autorité du cadre conceptuel, selon lesquelles celui-ci constitue un exposé de principes non obligatoires permettant de guider les préparateurs des états financiers, n'appellent pas de commentaire de la part de la DGFiP. Si le cadre conceptuel ne se substitue pas aux normes IPSAS, il pourra permettre, dans certains cas, d'en préciser le sens.

- *Champ d'application du cadre conceptuel :*

Selon les termes de l'ED, les rapports financiers à usage général incluent les états financiers auxquels peuvent être ajoutées des informations sur le passé, la situation présente ou le futur susceptibles d'éclairer leur lecteur.

Nous reconnaissons que l'ajout d'éléments d'analyse, d'informations prospectives ou de soutenabilité revêt un intérêt réel pour le lecteur des comptes. Cependant, **nous considérons que le cadre conceptuel doit avoir une vocation strictement comptable et ne saurait s'appliquer qu'aux seuls états financiers (bilan, compte de résultat et notes annexes) des entités du secteur public**, les autres éléments d'information devant, à notre sens, demeurer de la compétence normative des États.

Par ailleurs, la DGFiP ne s'oppose pas à ce que le cadre conceptuel puisse s'adresser à un large panel d'entités publiques (Etats, collectivités locales, établissements publics, organismes de sécurité sociale, etc.), comme le prévoit l'ED.

2. Les objectifs de l'information financière des entités du secteur public, les utilisateurs premiers de l'information financière ainsi que leurs besoins d'information :

- *Les objectifs de l'information financière :*

Nous approuvons les objectifs assignés par l'ED au reporting financier dans le secteur public, qui consistent à fournir une information utile aux utilisateurs leur permettant d'évaluer la manière dont l'entité publique exécute sa mission et de prendre des décisions de façon éclairée. Il nous paraît effectivement pertinent que ce soit les besoins des lecteurs des comptes qui déterminent les objectifs du reporting financier.

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

La DGFiP se félicite de la définition des utilisateurs de l'information financière retenue par l'ED, qui a été enrichie par rapport au document de consultation de 2008 avec l'introduction de la notion d' « utilisateurs premiers » plutôt que d' « utilisateurs potentiels ».

L'ED prévoit que les utilisateurs premiers de l'information financière sont les bénéficiaires des services fournis par l'entité publique, les contributeurs financiers ainsi que leurs représentants respectifs. En effet, l'importance des usagers des services publics est également déterminante. A ce titre, la loi organique relative aux lois de finances veut que les objectifs des missions et programmes de l'État français soient déterminés en fonction des usagers, citoyens et contribuables.

Au delà des catégories prévues par l'ED fondées sur le rapport bénéficiaires / contributeurs des services publics, la DGFiP considère qu'une place plus importante pourrait être attribuée aux citoyens, et naturellement au Parlement qui les représente. Certes, la Déclaration des droits de l'homme et du citoyen prévoit que les contribuables, principaux contributeurs financiers des Etats, se voient rendre des comptes par l'administration sur l'usage des deniers publics (article 14 : « *Tous les citoyens ont le droit de constater, par eux-mêmes ou par leurs représentants, la nécessité de la contribution publique, de la consentir librement, d'en suivre l'emploi et d'en déterminer la quotité, l'assiette, le recouvrement et la durée* »). Or, le citoyen peut ne pas constituer directement un bénéficiaire ou un financeur des entités publiques (cas d'un citoyen vivant hors de sa patrie), l'information financière pouvant toutefois lui être utile au moment d'effectuer des choix politiques. Cette catégorie d'utilisateurs premiers pourrait être ajoutée aux deux catégories prévues par l'ED, sans qu'une hiérarchie entre ceux-ci ne nous semble devoir être introduite.

3. Les caractéristiques qualitatives et les contraintes de l'information financière, et notamment :

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

L'expression « image honnête » ne nous semble pas devoir être préférée à celle de « fiabilité » ou d' « image fidèle » 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. En effet, la DGFiP considère que privilégier « l'image honnête » marque un affaiblissement de l'exigence de sincérité des états financiers et souhaite conserver « l'image fidèle » en tant que caractéristique qualitative des états financiers. En effet, ce dernier concept constitue un objectif plus élevé qui, même s'il est difficilement atteignable, doit absolument être recherché.

En France, cette recherche de fiabilité des états financiers est consacrée par la Constitution dont l'article 47-2 dispose que *«(..) les comptes des administrations publiques sont réguliers et sincères. Ils donnent une image fidèle du résultat de leur gestion, de leur patrimoine et de leur situation financière. »*

Concernant les autres caractéristiques qualitatives énumérées par l'ED, la DGFiP est satisfaite du choix et de la place accordée aux qualités de pertinence, vérifiabilité, intelligibilité et de diffusion en temps opportun.

L'objectif de comparabilité, et l'homogénéité des référentiels dans le temps que celui-ci implique, nous semblent cependant devoir être précisés. En effet, la recherche de stabilité du traitement comptable afin de pouvoir comparer un exercice avec un autre ne doit pas aboutir à exclure les changements de méthode.

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

L'ED énumère trois contraintes pesant sur les états financiers : le rapport coût / avantage, l'équilibre entre les différentes caractéristiques qualitatives ainsi que la significativité.

Comme le propose l'ED qui en fait un point de réflexion spécifique (b), nous convenons de l'intérêt d'introduire cette dernière obligation parmi les contraintes devant peser sur les états financiers. Il apparaît en effet indispensable qu'une information dont la nature ou l'enjeu financier revêt une importance particulière soit fournie aux lecteurs des 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 de reporting :

- *Les critères d'identification d'une entité du secteur public :*

D'après l'ED, l'élaboration des états financiers peut se faire au niveau du gouvernement, d'unités administratives, d'activités identifiées, etc. Elles peuvent être dotées de personnalité morale indépendante ou non.

La rédaction de l'ED concernant la question des entités présentant les états financiers (« *reporting entities* ») nous satisfait. Nous jugeons en effet pertinent de laisser à la loi ou aux autorités administratives des États le soin de déterminer le périmètre des entités tenues d'élaborer les états financiers. Il nous apparaît également utile de laisser aux entités publiques la possibilité de présenter de tels états financiers de manière spontanée.

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

Le cadre conceptuel prévoit la possibilité de présenter un reporting financier par groupe d'entités (« *group reporting entity* »). De tels groupes d'entités peuvent comprendre le gouvernement, des autorités statutaires, des entreprises publiques et d'autres entités à partir du moment où celles-ci peuvent générer des profits, des pertes ou créer des engagements financiers pour le groupe.

Cette formulation nous convient car elle permet à un grand nombre d'États de s'y référer. Selon les termes de l'ED, le cadre conceptuel ne vise pas à définir les méthodes d'un tel reporting de groupe qui seraient définies par les autorités législatives et de régulation nationales.

English version of our response to the ED

You will find below our detailed response to the ED.

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

- *Role of the Conceptual Framework :*

The DGFiP supports the decision of the IPSAS Board to issue a consultation on the Conceptual Framework that will make understanding and interpreting international accounting standards easier for public sector entities.

As stated in the ED, the purpose of the Conceptual Framework is to set out concepts for financial and accounting information to the public sector entities which apply accrual accounting.

- *Authority of the Conceptual Framework :*

The ED states that the Conceptual Framework is a collection of non obligatory principles that will guide prepares of financial statements. The DGFiP agrees with this approach. The Conceptual Framework should not replace the International Public Sector Accounting Standards, although sometimes it shall clarify their meaning.

- *Scope of the Conceptual Framework :*

According to the ED, general purpose financial reports (GPFRs) include not only financial statements but also additional information about past, present or future events that may enlighten the user of the financial statements.

We admit that adding elements of analysis, prospective information or information on sustainability may be very useful to the user of financial statements. However, **we consider that the Conceptual Framework should only address accounting matters, therefor it should only apply to financial statements (that is to say the balance sheet, the income statement and the notes to the financial statements) of public sector entities**. To our opinion, additional information should remain subject to national laws.

Moreover, the DGFiP agrees with the Conceptual Framework applying to a large variety of public sector entities (national, state/provincial and local governments, agencies, public sector social security funds, etc.), as it is stated in the ED.

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

- *Objectives of financial reporting :*

We approve the objectives assigned by the ED to financial reporting in the public sector, which are to provide useful information to the users that enable them to assess the performance of the entity and to make decision in an enlightened way. Determining the objectives of financial reporting in reference to the needs of the users of financial reporting seems relevant to us.

- *The users and their information needs :*

The DGFiP is pleased with the definition of the users of financial information stated by the ED which has positively evolved since the consultation paper issued in 2008 and which now discloses the notion of "primary users", instead of "potential users".

The ED states that financial reporting primary users are service recipients and resource providers and their respective representatives. Indeed, the utmost importance of the users of services provided by public sector entities is sanctified by the Constitutional By-law on Budget Acts which sets out the objectives assigned to the missions and programs of the French central government by reference to users, citizens and taxpayers.

Besides the categories of service recipients and resource providers set out by the ED, the DGFiP considers that more emphasis should be put on citizens, and, as a consequence, on the Parliament as their representatives. Indeed, the Declaration of the Rights of Man and of the Citizen sets out that the administration should account to taxpayers, who are the main resource providers of central governments, for the public funds spent (article 14: "*All the citizens have a right to decide, either personally or by their representatives, as to the necessity of the public contribution; to grant this freely; to know to what uses it is put; and to fix the proportion, the mode of assessment and of collection and the duration of the taxes*"). Sometimes the citizen might not be a service recipient or a resource provider of the public entity (example: a citizen who live outside his country), though financial information may be useful to him when he has to make political choices. This category of primary users should be added to the two categories provided for by the ED. No hierarchy of primary users of the financial statements should be introduced.

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;

In our opinion, "faithful representation" should not be used rather than "reliability" or "true and fair view" 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. Actually, the DGFiP considers that adopting "faithful representation" seems to imply a weakening of the requirement for sincerity of financial statements. As a consequence, we wish to keep "true and fair view" as a qualitative characteristic of financial statements. "True and fair view" represents a more demanding objective that has to be pursued, even though it may be difficult to achieve.

In France, this demand for reliability of financial statements is sanctified by the Constitution whose article 47-2 states that: "*financial statements of public sector entities are correct and sincere. They present a true and fair view of their income, their assets and their financial situation".*

Regarding the other qualitative characteristics listed by the ED, the DGFiP is pleased with the choice and the position attached to the characteristics of relevance, verifiability, understandability and timeliness.

We think that the characteristic of comparability, which demands homogeneous standards over time, should be clarified. In our opinion, the demand for stable accounting methods in order to compare financial statements from period to period should not lead to prohibit changes in accounting methods.

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

As stated in the ED, financial statements abide by three constraints: the cost-benefit ratio, the balance between the different qualitative characteristics and materiality.

We agree with the specific item set out by the ED that materiality should be introduced as one of the constraints put on financial statements. Indeed, a piece of information with a very specific nature or associated to high financial stakes should necessarily be released to the readers of financial statements.

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 basis on which a public sector reporting entity is identified :*

As stated in the ED, central governments, public sector organisations, programs or identifiable activities may prepare financial statements. These entities may have a separate identity or standing in law, or not.

We agree with what the ED sets out in terms of reporting entities. We think it is relevant to allow legislation, regulation or other national authority defining which entities are required to present financial statements. To us, allowing public sector entities to present such statements in a spontaneous way is also relevant.

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

The Conceptual Framework sets out the possibility of group reporting entities. Such groups of entities may gather central government, statutory authorities, public corporations and other entities as long as they can benefit the group and/or expose them to a financial burden or loss.

We approve this wording which enables a large number of central governments to refer to the IPSAS. As stated in the ED, the purpose of the Conceptual Framework is not to define the methods used by a group reporting entity which are to be set by national legislation or regulation.

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PSAB CCSP
Public Sector Accounting Board
Conseil sur la comptabilité dans le secteur public

June 10, 2011

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

Re: PSAB Board Comments on 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"**

Thank you for the opportunity to provide input on the proposals in this Exposure Draft (CF-ED1). The PSAB Board received all of the IPSASB conceptual framework documents for comment issued in December 2010 and had a high level discussion of their contents at its March 2011 meeting. The Board is not in a position to comment on all aspects of those documents as its own conceptual framework project is in its preliminary stages. However, PSAB members feel that it is crucial that the nature of accountability as the primary driver for financial reporting in the public sector be further developed and emphasized in the IPSASB conceptual framework.

The case for accountability as an overriding objective for public sector financial reporting must be made and it must be made strongly. Accountability must be described, its importance explained and supported and its implications for public sector financial reporting set out for scrutiny. The text of CF-ED1 does not do this now. Yet the inclusion of compelling text on accountability is fundamental to crafting a conceptual framework that is tailored to the needs of the users of public sector financial reports. A similar weakness downplays accountability in the current Canadian framework and it will be addressed in PSAB's current project, *Concepts Underlying Financial Performance*.

Accountability is greater than stewardship. Accountability is the obligation of a public sector entity to account for its activities, accept responsibility for them, and to disclose the results in a transparent

manner. It also includes the responsibility for and stewardship of, public money and other entrusted public resources.

The nature of accountability as a financial reporting objective in the public sector and its implications for financial reporting needed to be explored in more detail and given a higher profile in the IPSASB conceptual framework.

The Board is very supportive of the IPSASB conceptual framework initiative and we appreciate the opportunity to provide input.

Sincerely,



Nigel Bellchamber
Chair
Public Sector Accounting Board

Cc: Members of the Public Sector Accounting Board
Past Chair, Public Sector Accounting Board

Advisory Committee for the Standardisation of Public Accounts

The Chairman

Paris, le 15 june 2011

Purpose: response from the French Court of Auditors to the exposure draft and consultation documents from the IPSAS Board relative to phases I, II and III of the conceptual framework.

The present document is the response from the French Court of Auditors and all French jurisdictions to the exposure draft and consultation documents from the IPSAS Board relative to phases I, II and III of the conceptual framework.

Composed of members of the Court of Auditors and of regional and local chambers of auditors, the advisory committee of financial jurisdictions for the standardisation of public accounts is drafting the opinions of the latter over questions of accounting standardisation relative to three areas of public sector administration (the State, Regional and Local Government, and Social Security). The committee is preparing the positions that will be held by the representatives of financial jurisdictions on the various standardisation boards.

Financial jurisdictions have read with great interest the consultation documents proposed by the IPSAS Board, which raise key questions over the goals and content of financial statements from public-sector bodies.

As for the key question of choice of accounting model, we are not in favour of giving preference to the flow model as opposed to the balance-sheet model in the public sector. Neither are we in favour of a highly extensive view of the balance-sheet model, which could, for example, result in the accounting of liabilities prior to the advent of a legal obligation.

Rather than oppose two "pure" models, which may seen sterile in some respects, the principle of coherence must prevail: flows and heritage are two important aspects of financial information for public sector bodies, as is sustainability. A "mixed" model that reconciles all these requirements should be sought. The keystone lies with the presentation, in the balance sheet, of all rights and obligations, with all financial statements ensuring high consistency

between variations in the amount of rights and obligations and the expenses and income given in the income statement.

The replies to the three consultation documents from the IPSAS Board that are forwarding to you are compatible with this said "mixed" model.

Christian BABUSIAUX

Response to the exposure draft from the IPSAS Board

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

I. *"Role, Authority and Scope of the Conceptual Framework"*

I.A *"Authority of the Conceptual Framework"* (par. 1.2 & BC1.1 to BC 1.3)

The understanding is that the authority of the conceptual framework is no greater than that of IPSAS standards, but is seen on the one hand as an aid to draft these standards, and on the other as a guide for persons preparing accounts when no specific standard is available for treating a particular item as and when financial statements are drawn up. Additionally, a review of existing standards will be made after the adoption of the present framework to eliminate potential sticking points.

In principle, the French Court of Auditors has no objection but would like to recall its stance on the previous project (see letter of 31 March, 2009). Taking as an example the conceptual framework of accounting standards for the French State (if, exceptionally, the application of a rule proves improper and does not give a true image, exemption shall be made to the rule and the said exemption must be mentioned and explained in the appendix along with its effect on accounts), the Court felt that general principles should be placed above standards and that this should be clearly stated in the conceptual framework. The Court stands by this position.

I.B *"Scope of Financial Reporting"* (par.1.5 to 1.7 and BC 1.5 to 1.9)

The scope of the project is to consider that the framework of *"General Purpose Financial Reporting by Public Sectors Entities"(GPFR)* should be broader than financial statements in the strict sense of the term (including appendix notes), even though the said statements will always be the core of financial information. According to the draft, they may comprise information about the past, present and future, deemed to be useful for users and including information that is financial or non-financial, quantitative or qualitative, etc.

Concerning this, in principle, broad perimeter, the French Court of Auditors has no objection in essence, as it willingly agrees that financial information clearly extends beyond accounting statements, a stance supported by the situation in France today (budget execution, performance reports, forward stability programme in the frame of the EU…).

Nevertheless, it feels that any new move forward by the IPSAS Board in this field cannot be placed on the same level as accounting standards. In this respect, it seeks elucidation as to paragraph 1.7, second sentence and BC.1.8: it must be stated clearly that sections 2 and 3 of the conceptual framework (*definition, recognition and measurement*) and in the future section 4 covering the presentation of reporting statements, are relevant only for the drawing up of

standards governing actual financial statements, and that the drafting of new ways forward for the rest (e.g.: sustainability reports) will come under a different rationale. The last sentence of paragraph 3.5 mentioned further on must be clarified in this respect.

I.C *"Applicability of the Conceptual Framework" (§ 1.8 and BC 1.10)*

The proposed wide field poses no problem to the French Court of Auditors: it relates to public sector entities, excluding public-area companies in the competitive sector (GBEs). It should be specified that in France, the basic social security systems (in the sense of community legislation) come under the public sector: even if run by entities with a different status, they are governed by the annual vote for the law financing social security.

No conclusions should be drawn from this paragraph concerning the drawing up of consolidated accounts (see further on).

II. *"Objectives of Financial reporting and Users of General Purpose Financial Reports"*

II.A *"Users of General Purpose Financial Reports"* (§ 2.4, 2.5, BC 2.4, BC 2.7)

The understanding is that, for the IPSAS Board, the prime users of financial information are the beneficiaries of services and the bringers of resources and their representatives that may be Parliaments or deliberating assemblies (2.4 and BC 2.4). If citizens are recognised as prime users of financial statements, it is because they are suppliers of resources and beneficiaries of services (2.5), but there are others.

This approach is acceptable only with several reservations:

- the conceptual framework cannot ignore reality: in a democratic State, where governing officials are required to report to citizens or to their representatives, national rules (or rules of the European Union) always comprise obligations in this respect for different public entities, even though they may take different forms: consequently, the first sentence of § 2.4, *"...who do not possess the authority to require a public sector entity to disclose the information they need for accountability and decision-making purposes"* makes no sense. Financial information for general purposes may of course by complemented for more specific needs (2.6) but it is not a category in its own right. As a general rule, it will be included in documents due to the representatives of tax-paying citizens/beneficiaries of services (State, local government) or to representatives of public contributors (public establishments, social security organisations);

- it is therefore a moot point – putting it mildly – to imply that parliaments (or other deliberating assemblies) should have special needs for financial information that might lead to their requesting special statements (BC2.8). When you opt for an approach to GPFR as broad as the present draft exposure, you cannot then leave people thinking that it might, by nature, be inadequate;

- the bottom line is that under these conditions, GPFR must be for both citizen/tax-payers/service beneficiaries and their legitimate representatives, giving information that may be diverse in nature but always consistent in itself. In this respect, we may consider that actual financial statements, prepared according to observed lawful accounting principles (and subjected to an obligation of certification by the competent national institution) may or should be complemented by receipt/expense budget execution statements, giving simple information about the year's budget balance, by performance reports or the equivalent thereof of more specific interest to such and such a category of citizen, and even by documents of sustainability. These statements must be usable by other persons, such as lenders, for example, and also by public contributors when dealing with statements from public organisations of all types. Lastly, they must be consistent with the State's national accounts;

- this principle of general consistency should be clearly asserted under 2.4 and BC 2.4 and in the conclusion after 2.13. It implies very exacting standards regarding actual financial statements and all supplemental documents.

II.B *"Information Provided by General Purpose Financial Reports"*

For paragraphs 2.19 and 2.20 (information re budget execution), 2.21 (*service delivery achievements*) 2.22 and 2.23 (prospective information), the Court of Auditors refers back to what was said under I.B and also to the above paragraph and the principle of consistency.

Additionally and regarding more particularly sustainability (2.23), it also refers back to its reply of 26 April, 2010, to the consultation document from the IPSAS Board relative to information about the long-term financial sustainability of public finances. The Court emphasised that several conceptions might exist on this topic and suggested using the terms "items of sustainability", placed either in the notes to accounts or in an ad hoc report kept separate from actual financial statements, or, if relevant or if it exists, in the executive management report.

III. *"Qualitative Characteristics of, and Constraints on, Information included in General Purpose Financial Reports"*

III-A Qualitative characteristics

Paragraph 3.2 gives the list of qualitative characteristics of information included in GPRF: relevance, faithful representation, understandability, timeliness, comparability and verifiability. The understanding is that all these qualities are to be placed on the same level, that they inter-combine and complement each other with no scale of priority (3.4 and 3.40 and 3.41; BC 3.29) and that they are designed to cover all forms of financial reporting (3.5).

Firstly, this calls for two general comments:

- even though they interlap, these qualities are different to those attributed to financial statements in the strict sense of the terms by the standard IPSAS 1 (appendix), which are "understandability", "relevance", "reliability" (a quality that includes "faithful

representation", "substance over form", "neutrality", "caution", "completeness") and comparability (see further on). The opinion of the Court of Auditors is that the qualitative characteristics proposed in the conceptual framework must not lead to any degradation of the exacting standard of those listed under IPSAS 1;

- secondly, the qualitative characteristics of the draft conceptual framework, when examining their definition given in the following paragraphs, appear in reality to have full scope only when tying in with other forms of GPFR, aside from financial statements in the strict sense of the term. But, in this respect, 3.5 suggests future developments to specify or to interpret these qualitative characteristics on the occasion of the creation of standards or ways forwards for the said other forms of GPFR. This is not entirely satisfactory and undermines the thoroughness of the present draft.

Some of these qualitative characteristics call for a number of observations:

- relevance (3.6 & BC 3.5):

In substance, the definition overlaps with that of IPSAS 1 and poses no problem, but the first sentence of the two cited paragraphs is not easily understandable.

- faithful representation (3.10 to 3.16 and BC 3.8 to BC 3.17) :

This supposes, in particular, exhaustiveness (BC 3.9), neutrality and absence of significant error (3.14, 3.16 and BC 3.9), but the draft turns these into relative concepts owing to the broad nature of the items of financial reporting it focuses upon (most notably prospective information). This must not lead to any undermining of the exacting requirements made upon financial statements in the strict sense of the term (see above).

Regarding the link with the term "reliability" employed by IPSAS 1 (BC 3.10 to BC 3.13), the framework draft considers that the term faithful representation poses fewer problems of interpretation and is broader to designate a globally faithful image of the economic phenomena we wish to depict. The Court of Auditors regrets the replacement of the more thorough conception used in IPSAS 1.

Furthermore, and still with this same characteristic, the question is raised over the attributes of substance superior to form and of caution (BC 3.14 to BC 3.17). It is explained (3.15) that substance superior to form is a component of faithful representation. For caution, the draft says that this is an attribute of neutrality (3.17), itself included under faithful representation. In this respect, the Court of Auditors reiterates its robust attachment to the principle of caution, which figures hardly at all in the body of the draft (only 3.14 states that "caution will need to be exercised when dealing with uncertainty") as a component of faithful representation. However, this principle is key when looking to evaluate the liabilities and assets of a public entity, all the more so when examining sustainability.

In keeping with the preferred option of a "balance-sheet" model or, at the very least, a "mixed model" making it possible to retrace rights and obligation over and above flows (cf. introduction and the response from the Court of Auditors to the IPSAS N°2 consultation document for the conceptual framework), it would appear essential to retain the principle of

caution. Paragraph 3.15 should be reinforced in this respect, and the same should apply to 3.16 on the question of estimations.

- understandability (3.17 & 3.18 and BC 3.18 to 3.20): no problem in principle
- timeliness (3.19 & 3.20 and BC 3.18 to BC 3.20): ditto
- comparability (3.21 to 3.25 and BC 3. 23 and 3.24): ditto
- credibility or verifiability (3.26 to 3.31 and BC 3.25 to 3.27):

The Court of Auditors observes that the draft is very hard pushed to define this characteristic (which is confused with "supportability") as acknowledged under BC 3.26. In fact, the understanding is that this is operative only for financial information other than financial statements in the strict sense of the term (3.26 and 3.31). It should be necessary to clarify the exact scope of this characteristic, the appeal of which lies only with non-accounting information.

III-B "*Constraints on Information Included in General Purpose Financial Reports*"

The Court of Auditors has no observation to make as to the two constraints recognised in the production of financial information, namely significativity and cost-to-profit ratio (3.32 to 3.39 and BC 3.30 to 3.37).

IV. "*The Reporting Entity and Group Reporting Entity*"

The general definition (§4.1) of the public entity obligated to GPRF, or of the group of entities, raises no problem. The understanding is that to ascertain the basic entity obliged to present financial reporting, we refer to the requirements of national legislation (4.5, 4.6 & BC 4.2).

It is however regrettable that the draft does not envision more clearly than it currently does the necessity of there existing at least one financial report for a State (distinguishing between Federal State and federated states, if necessary) considered in its entirety, over and above financial reporting that might be made by ministries or agencies. This can be an intermediary stage before the production of consolidated financial statements over a wider scope. It is a condition for comparability for national States.

Concerning the "Group Reporting Entity", the draft envisages different forms of control for entities to be consolidated or combined into a whole (4.8, 4.11 and 4.12). But BC 4.11 is clearer by referring, for a government for example, to all entities "*whose activities it can direct for its benefits, including those which expose it to a financial burden or loss*". This definition is more ambitious than that of control given by the present IPSAS 6 and seems more closely linked to the notion of advantages and risks than to the current definition of control (cf. on this point the response from the Court of Auditors to consultation document N°2).

The Court of Auditors understands that to take this further, IPSAS standards will need to meet the problems of implementation raised in this area by the differences in legislation from one country to the next (4.13). This means that the conceptual framework does not judge the tricky issues of perimeter (BC 4.17) and technique (consolidation or combination, BC 4.18) and thus relates back to standards to be defined or reviewed on this point.

The Court of Auditors considers this approach to be one of caution at the present stage but will be vigilant at the standard-setting stage to ensure that the specifics of national legislations are recognized (BC 4.19 to 4.21). Here, the Court of Auditors wish to dwell on the importance of national legislation, in democratic States, endeavouring to define the relevant level for the production of financial statements, done so according to the needs of users represented by national parliaments. The adopted approach will need to be pragmatic and reasonable.

Finally, in this particular area we cannot ignore the requirements of the EU for EURO zone States, which for the production of their stability programme, practice a form of data consolidation for national accounts.

Response to the exposure draft from the IPSAS Board

"Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Elements and Recognition in Financial Statements"
(Phase II)

Introduction

This consultation document from the IPSAS Board is strategic in that it concerns a conceptual discussion of the fundamental contents of financial statements from a public entity.

There are two directly opposed cardinal models on this subject:

- a so-called "flow" model in which fiscal year expenses and income and the "financial performance"[1] of a public entity are measured, essentially based on flows of cash without however these flows being totally blended;
- a so-called "resources and obligations" model where the fiscal year expenses and income are charged more directly against variations in assets and liabilities.

This fundamental discussion is picked up on under point 11 of the IPSAS Board document. Nevertheless, it is proposed to address this question in the introduction to the draft response and to then complete the text with short answers to the 19 questions posed in the IPSAS consultation document.

Flow Model and the Resources & Obligations Model

The public sector entities likely to apply IPSAS and the conceptual framework thereof currently being drawn up belong to the public administration sector in the sense of national accounting:

- Central government;
- Regional and local government;
- Social security.

Presentation of the current context in France: accounting systems for Central Government, Social Security and Regional and Local Government

In France, general accounting for Central Government is, through the organic law relative to the Bill of Finance, separate from budgetary accounting: general accounting must be kept according to the rules that apply to business firms, subject to the specific features of the State; budgetary accounting is kept according to the principle of cash office for receipts and according to the principles of engagement and cash office for expenditures.

[1] Under IPSAS standards, the income statement is referred to as "statement of financial performance" and is presented like the income statement for a business firm (income – expenses = profit), as opposed to the table for ascertaining the fiscal year balance for the French State, resulting from the difference between net regal income and net expenses. In this respect, the "French-style" income statement is very similar to that of the US Federal Government.

Expenses are not directly connectable to income, and likewise expenditures are not connectable to receipts. The rules applicable to operators (agencies) controlled by the State are different and the ongoing issue is to harmonise these rules with State rules.

Concerning Social Security, the context is different. Budgetary accounting does not exist and accounts are kept according to observed rights within the limit of the distribution model. The general principle is effectively one of connection of allowances and sums due for a given year with allocated contributions and taxes expected for that same year. Imbalances between expenses and income produce a financial debt, borne by an ad hoc structure on the occasion of transfers operated by law.

Contrary to the system practiced by the State, items of long-term visibility regarding Social Security (retirement commitments with citizen contributors, for example) are not accounted for in the balance sheet. Neither do they figure in the notes. They are partly presented in other documents that are separate from accounts. One of the major issues in France today is to have these items figuring in the notes to the accounts of the Social Security system. In any case, the rationale is different to that seen in models used by insurers.

Lastly, regional and local governments are administered with a "budget-accounting" system that comprises a presentation of accounts in two sections, operations and investment. Certain calculated expenses (allowances for depreciation or certain allowances for provisions, for example) are neutralised. The balance sheet is of limited significance and notes to financial statements are very sketchy. From this viewpoint, the general accounts of regional and local government offices are subjected to budgetary constraints.

The conceptual framework applicable to public-sector entities must take on board all encountered specifics and not be frozen on one extreme model rather than another. It must be able to evolve in different contexts, identify the decisive factors of applicable rules, and the principles of organisation and their convergence.

A issue to be taken into account: transparency of information

Amongst other effects, the recent financial crisis fuelled the growth of the public debt in a good number of countries.

As countries are increasingly turning directly to the financial markets to finance their spending, by-passing intermediaries in the process, the transparency of their long term costs and commitments has become a crucial factor. Investors are reasoning more and more in terms of stocks, less and less in flows, as seen with the recent examples of certain countries from the euro zone and their financing difficulties, due in part to serious questions hanging over the sustainability of their public finances.

The drawbacks of an approach based on a single model

While the flow model is confined to information given as to incoming and outgoing cash for the fiscal year, and to the due and payable, with possibly information as to long-term commitments and/or non financial performance (income indicators), we may feel that it delivers data that, *on the face of it*, is more limited than the resources and obligations model, based on notions of assets and liabilities, as currently defined by IPSAS and IFRS standards.

From this, the flow model may be considered as being insufficient to report, on its own, the faithful representation of an entity's financial situation, whether public or private.

The resources and obligations model (balance sheet) gives information as to the entity's real patrimonial situation via both the balance sheet and notes thereto, and the income statement. The necessary supplemental data is provided in documents relative to sustainability. In a very extensive version, the understandability of accounts stemming from this model may be affected.

We might, in theory, conceive of a "dual" model, in which expenses and income reported in the income statement would be close to the cash office, with a balance sheet and note retracing rights and obligations in a more extended way. However, articulation between the two documents would not be easy and, importantly, not immediately understandable by a section of readers who are now accustomed to the IFRS and IPSAS model of resources and obligations.

Rather than opposition between two "pure" models, which in certain respects appears sterile, the principle of consistency must prevail: flows and patrimony are two important aspects of financial information from public entities, as is sustainability. A "mixed" model reconciling all these requirements, must be sought. The keystone of this lies with the presentation, in the balance sheet, of all rights and obligations, over and above their sole annual variation, and solid consistency between variations in the amount of these rights and obligations and expenses and income in the income statement.

All of the replies from the Court of Auditors to the three consultation documents from the IPSAS Board are compatible with such a "mixed" model.

Specific Matter for Comment 1

(a) Should the definition of an asset cover all of the following types of benefits—those in the form of:
(i) Service potential;
(ii) Net cash inflows; and
(iii) Unconditional rights to receive resources?

(b) What term should be used in the definition of an asset:
(i) Economic benefits and service potential; or
(ii) Economic benefits?

Answer to items (a) and (b):
Considering the specificity of each public entity and their evolution in both a business and a non-business environment, the description of assets must take into account the different forms of economic benefits, including benefits in the form of service potential.

From the outset, the notion of unconditional rights to receive resources makes it possible to account for certain assets specific to Governments, such as assets pertaining to sovereignty (namely the right to collect taxes, intangible assets deriving from granted concessions…), but these "theoretical" assets cannot be recorded in the accounts as long as their measurement remains inaccurate. In most countries, this leads to a recognition of tax claims to be recovered

over one and the same fiscal year, which situation is consonant with the fact that, every year, Parliament votes an authorisation to collect taxes with projections of the amounts covered by this authorisation.

Equally cf. answer to Question No. 4.

Specific Matter for Comment 2
(a) Which approach do you believe should be used to associate an asset with a specific entity:
(i) Control;
(ii) Risks and rewards; or
(iii) Access to rights, including the right to restrict or deny others' access to rights?
(b) Does an entity's enforceable claim to benefits or ability to deny, restrict, or otherwise regulate others' access link a resource to a specific entity?
(c) Are there additional requirements necessary to establish a link between the entity and an asset?

Answer:

The right to deny access to a third party may be exercised effectively, where it is considered independently, in recognising massive volumes of assets, given that public entities legislate and adopt regulatory instruments to regulate a large number of sectors.

The term "control" presently used in the "IPSAS" standards may be misleading, given that different definitions are provided for both tangible and intangible assets, on the one hand, and stock holdings (specific description of control of an entity by another), on the other hand.

The notion of control makes it possible to address situations specific to public entities (concessions, for instance), but the notion of risks and advantages seems more generic and encompassing for categories of assets.

More particularly, the notion of risk is very appropriate when talking about the fact that a public entity cannot directly benefit from the economic advantages of an asset, or even benefit partially from it, whereas it actually bears the (financial) risks related thereto. A perfect illustration is provided by the "collective assets", that are managed by public entities for the benefit of the community and not for their own benefit, such as non-conceded roads, court houses, prisons, police stations, and even military assets, that do not generate (barring exceptions) any economic advantages, and whose service potential is not directed specifically to the entity, but rather to the citizens, to households, businesses and other public or private organisations. From a certain standpoint, it is not (or not only) the public entity that *benefits* from the service potential of these assets, even though it is the guarantor (custodian).

Therefore, the two approaches are complementary.

Specific Matter for Comment 3
Is it sufficient to state that an asset is a "present" resource, or must there be a past event that occurs?

Answer:
The notion of "present resource" is fundamentally linked to the existence of a past event, irrespective of the nature thereof. As a result, mentioning the need to identify a past event leading to the existence of an asset seems unnecessary, but the symmetry with the definition chosen for liabilities should result in this definition being retained for the two items (assets and liabilities).

Specific Matter for Comment 4
Recognition and measurement criteria aside, are public sector entity rights and powers, such as those associated with the power to tax and levy fees, inherent assets of a public sector entity, are they assets only when those powers are exercised, or is there an intermediate event that is more appropriate?

Answer:
The power to levy taxes or to award operating permits of public property (radio frequency spectrum, for instance) are inherent rights of public sector entities. They generate resources and therefore meet the most generic definition of assets. The fact that the measurement of these assets is very often only possible at the time of exercising these rights should not lead to them being excluded in principle from the scope of assets. Generally, these rights are exercised pursuant to a specific legal instrument (such as the annual finance law that authorises the Government to levy taxes for one fiscal year only), but the rights thus generated may extend beyond the current fiscal year.

According to a possible approach, these assets should only be recognised at the time when the entities concerned are exercising the rights, and not from the outset simply by virtue of their existence. Whatever the case, however, there is need to ascertain the reliability of assessments of the amounts considered.

Specific Matter for Comment 5
(a) Are there any additional characteristics that have not been identified that you believe are essential to the development of an asset definition?
(b) Are there other relevant issues, and particularly unique public sector considerations, that the IPSASB needs to consider in determining the concept of assets?

Answer:
No.

Specific Matter for Comment 6
(a) Should the definition of a liability cover all of the following types of obligations?
(i) Obligations to transfer benefits, defined as cash and other assets, and the provision of goods and services in the future.
(ii) Unconditional obligations, including unconditional obligations to stand ready to insure against loss (risk protection).
(iii) Performance obligations.
(iv) Obligations to provide access to or forego future resources.
(b) Is the requirement for a settlement date an essential characteristic of a liability?

Answer:

(a) In view of what has been mentioned in the introduction (preference for a mixed model), a highly restrictive definition of liabilities does not seem suitable for public sector entities, except for those that operate specifically based on the categorisation model.
Obligations to transfer assets (monetary or not), to deliver goods and services in future, unconditional obligations, performance obligations and obligations to grant access to future resources should not be excluded, initially, from the definition of liabilities, subject to them falling under legally established obligations, which is not always the case for obligations to deliver services in future.
Furthermore, the obligation needs to emanate from a likely or unquestionable generation of resources, and the measurement of the said obligation must be reliable.
With regard to performance obligations, the resource generation may not systematically emanate from a disbursement, but rather from the provision of resources to a third party.
By the term legal obligation, the Court of Auditors refers to an obligation defined in a legislative, regulatory or contractual instrument, or even by agreement, with a third party clearly identified as the "beneficiary" of the said obligation.
(b) Specification of the due date is not an essential characteristic for liabilities (case of risk provisions, for instance, for which the due date is not systematically stated).

Specific Matter for Comment 7:
(a) Should the ability to identify a specific party(ies) outside the reporting entity to whom the entity is obligated be considered an essential characteristic in defining a liability, or be part of the supplementary discussion?
(b) Do you agree that the absence of a realistic alternative to avoid the obligation is an essential characteristic of a liability?
(c) Which of the three approaches identified in paragraph 3.28 do you support in determining whether an entity has or has not a realistic alternative to avoid the obligation?

Answer:
(a) Yes, the identification of a third party is fundamental in the recognition of a liability. However, this should not hinder a statistical measurement for some categories of liabilities (provisions, for instance), even where the third party is known.
(b) No, given that this may lead to the recognition of liabilities for which the legal obligation is not clearly established (for instance, recognition of all future expenses in the form of liabilities).
(c) Cf. answer to Question 10 hereinafter.

Specific Matter for Comment 8:
Is it sufficient to state that a liability is a "present" obligation, or must there be a past event that occurs?

Answer:
A past event must systematically be identified (or identifiable) for an obligation and, hence a liability, to be recognised.

Specific Matter for Comment 9:

(a) Recognition and measurement criteria aside, are public sector entity obligations such as those associated with its duties and responsibilities as a government, perpetual obligations, obligations only when they are enforceable claims, or is there an appropriate intermediate event that is more appropriate?
(b) Is the enforceability of an obligation an essential characteristic of a liability?
(c) Should the definition of a liability include an assumption about the role that sovereign power plays, such as by reference to the legal position at the reporting date?

Answer:

(a) The legal character or an obligation must be a determining criterion, which implies that a case-by-case analysis should be carried out in situations where several requirements ought to be fulfilled for an obligation to give rise to a payment (case of social benefits). For instance, fulfilment of all requirements should not be a criterion for the recognition of a liability, given that statistical analyses based on background data can be used to adjust the amount of the liability in view of the probability of a resource generation.
(b) No. For instance, a claims provision ought to be recognised once a legal action is instituted against the entity, and prior to the pronouncement of the provisional or final decision by the court.
(c) Yes, liabilities ought to be recognised pursuant to the laws in force at the closing of the fiscal year.

Specific Matter for Comment 10:
(a) Are there any additional characteristics that have not been identified that you believe are essential to the development of a liability definition?
(b) Are there other relevant issues, and particularly unique public sector considerations, that the IPSASB needs to consider in determining the concept of liabilities?

Answer:
The legal character of an obligation is an essential factor.

Specific Matter for Comment 11:
(a) Should revenues and expenses be determined by identifying which inflows and outflows are "applicable to" the current period (derived from a revenue and expense-led approach), or by changes in net assets, defined as resources and obligations, "during" the current period (derived from an asset and liability-led approach)?
(b) What arguments do you consider most important in coming to your decision on the preferred approach?

Answer:
The answer to this key point is provided in the introduction. To the Court of Auditors, the revenues and expenses for the fiscal year are generated by fluctuations in the assets and liabilities of the entity. Even though all the asset and liability fluctuations do not systematically lead to the recognition of a revenue or an expense (for instance, a rise in an asset item measured at its market value should not invariably be translated into a revenue for the fiscal year), it seems inappropriate to reverse the line of conduct and make use of inflows and outflows for the fiscal year to draw up the balance sheet.

Specific Matter for Comment 12:
(a) Should transactions with residual/equity interests be excluded from revenues and expenses?
(b) Should the definitions of revenue and expense be limited to specific types of activities associated with operations, however described?

Answer:

(a) This aspect mostly concerns the consolidated accounts rather than the individual accounts of the entity. For the State, one cannot clearly identify what can be considered as transactions generating revenues or expenses emanating from minority interests or residual equity items.

(b) To answer this question, there is need to specify what would be considered as "activities" that may not subsequently generate revenues and expenses.

Specific Matter for Comment 13:
(a) Are there any additional characteristics that have not been identified that you believe are essential to the development of definitions of revenues and expenses?
(b) Are there other relevant issues, and particularly unique public sector considerations, that the IPSASB needs to consider in determining the definitions of revenues and expenses?

Answer:

(a) No.

(b) No.

Specific Matter for Comment 14:
(a) Do deferrals need to be identified on the statement of financial position in some way?
(b) If yes, which approach do you consider the most appropriate? Deferred outflows and deferred inflows should be:
(i) Defined as separate elements;
(ii) Included as sub-components of assets and liabilities; or
(iii) Included as sub-components of net assets/net liabilities.
(c) If defined as separate elements, are the definitions of a deferred outflow and deferred inflow as set out in paragraph 5.8 appropriate and complete?

Answer:

(a) Yes.

(b) These items ought to be considered as assets and liabilities following the preference for the balance sheet approach retained by the Court of Auditors.

Specific Matter for Comment 15:
(a) Do you consider net assets/net liabilities to be a residual amount, a residual interest, or an ownership interest?
(b) Should the concept of ownership interests, such as those that relate to minority or noncontrolling interests in a GBE, be incorporated in the element definition?

(c) Are there other relevant issues, and particularly unique public sector considerations, that the IPSASB needs to consider in determining the concept of net assets/net liabilities?

Answer:

(a) The answer will depend on the nature of the entity. For a centralised State, the difference between assets and liabilities will be a residual amount, considering the lack of recognition of sovereignty assets. For other public entities, it may refer to a proprietary interest.
(b) Yes, for the entities concerned.
(c) No.

Specific Matter for Comment 16:
(a) Should transactions with residual/equity interests be defined as separate elements?
(b) If defined as separate elements, what characteristics would you consider essential to their definition?

Answer:

This aspect does not seem to be clearly specified in the consultation paper. Where it refers to segregating the recognition of transactions provided by the shareholder Government, including to entities that do not have the status of a joint stock company (such as public institutions), it would definitely seem relevant to make provision for recognition in the form of capital investments.

Specific Matter for Comment 17:
(a) Should recognition criteria address evidence uncertainty by requiring evidence thresholds; or by requiring a neutral judgement whether an element exists at the reporting date based on an assessment of all available evidence; or by basing the approach on the measurement attribute?
(b) If you support the threshold approach or its use in a situational approach, do you agree that there should be a uniform threshold for both assets and liabilities? If so, what should it be? If not, what threshold is reasonable for asset recognition and for liability recognition?

Answer:

(a) The recognition of an asset and a liability should only be carried out where its measurement is reliable.

Specific Matter for Comment 18:
Do you support the use of the same criteria for derecognition as for initial recognition?

Answer:

Yes.

Specific Matter for Comment 19:
Should the recognition criteria be an integral part of the element definitions, or separate and distinct requirements?

Answer:

The recognition criteria should be separated from item definitions, in a manner to make the standards much clearer.

Reply to IPSAS Board Exposure Draft

"Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Measurement of Assets and Liabilities in Financial Statements"
(Phase III)

Specific Matter for Comment 1:
Should the role of the Framework be to identify factors that are relevant in selecting a measurement basis for particular assets and liabilities in specific circumstances, rather than specify a single measurement basis or combination of bases?

Answer:
The answer will be determined by the views one has of the financial statements of the public entity. In the Court's opinion, these financial statements must first and foremost provide a faithful account of the situation of its assets, including revenues and expenses generated by the fluctuation in assets and liabilities that account for the said situation.

Consequently, it considers that, within the conceptual framework, it would be appropriate to identify the salient factors in order to work out suitable methods to measure the different assets and liabilities of the public sector, rather than identifying a particular method for a specific category of assets or liabilities.

As a result, it reckons that the selection in principle of a single valuation method or a single valuation approach must be ruled out.

Specific Matter for Comment 2:
If, in your view the Framework should specify a measurement basis or combination of bases (or approach in the case of deprival value), which should that be?

Single Measurement Bases
(a) Historical cost.
(b) Market value.
(c) Replacement cost.

Combinations of Bases/Approach
(d) Deprival value.
(e) Historical cost and market value.
(e) Historical cost and market value.
(g) Historical cost, replacement cost, and market value.

Others
(h) Another measurement basis or combination of bases/approach.

Please explain why you support a particular measurement basis or combination of measurement bases/approach and your reasons for rejecting alternatives.

Answer:

In keeping with the answer to Point No. 1, the Court feels there is a need for the conceptual framework to retain the most flexible combination of methods possible, combining historical cost, replacement cost and market value, to take into account the very broad diversity, and sometimes, the specificity, of the assets and liabilities to be measured in the public entities. This specificity may derive from the lack of acquisition cost, the absence of a market, the inherent nature of the asset or liability, or the indefinite character of the subsequent holding period of the asset or liability by the public entity. In the conceptual framework, the selection of any of the methods to measure any of the assets or liabilities will be determined by the salient factors identified in the introduction.

As it stands, the Court considers that within the conceptual framework, there is no need to formally establish a hierarchy amongst methods that address different problems. It reckons that, as concerns significant assets or liabilities, where there is a market value, but which market value it does not consider the most salient measurement method, provision should be made to present this as an appendix with a view to properly informing the reader of the financial statements. This applies especially to financial liabilities and expenses.

Specific Matter for Comment 3:
The Consultation Paper discusses the following measurement bases: historical cost, market value, and replacement cost. It also discusses the deprival value concept which does not describe a single measurement basis, but rather a means by which a basis may be selected that is relevant to the circumstances. Value in use and net selling price are discussed in the context of the deprival value model.

In your view, is this discussion complete, balanced and fair? If not, please indicate what in your view is missing or in what respects you consider the discussion does not draw out the strengths and weaknesses of the various bases (or approach in the case of deprival value).

Answer:
According to the Court, the respective strengths and weaknesses of the different asset and liability measurement methods are presented in a comprehensive, fair and balanced manner in the paper.

This notwithstanding, the Court equally points out, in view of the presentation of the deprival value approach, that the said approach is not too relevant to liabilities. It should therefore be discarded as a single and holistic approach within the conceptual framework.

Specific Matter for Comment 4:
In your view, should:
(a) The effect of an entity's own credit risk be reflected in the measurement of liabilities at initial recognition; and
(b) The effect of changes in own credit risk be reflected when liabilities are subsequently remeasured?

Answer:

a) The Court reckons that the own credit risk should not be dissociated from the other measurement items in the initial recognition of a financial liability.

From the outset, the Court shares the view that an objective measurement of own credit risk would be difficult to carry out and would not meet the reliability criterion.

Secondly, a vast quantity of the financial liabilities of public entities, especially Governments, is made up of borrowings, for which the most relevant measurement basis is the amortised cost. Whereas this measurement method requires that the liabilities should be recorded at their fair value at the time of their initial recognition, which value represents the value of the consideration received and includes the effect of the entity's own credit risk. Consequently, the neutralisation of the latter item will be inconsistent with the measurement of the said liabilities at the fair value of the consideration received in their initial recognition.

b) The Court equally feels that a differentiation ought to be established between liabilities measured at the market value and liabilities measure using the other possible measurement bases, namely historical cost, cost of fulfilment, assumption price, cost of release.

For liabilities measured using a basis other than the market value, the Court considers that own credit risk fluctuations should not affect the financial statements. The main reason for this is the paradox that may arise from a consideration of these fluctuations and the interpretation difficulties that user of the financial statements may equally encounter. As recalled in the consultation paper (Appendix A § A6), a decline in the entity's credit risk would actually help it to post a profit where such an option is retained.

As concerns the liabilities measured at the market value, the Court considers that there is no need to recommend a "restatement" of the own credit risk fluctuation included in the market price. On the one hand, such a restatement will encounter the same difficulties mentioned above as concerns obtaining reliable and objective information. On the other hand, such a method would not help to measure the instruments concerned at their comprehensive market value when recognising them subsequently.

Specific Matter for Comment 5:
In your view, where assets are not restricted in use and therefore may be sold for an alternative use, should the measurement reported in the statement of financial position reflect:
(a) Only the service potential relating to the existing use; or
(b) Include the incremental value relating to its possible sale for an alternative use?

Answer:
The conceptual framework should help to ensure the consistency of the normative system based on a simple idea: provide an account as faithful as possible of the situation of the public entity's assets at the closing of the accounts, i.e. when recording the rights and obligations generated over the fiscal year at their relevant value based on their use/consumption at that selfsame time.

In this regard, changing a measurement method based on a projected, expected or scheduled change in the use of an asset should be ruled out.

Where an initial decision is made, whereas the accounts are yet to be closed, to embark on the plan to transfer a significant asset, following a subsequent implementation timetable, it will be most appropriate to include as an appendix an assessment of the proceeds expected from the projected transfer.

Advisory Committee for the Standardisation of Public Accounts
The Chairman
Paris, Ie 15june 2011
Purpose: response from the French Court of Auditors to the exposure draft and consultation documents from the IPSAS Board relative to phases I, II and III of the conceptual framework.
The present document is the response from the French Court of Auditors and all French jurisdictions to the exposure draft and consultation documents from the IPSAS Board relative to phases I, II and III of the conceptual framework.
Composed of members of the Court of Auditors and of regional and local chambers of auditors, the advisory committee of financial jurisdictions for the standardisation of public accounts is drafting the opinions of the latter over questions of accounting standardisation relative to three areas of public sector administration (the State, Regional and Local Goverument, and Social Security). The committee is preparing the positions that will be held by the representatives of financial jurisdictions on the various standardisation boards.
Financial jurisdictions have read with great interest the consultation documents proposed by the IPSAS Board, which raise key questions over the goals and content of financial statements from public-sector bodies.
As for the key question of choice of accounting model, we are not in favour of giving preference to the flow model as opposed to the balance-sheet model in the public sector. Neither are we in favour of a highly extensive view of the balance-sheet model, which could, for example, result in the accounting of liabilities prior to the advent of a legal obligation. Rather than oppose two "pure" models, which may seen sterile in some respects, the principle of coherence must prevail: flows and heritage are two important aspects of financial information for public sector bodies, as is sustainability. A "mixed" model that reconciles all these requirements should be sought. The keystone lies with the presentation, in the balance sheet, of all rights and obligations, with all financial statements ensuring high consistency
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between variations in the amount of rights and obligations and the expenses and income given in the income statement
The replies to the three consultation documents from the IPSAS Board that are forwarding to you are compatible with this said "mixed" model.
Christian **BABUSIAUX**
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Response to the exposure draft from the IPSAS Board
"Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Role, Authority and Scope; Objectives and Users; Qualitative Characteristics; and Reporting Entity"
(phase I)
I. "Role, Authority and Scope of the Conceptual Framework"
LA *"Authority of the Conceptual Framework!'* (par. 1.2 & BCl.1 to BC 1.3)
The understanding is that the authority of the conceptual framework is no greater than that of lPSAS standards, but is seen on the one hand as an aid to draft these standards, and on the other as a guide for persons preparing accounts when no specific standard is available for treating a particular item as and when financial statements are drawn up. Additionally, a review of existing standards will be made after the adoption of the present framework to eliminate potential sticking points.
In principle, the French Court of Auditors has no objection but would like to recall its stance

on the previous project (see letter of 31 March, 2009). Taking as an example the conceptual framework of accounting standards for the French State (if, exceptionally, the application of a rule proves improper and does not give a true image, exemption shall be made to the rule and the said exemption must be mentioned and explained in the appendix along with its effect on accounts), the Court felt that general principles should be placed above standards and that this should be clearly stated in the conceptual framework. The Court stands by this position.

I.B *"Scope of Financial Reporting'* (par.1.5 to 1.7 and BC 1.5 to 1.9)

The scope of the project is to consider that the framework of *"General Purpose Financial Reporting by Public Sectors Entities"(GPFR)* should be broader than financial statements in the strict sense of the term (including appendix notes), even though the said statements will always be the core of financial information. According to the draft, they may comprise information about the past, present and future, deemed to be useful for users and including information that is financial or non-financial, quantitative or qualitative, etc.

Concerning this, in principle, broad perimeter, the French Court of Auditors has no objection in essence, as it willingly agrees that financial information clearly extends beyond accounting statements, a stance supported by the situation in France today (budget execution, performance reports, forward stability programme in the frame of the ED ...).

Nevertheless, it feels that any new move forward by the IPSAS Board in this field cannot be placed on the same level as accounting standards. In this respect, it seeks elucidation as to paragraph 1.7, second sentence and BC.1.8: it must be stated clearly that sections 2 and 3 of 4−t. . ˜ . . . , . ˜_″. ″″. . . . +. , , , 1 . h. . −. ˜eTTT″″' −K' *(detinition recoenition and measurementi* and in t"h"", −h˜tu...a. se.....+1.-..... l11,", 1vU.l.lvvjJl.Ual llaJ.ll WV.l \U 'J" uu ". *L-V5* UHV" *U I-U "U,,)U* "" ""} .1. Hoo.l Lll"-' .U.I .a.uJ.. ....."'UUll 4 covering the presentation of reporting statements, are relevant only for the drawing up of 3

standards governing actual financial statements, and that the drafting of new ways forward for the rest (e.g.: sustainability reports) will come under a different rationale. The last sentence of paragraph 3.5 mentioned further on must be clarified in this respect.

I.C *"Applicability of the Conceptual Framework"* (§ *1.8 and BC 1.10)*

The proposed wide field poses no problem to the French Court of Auditors: it relates to public sector entities, excluding public-area companies in the competitive sector (GBEs). It should be specified that in France, the basic social security systems (in the sense of community legislation) come under the public sector: even if run by entities with a different status, they are governed by the annual vote for the law financing social security.

No conclusions should be drawn from this paragraph concerning the drawing up of consolidated accounts (see further on).

II. *"Objectives of Financial reporting and Users of General Purpose Financial Reports"*

II.A *"Users of General Purpose Financial Reports"* (§ 2.4, 2.5, BC 2.4, BC 2.7)

The understanding is that, for the IPSAS Board, the prime users of financial information are the beneficiaries of services and the bringers of resources and their representatives that may be Parliaments or deliberating assemblies (2.4 and BC 2.4). If citizens are recognised as prime users of financial statements, it is because they are suppliers of resources and beneficiaries of services (2.5), but there are others.

This approach is acceptable only with several reservations:

the conceptual framework cannot ignore reality: in a democratic State, where governing officials are required to report to citizens or to their representatives, national rules (or rules of the European Union) always comprise obligations in this respect for different public entities, even though they may take different forms: consequently, the first sentence of § 2.4, " ...*who do not possess the authority to*

require a public sector entity to disclose the information they need for accountability and decision-making purposes" makes no sense. Financial information for general purposes may of course by complemented for more specific needs (2.6) but it is not a category in its own right. As a general rule, it will be included in documents due to the representatives of tax-paying citizensl beneficiaries of services (State, local government) or to representatives of public contributors (public establishments, social security organisations);
it is therefore a moot point - putting it mildly - to imply that parliaments (or other deliberating assemblies) should have special needs for financial information that might lead to their requesting special statements (BC2.S). When you opt for an approach to GPFR as broad as the present draft exposure, you cannot then leave people thinking that it might, by nature, be inadequate;
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the bottom line is that under these conditions, GPFR must be for both citizen/taxpayers/ service beneficiaries and their legitimate representatives, giving information that may be diverse in nature but always consistent in itself. In this respect, we may consider that actual financial statements, prepared according to observed lawful accounting principles (and subjected to an obligation of certification by the competent national institution) mayor should be complemented by receipt/expense budget execution statements, giving simple information about the year's budget balance, by performance reports or the equivalent thereof of more specific interest to such and such a category of citizen, and even by documents of sustainability. These statements must be usable by other persons, such as lenders, for example, and also by public contributors when dealing with statements from public organisations of all types. Lastly, they must be consistent with the State's national accounts;
this principle of general consistency should be clearly asserted under 2.4 and BC 2.4 and in the conclusion after 2.13. It implies very exacting standards regarding actual financial statements and all supplemental documents.

n.B *"Information Provided by General Purpose Financial Reports"*

For paragraphs 2.19 and 2.20 (information re budget execution), 2.21 *(service delivery achievements)* 2.22 and 2.23 (prospective information), the Court of Auditors refers back to what was said under I.B and also to the above paragraph and the principle of consistency. Additionally and regarding more particularly sustainability (2.23), it also refers back to its reply of 26 April, 2010, to the consultation document from the IPSAS Board relative to information about the long-term financial sustainability of public finances. The Court emphasised that several conceptions might exist on this topic and suggested using the terms "items of sustainability", placed either in the notes to accounts or in an ad hoc report kept separate from actual financial statements, or, if relevant or if it exists, in the executive management report.

III. *"Qualitative Characteristics of, and Constraints on, Information included in General Purpose Financial Reports"*

III-A Qualitative characteristics

Paragraph 3.2 gives the list of qualitative characteristics of information included in GPRF: relevance, faithful representation, understandability, timeliness, comparability and verifiability. The understanding is that all these qualities are to be placed on the same level, that they inter-combine and complement each other with no scale ofpriority (3.4 and 3.40 and 3.41; BC 3.29) and that they are designed to cover all forms of financial reporting (3.5). Firstly, this calls for two general comments:

even though they interlap, these qualities are different to those attributed to financial **statements in L1.e strict sense** of the **terms by the standard IPSAS 1 (appendix),** which are "understandability", "relevance", "reliability" (a quality that includes "faithful
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representation", "substance over form", "neutrality", "caution", "completeness") and comparability (see furtber on). The opinion of the Court of Auditors is that the qualitative characteristics proposed in the conceptual framework must not lead to any degradation of the exacting standard of those listed under IPSAS 1;
secondly, the qualitative characteristics of the draft conceptual framework, when examining their definition given in the following paragraphs, appear in reality to have full scope only when tying in with other forms of GPFR, aside from financial statements in the strict sense of the term, But, in this respect, 3.5 suggests future developments to specify or to interpret these qualitative characteristics on the occasion of the creation of standards or ways forwards for the said other forms of GPFR. This is not entirely satisfactory and undermines the thoroughness of the present draft.
Some of these qualitative characteristics call for a number of observations:
- relevance (3.6 & BC 3.5):
In substance, the definition overlaps with that of IPSAS 1 and poses no problem, but the first sentence of the two cited paragraphs is not easily understandable.
- faithful representation (3.10 to 3.16 and BC 3.8 to BC 3.17) :
This supposes, in particular, exhaustiveness (BC 3.9), neutrality and absence of significant error (3.14, 3.16 and BC 3.9), but the draft turns these into relative concepts owing to the broad nature of the items of financial reporting it focuses upon (most notably prospective information). This must not lead to any undermining of the exacting requirements made upon financial statements in the strict sense of the term (see above).
Regarding the link with the term "reliability" employed by IPSAS 1 (BC 3.10 to BC 3.13), the framework draft considers that the term faithful representation poses fewer problems of interpretation and is broader to designate a globally faithful image of the economic phenomena we wish to depict. The Court of Auditors regrets the replacement of the more thorough conception used in IPSAS 1.
Furthermore, and still with this same characteristic, the question is raised over the attributes of substance superior to form and of caution (BC 3.14 to BC 3.17). It is explained (3.15) that substance superior to form is a component of faithful representation. For caution, the draft says that this is an attribute of neutrality (3.17), itself included under faithful representation. In this respect, the Court of Auditors reiterates its robust attachment to the principle of caution, which figures hardly at all in the body of the draft (only 3.14 states that "caution will need to be exercised when dealing with uncertainty") as a component of faithful representation. However, this principle is key when looking to evaluate the liabilities and assets of a public entity, all the more so when examining sustainability.
In keeping with the preferred option of a "balance-sheet" model or, at the very least, a "mixed model" making it possible to retrace rights and obligation over and above flows (cf. introduction and the response from the Court of Auditors to the IPSAS N°2 consultation document for the conceptual framework), it would appear essential to retain the principle of
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caution. Paragraph 3.15 should be reiuforced in this respect, and the same should apply to 3.16 on the question of estimations.
understandability (3.17 & 3.18 and BC 3.18 to 3.20): no problem in principle

timeliness (3.19 & 3.20 and BC 3.18 to BC 3.20): ditto
comparability (3.21 to 3.25 and BC 3. 23 and 3.24): ditto
credibility or verifiability (3.26 to 3.31 and BC 3.25 to 3.27):
The Court of Auditors observes that the draft is very hard pushed to define this characteristic (which is confused with "supportability") as acknowledged under BC 3.26. In fact, the understanding is that this is operative only for financial information other than financial statements in the strict sense of the term (3.26 and 3.31). It should be necessary to clarify the exact scope of this characteristic, the appeal of which lies only with non-accounting information.
III-B *"Constraints on Information Included in General Purpose Financial Reports"*
The Court of Auditors has no observation to make as to the two constraints recognised in the production of financial information, namely significativity and cost-to-profit ratio (3.32 to 3.39 and BC 3.30 to 3.37).
IV. *"The Reporting Entity and Group Reporting Entity"*
The general definition (§4.1) of the public entity obligated to GPRF, or of the group of entities, raises no problem. The understanding is that to ascertain the basic entity obliged to present financial reporting, we refer to the requirements of national legislation (4.5, 4.6 & BC 4.2).
It is however regrettable that the draft does not envision more clearly than it currently does the necessity of there existing at least one financial report for a State (distinguishing between Federal State and federated states, if necessary) considered in its entirety, over and above financial reporting that might be made by ministries or agencies. This can be an intermediary stage before the production of consolidated financial statements over a wider scope. It is a condition for comparability for national States.
Concerning the "Group Reporting Entity", the draft envisages different forms of control for entities to be consolidated or combined into a whole (4.8, 4.11 and 4.12). But BC 4.11 is clearer by referring, for a government for example, to all entities *"whose activities it can direct for its benefits, including those which expose it to a financial burden or loss"*. This definition is more ambitious than that of control given by the present IPSAS 6 and seems more closely linked to the notion of advantages and risks than to the current definition of control (cf on this point the response from the Court of Auditors to consultation document *W2).*
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The Court of Auditors understands that to take this further, IPSAS standards will need to meet the problems of implementation raised in this area by the differences in legislation from one country to the next (4.13). This means that the conceptual framework does not judge the tricky issues of perimeter (Be 4.17) and technique (consolidation or combination, BC 4.18) and thus relates back to standards to be defined or reviewed on this point.
The Court of Auditors considers this approach to be one of caution at the present stage but will be vigilant at the standard-setting stage to ensure that the specifics of national legislations are recognized (BC 4.19 to 4.21). Here, the Court of Auditors wish to dwell on the importance of national legislation, in democratic States, endeavouring to define the relevant level for the production of financial statements, done so according to the needs of users represented by national parliaments. The adopted approach will need to be pragmatic and reasonable.
Finally, in this particular area we caonot ignore the requirements of the ED for EURO zone States, which for the production of their stability programme, practice a form of data consolidation for national accounts.

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5 July 2011

File Ref: AU/APS/2-0002

Stephenie Fox
The Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
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Canada

Dear Stephenie

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

Thank you for the opportunity to comment on the International Public Sector Accounting Standards Board's (IPSASB's) Exposure Draft: *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Role, Authority and Scope; Objectives and Users; Qualitative Characteristics; and Reporting Entity* (the exposure draft). I am sorry that I did not get this to you by the due date. I trust that you will still be able to consider our comments.

We are pleased that the IPSASB is progressing its work on the conceptual framework project, as it is very important to the future of general purpose reporting in the public sector. However, we are concerned that the scope of the conceptual framework is inappropriately focused on financial statements. Although the exposure draft takes into account non-financial information, we think its level of importance should be elevated alongside that of financial information. In other words, we think that the IPSASB should put financial and non-financial information on the same footing. We provide further comment on this point in the attachment to this letter.

We attach our comments on the four specific matters that the IPSASB has identified in its exposure draft, as well as other matters. If you have any questions or would like clarification about any of our comments, please contact me in the first instance. I can be contacted by email (greg.schollum@oag.govt.nz) or phone (+64 4 917 1603).

Yours sincerely

Greg Schollum
Assistant Auditor-General (Accounting and Auditing Policy)

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

Specific Matters for Comment

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

In two important respects, we do not agree with the role and scope of the conceptual framework. The main issue we have with the role of the conceptual framework is the exclusion of all government business enterprises (GBEs). And the main issue we have with the scope of the conceptual framework is the undue focus on historical financial statements. We explain each of these matters below.

Exclusion of all GBEs

In our view, it is not appropriate that the conceptual framework excludes all GBEs, given the way in which GBEs are defined. Also, to the extent that any public sector entities are excluded from the framework, thought needs to be given to the interaction between the excluded entities and entities covered by the framework.

We take this opportunity to reinforce that there is a problem with the current definition of GBE within IPSASs. Part (c) of paragraph 7 in IPSAS 1 notes that a characteristic of a GBE is that it "sells goods and services, in the normal course of its business, to other entities at a profit or full cost recovery".

As the IPSASB will be aware, there is a range of different types of GBEs based on the current definition. Some GBEs are similar to companies in the private sector, where the primary objective is to maximise a financial return to equity holders. Other GBEs' primary objective is to provide goods or services for social benefit. In our view, it is not rational to exclude the latter group of GBEs from the IPSASB conceptual framework.

Also, if the GBEs with a primary objective of maximising a financial return to equity holders are excluded from the conceptual framework, those entities must be appropriately dealt with elsewhere. For instance, if those entities are to be directed to the standards and framework of the IASB, in our view, it is imperative that the IPSASB ensure that the IASB is committed to delivering standards and a framework that is appropriate to meet the user needs of those entities.

Lastly, on the basis that GBEs with a primary objective of maximising a financial return to equity holders are excluded from the IPSASB conceptual framework, in our view, it is important that the IPSASB conceptual framework addresses the integration of those GBEs with other public sector entities that together form part of a wider group reporting entity.

Undue focus on historical financial statements

In our view, the scope of the conceptual framework is inappropriately focused on financial statements. We note that paragraph 1.6 of the exposure draft acknowledges users' interest in a richer array of information than is provided by financial statements alone. However, the other information is not fully discussed and is not set out in a way that provides the right overarching reporting framework.

In our view, general purpose financial reporting by public sector entities should explain what has been done with the resources provided, what effect the entity has had, and whether it can

continue to do so in the future. Such a view fits well with the objectives of general purpose financial reporting.

In order for a public sector entity to explain these things, we believe it needs to tell users its performance "story". The financial statements are a part of the story, but the financial statements alone cannot adequately tell the story. Knowing how much money has been spent by an entity tells the user little about what the money has been spent on and what has been achieved as a result. For accountability to be properly served, both financial and non-financial information needs to work in conjunction with one another. For that reason, we think both types of information need to be put on the same footing.

In our view, it is important that the conceptual framework locks in the point that general purpose financial reporting is about conveying to users a story, regardless of whether or not most of the standard setting effort is likely to be directed to financial reporting standards in the meantime. Otherwise, any standards that are developed may not be appropriate to the broader context within which general purpose financial reporting should occur.

If the scope of the conceptual framework starts with the need for general purpose financial reporting to convey to users the story, financial statements will not be main focus of general purpose financial reporting. Rather, financial statements will support the telling of the story. This should help to ensure that in future financial reporting standards are developed in a manner consistent with public sector entities' broader reporting responsibilities.

We acknowledge that the exposure draft contains some statements that reinforce our views above. For example, paragraph 2.3 notes that:

"Governments and public sector entities raise resources from taxpayers, donors, lenders and other resource providers for use in the provision of services to citizens and other service recipients. These entities are accountable for their management and use of resources to those that provide them with resources, and to those that depend on them to use those resources to deliver necessary public services. Those that provide the resources and receive, or expect to receive, the services will also require information as input for decision-making purposes."

Financial information in isolation cannot provide the necessary information to meet the needs of users as described in this paragraph. This paragraph reinforces why the story needs to be told using both non-financial and financial information, as users need both types of information for accountability and decision-making purposes.

Another example is in the first part of paragraph 2.16, which notes that:

"Information about the financial performance of a government or other public sector entity will inform assessments of matters such as whether the entity has acquired resources economically, and used them efficiently and effectively to achieve its service delivery objectives."

In our view, an informed assessment of such matters is not possible without good non-financial information working in conjunction with financial information. Financial information on its own can not present a picture of the entity's performance, it can only convey part of that picture.

We note that our views appear to align with some of the IPSASB's recent projects such as narrative reporting, performance reporting and long-term fiscal sustainability. However, we think that the IPSASB needs to more clearly articulate this within the conceptual framework by putting financial and non-financial information on the same footing.

2. **Do you 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?**

We do not agree that service recipients are a primary user of GPFRs. In our view, resource provides are the primary users. To illustrate this point, consider where a service recipient is experiencing a problem with the receipt of health or education services. In this case GPFRs are unlikely to be very helpful in resolving the problem for the service recipient. It makes more sense that resource providers are likely to have more use for the information provided by GPFRs, given the objectives of accountability and decision-making. Bringing in service recipients confuses the issue.

Although we agree with the information needs of users of GPFRs of public sector entities as set out in the conceptual framework, we are of the view that there needs to be more focus on the importance of telling an overall performance story because users need the whole story to be able to properly hold entities to account and from which to make decisions. Resource providers in particular will need to know what has been done with the resources provided and to what effect. Therefore, they will need a good understanding of the non-financial as well as the financial information.

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

(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**

We agree with the use of the term 'faithful representation' rather than 'reliability'. In our view, the term 'faithful representation' is more strongly aligned with the substance of a transaction or other event than 'reliability'. 'Reliability' appears to be a narrower concept. We see the term 'faithful representation' encompassing the concept of 'reliability'. However, we do not see 'reliability' as necessarily encapsulating 'faithful representation'. Also, we think that 'faithful representation' is consistent with the need for an entity to tell its overall performance story.

(b) **materiality should be classified as a constraint on information that is included in GPFRs rather than as an entity-specific component of relevance?**

We consider that materiality should be classified as an entity-specific component of relevance because material information is likely to be of higher relevance to users than immaterial information.

We acknowledge that materiality relates to, and can impact, a number of the qualitative characteristics of information included in GPFRs. However, we consider materiality to more appropriately link with relevance.

We note that classifying materiality as an entity-specific component of relevance is also consistent with the IASB approach.

4. Do you 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?

In our view, the conceptual framework needs to be kept at a high level. Therefore, a discussion on the group reporting entity needs to be both broad and general so as to be applicable to all public sector entities.

We do not agree with the way the exposure draft describes the circumstances in which an entity should be included in a group reporting entity. The group reporting entity description from paragraph 4.7 onwards is written from a government perspective and, in our view, is too specific for a conceptual framework. We think that the paragraphs should be written in a more general way so that they can be readily applied by other public sector entities in addition to the government.

We are concerned with the words 'capacity to direct the activities of other entities' in paragraph 4.7 that help to determine those entities that should be included in a group reporting entity. In our view, those words are too specific and narrow. To 'direct the activities' of other entities implies active management of those other entities. There are a number of entities in the public sector established by government that do not have their activities directed by government but that should be considered part of the government reporting entity.

Further to the above, we have seen entities in the public sector establish other entities to help fulfil their purposes or to further their aims. Even where there is no interference by the public sector entity in the operations of the other entity, the other entity has often been set up so that it benefits the public sector entity in a complementary way (because of the alignment of the public sector entity's objectives to the entity it establishes). In our view, the words 'direct the activities' are too limiting, and will almost certainly exclude such entities being combined into a group reporting entity when that may not faithfully represent the situation.

Based on the above comments, we think the group reporting entity concept is likely to be influenced by more factors than 'directing the activities'. Therefore, the conceptual framework either needs to identify all the relevant factors or be written in such a way that it does not constrain the concept of the group reporting entity. In this way, the conceptual framework is more likely to be helpful when it comes to the setting of specific standards (that is, it will be less likely to impede or limit the way specific standards are set).

Other Matters for Comment

1. We are of the view that users of GPFRs are not only those who are unable to require the preparation of financial reports tailored to meet their specific needs but may also include users that elect not to require the preparation of financial reports tailored to meet their specific information needs. We therefore suggest that paragraph 1.3 be reworded as follows to include the underlined words:

   "GPFRs are a central component of, and support and enhance, transparent financial reporting by governments and other public sector entities. GPFRs are financial reports intended to meet the information needs of users who are unable to (<u>and those that elect not to</u>) require the preparation of financial reports tailored to meet their specific information needs."

2. We note that the wording used throughout the conceptual framework appears to be predominantly focused on the government. We are of the view that the conceptual framework should be written in a more general way to focus on public sector entities including a government rather than written with a strong focus on the government perspective.

Denise Silva Ferreira Juvenal

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Accountant

Commentary individual

Rio de Janeiro / Brazil

Sir

Chair and Steering Committee

IPASB Technical Director
International Public Sector Accounting Standards Board Conceptual Framework

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15 June 2011

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

I´m Denise Juvenal this is pleased to have the opportunity to comment on this consultation. This is my individual commentary for IFAC-IPSAS. The conceptual framework for general purpose financial reporting by public sector entities is very important for established the concepts that are to be applied in developing International Public Sector Accounting Standards (IPSASs) and other documents that provide guidance on information included in general purpose financial reports (GPFRs) as described in the introduction of the IPSAS Conceptual Framework, include the importance of the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Measurement of Assets and Liabilities in Financial Statements.

Considering the development of countries and jurisdictions, with different political systems, different forms of government and different institutional and administrative services.

Specific Matters for Comment
The IPSASB would particularly value comments on whether you agree with the:

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

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

I think that the number 1 and 2 is adequated if the IFAC observed the rules for Auditing for Public Sector, this is very important integrated this proposed with the problems, difficulties and impacts for application of IPSAS in others countries, because of this rules, jurisdictions, cultures and law. I suggest that IFAC included together the actions of plans for auditing in this case, these rules can be integrated for don´t have problems in your implementation, I don´t know but I think that if included transparency we must observed the impact for auditing as described in point 1.3 of this 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; and

This position is relationship with the importance of the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Measurement of Assets and Liabilities in Financial Statements, because the decision for this activities, can be impact in the materiality, is very important concluded one exposure draft for finish this commentary. The decision can be modify the choose the options this question.

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.

I think that the basis for public sector reporting is very complexity, I think that is need to make a research in countries for operating after this the IFAC will be integrated of the experience and knowledge of the characteristics and circumstances for reporting entity. Each country is monitoring government laws and is very difficult the application if the discussion and observations of the problems wouldn't be related.

Thank you for opportunity for comments this proposals, if you have questions don´t hesitate contact to me, rio1042370@terra.com.br.

Yours Sincerily,
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The Technical Director

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10 June 2011

Dear Stephenie,

COMMENTS ON PHASE I, II AND III OF THE IPSASB'S CONCEPTUAL FRAMEWORK PROJECT

We welcome the opportunity to provide comments on Phases I, II and III of the IPSASB's conceptual framework project. Overall, we are supportive of the project as we believe it makes significant strides in strengthening transparency and accountability in public sector financial reporting.

Enclosed are our comments on:

- The Exposure Draft on Phase I – *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Role, Authority, and Scope; Objectives and Users; Qualitative Characteristics; and Reporting Entity*.
- The Consultation Paper on Phase II – *Elements and Recognition.*
- The Consultation Paper on Phase III - *Measurement of Assets and Liabilities*.

This comment letter has been prepared by the Secretariat and does not necessarily reflect the views of the ASB Board. In formulating the comments outlined in this letter, the Secretariat has consulted a variety of stakeholders in the South African public sector, including auditors, preparers, professional bodies and academia.

As acknowledged in the various documents issued for comment, it may be necessary for the IPSASB to issue a complete Framework for comment once the various phases are complete. Based on the final outcome of the Framework, the views expressed in this letter may be subject to change.

Just as financial statements on their own may not provide sufficient information for accountability and decision-making under the accrual basis of accounting, the statement of receipts and revenues along with disclosures may not provide sufficient information under the cash basis of accounting. We therefore recommend that the IPSASB consider developing a separate Framework for the cash basis of accounting as this would be useful to supplement existing information either required or disclosed under the Cash Basis IPSAS.

Board Members: Ms K Bromfield, Mr R Cottrell (Chairperson), Mr V Jack, Ms CJ Kujenga, Mr K Kumar,
Mr T Makwetu, Mr F Nomvalo, Mr G Paul, Mr I Sehoole, Mr V Smith
Chief Executive Officer: Ms E Swart

Please feel free to contact me should you require clarification on any of our comments.

Yours sincerely



Erna Swart

Chief Executive Officer

Phase I – *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Role, Authority, and Scope; Objectives and Users; Qualitative Characteristics; and Reporting Entity*		
A	**Responses to specific matters for comment**	
	The IPSASB would particularly value comments on whether you agree with the: *1. Role, authority and scope of the Conceptual Framework;* *2. Objectives of financial reporting by public sector entities and the primary users of GPFRs of public sector entities and their information needs;* *3. Qualitative characteristics of, and constraints on, information included in GPFRs of public sector entities. In particular, whether:* *(a) "Faithful representation" rather than "reliability" should be used in the Conceptual Framework to describe the qualitative characteristic that is satisfied when the depiction of an economic or other phenomenon is complete, neutral, and free from material error; and* *(b) Materiality should be classified as a constraint on information that is included in GPFRs or as an entity-specific component of relevance; and* *4. The basis on which a public sector reporting entity is identified and the circumstances in which an entity should be included in a group reporting entity.*	
	Question 1	**Role, authority and scope of the Conceptual Framework**
		We agree with the role and authority of the Conceptual Framework.
		Scope
		While we agree that the scope of the Framework should be "general purpose financial reports" rather than just "general purpose financial statements", we question what is meant by "general purpose financial reports". In this context, we question how: • GPFRs will be identified from the variety of information produced by governments and public sector entities, i.e. what is the delineation between "general purpose financial reports" and other general purpose reports that may be prepared for similar users. • Use of the term "financial" reports reconciles with, for example, the provision of non-financial information such as reports on performance measures. We suggest that, in order to clarify the scope, as well as what is meant by "financial", "general purpose financial reports" should be limited to information that enhances, complements or supplements the financial statements. This could be explained by elaborating on the purpose of some of the financial reports already identified in the proposed Framework, for example: • Reporting on the long term sustainability of public finances provides information about assets and liabilities that may not fully meet the recognition criteria for inclusion in the statement of financial position. • Reporting on performance measures (including reporting on inputs, outputs and outcomes) provides information about the how resources were expended during the year.

		While it could be argued that other information, inter alia, reporting on environmental sustainability, human resources and governance is important for accountability and decision-making, it extends beyond the scope and mandate of an accounting standard-setter. However, just because these aspects may be outside the scope of the IPSASB's mandate, does not mean that these aspects should not form part of "government reports" broadly. To this end, it may useful for the IPSASB to liaise or collaborate with other bodies to develop reporting requirements for these areas. It would therefore be useful for the conceptual framework to note that: • A variety of information may be necessary to meet users' needs regarding accountability and decision-making. These can broadly be referred to as "government reports". • The IPSASB's mandate is to provide information that enhances, complements or supplements the financial statements. This information is provided in a "general purpose financial report". • Other international or local bodies may provide guidance on the reporting of other information that forms part of "government reports". (Also see comments on "interaction with other reporting initiatives") A proposed diagram outlining the boundaries between the various reports is included at Annexure A.
		Application of the Framework to reports other than GPFRs
		Although the Framework only applies to GPFRs, it may be useful to acknowledge in the Framework that, while it has been developed with specific users and objectives in mind, it may be suitable for the preparation of other reports.
		Status of IPSASs prescribing requirements for "general purpose financial reports"
		The Framework does not deal with how the form and content of general purpose financial reports will be prescribed, nor does it deal with whether the preparation of general purpose financial reports will be mandatory or not. While we accept that this is not an issue that should be addressed in the Framework, we note that it would be preferable if the preparation of these general purpose financial reports is encouraged rather than required. If the preparation of these reports is mandatory, it may make the compliance with IPSASs onerous. This may also hinder the adoption of IPSASs in countries, particularly where financial reporting is not well developed. It is preferable if decisions about whether a particular GPFR is mandatory be left to individual jurisdictions.
		Interaction with other reporting initiatives
		It is unclear from the Framework, as currently drafted, whether there is an overlap in scope with integrated reporting. If "general purpose financial reports" include reporting on, for example, human resources, governance and environmental sustainability, there may well be a overlap and possible duplication of reporting initiatives. As integrated reporting is gaining momentum worldwide, it may be useful to clarify how the Framework (in particular GPFRs) and integrated reporting interact.

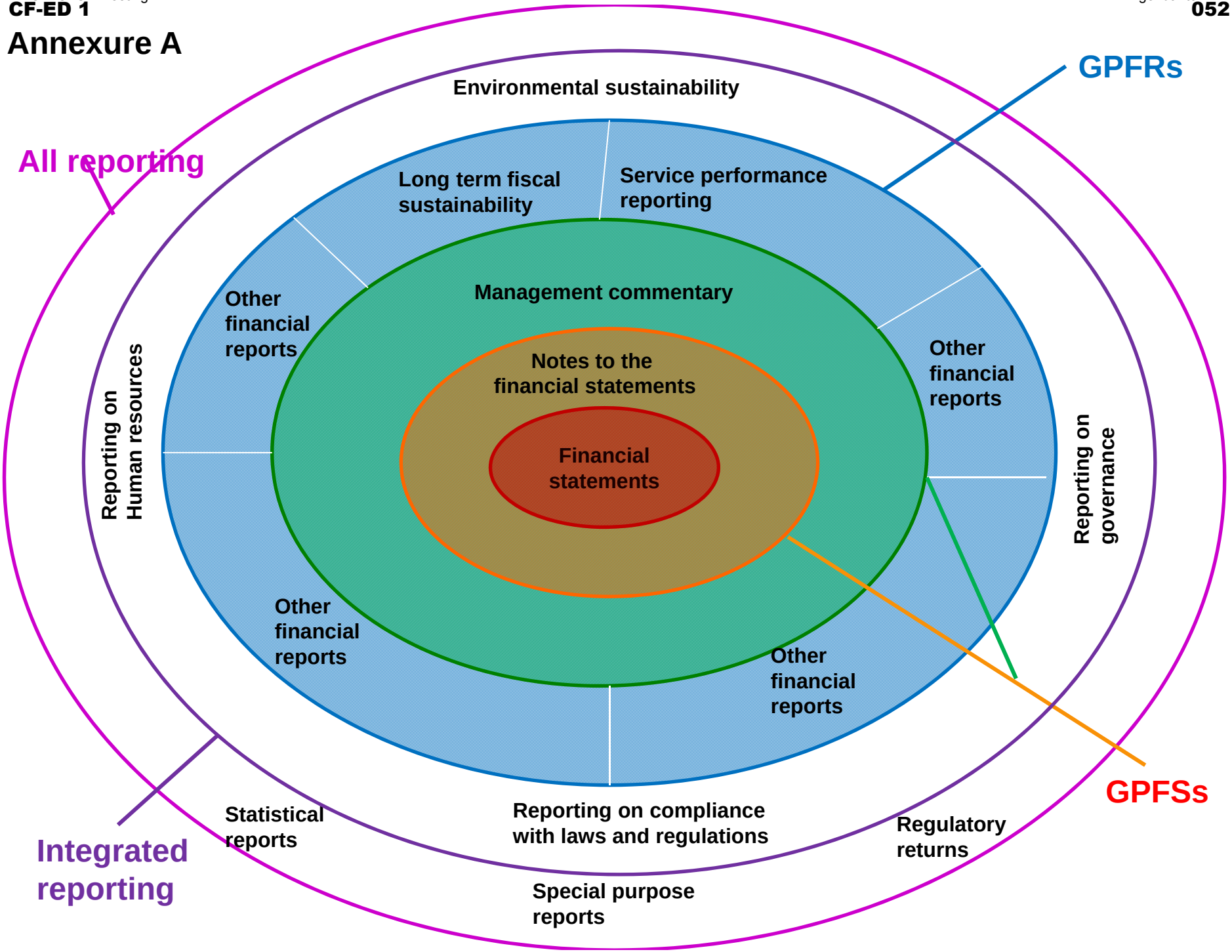
	Question 2	**Objectives of financial reporting by public sector entities and the primary users of GPFRs of public sector entities and their information needs**
		We agree with the objectives of financial reporting as being the reporting of information that is useful for accountability and decision-making. We also agree with the users of general purpose financial reports as being service providers, service recipients and their representatives. Paragraphs 2.14 to 2.26 outline the information provided by general purpose financial reports. In reading the Phase II Consultation Paper, it is noted that "inter-generational equity" may be a key factor in considering an entity's performance. As the concept of current taxpayers paying for the current services received is an important consideration in the public sector, we believe that a discussion should be included in this section. The discussion should explain that inter-generational accounting can be as simple as analysing whether current taxpayers paid for the services they received in that period, or at a more complex level, calculating whether the benefit to be received by future generations is or is not equivalent to the benefit received by current taxpayers. In addition to the concept of inter-generational equity, we are of the view that the following aspects could be strengthened or emphasised in the discussions in 2.14 to 2.26 could include the following aspects: • GPFRs can or should provide information about a variety of time horizons, i.e. short, medium and long term. The provision of information about the different time horizons means that the information can be used to assess a number of issues, e.g. liquidity (short term), decisions about policies and future performance (medium term) and sustainability (long-term). • GPFRs should provide information about an entity's compliance with laws and regulations.
	Question 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.**
		In response to: • Part (a), we agree that "faithful representation" is more appropriate than "reliability" as "reliability" may imply a specific threshold for when information is reliable or not. "Faithful representation" is a better indication of the judgement that should be applied in preparing and presenting information. We consider that if an item is faithfully represented in the GPFRs, it should also be reliable. The Framework as currently drafted refers to "free from material error". It is unclear whether "reliability" is implicit in "free from material error". If yes, it might be useful to note this in the Framework. It should also be noted that "reliability" is an audit assertion in the International

		Standards on Auditing, and it may therefore be necessary to acknowledge how reliability from an audit perspective relates to "faithful representation" in the Framework. • Part (b) we are of the view that all three constraints, cost-benefit, materiality and trade-offs between the QCs should be considered by the IPSASB in developing requirements for GPFSs and GPFRs, but should also be considered by preparers in applying the requirements at a standards-level. We are of the view that consideration of the constraints at a standard-setting level would result in only relevant information being provided for accountability and decision-making. We are of the view that because there are strong inter-relationships between the constraints, all three should be considered at both a standard-setting and application level. It is however critical that, in applying the constraints, sufficient consideration is given to all the qualitative characteristics.
		Apart from the responses to (a) and (b) above, we agree with the qualitative characteristics and constraints on information. We do however note the following:
		Understandability
		While the same information may be relevant to a wide group of users, the volume, detail and complexity of the information may need to be tailored to make information understandable to certain user groups. For example, it may be appropriate to produce concise, simple information to ensure that citizens are able to understand information included in the GPFRs (e.g. the preparation of a citizens' guide to the financial results). It may therefore be important to acknowledge that while a certain level of user is assumed in formulating requirements for GPFRs and GPFSs, it may be necessary to present information in different ways to ensure that the information is understandable to specific user groups. This acknowledgment may be included in the section or phase of the Framework dealing with "presentation".
		Cost-benefit
		The Consultation Paper notes the following: • "Assessing whether the benefits of providing information justify the related costs is often a matter of judgement, because it is often not possible to identify and/or quantify all the costs or benefits of information included in GPFRSs". [Paragraph 3.34] • "The application of cost-benefit constraint involves assessing whether the benefits of reporting information are likely to justify the costs incurred to provide and use the information". [Paragraph 3.38] As governments and public sector entities act in the public interest, the measurement of "benefit" may be theoretical and subjective. Where the IPSASB believes that it should require certain GPFRSs (or individual requirements within GPFRSs) because it is in the public interest and contributes to the objectives of financial reporting, it may be necessary to forego a cost-benefit analysis. To ensure that the pronouncements issued by the IPSASB (and requirements in individual

		pronouncements) are not constantly questioned on the basis of empirical evidence regarding costs and benefits, it may be important to acknowledge that certain decisions may be made because they are in the public interest and further the objectives of financial reporting.
		Distinction between qualitative characteristics and constraints
		It would be useful to include a discussion on the interaction between the qualitative characteristics and constraints, including why such a distinction is necessary.
	Question 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**
		Identifying a reporting entity
		While we agree with the discussion and need for a principle on the identification of a reporting entity, we are however concerned that the current drafting may result in onerous reporting requirements if GPFRs can be prepared for an organization, program, or identifiable activity. We therefore suggest that this section should emphasise that: • Where legislation requires an entity to prepare GPFRs, that entity is regarded as a reporting entity. • Where legislation does not specify whether GPFRs should be prepared for such an organization, program, or identifiable activity; or such an organization, program or identifiable activity is not included within the GPFRs of another reporting entity, then an entity applies the principle in section 4, i.e. it assesses whether users exist for such information, including whether any of the factors in paragraph 4.4. indicate that users are likely to exist. We question whether the preparation of GPFRs in the absence of a legal requirement is done on a voluntary basis. If it is not voluntary, would this imply non-compliance with IPSASs? How would this be enforced?
		Identifying a group reporting entity
		We are of the view that the identification of a group reporting entity is a standards-level rather than a conceptual framework issue.
B.	**Other matters**	
	Application of conceptual framework and IPSASs to Government Business Enterprises	
	In the context of the scope of the conceptual framework being expanded to general purpose financial reporting, we question whether some of this information may be useful in exercising accountability and decision-making in Government Business Enterprises. For example presenting performance information and information on long term fiscal sustainability may be useful in assessing the performance and viability of GBEs. While we note that the application of IPSASs or IFRSs by GBEs may be jurisdictional, we would suggest that the IPSASB consider the application of the Framework generally to GBEs.	

	In our discussions, we also questioned whether GBEs should be applying IFRSs or IPSASs. Currently, GBEs do not apply IPSASs because they are deemed to operate to generate a profit. We contend that because GBEs potentially have the same users as other public sector entities, and prepare financial reports to meet the same objectives, a case could be made for them to apply IPSASs rather than IFRSs.

Annexure A


All reporting
GPFRs
Environmental sustainability
Long term fiscal sustainability
Service performance reporting
Other financial reports
Management commentary
Notes to the financial statements
Financial statements
Other financial reports
Reporting on Human resources
Reporting on governance
Other financial reports
Other financial reports
Other financial reports
GPFSs
Integrated reporting
Statistical reports
Reporting on compliance with laws and regulations
Regulatory returns
Special purpose reports

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Regarding: The General Framework of General Purpose Financial Statements
Phase I- Exposure Draft Due 6-15- 2011

By: Dr. Joseph S. Maresca CPA, CISA

Colleagues,

I welcome the opportunity to critique the General Framework of General Purpose Financial Statements. Details follow:

Background
The accrual basis of accounting is the model which reflects transaction recognition upon occurrence. The guidance seeks to elicit comments on the role, authority and objectives of reporting. Faithful representation is a higher order goal than reliability. Materiality of the transaction is also a consideration in the review process. Statements are to be complete, neutral and free from error. Nonetheless, is the presentation itself reliable vis-a-vis the expectations of readers of the financial statements who rely ?

The primary users of the financial statements are service recipients and resource providers. pp. 24
In addition, the legislature is the primary user of the general purpose financial statements. Faithful reprresentation depicts the substance of a transaction over its legal form. Sec. 3.1 / pp. 29

Comparability is the goal which consistency helps to keep or attain.

Critique:
Generally, I concur except that reliability can be a more important goal in certain scientific applications . Accrual does reflect transaction recognition in a more realistic way. i.e. upon occurrence Faithful representation is the chosen higher order goal; however, reliance may be more important in specific circumstances where management cannot be wrong or where government regulators cannot be wrong. i.e. The public interest or public welfare is at stake.

For instance, the BP oil spill involved running the engineering equipment beyond capacity or at or near 110% of normal capacity. Faithful representation will have examined the process of running the equipment and not the act of running the equipment beyond the design capacity. The recent Daiichi Nuclear Power Plant disaster happened because the engineering design could not withstand a 9.0 earthquake; therefore, radiation spills happened which would not have been the case if the engineering tolerances had never been reached.

What happens beyond "normal" use can be a matter of life or death literally. What is normal use? Normal use is the intended use of the equipment for the purpose it was designed and not for an unanticipated application which may occur in some distant outlier point statistically.

Who knows or has reason to know about outlier points in the design of engineering equipment? The answer is the design engineer in the department of engineering. This is the resident expert who fully understands how the engineering applications operate under normal circumstances, as well as

unusual or abnormal circumstances.

Both the BP oil spill application and the Daiichi Nuclear Power Plant application deal with circumstances which undermine the ongoing concern assumption in a random but very material way.

Reliability can apply to the statistical analysis done on a drug approval submission to the FDA. If the anticipated reliability is highly accurate, then the drug will be approved in all likelihood assuming that the relevant parameters have been weighted fairly and consistently.

Reliability may be gleaned by a community of experts in an artificial intelligence system which gives advice based upon polling a community of experts on the knowledge base. The advice rendered by the artificial intelligence system is a superior massaging of a concensus of opinion unobtainable by polling each expert individually.

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June 15th, 2011

Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street West, 6th Floor
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Dear Sir/Madam:

Re: Conceptual Framework Exposure Draft 1 – Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities

Thank you for the opportunity to comment on Exposure Draft 1 - Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities.

The Manitoba Government supports your initiative to develop a conceptual framework which can be applied in developing future International Public Sector Accounting Standards (IPSAS) for General Purpose Financial Statements (GPFS). We are also pleased to see many of the key areas you are proposing are consistent with the conceptual framework of the Public Sector Accounting Board (PSAB) of Canada.

Role and Authority of the Conceptual Framework

We agree with IPSASB's view that the Conceptual Framework should be used as guidance in dealing with financial reporting issues not specifically dealt with in IPSASs. We recommend that in the event there is no standard, that an entity should adopt standards that are consistent with this conceptual framework.

After the Conceptual Framework is issued ISASB should review any circumstances where an apparent conflict exists between an IPSAS and the Conceptual Framework. When necessary the existing IPSAS should be amended through IPSASB's due process.

Scope of Conceptual Framework

General Purpose Financial Reports (GPFR) of public sector entities include, but are more comprehensive than, financial statements including their notes. They can report information about the past, present, and the future that is useful to users, including financial and non-financial quantitative and qualitative information about the achievement of financial and service delivery objectives in the current reporting period, and anticipated future service delivery activities and resource needs.

We strongly disagree with IPSASB's inclusion of GPFR within the scope of the Conceptual Framework. This would allow IPSASB to develop IPSAS for the presentation of non-financial information. The additional information that a jurisdiction wishes to provide to its users will vary significantly between jurisdictions. We feel strongly that that the choice of non-financial information to present should be left to the discretion of each reporting jurisdiction. Only general purpose financial statements (GPFS) should be included within the scope of the Conceptual Framework.

The remainder of the exposure draft makes reference to GPFR. Any further comments we have on the exposure draft assumes that the scope of the conceptual framework only extends to GPFS.

The Users of GPFS

We agree with you that the Conceptual Framework must focus on the common information needs of users. We agree with IPSASB that users come from various perspectives. IPSASB has identified some of the users as:

- Recipient of services or their representatives;
- Providers of resources or their representatives; and
- Lenders, creditors and donors.

However we feel that your view does not clearly identify the public as the major user of GPFS. The primary users should be identified as the general public and their representatives. Secondary users can be identified but they should not drive the objectives of GPFS.

Objectives of Financial Reporting

We agree with your view that the objective of GPFS is to provide information to the users. The primary purpose of the information is to:

1. Evaluate the government's management of its financial resources in the accounting period; and

2. Assess whether the resources were managed within the legislated limits.

To some extent the information from GPFR can be useful for making decisions about the effectiveness and efficiency of service delivery and future resource allocations. However this should not be included as an objective of GPFS. The overriding objective objectives of GPFS should be grounded in providing information to users on the accountability of the government.

The Qualitative Characteristics of Information Included in GPFRs

We agree with IPSASB's views on the qualitative characteristics of financial information:

- Relevance
- Faithful representation
- Understandability
- Timeliness
- Comparability
- Verifiability

The qualitative characteristics above are consistent with PSAB. We are not concerned that reliability has been left out. The characteristics of faithful representation and verifiability, combined together, provide users with reliable financial information.

We agree with IPSASB's that materiality and cost-benefit are both constraints on information included in GPFS. We also agree that there needs to be a proper balance between characteristics when preparing GPFS. Typical qualitative characteristic trade-offs would include relevance and faithful representation, or timeliness and verifiability.

We agree that the quality of non-financial information would improve if the qualitative characteristics were applied to GPFR. However governments should decide on how they want to present information on service delivery achievements. The relevance and timeliness of this information is paramount and usually maximized at the expense of verifiability. The lack of verifiability makes it impossible to audit the information in GPFR.

The Reporting Entity and Group Reporting Entity

We agree with IPSASB's view that it is not the function of the Conceptual Framework to identify which public sector entities, programs or activities should be identified as a reporting entity. Public sector entities or activities that are to prepare GPFS will be specified in legislation, regulation or authoritative bodies with knowledge of the characteristics of public sector entities in their jurisdiction, and the likely information needs of users. Some public sector entities may also voluntarily elect to prepare GPFS.

IPSASB's views on the group reporting entity are largely consistent with the standards of PSAB. The government reporting group should include the entities the government has the authority and capacity to direct its activities for the benefit of the government. The government may also be exposed to a financial burden from the activities of the entity it has the authority and capacity to direct.

What is missing from IPSASB's conceptual framework is the differentiation the authority and capacity to direct the activities of an entity and regulatory authority. This distinction is especially significant to federations like Canada where the responsibilities of the two levels of government are constitutionally assigned.

The Federal Government often provides conditional funding and sets national standards for services which are Provincial responsibilities under the constitution. Health care would be an example. The Federal Government can establish the regulatory framework under which the Provincial health care programs operate. Under IPSASB it could be argued that the Federal Government should consolidate the health services of the Provinces. In fact the Federal Government does not have the authority and capacity to direct the health services of the Provinces. The Provinces still make their own decisions on health care but within the Federal Government's regulatory framework.

Other Comments

We would again like to express our concerns regarding the proposed scope of this document. We like to emphasize that the type and extent of information on service delivery performance should be at the government's discretion. This type of information is highly subjective and is based on assumptions and estimates. Including this information within the scope of the conceptual framework will expose the information to the same level of assurance as a GPFS. This will create significant issues for governments as well as the audit community.

We would like to again thank you for the opportunity to comment on this issue.

Yours truly,

Betty-Anne Pratt, CA
Provincial Comptroller
Province of Manitoba