



International
Federation
of Accountants

International Public Sector Accounting Standards Board

Conceptual Framework
Agenda item 2.B
Dusseldorf – March 2012

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FRAMEWORK PHASE 1 ED: MEETING OBJECTIVES

Objective this meeting:

- Review Draft Phase 1 - Board decisions Sept & Dec 2011
 - Directions to staff further development
- Directions on remaining issues from responses to CF-ED1

Process:

- Section by section
 - Changes as per Board directions Sept & Dec 2011
 - Matters identified by respondents not yet considered/to revisit
 - Other matters/issues of IPSASB members

SECTION1: ROLE AND AUTHORITY OF F/W

Key Features - Constants in CF- ED1

- *The Framework ...establishes the concepts that underpin financial reporting...IPSASB will apply these concepts in developing IPSASs or non-authoritative guidance. (1.1)*
- *The Conceptual Framework does not establish authoritative requirements ... (nor) override the requirements of IPSASs. ...it can provide guidance (on) issues not dealt with by IPSASs or non-authoritative guidance (1.2)*
- *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. (1.4)*
- *...IPSASB will review extant IPSASs and identify and, through application of due process address...substantial conflict between IPSAS and the Conceptual Framework. (BC 1.2)*

SECTION1: ROLE AND AUTHORITY OF F/W

Major changes as per directions in December 2011

- **Scope - relocated to section 2**
GPFRs re-expressed: encompass fin. statements (including notes) and info that enhances, complements & supplements the fin.statements (para 1.6)
 - Para 1.7 & BC1.5 – “signpost “ repositioning of scope
- **GBEs**
 - Para 1.8 explain: F/W applies to Pub Sector entities that apply IPSASs
 - Para BC1.3 – elaboration re GBEs apply IPSASs in some jurisdictions
 - Para 1.8 (relocate to follow 1.3?)
- **Relocation of text**
 - Authoritative requirements identified in IPSASs – from BC1.2 to 1.2 & 1.3
 - *Final sentence 1.3 – staff propose reposition to 1.2?*
 - *Footnote para 1.6 to text – staff proposal*

BOARD DIRECTIONS

Section 1: ROLE AND AUTHORITY OF F/W

Respondents - outstanding issues

Respondent concerns - not previously considered

- Elaborate on accrual basis (Respondents 13, 20)
- Include cash basis concepts or action project on cash basis F/W (23, 52)
- Include matters subsequently addressed in Key Character ED (3, 8, 17, 45)
- F/W text rather than BC1.2 note F/W basis for review of IPSASs (11, 23)
- F/W explain where conflict with F/W, IPSASs prevail (13)
- F/W explain, in absence of IPSAS, adopt policies consistent with F/W (54)

Staff views

- No change cash and accrual - discussed by IPSASB in developing ED
- Consider Key Characteristics at item 2A
- Reluctant to change for other points – not convinced of need to change

BOARD DIRECTIONS

March 2012 - item 2B

IPSASB members - other matters?

Text or Basis for Conclusions

SECTION 2: OBJECTIVES , SCOPE and USERS

Key Features - from CF- ED1

Objectives: *The objectives of financial reporting by public sector entities are to provide information about the entity useful to users of GPFRs accountability purposes and for decision making purposes. (para 2.1)*

Primary Users: *GPFRs...are developed primarily to respond to the information needs of service recipients and resource providers who do not possess the authority to require ... disclose the information they need ...(& their representatives) (para 2.4)*

Information needs and info provided by GPFRs (para 2.7-2.28):

- *Financial position, financial performance & cash flows*
- *Compliance with budget*
- *Service delivery achievements*
- *Prospective financial and non-financial information*
- *Narrative reports (explanatory information)*

SECTION 2: OBJECTIVES , SCOPE and USERS

Major changes: Users, Objectives, Info needs (para 2.1- 2.13)

- **Objectives & Users**
 - Note legislature make extensive use of GPFRs (para 2.4)
 - Note Gov. users of GPFRs of internat. gov. organiz'ns (para 2.5 from 2.11)
- **Accountability & Decision making** (para 2.7 – 2.10 & BC2.15-2.16)
 - Reflect broad notion of accountability (draw from Key characteristics)
 - Includes compliance & service delivery achievements and capacity
 - Reinforce link accountability & decision making
 - Info. for accountability also input for dec'n making -ie complementary
- **Information needs – the additional step** (para 2.11)

Performance, liquidity/solvency, sustainability of fin.& operating capacity, adaptability

 - Concern duplication of contents of para 2.12 & 2.13 (Delete 2.12 – 2.13?)

BOARD DIRECTIONS – other matters?

SECTION 2: OBJECTIVES , SCOPE and USERS

Information provided by GPFRs (para 2.17 - 2.28)

- **Financial position, financial performance & cash flows**
 - Para 2.17 to build argument for broader scope
 - Explains may present info. in separate reports or notes to fin.statement
(Not previously discussed- but IPSAS 24 re budget info. & ED46 re sustainability)
- **Compliance with budget** (para 2.18-2.21)
 - Establish relationship of GPFRs to Gov. budget 2.19-2.21
 - Build case, draw on key characteristics - ED
- **Service delivery, Prospective fin.& non-fin. Info.** (2.22-2.26)
 - For both, build the case – draw on key characteristics - ED
- **Narrative reports** (2.27-2.28)
 - Propose rename “additional explanatory material” and revise para 2.27
 - Propose delete para 2.28. or move to service delivery achievement section

BOARD DIRECTIONS – other matters?

SECTION 2: OBJECTIVES , SCOPE and USERS

Information provided by GPFRs (para 2.17 - 2.28)

- **Board agreed revisit following respondent proposals :**
- F/W include greater emphasis on/explanation of reporting:
 - Compliance (12, 24) ,
 - Sustainability (15,18,39),
 - Operating objectives and operating conditions (24)

Staff view: No additional changes

Key characteristics ED responds in part.

More details developed at guidance/standards level

BOARD DIRECTIONS

SECTION 2: OBJECTIVES , SCOPE and USERS

Scope & other sources of info (para -2.29 to 2.31)

- **Scope of fin. reporting.**(2.29, 2.30)
 - Moved from section 1- build on users info needs & info provided by GPFRs
 - BC2.17-BC 2.27 – additional explanation of basis for Board conclusions
(link to fin. statements, non-authoritative guidance, audit status)
 - Note: BC 2.26:elements & presentation of additional statements, schedules, information considered in Phase 4 & on project basis
 - References to how elements apply to wider scope considered subsequently in F/W have been deleted. (were in CF-ED1 BC1.8)
- **Other sources of information**

GPFRs not provide all info. users need - from CF-ED1: merge of BC1.9 & BC 2.26

BOARD DIRECTIONS

SECTION 2: OBJECTIVES , SCOPE and USERS

- **IPSASB Members – other matters?**
 - Text or Basis for Conclusions

Section 3: QUALITATIVE CHARACTERISTICS

Key Features - from CF- ED1

- *The qualitative characteristicsare relevance, faithful representation, understandability, timeliness; comparability, and verifiability. (para 3.2)*
- *Materiality, cost-benefit, and achieving an appropriate balance between the qualitative characteristics are pervasive constraints..... (para 3.3)*

Section 3: QUALITATIVE CHARACTERISTICS

Major Changes from CF- ED1

- Major changes from CF-ED1 re directions at Dec 2011
 - Comparability not prohibit improving accounting policy (3.22, BC3.27, BC3.28)
 - Materiality remains a constraint – explanation notes materiality considered by IPSASB and preparers (3.34, BC3.35, 3.36)
 - BC clarify faithful representation does not mean fair value (BC 3.12- BC3.14)

Staff proposed additional revisions

- BC explain IPSASB will consider/seek input on application of QCs in projects dealing with broad scope matters (BC3.2)

BOARD DIRECTIONS

Section 3: QUALITATIVE CHARACTERISTICS

Not previously considered or agreed revisit to confirm

The following as separate QCs or same or greater prominence:

Substance over form (33, 37, 40)

Completeness and neutrality (24)

True and fair view (26, 47)

Conservatism or prudence (7, 20, 22)

Accountability value (40, 45)

Staff View – no further changes

Considered previously IPSASB view at para BC: 3.4, 3.5, 3.10, 3.16 to 3.19

Accountability value and decision making value embedded in QCs

BOARD DIRECTIONS

Section 3: QUALITATIVE CHARACTERISTICS

Agreed consider at this meeting

F/W deal with quality of processes, controls, documentation

- Wording proposed at appendix A to 3B.0

Staff – Acknowledge in BC3.10 as noted below, rather than amend the text:

“Having in place accounting systems and processes that are appropriately designed and operating effectively will enable management to gather and process evidence supporting financial reporting. The quality of these systems and processes is a key factor in ensuring the quality of financial information that the entity includes in GPFRs.”

(This wording drawn from proposed amendment to para 3.11 in Appendix A)

Section 3 : QUALITATIVE CHARACTERISTICS

Agreed consider at this meeting

Amend *free from material error* para 3.16 (response 55)

*...In these cases, the estimate will be free from material error if the amount is clearly described as an estimate, the nature and limitations of the estimation process are explained, **and no material errors have been identified in selecting and applying an appropriate process for developing the estimate.***

Replace with:

*...**the method of measurement used is appropriate in the circumstances; and the assumptions used and the resulting estimate are reasonable.***

Staff View - no change: concern that:

- links free from material error to reasonableness of resulting estimate
- Concern preparer determines if resulting estimate is reasonable

BOARD DIRECTIONS

SMC3: QCS – CONSTRAINTS – OTHER ISSUES

Other issues/matters

- Clarify terms “eco phenomena” and “other phenomena” (41,44,46)

Staff View: can do, if considered necessary

- Clarify operation of Cost -Benefit constraint (24,45,52)
 - Board makes assessment of cost benefit from users perspective (24)
 - Some disclosures in public interest irrespective of C-B (52)
 - C-B also applies for disclosures not mandated in IPSASs/GAAP (45)
 - Acknowledge C-B may differ for different entities (3,30)

Staff view: IPSASB has considered these and F/W reflects Board view

- IPSASB considers all QCs, constraints from user perspective- broader than C-B
- F/w should not reflect C-B assessments not necessary in some cases
- Enhance references/links in BC 3.39, 3.40, 3.41 re other points

BOARD DIRECTIONS

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SMC3: QCS – CONSTRAINTS – OTHER ISSUES

Other issues/matters

- Whether inclusion of following in BC3.26 of F/W is appropriate :
“the IPSASB is of the view that IPSASs should preclude or limit the extent to which alternative accounting methods are permitted for presentation of the same economic or other phenomena” (24)

Staff View: Should be removed – reflects consequence of F/W

- Clarify/elaborate the following
 - Timeliness involves preparation and delivery of GPFRs to users (20)
 - Understandability may involve summary reports (52)

Staff View: No change

- Para3.19 timeliness means having information available for users.
- Summary reports deal with at guidance/standards level if an issue

BOARD DIRECTIONS

SMC3: QCS – CONSTRAINTS – OTHER ISSUES

Other issues/matters

IPSASB members - other matters?

Text or Basis for Conclusions

Section 4 -THE REPORTING ENTITY

2nd Draft – 1st Draft reviewed Dec 2011

- Major changes: amended to reflect Board decisions in Dec. 2011
 - Para 4.2 revised to identify key characteristics of Reporting Entity
 - (a) Entity raises/uses resources , & (b) existence of users of GPFRs of the entity
 - Amendments to para 4.10 to eliminate duplication
 - Delete para on jurisdictional differences
- Additional changes made/proposed in:
 - 4.1:Refer to Gov, pub sector organ, program, identifiable activities as entity”
 - Drafting purposes - does not run counter to pub sector combinations project
 - BC updated to align with changes re scope
 - BC 4.7 from text & developed to support prof. Judgment (at 4.10 in text)
 - Propose removal of BC4.11 (not 4.12) re consolidated or combined statements

BOARD DIRECTIONS – Additional Issues?

Section 4 -THE REPORTING ENTITY

2nd Draft – 1st Draft reviewed Dec 2011

IPSASB members - other matters?

Text or Basis for Conclusions

NEXT STEPS

- Next Steps – prepare updated draft of this Phase
 - At this stage retain Appendices re IASB & GFS approaches
 - Retain existing style of Basis for Conclusions
- **Any other matters ?**

END

- END March 2012

IASB ED – REPORTING ENTITY – March 2010

- A reporting entity is a circumscribed area of economic activities whose financial information has the potential to be useful to existing and potential equity investors, lenders and other creditors who cannot directly obtain the information they need in making decisions about providing resources to the entity and in assessing whether management and the governing board of that entity have made efficient and effective use of the resources provided. (para RE2)

[A reporting entity has three features:

- (a) economic activities...are being, have been or will be conducted;
- (b) can objectively distinguish activities from those of other entities...
- (c) financial info about the economic activities of that entity has potential to be useful in making decisions about providing resources to the entity and in assessing whether the management and the governing board have made efficient and effective use of the resources provided – summary of para RE3]

SMC 2: OBJECTIVES OF FINANCIAL REPORTING

IPSASB Rationale for Objective

- *“Governments and other 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 services. Those that provide the resources and receive, or expect to receive, the services will also require information as input for decision-making purposes.” (IPSASB CF-ED1 para 2.3)*