



**INTERNATIONAL FEDERATION
OF ACCOUNTANTS**

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Agenda Item **2B**

Date: February 13, 2012
Memo to: Members of the IPSASB
From: Paul Sutcliffe
Subject: Review of Draft Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities Phase 1: *Role and Authority of the Framework; Objectives, Scope and Users of GPFRs; Qualitative characteristics; and Reporting Entity*

Objective of This Session

1. The objective of this session is to review and provide staff with directions for the further development of the draft Phase 1 of the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: *Role and Authority of the Framework; Objectives, Scope and Users of GPFRs; Qualitative Characteristics; and Reporting Entity*.

Agenda Material

2. Agenda material attached to this memorandum:
 - 2B.1 First draft of the following sections of Phase 1 of the Conceptual Framework: *Role, Authority; Objectives scope and Users; Qualitative Characteristics* – clean and marked-up copies;
 - 2B.2 Second Draft of the following section of Phase 1 of the Framework: *Reporting Entity* – clean and marked-up copies;
 - 2B.3 Extract of draft minutes of the December 2011 meeting; and
 - 2B .4 A summary of working-decisions made by the IPSASB in its review of responses to 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*” (CF—ED1).

Other relevant materials previously posted:

Staff Summary and Collation of responses received to CF—ED1. Previously posted with September 2011 and December 2011 IPSASB Agenda materials;

A Copy of CF—ED 1; and

A copy of all submissions received.

Background

3. The Exposure Draft of Phase 1 of the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: *Role and Authority of the Framework; Objectives, Users and Scope of GPFRs; Qualitative characteristics; and Reporting Entity* (CF—ED1) was issued in December 2010 with a request for comments by June 15, 2011.
4. A total of 55 responses were received to CF—ED1. The IPSASB reviewed all responses to CF—ED1, and identified and considered in detail all the substantive/key issues raised by respondents at its September 2011 and December 2011 meetings. At those meetings, the IPSASB made working decisions about, and provided staff with directions for, the development of a first draft of the Conceptual Framework dealing with matters addressed in the Phase 1 ED.
5. Clean and marked-up first drafts of sections 1, 2 and 3 of CF—ED1 which deal with the role and authority of the Framework; the objectives, scope, and users of general purpose financial reports (GPFRs); and the qualitative characteristics, updated to reflect IPSASB decisions are included at agenda items 2B.1(a) and 2B.1(b) respectively.
6. At the December 2011 meeting, the IPSASB reviewed a first draft of section 4 of CF—ED1 which deals with the reporting entity. That draft has been further updated consistent with directions of the IPSASB at its December 2011 meeting. Clean and marked-up revised drafts of the reporting entity section are included at agenda items 2B.2(a) and 2B.2(b) respectively.
7. Members are requested to undertake their detailed review on the clean versions of the drafts. The marked up versions identify deletions, additions and relocation of text included in CF—ED1. However, changes to some sections have been extensive, and it is awkward to work-off the marked-up drafts. In addition, some final editorial and formatting amendments are included in only the clean version of the draft.
8. The draft minutes of the December 2011 meeting dealing with the review of CF—ED1 are included at Agenda item 2B.3. Staff maintains a register of key decisions made by the IPSASB in the development of this project. This register is updated after each meeting at which Framework Phase 1 issues are considered. A summary of key decisions made by the IPSASB to date in reviewing responses to CF—ED1 is included at Agenda Item 2B.4. (A summary of key decisions made by the IPSASB in reviewing responses to the Consultation Paper (CP—ED1) and developing CF—ED-1 is also available on request.)
9. The Exposure Draft of Phase 1 of the Conceptual Framework included an Introduction which provided background to the Exposure Draft and the process for development of the Framework. The nature and contents of any Introduction to the final Conceptual Framework has not yet been resolved. It will be influenced by the IPSASBs discussion of the positioning of commentary dealing with matters addressed in the Exposure Draft “*Key Characteristics of the Public Sector with Potential Implications for Financial Reporting*” (*Key Characteristics ED*). This matter is to be considered at Agenda item 2A and, consequently, is not discussed further here.

Background and Issues

10. The attached draft Conceptual Framework has been updated as directed by the IPSASB at its September 2011 and December 2011 meetings. The Basis for Conclusions (BC) of each section has also been updated to identify issues raised by respondents to CF—ED1, the IPSASB’s response to those issues and the rationale underlying that response.

11. Major features of changes to each section of CF—ED1 are outlined below, together with issues for the IPSASB to consider in its review of this draft of Phase 1 of the proposed Framework. Those issues encompass detailed edit/drafting issues identified by respondents to CF—ED1 which the IPSASB noted should be revisited as the updated drafts of these sections of the Framework were reviewed. They also encompass issues/concerns identified by the Task Based Group (TBG) and staff which flow from IPSASB decisions to date. Proposals for further revisions by the TBG and staff are also highlighted in “comment boxes” at relevant points in the draft Framework at Agenda items 2B.1 and 2B.2

Section 1 – Role and Authority – overview of changes and consequential issues

The scope of Financial Reporting

12. The substantive discussion and justification of the more comprehensive scope of financial reporting has been relocated to section 2 which deals with objectives and user needs. Consequently, the title of section 1 of the Framework has been changed to refer only to the role and authority of the Framework. An acknowledgement of the repositioning of the explanation of the scope of financial reporting is included in paragraph 1.7 as a signpost to readers, and is developed further at paragraph BC1.5 – this reflects the approach the IPSASB adopted in CF—ED1.
13. The explanation of GPFRs has been revised to reflect the IPSASB’s direction that the Framework is to reflect that GPFRs may encompass financial statements including their notes and “information that enhances, complements and supplements the financial statements”.

Applicability of the Framework and Government Business Enterprises

14. Paragraph 1.8 deals with the applicability of the Framework. It has been updated to acknowledge that the Framework applies in respect of public sector entities that apply IPSASs, including government business enterprises (GBEs) that apply IPSASs. Paragraph BC1.3 provides some elaboration by noting that in some jurisdictions GBEs apply IPSASs and/or prepare whole of government GPFRs which include information about GBE’s. This observation is of course a holding position. At the December 2011 meeting, the IPSASB agreed to action a project on GBE’s and noted that the explanation of the relationship of the Framework to GBE’s may need to be revisited as this project is further developed.
15. The TBG and staff are of the view that there is a case for relocating paragraph 1.8 to follow paragraph 1.3 because the explanation flows rather naturally from the role and authority of the Framework to its applicability – currently this narrative flow is interrupted by discussion of GPFRs.

Relocation of text

16. As directed, the acknowledgement that authoritative requirements are specified in IPSASs has been relocated from the BC to the text of the Framework. As a consequence of this change, the final sentence of paragraph 1.3 now appears out of place. The TBG and staff propose that the final sentence of paragraph 1.3 be relocated to become the final sentence of paragraph 1.2, or be deleted.
17. The footnote to paragraph 1.6 of the CF—ED1 which noted that references to inclusion in GPFRs does not necessary mean inclusion in each GPFR has been relocated to the text

(at paragraph 1.6). Relocation from, or concern with, the footnote was proposed by some respondents (Respondents 9 and 46).

Drafting and other refinements proposed by respondents

18. The following bullet points identify drafting and other amendments proposed in responses to CF—ED1 that have not previously been specifically considered by the IPSASB. Staff does not propose that these amendments be adopted. The reasons for the staff view is also outlined below:
- The explanation of accrual accounting be repositioned from the introductory material to the text and/or further developed (Respondents 13, 20). Staff does not propose adoption of these proposals. This is because, in the development of CF—ED1, the IPSASB considered both the positioning and the extent of explanation of the accrual basis, and agreed on the current positioning and explanation;
 - Inclusion of a separate section on the cash basis of reporting (Respondent 23) or development of a separate project on concepts underpinning the cash basis (Respondent 52). Staff does not propose adoption of these proposals in the accrual Framework – the Conceptual Framework Project Brief notes that the conceptual underpinnings of the cash basis will be considered following completion of the accrual framework; and
 - Differences between the operating environment and objectives of private and public sector entities, and their implications for public interest disclosures and assessment of going concern of public sector entities (Respondents 3, 8, 17, 45). These matters are encompassed within the Key Characteristics – ED and will be dealt with by the IPSASB in its review of responses to that ED.
19. Some respondents also proposed the following refinement to the text of CF—ED1 to better convey the message intended by the IPSASB. Staff does not propose adoption of these amendments. This is not because they do not have merit or because they represent a change from the message intended by the IPSASB, but rather because in some cases the IPSASB has specifically considered the placement and wording of the text and the majority of respondents appeared comfortable with the wording/positioning adopted by the IPSASB in CF—ED1. Staff is uncomfortable with recommending changes at this stage given that there may be unintended consequences of the change that have not been tested through the exposure process:
- An statement that the Conceptual Framework forms the basis upon which the IPSASB will review existing IPSASs should be included in the text of the Framework (Respondent 11), or paragraph BC1.2 which includes a similar notion should be moved to the text itself (Respondents 11 and 23);
 - The Framework should include a statement equivalent to that in the IASB Framework noting that where there is a conflict the IPSAS will prevail. However, since the IPSASB will be guided by the Framework in developing IPSASs it is anticipated the differences will diminish over time¹. (Respondent 13); and

¹ The text in the IASB Framework notes: “The Board recognises that in a limited number of cases there may be a conflict between the Conceptual Framework and an IFRS. In those cases where there is a conflict, the requirements of the IFRS will prevail over those of the Conceptual Framework. As, however, the Board will be guided by the Conceptual Framework in the development of future IFRSs and in its review of existing IFRSs, the number of cases of conflict between the Conceptual Framework and IFRS will diminish through time

- The Framework should explain that in the absence of an IPSAS that deals with the particular economic or other phenomena, an entity should adopt accounting policies that are consistent with the Conceptual Framework (Respondent 54).

Action Requested:

Members are requested to review and confirm or otherwise the revised section 1 of the draft Conceptual Framework: *The Role and Authority of the Conceptual Framework*.

Members are also requested to provide directions for the further development of this section of the proposed Framework.

Section 2 Objectives, Scope and Users – overview of changes and consequential issues

20. The section now includes discussion of the scope of financial reporting following discussion of users' information needs and information provided by GPFRs. Reference to the scope of financial reporting has been added to the section heading in consequence. This establishes the link to CF—ED1 and makes it clear that the scope of financial reporting is addressed in the Framework.

Governments that provide resources to International Governmental Organizations

21. Paragraph 2.5 now includes a sentence which acknowledges that governments that provide resources to international governmental organizations are dependent on GPFRs of those organizations for information for accountability and decision-making purposes. This sentence was previously included in paragraph 2.11 of CF—ED1. However, paragraph 2.11 of CF—ED1 dealt primarily with the information needs of particular groups of users, rather than with the likely identity of users. Staff is of the view that the sentence sits more appropriately here and establishes a useful link to users of GPFRs of international governmental organizations.

Accountability and Decision Making

22. Paragraphs 2.7–2.10 bring together, reposition and build on material in CF—ED1 dealing with a government's or other public sector entity's obligation to be accountable, and users need for information for accountability and decision making purposes, and are supported by paragraphs BC2.15 and BC2.16. These revisions are intended to respond to the IPSASB's direction that a broad notion of accountability is to be reflected in the Framework, and that links between information for accountability and decision making purposes are to be confirmed.

Information needs of service recipients and resource providers

23. Paragraph 2.11 has been developed to responds to the IPSASB's direction to insert an additional step referring to users need for information about performance, sustainability, financial and operating capacity, and flexibility before considering the information that is likely to be required by service recipients and by resource providers. Paragraph 2.12 and 2.13 reflect the equivalent paragraphs in CF—ED1 but have been refined to reduce some duplication given the insertion of the additional "step" at paragraph 2.11. However, the TBG and staff remain concerned that the insertion of this step has introduced a sense of repetition through these paragraphs and did discuss whether:

- Retention of paragraphs 2.12 and 2.13 remained useful – but on balance felt that they were useful, at least at this stage, since they were included in CF—ED1 and did not attract adverse comment. In this context, the draft now reinforces that the role of these paragraphs is to outline that the information needs of service recipients and resource providers overlap in many respects; and
- Some of the information needs identified in paragraphs 2.12 and 2.13 should be merged with paragraph 2.11 - but were of the view that this would undermine the role that the IPSASB had intended paragraphs 2.12 and 2.13 to play (that is, to highlight that the information needs of service recipients and resource providers are likely to overlap.)

Information Provided by General Purpose Financial Reports

24. Paragraph 2.17 has been inserted to reflect the IPSASB's direction that the scope of GPFRs is to encompass financial statements and information that enhances, complements and supplements the financial statements, and to indicate what that additional information might be. The explanation of, and rationale underlying, that additional information has then been further developed under the same headings as used in CF – ED1. Additional commentary has been included in paragraphs 2.18 – 2.21 to explain the role of the budget and GPFRs, and their points of engagement. Similarly, commentary to reinforce the “case” for inclusion of information about service delivery activities and achievements and prospective information has been included in paragraphs 2.22-2.26.
25. Paragraph 2.17 includes the observation that information about compliance, service delivery achievements and future expectations may be presented in notes to the financial statements or separate reports in GPFRs. Staff is concerned that without such a statement, the Framework may be read as implying that this additional information will be presented only in additional reports. The inclusion of this type of observation has not been specifically discussed by the IPSASB. However, staff is of the view that this does reflect what occurs in some cases - for example, IPSAS 24 “*Presentation of Budget Information in Financial Statements*” allows for disclosures in the notes or by way of separate report and exposure draft ED46 “*Reporting on the Long term Sustainability of Public Finances*” provides guidance and does not comment on whether disclosures are made in notes to the financial statements or as separate reports.
26. Staff is not convinced that the term “Narrative Reports” is an appropriate heading for matters discussed in paragraphs 2.27 and 2.28. This is because a “narrative” may be included in notes to financial statements, in reports on service achievements during the reporting period and in reports dealing with prospective financial and non-financial information. Staff is of the view that that a catch-all generic title like “*Additional Explanatory Material*” may serve better here. In this context, staff also continues to have doubts about the inclusion of paragraph 2.28 here. In effect, this paragraph explains that information about service delivery achievements may be quantitative or explanatory. Staff is of the view that, if retained, such observations sit more appropriately in the section dealing with service delivery achievements.
27. At the last meeting members noted that some respondents to CF—ED1 had advocated that the Framework include greater emphasis on, or explanation of, reporting of compliance, sustainability and/or operating objectives and conditions (Respondents 12, 15, 18, 24, 39), and intergenerational equity (Respondent 52). Members agreed that these proposals would be revisited and considered as the refinement/elaboration of this section of the Framework develops. The IPSASB has responded in part to these

concerns with commentary included in the Key Characteristics - ED and additional explanation in this draft of the Framework. However, the explanations included in this draft Framework and the Key Characteristics – ED, are unlikely to go as far as all these respondents would wish. While acknowledging their view, staff is of the view that additional guidance on these matters would be more appropriately dealt with at the standards/guidance level rather than in the Framework.

Scope of financial reporting

28. Paragraphs 2.29-2.30 deal with the scope of financial reporting. These paragraphs and paragraphs BC2.17-BC2.27 that support them have been drawn from section 1 of the CF—ED1. They have been updated to reflect the IPSASB's decision that the scope of financial reporting is to provide for GPFRs that include financial statements and additional information that enhances, complements and supplements those statements. The BC also includes an explanation of the IPSASB's response to the issues and concerns raised by respondents to CF—ED1. Explanation included in section 1 of the CF—ED1 that, notwithstanding their broad scope, GPFRs would not provide all the information users need has now been included in paragraph 2.31 dealing with other sources of information.
29. Paragraph BC1.8 of CF—ED1 noted that “...*components of the Conceptual Framework dealing with the definition, recognition and measurement of the elements of GPFRs will be developed to initially focus on elements of the financial statements. How these concepts may apply to other areas of financial reporting will be considered subsequently.*” Staff is concerned that this comment may be interpreted to mean that the Framework will also identify the elements of other areas of financial reporting, outside the financial statements. Staff is of the view that this is unlikely to occur given the timetable for completion of the Framework. Consequently, this observation is not included in this draft Framework. Rather, paragraph BC2.26 reflects that the format and contents of any statements, schedules or other report that presents information in GPFRs outside the financial statements will be guided by the presentation concepts being developed in Phase 4 and be considered in the development of projects that deal with these matters.

Action Requested:

Members are requested to review and confirm or otherwise the revised section 2 of the draft Conceptual Framework: *The Objectives and Scope of Financial Reporting and Users of General Purpose Financial Reports*.

Members are also requested to provide directions for the further development of this section of the proposed Framework.

Section 3: Qualitative characteristics of, and constraints on, information included in GPFRs of public sector entities – overview of changes and consequential issues

30. The term “faithful representation”, rather than “reliability”, has been retained and the supporting BC further developed to outline the IPSASB's reasoning for adoption of the term. A number of respondents to CF—ED1 expressed concern that use of the term faithful representation implies the adoption of fair value or market value accounting (Respondents 4, 22, 33, 40). The BC has been updated to reflect the IPSASB's view that this is not the intent or a necessary consequence of adopting the term faithful representation.
31. At the December 2011 meeting members noted that a respondent had proposed that the quality of a public sector entity's processes, controls and documentation should be

addressed within the IPSASB's Conceptual Framework to ensure reliability/faithful representation. In addition, the ability to obtain accounting evidence is a factor that needs to be taken into account by the IPSASB when considering new requirements (Respondent 11). Members agreed to consider specific wording developed by a Technical Advisor (G. Waldbauer) to give affect to this proposal. That wording is included as Appendix A to this memorandum. Staff is of the view that the points made are useful observations on the importance of internal systems and processes, and could usefully be acknowledged. However, staff is not convinced they are matters that should be identified so prominently as concepts for general purpose financial reporting in the text of the Framework itself. Staff is also concerned that the changes proposed may have consequences for the message intended by the IPSASB, and is uncomfortable with their inclusion at this stage. If reference to internal processes is to be made in the Framework, staff would prefer that it be made in the BC by including, following paragraph BC3.10, an extract of the proposed amendment to paragraph 3.11 as follows:

“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.”

32. At the December 2011 meeting members noted the following matters identified by respondents and staff views thereon, and agreed they should be revisited as part of the review of this draft of the Framework to confirm or otherwise initial decisions made :

- Explanation of matters such as substance over form (Respondents 33, 37, 40), completeness and neutrality (Response 24), true and fair view (Respondents 26, 47), and conservatism or prudence (Respondents 7, 20, 22) should receive greater prominence or these characteristics should be identified as individual QCs in their own right.

Staff view: These matters have been considered previously by the IPSASB in developing the Consultation Paper and the CF—ED1. Paragraphs BC3.4 – BC3.5 explain the outcome of the IPSASB's deliberation on these matters. Staff does not propose any changes in respect of them.

- “Accountability value” should be identified as a component of relevance or otherwise as a QC (Respondent 40, 45).

Staff view: A consequence of identifying the QCs as attributes that make information useful and support achievement of the objectives, is that accountability is embedded in and already has a pervasive impact across the QCs – that is, information must be relevant for accountability and decision making purposes. Staff anticipates that a more explicit reference to “accountability value” would also justify a more explicit reference to “decision making value”, and is not convinced that such additional references are necessary.

- Free from material error is a condition of the financial statements, whether or not the entity is aware of material errors or omissions. Management's awareness or lack of awareness of material errors or omissions are conditions which should not be included as part of the definition of faithful representation. Consequently, the explanation of free from material error should be re-expressed to reflect that : “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,

the method of measurement used is appropriate in the circumstances; and the assumptions used and the resulting estimate are reasonable.” (Respondent 55).

Staff View: Staff is uncomfortable that the proposed rewording will change the meaning of “free from material error” from that intended by the IPSASB. In particular, that it requires preparers to make an assessment of whether the outcome of the estimation process is reasonable, and links “free from material error” with the reasonableness of the estimate.

33. Respondents made a number of other comments on the QCs and constraints. In many cases these have been explicitly considered and processed, otherwise responded to or absorbed in other changes directed by the IPSASB. The following have not yet been specifically considered:

- Clarify the meaning of “other phenomena” in the phrase economic and other phenomena as used in, for example, in paragraphs 3.1, 3.10 and 3.15 (Respondents 41, 44, 46). Some respondents note that economic phenomena is a broad term and references to other phenomena may be confusing.

Staff View: Staff is of the view that the IPSASB intended the use of economic phenomena to refer to information about the raising, holding, distribution or consumption of scarce resources. The use of the term “other phenomena” was intended to encompass disclosures of quantitative and explanatory information relating to the reporting of contextual information about matters that may not be so readily or directly identified as economic phenomena by some - for example, the nature and quality of particular services provided and changes therein, assumptions about the needs of particular groups of citizens for particular services and demographic or societal changes that may impact or underpin expectations about service delivery objectives in the future. Staff had anticipated that the IPSASB’s intention for, and use of, the phrase economic and other phenomena would be generally understood by constituents, and is not convinced that definition or further elaboration of “other phenomena” (or “economic phenomena”) is necessary. However, some explanation of the term could be included in the BC. A “phenomenon” may be defined in different ways but most definitions reflect that it is an event that may be observed, perceived, or known. Economics is generally defined in terms of the social science that deals with production, distribution, and consumption of goods and services. If the IPSASB is of the view that the Framework should include an elaboration or explanation of “other resources” staff will develop for Members’ consideration some wording which incorporate these notions.

- Clarify the operation of the cost benefit constraint in particular circumstances including that the Framework acknowledge that: the “cost-benefit” assessment is made by the IPSASB and assessed from the users perspective (Respondents 24), costs and benefits may differ for different entities (Respondents 3, 30), cost-benefit will be considered by preparers in considering disclosures beyond GAAP (Respondent 45), and in some circumstances, the IPSASB may require disclosures because they are in the public interest irrespective of any cost-benefit assessment (to ensure that IPSASB pronouncements are not constantly questioned on the basis of empirical evidence regarding costs and benefits). (Respondent 52);

Staff View: Staff is supportive of the notions that underpin these proposals, but is of the view that, for the most part, these matters are already embraced by the Framework given that the Framework will direct the IPSASB in developing IPSASs that respond to users’ information needs. Staff is also of the view that the IPSASB would be reluctant to revise the Framework to reflect that a cost benefit assessment,

however subjective, would not be necessary in some circumstances. In addition, staff notes that the IPSASB has discussed whether to acknowledge in the Framework that costs and benefits may differ for different entities, but has decided that such observations should not be made in the Framework. However, staff has made some refinements to Paragraphs BC3.39, BC3.40 and BC3.41 which are intended to serve as a touchstone to these concerns.

- Whether inclusion of the observation in paragraph BC3.24 of CF—ED1 (BC3.26 of the attached draft) that “*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*” should be included in the Framework. A respondent noted that this appears a policy statement for standard setting (respondent 24), and by implication questions whether it is appropriate that it be buried in the BC.

Staff View: Staff takes the point – this appears to reflect a consequence of application of the Framework that will guide the development of IPSASs at standards level. In addition, the IPSASB may encourage experimentation in financial reporting of new transactions or events. Whether this observation should be included in a Conceptual Framework is questionable. Staff proposes its deletion.

- Some respondents advocated further elaboration of:
 - Timeliness, to acknowledge that in the public sector timeliness involves preparation of GPFRs and their delivery in a timely manner to users. (Respondent 20); and
 - Understandability, to acknowledge that it may be necessary to present information differently or in summary form for different groups of users (Respondent 52).

Staff View: Staff agrees with the underlying sentiments here, but does not propose any amendments at this stage because paragraph 3.19 explains that timeliness means having information available for users before it loses its capacity to be useful (and does not raise issues about just what “delivery” may mean); and whether information should be presented differently or in summary form for different groups of users is more appropriately considered at standards level, rather than at the concepts level.

Action Requested:

Members are requested to review and confirm or otherwise the revised section 3 of the draft Conceptual Framework: *The Qualitative Characteristics of, and Constraints on, Information included in General Purpose Financial Reports*.

Members are also requested to provide directions for the further development of this section of the proposed Framework.

Section 4: The Reporting Entity – overview of changes and consequential issues

34. Consistent with the directions of the IPSASB at the December 2011 meeting, paragraph 4.2 has been revised to identify that the key characteristics of a reporting entity are: (a) the raising of economic resources from or on behalf of constituents and the use of those resources; and (b) the existence of service recipients or resource providers that depend on GPFRs of the entity for information for accountability or decision making purposes. Paragraph 4.6 has also been added to elaborate on the 4.2(a) of the key characteristics.

35. Paragraph 4.1 notes that a government or other public sector organization, program or identifiable area of activity is referred to as “an entity” or public sector entity”. This observation has been included primarily for drafting purposes. It makes the text easier to draft and to read, and clears-up some inconsistencies in CF—ED1 where the term entity was used without explanation in some cases. Staff notes the IPSASB is developing a definition of “an operation”, and establishing the relationship of an operation to an entity, in its project on public sector combinations. Staff is of the view that the use of public sector entity here does not run counter to developments in the public sector entity combination project. However, staff will continue to monitor the development of the project on public sector combinations.
36. Amendments have been made to paragraph 4.10 (paragraph 4.7 in the December draft) to overcome perceptions that it may duplicate matters raised in paragraph 4.8 (paragraph 4.5 in the December draft). Identification of some of the specific matters that may be considered in exercising judgment about the existence of users and the need for preparation of GPFRs have been relocated to the BC.
37. The BC retains at paragraph BC4.12 an acknowledgement that the Framework does not specify the basis on which financial statements are to be prepared or the techniques to be adopted in compiling combined, consolidated or other financial statements. This is quite accurate. However, with the deletion of the section dealing with the group reporting entity, staff does not believe this paragraph is necessary, and may even be confusing. Consequently staff proposes deletion of paragraph BC4.12.

Action Requested:

Members are requested to confirm or otherwise the revised section 4 of the draft Conceptual Framework: *The Reporting Entity*, and provide staff with directions for its further development.

Matters of form and style that cut across all sections – Appendices and Style of Basis for Conclusions

Appendices

38. The content of Appendix 4B dealing with the reporting entity under the statistical bases of financial reporting has been updated to reflect IPSASB directions at the December 2011 meeting. However, at its meeting in December 2011, the IPSASB agreed the role, nature and placement of the appendices which outline how similar matters are dealt with in the IASB Framework and in the statistical bases of reporting be classified as an “overarching issue”, and be revisited and dealt with on a consistent basis as all Phases of the Framework are brought together and finalized. Consequently, no other changes to the location or style of these appendices have been processed in these drafts.

Basis for Conclusions

39. The BC has been structured to explain changes from the CF—ED1. This style of BC has been used in moving from consultation papers to exposure drafts. Staff is of the view that this style may be appropriate as a first step in moving from CF—ED1 to a draft of the final Framework - because it provides a record of the changes made to CF—ED1 and the reasons therefore. However, staff is not convinced that such a style is appropriate for the final Framework – because the Framework will outlive interest in the reasons for changes from CF—ED1, and the role of the BC will change to provide the rationale underlying the concepts themselves.

40. At the December 2011 meeting, members agreed that the “style” of the BC be revisited as the draft Framework is further developed and the IPSASB determines whether or not to issue an umbrella exposure draft of the proposed Framework or an exposure draft of particular components thereof if changes are so substantial as to trigger a due process issue.

Action Requested:

Members are requested to note these cross-cutting issues for consideration as all Phases of the Framework are brought together and the Framework nears completion.

Appendix A - Quality of a public sector entity's processes, controls and documentation

From Technical Advisor G. Waldbauer: Proposed changes to specific paragraphs of the text of Conceptual Framework Exposure Draft 1 relating to quality of a public sector entity's processes, controls and documentation – following on from issues raised by the IDW (Respondent 11) in its comment letter dated June 10, 2011.

Faithful Representation

3.10....

3.11 In most jurisdictions, management of a public sector entity has a legal duty of accountability towards a higher authority (whether the management of a superior public body or a legislative assembly). Financial information provided by management would be subject to such accountability obligations. Consequently, management has a duty to prepare financial information that is as ~~In practice, it may not be possible to know or confirm whether information presented in GPFRs is fully complete, neutral and free from material error as needed for accountability purposes. However, information should be as complete, neutral and free from material error as is possible.~~ Management therefore needs to have in place accounting systems and processes that are appropriately designed and operating effectively so as to enable management to gather and process evidence supporting financial reporting (i.e., "accounting evidence"), to document that evidence ("accounting documentation") to support the information presented in GPFRs, and thereby meet management's accountability obligations. The quality of these systems and processes is a key aspect in ensuring the quality of financial information that the entity includes in GPFRs. Nevertheless, due to the inherent limitations of such systems and processes, these can only provide reasonable assurance to management that the financial information prepared is free of material misstatement.

3.12....

3.13 Neutrality in financial reporting is the absence of bias. It means that the selection and presentation of financial and non-financial information is not made with the intention of attaining a particular pre-determined result – for example, to influence in a particular way users' assessment of the discharge of accountability by the entity or a decision or judgment that is to be made, or to induce particular behaviour. Appropriate financial reporting systems and processes that operate effectively enable management to support the accounting treatment of financial matters and assist management in reducing unintentional bias.

3.14....

3.15 The economic.....It may sometimes be necessary to explicitly disclose the degree of uncertainty in financial and non-financial information to faithfully represent economic and other phenomena. However, in some cases, uncertainty may be so great so as to make meaningful measurement impossible, ie, the impact of such uncertainty makes measurement irrelevant.

FIRST DRAFT OF CONCEPTUAL FRAMEWORK PHASE 1 (CLEAN VERSION)

FOR IPSASB REVIEW March 2012

BACKGROUND TO THE CONCEPTUAL FRAMEWORK

Staff Comment:

The Exposure Draft of Phase 1 of the Conceptual Framework included an Introduction which provided general background to the Exposure Draft and the process for development of the Framework.

That Introduction is included here for information. However, it is not proposed that it be discussed as part of this session. The nature and contents of the Introduction to the final Conceptual Framework will be developed as other Phases of the Framework project are finalized. It will be influenced by the IPSASBs discussion of matters addressed in the Exposure Draft “*Key Characteristics of the Public Sector with Potential Implications for Financial Reporting*”. Responses to that Exposure Draft are to be discussed at Agenda Item 2A.

INTRODUCTION

Background to the Conceptual Framework

The *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (the Conceptual Framework) will establish and make explicit 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).

IPSASs are developed to apply across countries and jurisdictions with different political systems, different forms of government and different institutional and administrative arrangements for the delivery of services to constituents. The International Public Sector Accounting Standards Board (IPSASB) recognizes the diversity of forms of government, social and cultural traditions, and service delivery mechanisms that exist in the many jurisdictions that may adopt IPSASs. In developing this Conceptual Framework, the IPSASB has attempted to respond to and embrace that diversity.

The Accrual Basis of Accounting

This Exposure Draft (ED) deals with concepts that apply to general purpose financial reporting (hereafter referred to as financial reporting) under the accrual basis of accounting.

Under the accrual basis of accounting, transactions and other events are recognized in financial statements when they occur (and not only when cash or its equivalent is received or paid). Therefore, the transactions and events are recorded in the accounting records and recognized in the financial statements of the periods to which they relate.

Financial statements prepared under the accrual basis of accounting inform users of those statements of past transactions involving the payment and receipt of cash during the reporting period, obligations to pay cash or sacrifice other resources of the entity in the future and the resources of the entity at the reporting date. Therefore, they provide information about past transactions and other events that is more useful to users for accountability purposes and as input for decision-making than is information provided by the cash basis or other bases of accounting or financial reporting.

Project Development

The IPSASB is developing the Conceptual Framework with input from an advisory panel comprising a number of national standard setters and similar organizations with a role in establishing financial reporting requirements for governments and other public sector entities in their jurisdictions.

The purpose of the IPSASB's Conceptual Framework project is to develop concepts, definitions and principles that:

- Respond to the objectives, environment and circumstances of governments and other public sector entities; and therefore
- Are appropriate to guide the development of IPSASs and other documents dealing with financial reporting by public sector entities.

Many of the IPSASs currently on issue are based on International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB), to the extent that the requirements of

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those IFRSs are relevant to the public sector. The IPSASB's strategy also includes maintaining the alignment of IPSASs with IFRSs where appropriate for the public sector.

The IASB is currently developing an improved Conceptual Framework for private sector business entities in a joint project with the Financial Accounting Standards Board (FASB) of the USA. Development of the IASB's Conceptual Framework is being closely monitored. However, development of the IPSASB's Conceptual Framework is not an IFRS convergence project, and the purpose of the IPSASB's project is not to interpret the application of the IASB Framework to the public sector.

The concepts underlying statistical financial reporting models, and the potential for convergence with them, are also being considered by the IPSASB in developing its Conceptual Framework. The IPSASB is committed to minimizing divergence from the statistical financial reporting models where appropriate.

Consultation Papers and Exposure Drafts

Although all the components of the Conceptual Framework are interconnected, the Conceptual Framework project is being developed in phases. The components of the Conceptual Framework have been grouped as follows, and are being considered in the following sequence:

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

Phase 2—the definition and recognition of the elements of financial statements;

Phase 3—consideration of the measurement basis (or bases) that may validly be adopted for the elements that are recognized in the financial statements; and

Phase 4—consideration of the concepts that should be adopted in deciding how to present financial and non-financial information in GPFRs.

The project initially involves the development and issue for comment of Consultation Papers (CPs) that draw out key issues and explore the ways in which those issues could be dealt with. The CP dealing with Phase 1 was issued in September 2008¹, CPs dealing with Phase 2 and Phase 3 are being issued at the same time as this ED and a CP dealing with Phase 4 is under development.

The IPSASB's current intention is to issue EDs dealing with each of Phases 2, 3 and 4 of the Conceptual Framework after consideration of responses to the CPs dealing with those Phases. The process for developing the finalized Conceptual Framework will be determined in light of the responses received to CPs and EDs, and may include issue of an umbrella ED of the full Conceptual Framework.

¹ Consultation Paper, *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: The Objectives of Financial Reporting; The Scope of Financial Reporting; The Qualitative Characteristics of Information Included in General Purpose Financial Reports; The Reporting Entity*. (Staff comment: If retained, this will be updated to also refer to the CF—ED).

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

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1 Role and Authority of the Conceptual Framework

Role of the Conceptual Framework

- 1.1 The *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (the Conceptual Framework) establishes the concepts that underpin general purpose financial reporting (hereafter referred to as financial reporting) by public sector entities that adopt the accrual basis of accounting. The International Public Sector Accounting Standards Board (IPSASB) will apply these concepts in developing International Public Sector Accounting Standards (IPSASs) or non-authoritative guidance applicable to the preparation and presentation of general purpose financial reports (GPFRs) of public sector entities.

Authority of the Conceptual Framework

- 1.2 The Conceptual Framework does not establish authoritative requirements for financial reporting by public sector entities that adopt IPSASs, nor does it override the requirements of IPSASs. Authoritative requirements relating to the recognition, measurement, presentation and disclosure of transactions and other events and activities that are reported in GPFRs are specified in IPSASs.
- 1.3 Although the Conceptual Framework has lesser authority than an IPSAS, it can provide guidance in dealing with financial reporting issues not dealt with by IPSASs or non-authoritative guidance issued by the IPSASB. In these circumstances, preparers and others can refer to and consider the applicability of the definitions, recognition criteria, measurement principles, and other concepts identified in the Conceptual Framework. In some cases, an IPSAS may identify circumstances in which the definitions and other concepts in the Conceptual Framework have authoritative status.

Staff proposes relocation of final sentence of paragraph 1.3 to become final sentence of paragraph 1.2. Given change in text, this repositioning supports continuity of explanation.

General Purpose Financial Reports

- 1.4 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 require the preparation of financial reports tailored to meet their specific information needs.
- 1.5 Some users of financial information may have the authority to require the preparation of reports tailored to meet their specific information needs. While such parties may find the information provided by GPFRs useful for their purposes, GPFRs are not developed to specifically respond to their particular information needs.
- 1.6 GPFRs encompass financial statements including their notes (hereafter referred to as financial statements, unless specified otherwise), and the presentation of information that enhances, complements and supplements the financial statements. GPFRs are likely to comprise multiple reports, each responding more directly to certain aspects of the objectives of financial reporting and matters included within the scope of financial reporting. Therefore, reference in this document to inclusion of information in GPFRs does not mean inclusion of that information in every GPFR that may be prepared.

- 1.7 The scope of financial reporting establishes the boundary around the transactions, other events and activities that may be reported in GPFRs. The scope of financial reporting is determined by the information needs of the primary users of GPFRs and the objectives of financial reporting. The factors that determine what may be encompassed within the scope of financial reporting are outlined in the following section of the Conceptual Framework. (See section headed *The Objectives and Scope of Financial Reporting and Users of General Purpose Financial Reports.*)

Applicability of the Conceptual Framework

- 1.8 The Conceptual Framework applies to financial reporting by public sector entities that apply IPSASs. Therefore, it applies to GPFRs of national, state/provincial and local governments. It also applies to a wide range of other public sector entities including:
- Government ministries, departments, programs, boards, commissions, agencies;
 - Public sector social security funds, trusts, and statutory authorities;
 - International governmental organizations that are public sector entities; and
 - Government business enterprises (GBEs) that apply IPSASs.

Staff proposes relocation of paragraph 1.8 to follow paragraph 1.3. Given change in text, repositioning supports the continuity of explanation.

1 Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, the Conceptual Framework.

Role and Authority of the Conceptual Framework

- BC1.1 The Conceptual Framework identifies the broad principles that the IPSASB will apply in developing IPSASs and non-authoritative guidance intended to assist preparers and others in dealing with financial reporting issues. IPSASs specify authoritative requirements. They are developed after application of a due process which provides the opportunity for interested parties to provide input on the specific requirements proposed, including their compatibility with current practices in different jurisdictions.
- BC1.2 The IPSASB is of the view that existing authoritative requirements should not be amended without the application of due process. After the Conceptual Framework is issued, the IPSASB will review extant IPSASs and identify and, through application of the due process, address any circumstances where there is substantial conflict between an IPSAS and the Conceptual Framework.

Government Business Enterprises

- BC1.3 The Conceptual Framework underpins the development of IPSASs. Therefore, it has relevance for all entities that apply IPSASs. In some jurisdictions, GBE's (also referred to as State Owned Enterprises, Crown Corporations or by similar terms) may apply IPSASs. GPFRs prepared at the whole-of-government level may consolidate all governmental entities, including GBE's. In these circumstances, GPFRs prepared at the whole of government level will include information about GBEs.

Staff comment – To be updated. The GBE project proposal (as at December 2011) anticipated completion of the GBE project prior to completion of the Framework project. The outcome of the GBE project will further clarify the relationship of the Framework to GBE's.

Special Purpose Financial Reports

- BC1.4 Standard setters often describe as "special purpose financial reports" those financial reports prepared to respond to the requirements of users that have the authority to require the preparation of financial reports that disclose the information they need for their particular purposes. The IPSASB is aware that the requirements of IPSASs have been (and may continue to be) applied effectively and usefully in the preparation of some special purpose financial reports.

General Purpose Financial Reports

- BC1.5 The Conceptual Framework acknowledges that, to respond to user's information needs, GPFRs may include information that enhances, complements and supplements the financial statements. Therefore, the Conceptual Framework reflects a scope for financial reporting that is more comprehensive than that encompassed by financial statements. The following section of this Framework (*The Objectives and Scope of Financial Reporting and Users of General Purpose Financial Reports*) identifies the objectives of financial reporting and the primary

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users of GPFRs. It also outlines the consequences of the primary users' likely information needs for what may be encompassed within the scope of financial reporting.

STAFF COMMENT – IPSASB HAS AGREED TO REVISIT MECHANISMS TO CROSS REFERENCE TO IASB AND STATISTICAL BASES OF REPORTING AS AN OVERARCHING ISSUES IMPACTING ALL PHASES OF THE FRAMEWORK PROJECT

Appendix 1A

The IASB Conceptual Framework (September 2010)

Role, Authority and Scope

The International Accounting Standards Board (IASB) develops and publishes International Financial Reporting Standards (IFRSs). IFRSs are designed to apply to the general purpose financial statements and other financial reporting of all profit-oriented entities. The IASB Conceptual Framework (issued in 1989 and updated in part in September 2010):

- Sets out the concepts that underlie the preparation and presentation of financial statements for external users.
- Focuses on financial statements that are prepared for the purpose of providing information that is useful in making economic decisions.
- Does not define standards for any particular measurement or disclosure issue.
- Does not override any specific IFRS. The IASB recognizes that in a limited number of cases there may be a conflict between the Conceptual Framework and an IFRS. If there is a conflict between an IFRS and the Conceptual Framework, the requirements of the IFRS prevail over those of the Conceptual Framework.

The purposes of the IASB Conceptual Framework include:

- Assisting the IASB in the development of future IFRSs and in its review of existing IFRSs.
- Assisting preparers in applying IFRSs and dealing with matters not yet dealt with by IFRSs.

The Conceptual Framework will also assist national standard setters, auditors, users and others who use IFRSs or have other interest in them.

STAFF COMMENT – IPSASB HAS AGREED TO REVISIT MECHANISMS TO CROSS REFERENCE TO IASB AND STATISTICAL BASES OF REPORTING AS AN OVERARCHING ISSUES IMPACTING ALL PHASES OF THE FRAMEWORK PROJECT

Appendix 1B

The Statistical Bases of Reporting of the 1993 System of National Accounts (updated 2008) and other guidance derived from it (ESA 95 and GFSM 2001)

Role, Authority and Scope

The 1993 System of National Accounts (SNA)—as updated in 2008 (2008 SNA):

- Applies to economic activities taking place within an economy and between an economy and the rest of the world, and the interaction between the different economic agents and groups of agents that takes place in markets or elsewhere.
- Is an internationally agreed standard set of recommendations on how to compile and present measures of economic activity.
- Requires all parties to report transactions in the same way.
- Identifies interconnected flow accounts linked to different types of economic activity taking place within a given period of time. It also supports preparation of balance sheets that record the values of the stocks of assets and liabilities held by institutional units or sectors at the beginning and end of the period.
- Explains that the classifications and accounting rules are meant to be universally applicable. 2008 SNA does not define parts of the SNA differently for application in different economies, for example in less developed or more developed economies, in large relatively closed economies or small open economies, or in high-inflation or low inflation economies.
- Adopts a standardized classification and sector-identification basis, and a multiple entry data system to facilitate institutional, sectoral and cross-country comparability.

The Government Finance Statistics Manual 2001 (GFSM 2001) and the European System of Accounts (ESA 95) are consistent with the principles of the 1993 System of National Accounts. However, at a detailed level, some reporting differences may arise as a result of differences in purpose and specific data needs. Updates to the 2008 SNA will be incorporated in updates to these, and other, statistical manuals.

2 Objectives and Scope of Financial Reporting and Users of General Purpose Financial Reports

- 2.1 The objectives of financial reporting by public sector entities are to provide information about the entity that is useful to users of GPFRs for accountability purposes and for decision-making purposes (hereafter referred to as “useful for accountability and decision-making purposes”).
- 2.2 Financial reporting is not an end in itself. Its purpose is to provide information useful to users of GPFRs. The objectives of financial reporting are therefore determined by reference to the users of GPFRs, and their information needs.

Users of General Purpose Financial Reports

- 2.3 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.
- 2.4 Consequently, GPFRs of public sector entities are developed primarily to respond to the information needs of service recipients and resource providers who do not possess the authority to require a public sector entity to disclose the information they need for accountability and decision-making purposes. The legislature (or similar body) and members of parliament (or a similar representative body) are also primary users of GPFRs, and make extensive and ongoing use of GPFRs when acting in their capacity as representatives of the interests of service recipients and resource providers. Therefore, for the purposes of the Conceptual Framework, the primary users of GPFRs are service recipients and their representatives and resource providers and their representatives (hereafter referred to as service recipients and resource providers, unless identified otherwise).
- 2.5 Citizens receive services from, and provide resources to, the government and other public sector entities. Therefore, citizens are primary users of GPFRs. Some service recipients and some resource providers that rely on GPFRs for the information they need for accountability and decision-making purposes may not be citizens—for example, residents who pay taxes and/or receive benefits but are not citizens; multilateral or bilateral donor agencies and many lenders and corporations that provide resources to, and transact with, a government; and those that fund, and/or benefit from, the services provided by international governmental organizations. In most cases, governments that provide resources to international governmental organizations are dependent on GPFRs of those organizations for information for accountability and decision-making purposes.
- 2.6 GPFRs prepared to respond to the information needs of service recipients and resource providers for accountability and decision-making purposes may also provide information useful to other parties and for other purposes. For example, government statisticians, analysts, the media, financial advisors, public interest and lobby groups and others may find the information provided by GPFRs useful for their own purposes. Organizations that have the authority to require the preparation of financial reports tailored to meet their own specific information needs may also use the information provided by GPFRs for their own purposes—for example, regulatory and oversight

bodies, audit institutions, subcommittees of the legislature or other governing body, central agencies and budget controllers, entity management and, in some cases, lending institutions and providers of development and other assistance. While these other parties may find the information provided by GPFRs useful, they are not the primary users of GPFRs. Therefore, GPFRs are not developed to specifically respond to their particular information needs.

Accountability and Decision Making

- 2.7 The primary function of governments and public sector entities is to provide services that enhance or maintain the well-being of citizens and other eligible residents. Those services include, for example, welfare programs and policing, public education, national security and defense services. In most cases, these services are provided as a result of a non exchange transaction and in a non-competitive environment. **[Staff comment– subject to IPSASB decision regarding placement of text from the key characteristics ED, explanation of exchange/non-exchange transactions could usefully be included as a footnote here].**
- 2.8 Governments and other public sector entities are accountable to those that provide them with resources, and to those that depend on them to use those resources to delivery services during the reporting period and over the longer term. The discharge of accountability obligations requires the provision of information about the reporting entity's stewardship of the resources entrusted to it for the delivery of services to constituents and others and its compliance with legislation, regulation, or other authority that governs its service delivery and other operations. Given the way in which the services provided by public sector entities are funded (primarily by taxation revenues or other non exchange transactions) and the dependency of service recipients on the provision of those services over the long term, the discharge of accountability obligations will also require the provision of information about such matters as the entity's service delivery achievements during the reporting period, and its capacity to continue to provide services in future periods.
- 2.9 Service recipients and resource providers will also require information as input for making decisions. For example:
- Lenders, creditors, donors and others that provide resources on a voluntary basis, including in an exchange transaction, make decisions about whether to provide resources to support the current and future activities of the government or other public sector entity. In some circumstances, members of the legislature or similar representative body who depend on GPFRs for the information they need, can make or influence decisions about the service delivery objectives of government departments, agencies or programs and the resources allocated to support their achievement; and
 - Taxpayers do not usually provide funds to the government or other public sector entity on a voluntary basis or as a result of an exchange transaction. In addition, in many cases, they do not have the discretion to choose whether or not to accept the goods and services provided by a public sector entity or to choose an alternative service provider. Consequently, they have little direct or immediate capacity to make decisions about whether to provide resources to the government, the resources to be allocated for the provision of services by a public sector entity or whether to purchase or consume the services provided. However, they can make decisions about their voting preferences, and representations they make to elected officials or other representative bodies—these decisions may have resource allocation consequences for certain public sector entities.

- 2.10 Information provided in GPFRs for accountability purposes will contribute to, and inform, decision making. For example, information about the costs, efficiency and effectiveness of past service delivery activities, the amount and sources of cost recovery, and the resources available to support future activities will be necessary for the discharge of accountability. This information will also be useful for decision making by some users of GPFRs, including decisions that donors and other financial supporters make about providing resources to the entity.

Information Needs of Service Recipients and Resource Providers

- 2.11 For accountability and decision-making purposes, service recipients and resource providers will need information that supports the assessments of such matters as:

- The performance of the entity during the reporting period in, for example:
 - Meeting its service delivery and other operating and financial objectives;
 - Managing the resources it is responsible for; and
 - Complying with relevant budgetary, legislative, and other controls regulating the raising and use of public monies;
- The liquidity and solvency of the entity;
- The sustainability of the entity's service delivery and other operations over the long term, and changes therein as a result of the activities of the entity during the reporting period including, for example:
 - The capacity of the entity to continue to fund its activities and to meet its operational objectives in the future (its financial capacity), including the likely sources of funding and the extent to which the entity is dependent, and therefore vulnerability, to funding or demand pressures outside its control; and
 - The physical and other resources currently available to support the provision of services in future periods (its operational capacity);
- The capacity of the entity to adapt to changing circumstances, whether changes in demographics or changes in domestic or global economic conditions which are likely to impact the nature or compositions of the activities it undertakes and the services it provides.

- 2.12 The information service recipients and resource providers need for these purposes are likely to overlap in many respects. For example, service recipients will require information as input to assessments of such matters as whether:

- The entity is using resources economically, efficiently, effectively and as intended, and whether such use is in their interest;
- The range, volume and cost of services provided during the reporting period are appropriate, and the amounts and sources of their cost recoveries; and
- Current levels of taxes or other charges are sufficient to maintain the volume and quality of services currently provided.

Service recipients will also require information about the consequences of decisions made, and activities undertaken, by the reporting entity during the reporting period on the resources available

to support the provision of services in future periods, the entity's anticipated future service delivery activities and objectives, and the amounts and sources of cost recoveries necessary to support those activities.

2.13 Resource providers will require information as input to assessments of such matters as whether the entity:

- Is achieving the objectives established as the justification for the resources raised during the reporting period;
- Funded current operations from funds raised in the current period from taxpayers or from borrowings or other sources; and
- Is likely to need additional (or less) resources in the future, and the likely sources of those resources.

Lenders and creditors will require information as input to assessments of the liquidity of the entity and, therefore, that the amount and timing of repayment will be as agreed. Donors will require information to support assessments of whether the entity is using resources economically, efficiently, effectively and as intended. They will also need information about the entity's anticipated future service delivery activities and resource needs. Information Provided by General Purpose Financial Reports

Information Provided by General Purpose Financial Reports

Financial Position, Financial Performance and Cash Flows

2.14 Information about the financial position of a government or other public sector entity will enable users to identify the economic resources of the entity and claims to those resources at the reporting date. This will provide information useful as input to assessments of such matters as:

- The extent to which management has discharged its responsibilities for safekeeping and managing the economic resources of the entity;
- The extent to which economic resources are available to support future service delivery activities, and changes during the reporting period in the amount and composition of those resources and claims to them; and
- The amounts and timing of future cash flows necessary to service and repay existing claims to the entity's economic resources.

2.15 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. Information about the costs of service delivery and the amounts and sources of cost recovery during the reporting period will enable users to determine whether operating costs were recovered from, for example, taxes, user charges, contributions and transfers, or were financed by increasing the level of indebtedness of the entity.

2.16 Information about the cash flows of a government or other public sector entity contributes to assessments of financial performance and the entity's liquidity and solvency. It indicates how the entity raised and used cash during the period, including its borrowing and repayment of borrowing

and its acquisition and sale of, for example, property, plant, and equipment. It also identifies the cash received from, for example, taxes and investments and the cash transfers made to, and received from, other governments, government agencies or international organizations. Information about cash flows can also support assessments of the entity's compliance with spending mandates expressed in cash flow terms, and inform assessments of the likely amounts and sources of cash inflows needed in future periods to support service delivery objectives.

2.17 Information about financial position, financial performance and cash flows are typically presented in financial statements. To assist users to better understand, interpret and place in context the information presented in the financial statements, GPFRs may also provide financial and non-financial information that enhances, complements and supplements the financial statements, including information about such matters as the government's or other public sector entity's:

- Compliance with approved budgets and other authority governing its operations;
- Service delivery activities and achievements during the reporting period; and
- Expectations regarding service delivery and other activities in future periods, and the long term consequences of decisions made and activities undertaken during the reporting period, including those that may impact expectations about the future.

This information may be presented in the notes to the financial statements or in additional reports included in GPFRs.

Compliance with the Budget

2.18 Typically, a government or other public sector entity prepares, approves and makes publicly available an annual budget. The approved budget provides interested parties with financial information about the entity's operational plans for the forthcoming period its capital needs and, often, its service delivery objectives and expectations. It is used to justify the raising of monies from taxpayers and other resource providers, and establishes the authority for expenditure of public monies.

2.19 Some resources to support the activities of public sector entities may be received from donors, lenders or as a result of exchange transactions. However, resources to support the activities of public sector entities are predominantly provided in non-exchange transactions by taxpayers and others, consistent with the expectations reflected in an approved budget.

2.20 GPFRs provide information about the financial results and performance of the entity during the reporting period, its assets and liabilities at the reporting date and the change therein during the reporting period, and its service delivery achievements.

2.21 The inclusion within GPFRs of information that assists users in assessing the extent to which revenues, expenses, cash flows and financial results comply with the estimates reflected in approved or legally adopted budgets, and its adherence to relevant legislation or other authority governing the raising and use of public monies, is important in determining how well a public sector entity has met its financial objectives. Such information is necessary for the discharge of a government's (or other entity's) accountability to its constituents, enhances the assessment of the financial performance of the reporting entity and will inform decision making.

Service Delivery Achievements

- 2.22 The primary objective of governments and most public sector entities is to provide needed services to constituents. Consequently, the financial performance of governments and most public sector entities will not be fully or adequately reflected in any measure of financial result (whether described as “surplus or deficit,” “profit or loss,” or by other terms). Therefore, their financial results will need to be assessed in the context of the achievement of service delivery objectives.
- 2.23 Reporting non-financial as well as financial information about service delivery activities, achievements and/or outcomes during the reporting period will provide input to assessments of the economy, efficiency, and effectiveness of the entity’s operations. Reporting such information is necessary for a government or other public sector entity to discharge its obligation to be accountable—that is, to account for, and justify the use of, the financial resources raised from, or on behalf of, constituents. Decisions that donors make about the allocation of resources to particular entities and programs are also made, at least in part, in response to information about service delivery achievements during the reporting period, and future service delivery objectives.

Prospective Financial and Non-financial Information

- 2.24 Given the longevity of governments and many government programs, the financial consequences of many decisions made in the reporting period may only become clear many years into the future. Financial statements which present information about financial position at a point in time and financial performance and cash flows over the reporting period will then need to be assessed in the context of the long term.
- 2.25 Decisions made by a government or other public sector entity in a particular period about programs for delivering and funding services in the future can have significant consequences for:
- Constituents who will be dependent on those services in the future; and
 - Current and future generations of taxpayers and other involuntary resource providers who will provide the taxes and levies to fund the planned service delivery activities and related financial commitments.
- 2.26 Information about the entity’s anticipated future service delivery activities and objectives, their likely impact on the future resource needs of the entity, and the likely sources of funding for such resources, will be necessary as input to any assessment of the ability of the government or other public sector entity to meet its service delivery and financial commitments in the future. The disclosure of such information in GPFRs will support assessments of the sustainability of service delivery by a government or other public sector entity, enhance the accountability of the entity and provide additional information useful for decision-making purposes.

Narrative Reports

- 2.27 Narrative reports can provide additional information about the major factors underlying the financial and service delivery performance of the entity during the reporting period. They can also outline the assumptions that underpin expectations about, and factors that are likely to influence, the entity’s future performance. This will assist users to better understand and place in context the financial and non-financial information included in GPFRs, and enhance the role of GPFRs in providing information useful for accountability and decision-making purposes.

- 2.28 In some cases, quantitative measures of the outputs and outcomes of the entity's service delivery activities during the period and anticipated activities in future periods will provide relevant information about the achievement of these service delivery objectives—for example, information about the cost, volume, and frequency of service delivery, and the relationship of services provided to the resource base of the entity. In other cases, the achievement of service delivery objectives may need to be communicated by an explanation of the quality of particular services provided or the outcome of certain programs.

Staff is of the view that the term “narrative reports” is not an appropriate term for matters covered in this section because a “narrative” may be included in notes to financial statements or in reports dealing with service delivery achievements or prospective financial or non-financial information. Staff proposes that, if retained, this section be retitled “additional explanatory material” and paragraph 2.27 commence:

“Information about, for example, the major factors underlying the financial and service delivery performance of the entity during the reporting period, and the assumptions that underpin expectations about, and factors that are likely to influence, the entity's future performance may be presented in GPFRs in notes to the financial statements or in separate reports. Such information will assist users to better understand”

Staff also proposes that paragraph 2.28 be deleted, or moved to/absorbed in the service delivery achievements section (Paragraphs 2, 22 and 2.23).

Change of terminology here may have consequences for references to narrative reporting in other paragraphs such as 3.17, 3.25 and, arguably, BC3.9. Staff has already deleted reference to narrative reporting in paragraph 3.5.

Scope of Financial Reporting

- 2.29 The scope of financial reporting establishes the boundary around the transactions, other events and activities that may be reported in GPFRs. To respond to the information needs of users, the Conceptual Framework reflects a scope for financial reporting that is more comprehensive than that encompassed by financial statements. It provides for the presentation within GPFRs of additional information that enhances, complements and supplements those statements. For example, it acknowledges that, in addition to financial statements that present financial information about past transactions and other events, GPFRs may encompass reports that present financial and non-financial information about the achievement of the entity's service delivery objectives during the reporting period, and prospective financial and non-financial information about its future service delivery activities, objectives, and resource needs.

Staff comment: The final sentence, commencing “For example, it acknowledges...” is repetitive of matters dealt with in the dot points of paragraph 2.17. Staff is of the view that it should be eliminated.

- 2.30 While the Conceptual Framework reflects a scope of financial reporting that is more comprehensive than that encompassed by financial statements, information presented in financial statements remains at the core of financial reporting. How the elements of financial statements are defined, recognized and measured, and forms of presentation and communication that might be adopted for information included within GPFRs, is considered in other components of the

Conceptual Framework and in the development of individual IPSASs or non-authoritative guidance, as appropriate.

Other Sources of Information

- 2.31 GPFRs play a significant role in communicating information necessary to support the discharge of a government's or other public sector entity's obligation to be accountable, as well as providing information useful as input for decision-making purposes. However, GPFRs will not provide all the information users need for accountability and decision-making purposes. For example, the budgets and financial forecasts issued by governments provide detailed financial and non-financial information about the financial characteristics of the plans of governments or other public sector entities over the short and medium terms. Governments and independent agencies also issue reports on the need for, and sustainability of, existing service delivery initiatives, and anticipated economic conditions and changes in the jurisdiction's demographics over the medium and longer term that will influence budgets and service delivery needs in the future. Consequently, service recipients and resource providers may also need to consider information from other sources, including reports on current and anticipated economic conditions, government budgets and forecasts, and information about government policy initiatives not reported in GPFRs.

2 Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, the Conceptual Framework.

Primary User Groups

- BC2.1 In developing the Conceptual Framework, the IPSASB sought views on whether the Conceptual Framework should identify the primary users of GPFRs. Many respondents to due process documents argued that the Framework should identify the primary users of GPFRs, and the IPSASB should focus on the information needs of those primary users in developing IPSASs. The IPSASB was persuaded by these arguments.

Identifying the Primary User Groups

- BC2.2 CF—ED1 identified service recipients and their representatives, and resource providers and their representatives as the primary users of GPFRs. It explained that, while the IPSASB will develop IPSASs and non authoritative guidance on the contents of GPFRs to respond primarily to the information needs of those primary users, GPFRs may still be used by others with an interest in financial reporting, and provide information of use to those other users.
- BC2.3 Many respondents to CF—ED1 expressed support for the primary users as identified in CF—ED1. However, others were of the view that the public, citizens or legislature should be identified as the primary or most important users of GPFRs of public sector entities. They explained that this is because governments are primarily accountable to the citizens or their representatives and, in many jurisdictions, the legislature and individual members of parliament (or similar representative body) acting on behalf of citizens are the main users of GPFRs. Some respondents also expressed the view that resource providers and their representatives should be identified as the primary users of GPFRs of public sector entities. They explained that it is unlikely that GPFRs would be able to respond to the information needs of all users, and resource providers are likely to have the greatest interest in GPFRs. Therefore, identifying resource providers as the primary user group will allow the IPSASB to focus more sharply on the information needs of a single user group. They also noted that GPFRs prepared to respond to the information needs of resource providers are likely to also provide information useful to other potential users.
- BC2.4 The IPSASB acknowledges that there is merit in many of the proposals made by respondents regarding the identity of the primary users of GPFRs of public sector entities, particularly as they apply to governments in many jurisdictions. However, on balance, the IPSASB remains of the view that the primary users of GPFRs of public sector entities should be identified as service recipients and their representatives and resource providers and their representatives. This is because:
- governments and other public sector entities are accountable primarily to those that depend on them to use resources to deliver necessary services, as well as to those that provide them with the resources that enable the delivery of those services; and
 - GPFRs have a significant role in the discharge of that accountability and the provision of information useful to those users for decision making purposes.

As such, GPFRs should be developed to respond to the information needs of service recipients and their representatives and resource providers and their representatives as the primary users. In addition, the Conceptual Framework will apply to governments and a potentially wide range of other public sector entities in many different jurisdictions, and to international governmental organizations. Consequently, it is not clear that identification of other user groups as the primary users of GPFRs will be relevant, and operate effectively, for all public sector entities across all jurisdictions.

- BC2.5 The IPSASB accepts that some information in GPFRs may be of more interest and greater use to some users than others. The IPSASB also accepts that, in developing IPSASs and non-authoritative guidance, it will need to consider and, in some cases, balance the needs of different groups of primary users. However, the IPSASB does not believe that such matters invalidate the identification of both service recipients and their representatives and resource providers and their representatives as the primary users of GPFRs.
- BC2.6 The IPSASB's views on the relationship between the primary user groups identified by respondents, and service recipients and resource providers are further elaborated below.

Citizens

- BC2.7 The IPSASB is of the view that those that advocate that citizens, the public and/or their representative bodies be identified as the primary users of GPFRs are not adopting positions substantially different from those reflected in this Framework. This is because citizens (or the public) are both service recipients and resource providers. The IPSASB acknowledges the importance of citizens and their representatives as users of GPFRs, but is of the view that classifying citizens as service recipients and resource providers provides a basis for assessing their potential information needs. This is because citizens encompass many individuals with a potentially wide range of diverse information needs – focusing on the information needs of citizens as service recipients and resource providers enables the IPSASB to draw together those diverse interests and explore what information needs GPFRs should attempt to respond to. The IPSASB is also of the view that, in developing IPSASs, it is appropriate that it has the capacity to consider the information needs of a range of non-citizen service recipients and resource providers (including donors and lenders) who do not possess the authority to require a public sector entity to disclose the information they need for accountability and decision-making purposes.

Resource Providers

- BC2.8 The IPSASB agrees that GPFRs directed at the provision of information to satisfy the information needs of resource providers will also provide information useful to other potential users of GPFRs. However, the IPSASB is of the view that the Conceptual Framework should make clear its expectation that governments and other public sector entities should be accountable to both those that provide them with resources and those that depend on them to use those resources to deliver necessary and/or promised services. In addition, in some jurisdictions, resource providers are primarily donors or

lenders that may have the authority to require the preparation of special purpose financial reports to provide the information they need.

Staff is of the view that the final sentence of paragraph 2.8, while it may be true, does not flow from, and arguably dilutes, the point being made here, and should be deleted.

- BC2.9 The IPSASB is of the view that the Conceptual Framework should not exclude citizens who may be interested in GPFRs in their capacity as service recipients from the potential users of GPFRs, or identify their information needs as less important than those of resource providers. The IPSASB is also uncomfortable with proposals that would exclude donors, lenders, and others that provide resources on a voluntary or involuntary basis to governments and other public sector organizations as potential users of GPFRs, or identify their information needs as less important than those of service recipients.

The Legislature

- BC2.10 The IPSASB is of the view that the legislature or similar governing body is a primary user of GPFRs in its capacity as a representative of service recipients and resource providers. The legislature, parliaments, councils and similar bodies will also require information for their own specific accountability and decision-making purposes, and usually have the authority to require the preparation of detailed special purpose financial and other reports to provide that information. However, they may also use the information provided by GPFRs for their own particular purposes, including for example, as input to assessments of whether resources were used efficiently and as intended and in making decisions about allocating resources to particular government entities, programs or activities.
- BC2.11 Individual members of the legislature or other governing body, whether members of the government or opposition, can usually require the disclosure of the information they need for the discharge of their official duties as directed by the legislature or governing body. However, they may not have the authority to require the preparation of financial reports that provide the information they require for other purposes, or in other circumstances. Consequently, they are users of GPFRs, whether in their capacity as representatives of service recipients and resource providers in their electorate or constituency, or in their personal capacity as citizens and members of the community.

Other User Groups

- BC2.12 In developing the Conceptual Framework, the IPSASB considered a wide range of other potential users of GPFRs, including whether special interest groups and their representatives, or those transacting with public sector entities on a commercial or non-commercial basis or on a voluntary or involuntary basis (such as public sector and private sector resource providers) should be identified as separate user groups. The IPSASB is of the view that identifying service recipients and their representatives and resource providers and their representatives as the primary users of GPFRs will respond appropriately to the information needs of subgroups of service recipients and resource providers.
- BC2.13 The information provided by GPFRs may also be useful for compiling national accounts, as input to statistical financial reporting models, for assessments of the impact of

government policies on economic activity and for other economic analytical purposes. However, GPFRs are not developed specifically to respond to the needs of those who require information for these purposes. Similarly, while those that act as advisors to service recipients or resource providers such as citizen advocacy groups, bond rating agencies, credit analysts and public interest groups are likely to find the information reported in GPFRs useful for their purposes, GPFRs are not prepared specifically to respond to their particular information needs.

The Objectives of GPFRs

- BC2.14 Many respondents to CF—ED1 agreed that the provision of information useful for both accountability and decision making purposes should be identified as the objectives of financial reporting by public sector entities. Some respondents advocated that only accountability be identified as the single or dominant objective of GPFRs of public sector entities, other respondents that decision making should be identified as the single objective. However, the IPSASB remains of the view that users of GPFRs of public sector entities will require information for both accountability and decision making purposes.
- BC2.15 Some respondents to CF—ED1 advocated that the link between accountability and decision making be more clearly articulated and the public sector characteristics that underpinned the IPSASB's views on the objectives of financial reporting by public sector entities be identified. The IPSASB has responded positively to these proposals. The Framework has been restructured and clarifications added. In addition, the Framework now includes a Preface/Introduction/companion document which outlines the key characteristics of the public sector **[Staff comment: retention of this observation is dependent on the IPSASBs decision regarding location of matters raised in the Key Characteristics ED]**.
- BC2.16 The explanation of accountability and its relationship to decision making and GPFRs has been strengthened. In this context, the IPSASB acknowledges that the notion of accountability reflected in this Framework is broad. It encompasses the provision of information about the reporting entity's stewardship of the economic resources entrusted to it, and information useful to users in assessing the sustainability of the activities of the entity and the continuity of the provision of services over the long term. The IPSASB is of the view that this broad notion of accountability is appropriate because citizens and other constituents provide resources to governments and other public sector entities on an involuntary basis and, for the most part, depend on governments and public sector entities to provide needed services over the long term. However, the IPSASB also recognizes that GPFRs will not provide all the information that service recipients and resource providers need for accountability and decision making purposes.

The Scope of Financial Reporting

- BC2.17 Many respondents to CF—ED1 expressed support for the scope of financial reporting and its explanation as proposed by the IPSASB in CF—ED1, with some identifying matters for clarification and others noting that projects dealing with the broader scope issues would need to provide guidance on application of the qualitative characteristics (QCs) such as verifiability and comparability. Other respondents did not support

expanding the scope of financial reporting beyond financial statements, expressing concern that the proposed broad scope deals with matters outside the existing Terms of Reference of the IPSASB and noting that guidance on matters outside the financial statements, such as non-financial and prospective information, are appropriately a matter for individual governments, or governing bodies or other authority. Some also expressed concern that the scope is too sharply focused on the financial statements, and that additional guidance on non-financial information and sustainability reporting be included in the Framework.

BC2.18 The IPSASB remains of the view that it is necessary that the Conceptual Framework reflect a scope for financial reporting that is more comprehensive than that encompassed by financial statements. This is because, as noted in *the Preface/Introduction/Companion Piece to the Conceptual Framework*: [**Staff Comment:** *Still subject to IPSASB's decision re placement/use of Key Characteristics ED*]

- The primary objective of governments and public sector entities is to deliver services to constituents rather than to generate profits;
- Citizens and other eligible residents are dependent on governments and public sector entities to provide a wide range of services on an on-going basis over the long term. The activities of, and decisions made by, a reporting entity in a particular reporting period can have significant consequences for future generations of service recipients and future generations of taxpayers and other involuntary resource providers; and
- Most public sector entities operate within spending mandates and financial constraints established through the budgetary process. Monitoring implementation of the approved budget is the primary method by which the legislature exercises oversight and citizens and their elected representatives hold the government's management financially accountable.

BC2.19 Consequently, the performance of public sector entities in achieving their financial and service delivery objectives can be only partially evaluated by examination of their financial position at the reporting date, and financial performance and cash flows during the reporting period. The IPSASB is of the view that, to respond to users' need for information for accountability and decision making purposes, the Conceptual Framework should enable GPFRs to encompass the provision of information that allows users to better assess and place in context the financial statements. Such information may be communicated by reports that present financial and non-financial information about the achievement of the entity's service delivery objectives during the reporting period, its compliance with approved budgets and prospective financial and non-financial information about its future service delivery activities, objectives, and resource needs. In some cases, information about these matters may also be presented in notes to the financial statements.

BC2.20 In making decisions that extend the information presented in GPFRs beyond financial statements, the IPSASB will consider the benefits of the information to users and the costs of compiling and reporting such information.

Limiting the scope of financial reporting

- BC2.21 Some respondents who agreed that the scope of financial reporting should extend beyond the financial statements expressed concern that the scope as proposed in CF—ED1 was too open ended and/or not adequately explained or justified - in some cases proposing that the scope be limited to enhancement of matters recognized in the financial statements.
- BC2.22 The IPSASB has responded to these concerns by relocating the explanation of the scope of financial reporting, clarifying its link to users' information needs, and including additional explanation of the relationship between users' information needs and the information that GPFRs may provide in response. In addition, the IPSASB has clarified that the scope of general purpose financial reporting is limited to the financial statements and information that enhances, complements or supplements the financial statements. Consequently, what is included in the more comprehensive scope of financial reporting will be derived from financial statements, and limited to matters that assist users to better understand and put in context the information included in those statements.

Resource considerations, authoritative requirements and audit status

- BC2.23 Many respondents, whether supportive or opposed to the proposals in CF—ED1, expressed concern that dealing with “broad scope” issues would absorb too much of the IPSASB's resources and limit its ability to deal with financial statement issues. Some respondents to CF—ED1 also:
- Advocated that the Framework clarify that authoritative requirements would only be developed for financial statement matters, broader scope issues being the subject of guidelines; and
 - Expressed concern about the audit implication of including non-financial information and prospective information in GPFRs.
- BC2.24 While the IPSASB can develop IPSASs which include authoritative requirements, it is not inevitable that it will do so. For example, the IPSASB's publications include discussion papers and non-authoritative guidance intended to assist the financial reporting community to respond to particular financial reporting issues. Such guidance is frequently issued for evolving areas of financial reporting – whether as part of, or outside, the financial statements. Non- authoritative guidance may also be developed where the IPSASB wishes to encourage experimentation on reporting of emerging or particular problematic financial reporting issues². In addition, any project dealing with the presentation of information in GPFRs, whether as part of the financial statements or

2 For example the IPSASB has issued an Exposure Draft (ED46) of proposed non-authoritative guidance on “Reporting on the Long-Term Sustainability of a Public Sector Entity's Finances”. A Consultation Paper “Reporting of Service Performance Information”, which seeks input from constituents on whether authoritative or non-authoritative guidance should be developed on matters addressed in the Consultation Paper. In addition, IPSASs have encouraged, but not required the disclosure of information about heritage assets in financial statements and identified disclosures to be made if an entity elects to disclose information about the general government sector in financial statements. **(This footnote to be updated as projects are developed and the status of their guidance/authority are clarified.)**

enhancements to those statements, will be subject to full due process. Therefore, in developing guidance on the presentation of information that broadens the scope of financial reporting, the IPSASB will need to respond to constituent concerns about the proposed technical content and authority of the guidance. The IPSASB also notes that the financial reports of public sector entities in many jurisdictions currently include information about service delivery achievements and prospective financial and non-financial information that is not specifically required by IPSASs.

- BC2.25 The IPSASB acknowledges the concern of respondents regarding the deployment of the IPSASB's limited resources to "broad scope" issues. In this context, it is appropriate to note that information presented in financial statements remains at the core of financial reporting and, therefore will remain the primary focus of the IPSASs and non-authoritative guidance developed by the IPSASB. Consequently, the standards development work program of the IPSASB will continue to respond to users' need for better financial reporting of transactions and other events that are reported in the financial statements.
- BC2.26 The Conceptual Framework will define the elements of financial statements and establish the concepts that underpin the recognition and measurement of those elements. The format and contents of any statements, schedules or other reports that present information that enhances, complements and supplements the financial statements will be guided by the presentation concepts identified in this Conceptual Framework (Section X *"Presentation in General Purpose Financial Reports"* – **to be updated as appropriate**) and considered in the development of any IPSASs or other pronouncements of the IPSASB that deal with such matters.
- BC2.27 The QCs provide some assurance to users about the quality of information included in GPFRs. However, the IPSASB is of the view that it is not the role of the Conceptual Framework, or the IPSASs that may be developed consistent with the concepts reflected in the Framework, to go further and attempt to establish the level of audit assurance that should be provided to particular aspects of GPFRs. Rather, responsibilities for the audit of financial statements and other components of GPFRs will be established by such matters as the regulatory framework in place in particular jurisdictions and the audit mandate agreed with and/or applying to the reporting entity.

STAFF COMMENT – IPSASB HAS AGREED TO REVISIT MECHANISMS TO CROSS REFERENCE TO IASB AND STATISTICAL BASES OF REPORTING AS AN OVERARCHING ISSUES IMPACTING ALL PHASES OF THE FRAMEWORK PROJECT

Appendix 2A

The IASB Conceptual Framework (September 2010)

Objectives and Users

The International Accounting Standards Board (IASB) develops and publishes International Financial Reporting Standards (IFRSs). IFRSs are designed to apply to the general purpose financial statements and other financial reporting of all profit-oriented entities. The IASB Conceptual Framework (issued in 1989 and updated in part in September 2010):

- Identifies the primary users of general purpose financial reports (GPFRs) as existing and potential investors, lenders and other creditors that cannot require reporting entities to provide information directly to them and must rely on GPFRs for much of the financial information they need.
- Identifies the objective of general purpose financial reporting as being to provide information about the reporting entity that is useful to existing and potential investors, lenders, and other creditors in making decisions about providing resources to the entity. Those decisions involve buying, selling or holding equity and debt instruments, and providing or settling loans and other forms of credit.
- Explains that existing and potential investors, lenders and other creditors need information to help them assess the prospects for future net cash inflows to an entity. For this purpose they need information about the resources of the entity, claims against the entity, and how efficiently and effectively the entity's management and governing board have discharged their responsibilities to use the entity's resources.
- Notes that other parties, such as regulators and members of the public other than investors, lenders and other creditors, may also find GPFRs useful. However, it also explains that GPFRs are not primarily directed to these other parties.

STAFF COMMENT – IPSASB HAS AGREED TO REVISIT MECHANISMS TO CROSS REFERENCE TO IASB AND STATISTICAL BASES OF REPORTING AS AN OVERARCHING ISSUES IMPACTING ALL PHASES OF THE FRAMEWORK PROJECT

Appendix 2B

The Statistical Bases of Reporting of the 1993 System of National Accounts (updated 2008) and other guidance derived from it (ESA 95 and GFSM 2001)

Objectives and Users

The primary objective of the System of National Accounts (SNA) is to provide a comprehensive conceptual and accounting framework that can be used to create a macroeconomic database suitable for analyzing and evaluating the performance of an economy.

Specific uses of the SNA include providing input for monitoring the behavior of the economy, macroeconomic analysis and making international comparisons.

The 2008 System of National Accounts (2008 SNA) does not identify specific user groups or primary users, but acknowledges that data generated in accordance with its principles may be used by many parties including, for example, analysts, politicians, the press, the business community and the public at large.

The objective of the SNA and the likely users of the information as identified in the 2008 SNA is reflected in the Government Finance Statistics Manual 2001 (GFSM 2001) and the European System of Accounts (ESA 95).

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

- 3.1 GPFRs present financial and non-financial information about economic or other phenomena. The qualitative characteristics of information included in GPFRs are the attributes that make that information useful to users and support the achievement of the objectives of financial reporting. The objectives of financial reporting are to provide information useful for accountability and decision-making purposes.
- 3.2 The qualitative characteristics of information included in GPFRs of public sector entities are relevance, faithful representation, understandability, timeliness, comparability, and verifiability.
- 3.3 Materiality, cost-benefit, and achieving an appropriate balance between the qualitative characteristics are pervasive constraints on information included in GPFRs.
- 3.4 Each of the qualitative characteristics is integral to, and works with, the other characteristics to provide in GPFRs information useful for achieving the objectives of financial reporting. However, in practice, all qualitative characteristics may not be fully achieved, and a balance or trade-off between certain of them may be necessary.
- 3.5 The qualitative characteristics apply to all financial and non-financial information reported in GPFRs, including historic and prospective information, and explanatory material. However, the extent to which the qualitative characteristics can be achieved may differ depending on the degree of uncertainty and subjective assessment or opinion involved in compiling the financial and non-financial information. The need for additional guidance on interpreting and applying the qualitative characteristics to information that extends the scope of financial reporting beyond financial statements will be considered in the development of any IPSASs and other pronouncements of the IPSASB that deal with such matters.

Relevance

- 3.6 Financial and non-financial information is relevant if it is capable of making a difference in achieving the objectives of financial reporting. Financial and non-financial information is capable of making a difference when it has confirmatory value, predictive value, or both. It may be capable of making a difference, and thus be relevant, even if some users choose not to take advantage of it or are already aware of it.
- 3.7 Financial and non-financial information has confirmatory value if it confirms or changes past (or present) expectations. For example, information will be relevant for accountability and decision-making purposes if it confirms expectations about such matters as the extent to which managers have discharged their responsibilities for the efficient and effective use of resources, the achievement of specified service delivery objectives, and compliance with relevant budgetary, legislative and other requirements.
- 3.8 GPFRs may present information about an entity's anticipated future service delivery activities, objectives and costs, and the amount and sources of the resources that are intended to be allocated to providing services in the future. Such future oriented information will have predictive value and be relevant for accountability and decision-making purposes. Information about economic and other phenomena that exist or have already occurred can also have predictive

value in helping form expectations about the future. For example, information that confirms or disproves past expectations can reinforce or change expectations about financial results and service delivery outcomes that may occur in the future.

- 3.9 The confirmatory and predictive roles of information are interrelated—for example, information about the current level and structure of an entity’s resources and claims to them helps users to confirm the outcome of resource management strategies during the period, and to predict an entity’s ability to respond to changing circumstances and anticipated future service delivery needs. The same information helps to confirm or correct users’ past expectations and predictions about the entity’s ability to respond to such changes. It also helps to confirm or correct prospective financial information included in previous GPFRs.

Faithful Representation

- 3.10 To be useful in financial reporting, information must be a faithful representation of the economic and other phenomena that it purports to represent. Faithful representation is attained when the depiction of the phenomenon is complete, neutral, and free from material error. Information that faithfully represents an economic or other phenomenon depicts the substance of the underlying transaction, other event, activity or circumstance—which is not necessarily always the same as its legal form.
- 3.11 In practice, it may not be possible to know or confirm whether information presented in GPFRs is fully complete, neutral, and free from material error. However, information should be as complete, neutral, and free from material error as is possible.
- 3.12 A depiction of an economic or other phenomenon is complete if it includes all information that is necessary for faithful representation of the phenomenon that it purports to depict. An omission of some information can cause the representation to be false or misleading, and thus not useful to users of GPFRs. For example, a complete depiction of the item “plant and equipment” in GPFRs will include a numeric representation of the aggregate amount of plant and equipment together with other quantitative, descriptive and explanatory material necessary to faithfully represent that class of assets. In some cases, this may include the disclosure of information about such matters as the major classes of plant and equipment, factors that have affected their use in the past or might impact on their use in the future, and the basis and process for determining their numeric representation. Similarly, prospective financial and non-financial information, and information about the achievement of service delivery objectives and outcomes, included in GPFRs will need to be presented with the key assumptions that underlie that information, and any explanations that are necessary to ensure that its depiction is complete and useful to users.
- 3.13 Neutrality in financial reporting is the absence of bias. It means that the selection and presentation of financial and non-financial information is not made with the intention of attaining a particular predetermined result—for example, to influence in a particular way users’ assessment of the discharge of accountability by the entity or a decision or judgment that is to be made, or to induce particular behaviour.
- 3.14 Neutral information faithfully represents the economic and other phenomena that it purports to represent. However, to require information included in GPFRs to be neutral does not mean that it is not without purpose or that it will not influence behaviour. Relevance is a qualitative

characteristic and, by definition, relevant information is capable of influencing users' assessments and decisions.

- 3.15 The economic and other phenomena represented in GPFRs generally occur under conditions of uncertainty. Information included in GPFRs will therefore often include estimates that incorporate management's judgment. To faithfully represent an economic or other phenomenon, an estimate must be based on appropriate inputs, and each input must reflect the best available information. Caution will need to be exercised when dealing with uncertainty. It may sometimes be necessary to explicitly disclose the degree of uncertainty in financial and non-financial information to faithfully represent economic and other phenomena.
- 3.16 Free from material error does not mean complete accuracy in all respects. Free from material error means there are no errors or omissions that are individually or collectively material in the description of the phenomenon, and the process used to produce the reported information has been applied as described. In some cases, it may be possible to determine the accuracy of some information included in GPFRs—for example, the amount of a cash transfer to another level of government, volume of services delivered or the price paid for the acquisition of plant and equipment. However, in other cases it may not—for example, the accuracy of an estimate of the value or cost of an item or the effectiveness of a service delivery program may not be able to be determined. 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.

Understandability

- 3.17 Understandability is the quality of information that enables users to comprehend its meaning. GPFRs of public sector entities should present information in a manner that responds to the needs and knowledge base of users, and to the nature of the information presented. For example, explanations of financial and non-financial information and narrative reporting of achievements and expectations should be written in plain language, and presented in a manner that is readily understandable by users. Understandability is enhanced when information is classified, characterized, and presented clearly and concisely. Comparability also can enhance understandability.
- 3.18 Users of GPFRs are assumed to have a reasonable knowledge of the entity's activities and the environment in which it operates, to be able and prepared to read GPFRs, and to review and analyze the information presented with reasonable diligence. Some economic and other phenomena are particularly complex and difficult to represent in GPFRs, and some users may need to seek the aid of an advisor to assist in their understanding of them. All efforts should be undertaken to represent economic and other phenomena included in GPFRs in a manner that is understandable to a wide range of users. However, information should not be excluded from GPFRs solely because it may be too complex or difficult for some users to understand without assistance.

Timeliness

- 3.19 Timeliness means having information available for users before it loses its capacity to be useful for accountability and decision-making purposes. Having relevant information available sooner can enhance its usefulness as input to assessments of accountability and its capacity to inform and influence decisions that need to be made. A lack of timeliness can render information less useful.
- 3.20 Some items of information may continue to be useful long after the reporting period or reporting date. For example, for accountability and decision-making purposes, users of GPFRs may need to assess trends in the financial and service delivery performance of the entity and its compliance with budgets over a number of reporting periods. In addition, the outcome and effects of some service delivery programs may not be determinable until future periods—this may occur in respect of programs intended to, for example, enhance the economic well-being of constituents, reduce the incidence of a particular disease, or increase literacy levels of certain age groups.

Comparability

- 3.21 Comparability is the quality of information that enables users to identify similarities in, and differences between, two sets of phenomena. Comparability is not a quality of an individual item of information, but rather a quality of the relationship between two or more items of information.
- 3.22 Comparability differs from consistency. Consistency refers to the use of the same accounting policies and procedures, either from period to period within an entity or in a single period across more than one entity. Comparability is the goal, and consistency helps in achieving that goal. In some cases, accounting policies adopted by an entity may be revised to better represent a particular transaction or event in GPFRs. In these cases, the inclusion of additional disclosures or explanation may be necessary to satisfy the characteristics of comparability.
- 3.23 Comparability also differs from uniformity. For information to be comparable, like things must look alike, and different things must look different. An over-emphasis on uniformity may reduce comparability by making unlike things look alike. Comparability of information in GPFRs is not enhanced by making unlike things look alike, any more than it is by making like things look different.
- 3.24 Information about the entity's financial position, financial performance, compliance, service delivery achievements, and its future plans is necessary for accountability purposes and useful as input for decision-making purposes. The usefulness of such information is enhanced if it can be compared with, for example:
- The budget of the entity for the reporting period, or prospective financial and non-financial information previously presented for that reporting period or reporting date;
 - Similar information about the same entity for some other period or some other point in time; and
 - Similar information about other entities (for example, public sector entities providing similar services in different jurisdictions) for the same reporting period.

- 3.25 Consistent application of accounting policies to prospective financial and non-financial information and actual outcomes will enhance the usefulness of any comparison of projected and actual results. Comparability with other entities may be less significant for narrative reporting of management's perception or opinion of the factors underlying the entity's current performance.

Verifiability

- 3.26 Verifiability is the quality of information that helps assure users that information in GPFRs faithfully represents the phenomena that it purports to represent. Supportability is sometimes used to describe this quality when applied in respect of explanatory information and prospective financial and non-financial quantitative information disclosed in GPFRs—that is, the quality of information that helps assure users that explanatory or prospective financial and non-financial quantitative information faithfully represents the phenomena that it purports to represent. Whether referred to as verifiability or supportability, the characteristic implies that different knowledgeable and independent observers could reach general consensus, although not necessarily complete agreement, that either:
- The information represents the phenomena that it purports to represent without material error or bias; or
 - An appropriate recognition, measurement, or representation method has been applied without material error or bias.
- 3.27 To be verifiable, information need not be a single point estimate. A range of possible amounts and the related probabilities also can be verified.
- 3.28 Verification may be direct or indirect. With direct verification, an amount or other representation is itself verified, such as by (a) counting cash, (b) checking records of service response times or records of patients treated, (c) observing marketable securities and their quoted prices, or (d) confirming that the factors identified as influencing past service delivery performance were present and operated with the effect identified. With indirect verification, the amount or other representation is verified by checking the inputs and recalculating the outputs using the same accounting convention or methodology. An example is verifying the carrying amount of inventory by checking the inputs (quantities and costs) and recalculating the ending inventory using the same cost flow assumption (for example, average cost or first-in-first-out).
- 3.29 The quality of verifiability (or supportability if such term is used to describe this characteristic) is not an absolute—some information may be more or less capable of verification than other information. However, the more verifiable is the information included in GPFRs, the more it will assure users that the information faithfully represents the phenomena that it purports to represent.
- 3.30 GPFRs of public sector entities may include financial and other quantitative information and explanations about (a) key influences on the entity's performance during the period, (b) the anticipated future effects or outcomes of service delivery programs undertaken during the reporting period, and (c) prospective financial and non-financial information. It may not be possible to verify the accuracy of all quantitative representations and explanations of such information until a future period, if at all.

- 3.31 To help assure users that prospective financial and non-financial quantitative information and explanations included in GPFRs faithfully represents the phenomena that they purport to represent, the assumptions that underlie the information disclosed, the methodologies adopted in compiling it, and the factors and circumstances that support any opinions expressed or disclosures made should be transparent. This will enable users to form judgements about the appropriateness of those assumptions and the method of compilation, measurement, representation and interpretation of the information.

Constraints on Information Included in General Purpose Financial Reports

Materiality

- 3.32 Information is material if its omission or misstatement could influence the discharge of accountability by the entity, or the decisions that users make on the basis of the entity's GPFRs prepared for that reporting period. Materiality depends on both the nature and amount of the item judged in the particular circumstances of each entity. GPFRs may encompass qualitative and quantitative information about service delivery achievements during the reporting period, and expectations about service delivery and financial outcomes in the future. Consequently, it is not possible to specify a uniform quantitative threshold at which a particular type of information becomes material.
- 3.33 Assessments of materiality will be made in the context of the legislative, institutional and operating environment within which the entity operates and, in respect of prospective financial and non-financial information, the preparer's knowledge and expectations about the future. Disclosure of information about compliance or non-compliance with legislation, regulation or other authority may be material because of its nature—irrespective of the magnitude of any amounts involved. In determining whether an item is material in these circumstances, consideration will be given to such matters as the nature, legality, sensitivity and consequences of past or anticipated transactions and events, the parties involved in any such transactions and the circumstances giving rise to them.
- 3.34 Materiality is classified as a constraint on information included in GPFRs in this Conceptual Framework. The materiality of the consequences of application of a particular accounting policy or disclosure of a particular item or type of information is considered by the IPSASB in developing IPSASs and non-authoritative guidance. However, subject to the requirements of any IPSAS to the contrary, the materiality of the separate disclosure of particular items of information will also be considered by individual entities in preparing GPFRs.

Cost-Benefit

- 3.35 Financial reporting imposes costs. The benefits of financial reporting should justify those costs. Assessing whether the benefits of providing information justify the related costs is often a matter of judgment, because it is often not possible to identify and/or quantify all the costs or benefits of information included in GPFRs.
- 3.36 The costs of providing information include the costs of collecting and processing the information, the costs of verifying it and/or presenting the assumptions and methodologies that support it, and the costs of disseminating it. Users incur the costs of analysis and interpretation. Omission of

useful information also imposes costs, including the costs that users incur to obtain needed information from other sources and the costs that result from making decisions using incomplete data provided by GPFRs.

- 3.37 Preparers expend the majority of the effort to provide information in GPFRs. However, service recipients and resource providers ultimately bear the cost of those efforts—because resources are redirected from service delivery activities to preparation of information for inclusion in GPFRs.
- 3.38 Users reap the majority of benefits from the information provided by GPFRs. However, information prepared for GPFRs may also be used internally by management and result in better management decision making. The disclosure of information in GPFRs consistent with the principles identified in the Conceptual Framework and IPSASs derived from them will enhance and reinforce perceptions of the transparency of reporting by governments and other public sector entities and contribute to the more accurate pricing of public sector debt. Therefore, public sector entities may also benefit in a number of ways from the information provided by GPFRs.
- 3.39 Application of the cost-benefit constraint involves assessing whether the benefits of reporting information are likely to justify the costs incurred to provide and use the information. When making this assessment, it is necessary to consider whether one or more qualitative characteristics might be sacrificed to some degree to reduce cost.
- 3.40 In developing IPSASs, the IPSASB considers information from preparers, users, academics, and others about the expected nature and quantity of the benefits and costs of the proposed requirements. Disclosure and other requirements which result in the presentation of information useful to users of GPFRs for accountability and decision-making purposes and satisfy the qualitative characteristics are prescribed by IPSASs unless the costs of compliance with those requirements are assessed by the IPSASB to be greater than their benefits.

Balance Between the Qualitative Characteristics

- 3.41 The qualitative characteristics work together in different ways to contribute to the usefulness of information. For example, neither a depiction that faithfully represents an irrelevant phenomenon, nor a depiction that unfaithfully represents a relevant phenomenon, results in useful information. Similarly, to be relevant, information must be timely and understandable.
- 3.42 In some cases, a balancing or trade-off between qualitative characteristics may be necessary to achieve the objectives of financial reporting. The relative importance of the qualitative characteristics in each situation is a matter of professional judgment. The aim is to achieve an appropriate balance among the characteristics in order to meet the objectives of financial reporting.

3 Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, the Conceptual Framework.

Qualitative Characteristics of Information Included in General Purpose Financial Reports

- BC3.1 In developing IPSASs, the IPSASB receives input from constituents on, and makes judgments about, information that best satisfies the objectives of financial reporting and should be included in GPFRs. In making those judgements, the IPSASB considers the extent to which each of the qualitative characteristics can be achieved. Disclosure and other requirements are included in IPSASs only when the information that results from their application is considered to satisfy the qualitative characteristics and the cost-benefit constraint identified in the Conceptual Framework.
- BC3.2 Some respondents to CF—ED1 expressed concern about the application of the QCs to all matters that may be presented in GPFRs, particularly those matters that may be presented in reports outside the financial statements. The IPSASB understands the concern of constituents. The IPSASB acknowledges that IPSASs and other pronouncements that deal with the presentation in GPFRs of information outside the financial statements may need to include additional guidance on the application of the qualitative characteristics to the matters dealt with. As part of its due process the IPSASB will seek input on application of the QCs in these circumstances.

Staff comment – the implications for due-process identified in paragraph BC3.2 have not been specifically discussed by the IPSASB, but it does follow from comments in Para 3.5.

- BC3.3 IPSASs and other non-authoritative guidance issued by the IPSASB will not deal with all financial and non-financial information that may be included in GPFRs. In the absence of an IPSAS or non-authoritative guidance that deals with particular economic or other phenomena, assessments of whether an item of information satisfies the qualitative characteristics and constraints identified in the Conceptual Framework, and therefore qualifies for inclusion in GPFRs, will be made by preparers compiling the GPFRs. Those assessments will be made in the context of achieving the objectives of financial reporting, which in turn have been developed to respond to users' information needs.

Other Qualitative Characteristics Considered

- BC3.4 Some respondents to CF—ED1 expressed the view that additional QCs should be identified. Those characteristics included “sincerity,” “true and fair view,” “credibility,” “transparency,” and “regularity”.
- BC3.5 The IPSASB notes that “sincerity” as used in financial reporting has a similar meaning to “true and fair”. The IPSASB is of the view that “sincerity,” “true and fair view,” “credibility,” and “transparency” are important expressions of the overarching qualities that financial reporting is to achieve or aspire to. However, they do not exist as single qualitative characteristics on their own—rather, achieving these qualities is the product of application of the full set of qualitative characteristics identified in the Conceptual Framework, and the IPSASs that deal with specific reporting issues. Consequently, while important characteristics of GPFRs, they are not identified

as separate individual qualitative characteristics in their own right. The IPSASB is also of the view that the notion of “regularity” as noted by some respondents is related to the notion of “compliance” as used in the Conceptual Framework—therefore, regularity is not identified as an additional qualitative characteristic.

Relevance

- BC3.6 The Conceptual Framework explains that financial and non-financial information is relevant if it is capable of making a difference in achieving the objectives of financial reporting. As part of its due process, the IPSASB seeks input on whether the requirements of a proposed IPSAS are relevant to the achievement of the objectives of financial reporting—that is, are relevant to the discharge of the entity’s obligation to be accountable and to decisions that users may make.
- BC3.7 Appendix A of IPSAS 1, Presentation of Financial Statements explains that information is relevant if it can be used to assist in evaluating past, present or future events or in confirming, or correcting, past evaluations. IPSAS 1 also notes that to be relevant, information must be timely.
- BC3.8 The concept of relevance identified in the Conceptual Framework possesses similar characteristics and operates with similar intent to the concept as identified in IPSAS 1 Appendix A. However, the predictive value of information is also explicitly identified as a component of relevance in the Conceptual Framework.

Faithful Representation

- BC3.9 The Conceptual Framework explains that to be useful information must be a faithful representation of the economic and other phenomena that it purports to represent. A single economic or other phenomenon may be represented in many ways. For example, the achievement of particular service delivery objectives may be depicted (a) qualitatively through a narrative explanation of the immediate and anticipated longer term outcomes and effects of the service delivery program, (b) quantitatively as a measure of the volume and cost of services provided by the service delivery program, or (c) by a combination of both qualitative and quantitative information. Additionally, a single depiction in GPFRs may represent several economic phenomena. For example, the presentation of the item “plant and equipment” in a financial statement may represent an aggregate of all of an entity’s plant and equipment, including items that have different functions, that are subject to different risks and opportunities and that are carried at amounts based on estimates that may be more or less complex and reliable.
- BC3.10 Completeness and neutrality of estimates (and inputs to those estimates) and freedom from material error are desirable, and some minimum level of accuracy is necessary for an estimate to faithfully represent an economic or other phenomenon. However, faithful representation does not imply absolute completeness or neutrality in the estimate, nor does it imply total freedom from error in the outcome. For a representation of an economic or other phenomenon to imply a degree of completeness, neutrality, or freedom from error that is impracticable for it to achieve would diminish the extent to which the information faithfully represents the economic phenomena that it purports to represent.

Faithful Representation or Reliability

- BC3.11 IPSAS 1 Appendix A identifies reliability as a qualitative characteristic. It describes reliable information as information that is “free from material error and bias, and can be depended on by users to represent faithfully that which it purports to represent or could reasonably be expected to represent.” Faithful representation, substance over form, neutrality, prudence and completeness are identified as components of reliability. The Conceptual Framework uses the term “faithful representation” rather than “reliability” to describe what is substantially the same concept. In addition, it does not explicitly identify substance over form and prudence as components of faithful representation.
- BC3.12 Many respondents to CF—ED1 supported the use of faithful representation and its explanation in the ED, in some cases explaining that faithful representation is a better expression of the nature of the concept intended. Some respondents did not support the replacement of reliability with the term faithful representation, expressing concerns including that faithful representation implies the adoption of fair value or market value accounting, and reliability and faithful representation are not interchangeable terms.
- BC3.13 The IPSASB is of the view that the use of the term faithful representation, or reliability for that matter, to describe this qualitative characteristic will not determine the measurement basis to be adopted in GPFRs, whether fair value, market value, historical cost or other value. The IPSASB does not intend that use of faithful representation be interpreted as such. The measurement basis or measurement bases that may be adopted for the elements of financial statements are considered in a separate phase of the Conceptual Framework project. The qualitative characteristics will then operate to ensure that the financial statements faithfully represent the measurement base or bases reflected in GPFRs.
- BC3.14 The IPSASB appreciates the concern of some respondents that the use of a different term may be interpreted to reflect different, and even lesser, qualities to those communicated by the term reliability. However, the IPSASB is of the view that explanation in the Framework that “Faithful representation is attained when the depiction of the phenomenon is complete, neutral, and free from material error”, and the elaboration of these key features will protect against the loss of any of the qualities that were formerly reflected in reliability.
- BC3.15 In addition, the IPSASB has been advised that the term reliability is itself open to different interpretations and subjective judgements, with consequences for the quality of information included in GPFRs. The IPSASB is of the view that use of the term faithful representation will overcome problems in the interpretation and application of reliability that have been experienced in some jurisdictions without a lessening of the qualities intended by the term, and is more readily translated into, and understood in, a wide range of languages.

Substance over Form and Prudence

- BC3.16 Some respondents to CF—ED1 expressed concern that substance over form and prudence are not identified as qualitative characteristics or that their importance is not sufficiently recognized or explained. Some also noted that prudence need not be incompatible with the achievement of neutrality and faithful representation.

- BC3.17 The Conceptual Framework explains that “Information that faithfully represents an economic or other phenomenon depicts the substance of the underlying transaction, other event, activity or circumstance—which is not necessarily always the same as its legal form.” Therefore substance over form remains a key quality that information included in GPFRs must possess. It is not identified as a separate or additional qualitative characteristic because it is already embedded in the notion of faithful representation.
- BC3.18 IPSAS 1 Appendix A explains that prudence refers to the exercise of caution in making estimates under conditions of uncertainty, such that assets or revenue are not overstated and liabilities or expenses are not understated. However, it does not allow for the deliberate understatement or overstatement of assets, liabilities, revenues, or expenses.
- BC3.19 The IPSASB is of the view that the same notion of prudence as currently identified in IPSAS 1 Appendix A is reflected in the explanation of neutrality as a component of faithful representation, and the acknowledgement of the need to exercise caution in dealing with uncertainty. Therefore, like substance over form, prudence is not identified as a separate qualitative characteristic because its intent and influence in identifying information that is included in GPFRs is already embedded in the notion of faithful representation.

Understandability

- BC3.20 Although presenting information clearly and concisely helps users to comprehend it, the actual comprehension or understanding of information depends largely on the users of the GPFRs.
- BC3.21 Some economic and other phenomena are particularly complex and difficult to represent in GPFRs. However, the IPSASB is of the view that information that is, for example, relevant, a faithful representation of what it purports to represent, timely and verifiable should not be excluded from GPFRs solely because it may be too complex or difficult for some users to understand without assistance. Acknowledging that it may be necessary for some users to seek assistance to understand the information presented in GPFRs, does not mean that information included in GPFRs need not be understandable or that all efforts should not be undertaken to present information in GPFRs in a manner that is understandable to a wide range of users. However, it does reflect that, in practice, the nature of the information included in GPFRs is such that all the qualitative characteristics may not be fully achievable at all times for all users.
- BC3.22 The qualitative characteristic of understandability in the Conceptual Framework possesses similar characteristics to those identified in IPSAS 1 Appendix A. However, certain aspects of understandability have been explained more fully—in particular, that users should review and analyse the information in GPFRs with reasonable diligence. The Conceptual Framework also clarifies that in some circumstances, users may need to seek assistance to understand complex economic and other phenomena presented in GPFRs.

Timeliness

- BC3.23 IPSAS 1 Appendix A identifies timeliness as a constraint on relevant and reliable information. It notes that undue delay in the provision of information may reduce its relevance and that reporting on a timely basis may involve reporting before all aspects of a transaction are known, thus impairing reliability.

BC3.24 The IPSASB is of the view that the nature of timeliness and the potential for timely reporting to increase the usefulness of GPFRs for both accountability and decision-making purposes, signals that it is more than a constraint on information included in GPFRs. This is reflected in its re-designation as a qualitative characteristic in its own right in the Conceptual Framework.

Comparability

BC3.25 IPSAS 1 Appendix A identifies comparability as a qualitative characteristic. To better understand and place in context, for example, the financial and service delivery performance of an entity, users will frequently compare information reported in GPFRs for a particular period with GPFRs of the same entity for a prior period, or with GPFRs of different entities. Consequently, comparability continues to be identified as a qualitative characteristic in the Conceptual Framework. The characteristic of comparability in the Conceptual Framework reflects and builds on that in IPSAS 1 Appendix A—in particular, by explaining its operation in respect of the more comprehensive scope of financial reporting.

BC3.26 Some degree of comparability may be attained by maximizing the qualitative characteristics of relevance and faithful representation. For example, faithful representation of a relevant economic or other phenomenon by one public sector entity is likely to be comparable to a faithful representation of a similar relevant economic or other phenomenon by another public sector entity. However, a single economic or other phenomenon can often be faithfully represented in several ways, and permitting alternative accounting methods for the same phenomenon diminishes comparability and, therefore, may be undesirable. Consequently, 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.

BC3.27 Some respondents to CF—ED1 expressed concern that the explanation of the relationship between comparability and consistency may be read as presenting an obstacle to the on-going development of financial reporting. This is because enhancements in financial reporting often involve a revision or change to the accounting policies currently adopted by the entity.

BC3.28 Consistent application of the same accounting policies from one period to the next will assist users in assessing the financial performance and service achievements of the entity compared with previous periods. However, where accounting policies dealing with particular transactions or other events are not prescribed by IPSASs, achievement of the qualitative characteristic of comparability should not be interpreted as prohibiting the reporting entity from changing its accounting policies to better represent those transactions and events. In these cases, the inclusion in GPFRs of additional disclosures or explanation of the impact of the changed policy can still satisfy the characteristics of comparability.

Verifiability

BC3.29 In developing the QCs identified in the Framework, the IPSASB considered whether “*supportability*” should be identified as a separate characteristic for application to information presented in GPFRs outside the financial statements. The IPSASB is of the view that identifying both “*verifiability*” and “*supportability*” as separate qualitative characteristics with essentially the same features may be confusing to preparers and users of GPFRs and others. However, the Conceptual Framework does acknowledge that supportability is sometimes used to refer to the

quality of information that helps assure users that explanatory information and prospective financial and non-financial information included in GPFRs faithfully represent the phenomena that they purport to represent.

- BC3.30 Some respondents to CF—ED1 expressed concern about the application of verifiability to the broad range of matters that may be presented in GPFRs outside the financial statements, particularly explanatory information about service delivery achievements during the reporting period and qualitative and quantitative prospective financial and non-financial information. The IPSASB is of the view that the Framework provides appropriate guidance on the application of verifiability in respect of these matters - for example it explains that verifiability is not an absolute and it may not be possible to verify the accuracy of all quantitative representations and explanations until a future period. The Framework also acknowledges that disclosure of the underlying assumptions and methodologies adopted for the compilation of explanatory and prospective financial and non-financial information is central to the achievement of faithful representation.
- BC3.31 In addition, the IPSASB will consider the applicability and operation of the qualitative characteristics when it develops and gains experience with IPSASs and other IPSASB pronouncements that deal with prospective financial and non-financial information and explanatory material to be included in GPFRs.

Staff proposes deletion of paragraph BC3.31 because it deals with matters that are broader than verifiability and BC3.2 already acknowledges the point made here.

Classification of the Qualitative Characteristics and Order of their Application

- BC3.32 Some respondents to CF—ED1 expressed the view that the Conceptual Framework should identify:

- Relevance and faithful representation as fundamental qualitative characteristics, and explain the order of their application; and
- Comparability, verifiability, timeliness, and understandability as enhancing qualitative characteristics.

They note that this would provide useful guidance on the sequence of application of the qualitative characteristics and reflect the approach adopted by the IASB.

- BC3.33 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 and work together to contribute to the usefulness of information. 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. In addition, it 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 comparable basis may be as important as, and cannot be separated from, faithful representation of the information.

Constraints on Information Included in General Purpose Financial Reports

Materiality

- BC3.34 IPSAS 1 Appendix A describes materiality with similar characteristics to that described in the Conceptual Framework, but identifies materiality as a factor to be considered in determining only the relevance of information.
- BC3.35 The IPSASB has considered whether materiality should be identified as an entity-specific aspect of relevance rather than a constraint on information included in GPFRs. As explained in the Conceptual Framework, and subject to requirements in an IPSAS to the contrary, materiality will be considered by preparers in determining whether an item of information should be separately disclosed in the financial statements of the reporting entity. This role of materiality is consistent with that reflected in IPSASs³.
- BC3.36 However, the IPSASB is of the view that that materiality has a more pervasive role than would be reflected by its classification as only an entity specific aspect of relevance. For example, materiality relates to, and can impact, a number of the qualitative characteristics of information included in GPFRs. Therefore, the materiality of an item should be considered when

³ For example, the Preface to International Public Sector Accounting Standards explains that IPSASs are not meant to apply to immaterial items. In addition:

- IPSAS 1 "*Presentation of Financial Statements*" explains that applying the concept of materiality means that a specific disclosure requirement in an IPSAS need not be satisfied if the information is not material; and
- IPSAS 3, "*Accounting Policies, Changes in Accounting Estimates and Errors*" explains that the accounting policies set out in IPSASs need not be applied when their effect is immaterial.

determining whether the omission or misstatement of an item of information could undermine not only the relevance, but also the faithful representation, understandability or verifiability of financial and non-financial information presented in GPFRs. The IPSASB is also of the view that whether the effects of the application of a particular accounting policy or the information content of separate disclosure of certain items of information are likely to be material should be considered in establishing IPSASs and non-authoritative guidance. Consequently, the IPSASB is of the view that materiality is better reflected as a broad constraint on information to be included in GPFRs.

- BC3.37 The IPSASB has considered whether the Conceptual Framework should reflect that legislation, regulation or other authority may impose financial reporting requirements on public sector entities in addition to those imposed by IPSASs. The IPSASB is of the view that, while a feature of the operating environment of many public sector (and many private sector) entities, the impact that legislation or other authority may have on the information included in GPFRs is not itself a financial reporting concept. Consequently, it has not identified it as such in the Conceptual Framework. Preparers will, of course, need to consider such requirements as they prepare GPFRs. In particular, legislation may prescribe that particular items of information are to be disclosed in GPFRs even though they may not be judged to satisfy a materiality threshold (or cost-benefit constraint) as identified in the Conceptual Framework. Similarly, the disclosure of some matters may be prohibited by legislation because, for example, they relate to matters of national security, notwithstanding that they are material and would otherwise satisfy the cost-benefit constraint.

Cost-Benefit

- BC3.38 IPSAS 1 Appendix A identifies the balance between cost and benefit as a pervasive constraint and explains that the evaluation of benefits and costs is substantially a matter of judgment. The Conceptual Framework also identifies consideration of costs and benefits as a pervasive constraint that standard setters, as well as preparers and users of financial reports, should be aware of and should consider in determining whether to provide a new item of information in GPFRs.
- BC3.39 Some respondents have expressed concern that the proposed Conceptual Framework does not specify that entities cannot decide to depart from IPSASs on the basis of their own assessments of the cost and benefits of particular requirements of an IPSAS. As noted previously in the basis for conclusions to the Conceptual Framework, authoritative requirements relating to recognition, measurement, presentation, and disclosure in GPFRs are specified in IPSASs. These requirements are prescribed by IPSASs only when the benefits of compliance with them are assessed by the IPSASB to be greater than their costs. Preparers may also consider the costs and benefits in determining whether to include in GPFRs disclosure of information in addition to that required by IPSASs.
- BC3.40 Some respondents have also expressed concern that the proposed Conceptual Framework does not recognize that cost-benefit trade-offs may differ for different public sector entities. They are of the view that acknowledgement of this may provide a useful principle to be applied when considering differential reporting issues. The IPSASB has considered these matters and determined that the Conceptual Framework will not deal with issues related to differential

reporting, including whether the costs and benefits of particular requirements might differ for different entities.

- BC3.41 In the process of developing an IPSAS, the IPSASB considers and seeks input on the likely costs and benefits of providing information in GPFRs of public sector entities. However, in some cases, it may not be possible for the IPSASB to identify and/or quantify all benefits that are likely to flow from the inclusion of a particular disclosure, including those that may be required because they are in the public interest, or other requirement in an IPSAS. In other cases, the IPSASB may be of the view that the benefits of a particular requirement may be marginal for users of GPFRs of some public sector entities. In applying the cost-benefit test to determine whether particular requirements should be included in an IPSAS in these circumstances, the IPSASB's deliberations may also include consideration of whether imposing such requirements on public sector entities is likely to involve undue cost and effort for the entities applying the requirements.

STAFF COMMENT – IPSASB HAS AGREED TO REVISIT MECHANISMS TO CROSS REFERENCE TO IASB AND STATISTICAL BASES OF REPORTING AS AN OVERARCHING ISSUES IMPACTING ALL PHASES OF THE FRAMEWORK PROJECT

Appendix 3A

The IASB Conceptual Framework (September 2010)

Qualitative Characteristics

The International Accounting Standards Board (IASB) develops and publishes International Financial Reporting Standards (IFRSs). IFRSs are designed to apply to the general purpose financial statements and other financial reporting of all profit-oriented entities. The IASB Conceptual Framework (issued in 1989 and updated in part in September 2010):

- Identifies relevance and faithful representation as fundamental qualitative characteristics.
- Explains that the process for applying the fundamental qualitative characteristics would usually be to first identify an economic phenomenon that has the potential to be useful to users, secondly to identify the type of information about that phenomenon that would be most relevant and then determine whether that information is available and can be faithfully represented.
- Identifies materiality as an entity-specific aspect of relevance based on the nature or magnitude, or both, of the items to which the information relates in the context of an individual entity's financial report.
- Identifies comparability, verifiability, timeliness, and understandability as enhancing qualitative characteristics, and explains that their application is an iterative process that does not follow a prescribed order.
- Identifies cost as a pervasive constraint that limits the information provided by financial reporting.
- Explains that the qualitative characteristics and the cost constraint apply to financial information provided in financial statements and in other ways. However, the considerations in applying the qualitative characteristics and the cost constraint may be different for different types of information—for example, in applying them to forward-looking information and to information about existing economic resources and claims, and to changes to them.

STAFF COMMENT – IPSASB HAS AGREED TO REVISIT MECHANISMS TO CROSS REFERENCE TO IASB AND STATISTICAL BASES OF REPORTING AS AN OVERARCHING ISSUES IMPACTING ALL PHASES OF THE FRAMEWORK PROJECT

Appendix 3B

The Statistical Bases of Reporting of the 1993 System of National Accounts (updated 2008) and other guidance derived from it (ESA 95 and GFSM 2001)

Qualitative Characteristics

The 2008 System of National Accounts (2008 SNA) identifies the qualitative characteristics that source data included in the national accounts are to possess as part of the accounting rules embedded in the system. Source data may be adjusted to be brought into line with SNA compilation principles.

Consistent with SNA, the Government Finance Statistics Manual 2001 (GFSM 2001) and the European System of Accounts (ESA 95) identify qualitative characteristics and constraints of information embedded in the statistical bases of financial reporting prepared in accordance with their requirements. The United Nations, *Fundamental Principles of Official Statistics* and data dissemination standards also apply to these data sets.

Some data included in the SNA is drawn from data in GPFRs, or prepared for inclusion in GPFRs which comply with IFRSs, IPSASs or national accounting standards. Such data will also satisfy the qualitative characteristics specified by those accounting standards, and/or related Conceptual Frameworks.

ESA 95

Statistics produced within the European Statistical System (ESS) are expected to be compiled in an impartial, objective and reliable way, respecting statistical confidentiality and cost effectiveness. The main indicators of quality identified are relevance, accuracy, timeliness, punctuality, accessibility, clarity, comparability and coherence.

Individual areas of statistics are usually based on legislation which sets common methodological and reporting standards, including for quality issues, within the ESS framework.

GFSM 2001

The data dissemination standards of the International Monetary Fund identify minimum qualitative requirements with which data and data reporters should comply. The “quality” of the statistics are assessed against a Data Quality Assessment Framework (DQAF) which is drawn from the United Nations code of *Fundamental Principles of Official Statistics*, which identifies qualitative requirements for all “official” statistics.

The International Monetary Fund DQAF identifies a set of prerequisites and the following five dimensions of data quality: assurances of integrity, methodological soundness, accuracy and reliability, serviceability, and accessibility. Each quality dimension identifies elements of good practice with indicators relevant for specific data sets.

MARKED – UP FIRST DRAFT OF CONCEPTUAL FRAMEWORK PHASE 1

FOR IPSASB REVIEW March 2012

BACKGROUND TO THE CONCEPTUAL FRAMEWORK

Staff Comment:

The Exposure Draft of Phase 1 of the Conceptual Framework included an Introduction which provided general background to the Exposure Draft and the process for development of the Framework.

That Introduction is included here for information. However, it is not proposed that it be discussed as part of this session. The nature and contents of the Introduction to the final Conceptual Framework will be developed as other Phases of the Framework project are finalized. It will be influenced by the IPSASBs discussion of matters addressed in the Exposure Draft “*Key Characteristics of the Public Sector with Potential Implications for Financial Reporting*”. Responses to that Exposure Draft are to be discussed at Agenda Item 2A.

Background to the Conceptual Framework

The *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (the Conceptual Framework) will establish and make explicit 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).

IPSASs are developed to apply across countries and jurisdictions with different political systems, different forms of government and different institutional and administrative arrangements for the delivery of services to constituents. The International Public Sector Accounting Standards Board (IPSASB) recognizes the diversity of forms of government, social and cultural traditions, and service delivery mechanisms that exist in the many jurisdictions that may adopt IPSASs. In developing this Conceptual Framework, the IPSASB has attempted to respond to and embrace that diversity.

The Accrual Basis of Accounting

This Exposure Draft (ED) deals with concepts that apply to general purpose financial reporting (hereafter referred to as financial reporting) under the accrual basis of accounting.

Under the accrual basis of accounting, transactions and other events are recognized in financial statements when they occur (and not only when cash or its equivalent is received or paid). Therefore, the transactions and events are recorded in the accounting records and recognized in the financial statements of the periods to which they relate.

Financial statements prepared under the accrual basis of accounting inform users of those statements of past transactions involving the payment and receipt of cash during the reporting period, obligations to pay cash or sacrifice other resources of the entity in the future and the resources of the entity at the reporting date. Therefore, they provide information about past transactions and other events that is more useful to users for accountability purposes and as input for decision-making than is information provided by the cash basis or other bases of accounting or financial reporting.

Project Development

The IPSASB is developing the Conceptual Framework with input from an advisory panel comprising a number of national standard setters and similar organizations with a role in establishing financial reporting requirements for governments and other public sector entities in their jurisdictions.

The purpose of the IPSASB's Conceptual Framework project is to develop concepts, definitions and principles that:

- Respond to the objectives, environment and circumstances of governments and other public sector entities; and therefore
- Are appropriate to guide the development of IPSASs and other documents dealing with financial reporting by public sector entities.

Many of the IPSASs currently on issue are based on International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB), to the extent that the requirements of those IFRSs are relevant to the public sector. The IPSASB's strategy also includes maintaining the alignment of IPSASs with IFRSs where appropriate for the public sector.

FIRST DRAFT ONLY, FOR IPSASB REVIEW MARCH 2012: CONCEPTUAL FRAMEWORK: PHASE 1

The IASB is currently developing an improved Conceptual Framework for private sector business entities in a joint project with the Financial Accounting Standards Board (FASB) of the USA. Development of the IASB's Conceptual Framework is being closely monitored. However, development of the IPSASB's Conceptual Framework is not an IFRS convergence project, and the purpose of the IPSASB's project is not to interpret the application of the IASB Framework to the public sector.

The concepts underlying statistical financial reporting models, and the potential for convergence with them, are also being considered by the IPSASB in developing its Conceptual Framework. The IPSASB is committed to minimizing divergence from the statistical financial reporting models where appropriate.

Consultation Papers and Exposure Drafts

Although all the components of the Conceptual Framework are interconnected, the Conceptual Framework project is being developed in phases. The components of the Conceptual Framework have been grouped as follows, and are being considered in the following sequence:

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

Phase 2—the definition and recognition of the elements of financial statements;

Phase 3—consideration of the measurement basis (or bases) that may validly be adopted for the elements that are recognized in the financial statements; and

Phase 4—consideration of the concepts that should be adopted in deciding how to present financial and non-financial information in GPFRs.

The project initially involves the development and issue for comment of Consultation Papers (CPs) that draw out key issues and explore the ways in which those issues could be dealt with. The CP dealing with Phase 1 was issued in September 2008¹, CPs dealing with Phase 2 and Phase 3 are being issued at the same time as this ED and a CP dealing with Phase 4 is under development.

The IPSASB's current intention is to issue EDs dealing with each of Phases 2, 3 and 4 of the Conceptual Framework after consideration of responses to the CPs dealing with those Phases. The process for developing the finalized Conceptual Framework will be determined in light of the responses received to CPs and EDs, and may include issue of an umbrella ED of the full Conceptual Framework.

¹ Consultation Paper, *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: The Objectives of Financial Reporting; The Scope of Financial Reporting; The Qualitative Characteristics of Information Included in General Purpose Financial Reports; The Reporting Entity*.

Objective of the Exposure Draft

~~The objective of this Exposure Draft is to identify and explain the proposed role and authority of the Conceptual Framework, and the scope of financial reporting. It also identifies and explains the proposed:~~

- ~~• Objectives of financial reporting and users of general purpose financial reports;~~
- ~~• Qualitative characteristics of, and constraints on, information included in general purpose financial reports; and~~
- ~~• Reporting entity concept and the basis for determining the composition of a group reporting entity.~~

Guide for Respondents

~~The IPSASB would welcome comments on all the proposals in the Exposure Draft. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale and, where applicable, provide a suggestion for proposed changes to the Exposure Draft.~~

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:

“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

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.~~

~~The further development of this Phase of the Conceptual Framework project will also be informed by responses received to Consultation Papers and Exposure Drafts of the other Phases of the project.~~

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

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1 **Role and Authority of the Conceptual Framework ~~and the Scope of General Purpose Financial Reporting~~**

Role of the Conceptual Framework

- 1.1 The *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (the Conceptual Framework) establishes the concepts that underpin general purpose financial reporting (hereafter referred to as financial reporting) by public sector entities that adopt the accrual basis of accounting, ~~other than Government Business Enterprises (GBEs)~~. The International Public Sector Accounting Standards Board (IPSASB) will apply these concepts in developing International Public Sector Accounting Standards (IPSASs) or non-authoritative guidance applicable to the preparation and presentation of general purpose financial reports (GPFRs) of public sector entities.

~~1.1~~

Authority of the Conceptual Framework

- 1.2 ~~This Conceptual~~The Conceptual Framework does not establish authoritative requirements for financial reporting by public sector entities that adopt IPSASs, nor does it override the requirements of IPSASs. Authoritative requirements relating to the recognition, measurement, presentation and disclosure of transactions and other events and activities that are reported in GPFRs are specified in IPSASs.
- 1.3 ~~Although the Conceptual Framework has lesser authority than an IPSAS~~However, it can provide guidance in dealing with financial reporting issues not dealt with by IPSASs or non-authoritative guidance issued by the IPSASB. In these circumstances, preparers and others can refer to and consider the applicability of the definitions, recognition criteria, measurement principles, and other concepts identified in ~~this Conceptual~~the Conceptual Framework. In some cases, an IPSAS may identify circumstances in which the definitions and other concepts in ~~this Conceptual~~the Conceptual Framework have authoritative status.

~~1.2~~

Staff proposes relocation of final sentence of paragraph 1.3 to become final sentence of paragraph 1.2. Given change in text, repositioning supports continuity of explanation.
--

General Purpose Financial Reports

- ~~1.3~~1.4 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 require the preparation of financial reports tailored to meet their specific information needs.
- ~~1.4~~ Some users of financial information may have the authority to require the preparation of reports tailored to meet their specific information needs. While such parties may find the information provided by GPFRs useful for their purposes, GPFRs are not developed to specifically respond to their particular information needs.
- 1.5 **Scope of Financial Reporting**

1.6 GPFRs encompass financial statements including their notes (hereafter referred to as financial statements, unless specified otherwise), and the presentation of information that enhances, complements and supplements the financial statements. GPFRs are likely to comprise multiple reports, each responding more directly to certain aspects of the objectives of financial reporting and matters included within the scope of financial reporting. Therefore, reference in this document to inclusion of information in GPFRs does not mean inclusion of that information in every GPFR that may be prepared.

~~1.5.1.7~~ The scope of financial reporting establishes the boundary around the transactions, other events and activities that may be reported in GPFRs. The scope of financial reporting is determined by the information needs of the primary users of GPFRs and the objectives of financial reporting. The factors that determine what may be encompassed within the scope of financial reporting are outlined in the following –section of the Conceptual Framework. (See section headed (as identified in *The Objectives and Scope of Financial Reporting and Users of General Purpose Financial Reports.*) –section of this Conceptual Framework), and responds to the operating characteristics of public sector entities. The scope of financial reporting will evolve in response to users' information needs, consistent with the objectives of financial reporting.

~~1.6~~ GPFRs of public sector entities include, but are more comprehensive than, financial statements including their notes. They can report information about the past, present, and the future that is useful to users –including financial and non-financial quantitative and qualitative information about the achievement of financial and service delivery objectives in the current reporting period, and anticipated future service delivery activities and resource needs². GPFRs are likely to comprise multiple reports, each responding more directly to certain aspects of the objectives of financial reporting and matters included within the scope of financial reporting. The format of presentation adopted by GPFRs will also respond to, and be influenced by matters included within, the scope of financial reporting.

While this Conceptual Framework reflects a scope of financial reporting that is more comprehensive than that encompassed by financial statements, information presented in financial statements remains at the core of financial reporting. How the elements of financial statements are defined, recognized and measured, and forms of presentation and communication that might be adopted for information included within GPFRs, is considered in other components of this Conceptual Framework and in the development of individual IPSASs or non-authoritative guidance, as appropriate.

Applicability of the Conceptual Framework

1.8 The Conceptual Framework applies to financial reporting by public sector entities that apply IPSASs other than GBEs. Therefore, it applies to GPFRs of national, state/provincial and local governments. It also applies to a wide range of other public sector entities including:

- ~~G~~government ministries, departments, programs, boards, commissions, agencies;
 - ~~public~~ Public sector social security funds, trusts, and statutory authorities; ~~and~~
 - ~~international~~ International governmental organizations that are public sector entities; ~~and~~
- ~~1.7~~ • Government business enterprises (GBEs) that apply IPSASs.

²—Reference in this document to inclusion of information in GPFRs does not mean inclusion of that information in every GPFR that may be prepared.

Staff proposes relocation of paragraph 1.8 to follow paragraph 1.3. Given change in text,¹ repositioning supports the continuity of explanation.

1 Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, the Conceptual Framework.

Role and Authority of the Conceptual Framework

BC1.1 The Conceptual Framework identifies the broad principles that the IPSASB will apply in developing IPSASs and non-authoritative guidance intended to assist preparers and others in dealing with financial reporting issues. ~~Authoritative requirements relating to the recognition, measurement, presentation and disclosure of transactions and other events and activities that are reported in GPFRs are specified in IPSASs.~~ IPSASs specify authoritative requirements. They are developed after application of a due process which provides the opportunity for interested parties to provide input on the specific requirements proposed, including their compatibility with current practices in different jurisdictions.

~~BC1.1~~BC1.2 The IPSASB is of the view that existing authoritative requirements should not be amended without the application of due process. After the Conceptual Framework is issued, the IPSASB will review extant IPSASs and identify and, through application of the due process, address any circumstances where there is substantial conflict between an IPSAS and the Conceptual Framework.

~~BC1.2 Although the Conceptual Framework has lesser authority than an IPSAS developed to deal with specific transactions or other events, it will be a relevant source of guidance in dealing with financial reporting issues not specifically dealt with in IPSASs. In addition, as appropriate, IPSASs may also specify that certain definitions or other concepts identified in this Conceptual Framework are to be applied in dealing with particular transactions or events.~~ Government Business Enterprises

~~BC1.3 The Conceptual Framework underpins the development of IPSASs. Therefore, it has relevance for all entities that apply IPSASs. In some jurisdictions, GBE's (also referred to as State Owned Enterprises, Crown Corporations or by similar terms) may apply IPSASs. GPFRs prepared at the whole-of-government level may consolidate all governmental entities, including GBE's. In these circumstances, GPFRs prepared at the whole of government level will include information about GBEs.~~

Staff comment – To be updated. The GBE project proposal (as at December 2011) anticipated completion prior to completion of the Framework project. The outcome of the GBE project will further clarify the relationship of the Framework to GBE's

Special Purpose Financial Reports

~~BC1.3~~BC1.4 Standard setters often describe as “special purpose financial reports” those financial reports prepared to respond to the requirements of users that have the authority to require the preparation of financial reports that disclose the information they need for their particular purposes. The IPSASB is aware that the requirements of IPSASs have been (and may

continue to be) applied effectively and usefully in the preparation of some special purpose financial reports.

General Purpose Financial ReportsScope of Financial Reporting

~~BC1.4 This Conceptual~~The Conceptual Framework acknowledges that, to respond to user's information needs, GPFRs may include information that enhances, complements and supplements the financial statements. Therefore, the Conceptual Framework reflects a scope for financial reporting that is more comprehensive than that encompassed by financial statements.~~The following section of this Framework (*The Objectives and Scope of Financial Reporting and Users of General Purpose Financial Reports*) identifies the objectives of financial reporting and the primary users of GPFRs. It also outlines the consequences of the primary users' likely information needs for what may be encompassed within the scope of financial reporting, including their notes. For example, in addition to financial statements that present financial information about past transactions and other events, GPFRs may encompass reports that present financial and non-financial information about the achievement of the entity's service delivery objectives during the reporting period, and prospective financial and non-financial information about its future service delivery activities, objectives, and resource needs.~~

~~BC1.5 The IPSASB is of the view that this more comprehensive scope is necessary to ensure that financial reporting responds to users' information needs and reflects the operating characteristics of public sector entities. It is also necessary to allow financial reporting to evolve in response to further developments in users' need for financial reporting information.~~

~~BC1.6 Acknowledging a more comprehensive scope for financial reporting does not mean that it is inevitable that authoritative requirements will be developed to direct reporting on all the matters that may be encompassed by that scope. For example:~~

- ~~• The IPSASB's publications include discussion papers and non-authoritative guidance intended to assist the financial reporting community to respond to particular financial reporting issues; and~~
- ~~• The financial reports of public sector entities in many jurisdictions currently include information about service delivery achievements and prospective financial and non-financial information that is not specifically required by IPSASs.~~

~~— In addition, information presented in financial statements including their notes remains at the core of financial reporting. Consequently, the standards development work program of the IPSASB will continue to respond to users' need for better financial reporting of transactions and other events that are reported in the financial statements including their notes.~~

~~BC1.7 The IPSASB has also determined that components of the Conceptual Framework dealing with the definition, recognition and measurement of the elements of GPFRs will be developed to initially focus on elements of the financial statements. How these concepts may apply to other areas of financial reporting will be considered subsequently. Existing IPSASB projects dealing with such matters as narrative reporting, performance reporting~~

~~and reporting long-term fiscal sustainability are also likely to inform the ongoing development of a number of aspects of the Conceptual Framework.~~

~~BC1.8 In making decisions that extend the scope of financial reporting beyond financial statements including their notes, the IPSASB will consider the benefits of the information to users and the costs of compiling and reporting such information. The timing of these developments of the scope of financial reporting will therefore respond to developments in users' information needs and assessments of the benefits and costs of reporting information to respond to these needs.~~

~~Other Reports and Information~~

~~BC1.9BC1.5 GPFRs may not provide all the information users need for accountability and decision-making purposes. In addition to GPFRs, governments and other public sector entities report a wide range of financial and non-financial information about their activities, achievements, plans, and the economic and other conditions and factors that influence them. GPFRs will need to be read in conjunction with other information provided by governments and other public (and in some cases private) sector entities when users require additional or more detailed information about, for example, the activities and plans of a government or other public sector entity, and the factors that influence them.~~

STAFF COMMENT – IPSASB HAS AGREED TO REVISIT MECHANISMS TO CROSS REFERENCE TO IASB AND STATISTICAL BASES OF REPORTING AS AN OVERARCHING ISSUES IMPACTING ALL PHASES OF THE FRAMEWORK PROJECT

Appendix 1A

The IASB Conceptual Framework (September 2010)

Role, Authority and Scope

The International Accounting Standards Board (IASB) develops and publishes International Financial Reporting Standards (IFRSs). IFRSs are designed to apply to the general purpose financial statements and other financial reporting of all profit-oriented entities. The IASB Conceptual Framework (issued in 1989 and updated in part in September 2010):

- Sets out the concepts that underlie the preparation and presentation of financial statements for external users.
- Focuses on financial statements that are prepared for the purpose of providing information that is useful in making economic decisions.
- Does not define standards for any particular measurement or disclosure issue.
- Does not override any specific IFRS. The IASB recognizes that in a limited number of cases there may be a conflict between the Conceptual Framework and an IFRS. If there is a conflict between an IFRS and the Conceptual Framework, the requirements of the IFRS prevail over those of the Conceptual Framework.

The purposes of the IASB Conceptual Framework include:

- Assisting the IASB in the development of future IFRSs and in its review of existing IFRSs.
- Assisting preparers in applying IFRSs and dealing with matters not yet dealt with by IFRSs.

The Conceptual Framework will also assist national standard setters, auditors, users and others who use IFRSs or have other interest in them.

STAFF COMMENT – IPSASB HAS AGREED TO REVISIT MECHANISMS TO CROSS REFERENCE TO IASB AND STATISTICAL BASES OF REPORTING AS AN OVERARCHING ISSUES IMPACTING ALL PHASES OF THE FRAMEWORK PROJECT

Appendix 1B

The Statistical Bases of Reporting of the 1993 System of National Accounts (updated 2008) and other guidance derived from it (ESA 95 and GFSM 2001)

Role, Authority and Scope

The 1993 System of National Accounts (SNA)—as updated in 2008 (2008 SNA):

- Applies to economic activities taking place within an economy and between an economy and the rest of the world, and the interaction between the different economic agents and groups of agents that takes place in markets or elsewhere.
- Is an internationally agreed standard set of recommendations on how to compile and present measures of economic activity.
- Requires all parties to report transactions in the same way.
- Identifies interconnected flow accounts linked to different types of economic activity taking place within a given period of time. It also supports preparation of balance sheets that record the values of the stocks of assets and liabilities held by institutional units or sectors at the beginning and end of the period.
- Explains that the classifications and accounting rules are meant to be universally applicable. 2008 SNA does not define parts of the SNA differently for application in different economies, for example in less developed or more developed economies, in large relatively closed economies or small open economies, or in high-inflation or low inflation economies.
- Adopts a standardized classification and sector-identification basis, and a multiple entry data system to facilitate institutional, sectoral and cross-country comparability.

The Government Finance Statistics Manual 2001 (GFSM 2001) and the European System of Accounts (ESA 95) are consistent with the principles of the 1993 System of National Accounts. However, at a detailed level, some reporting differences may arise as a result of differences in purpose and specific data needs. Updates to the 2008 SNA will be incorporated in updates to these, and other, statistical manuals.

2 Objectives and Scope of Financial Reporting and Users of General Purpose Financial Reports

- 2.1 The objectives of financial reporting by public sector entities are to provide information about the entity that is useful to users of GPFRs for accountability purposes and for decision-making purposes (hereafter referred to as “useful for accountability and decision-making purposes”).
- 2.2 Financial reporting is not an end in itself. Its purpose is to provide information useful to users of GPFRs. The objectives of financial reporting are therefore determined by reference to the users of GPFRs, and their information needs.

Users of General Purpose Financial Reports

- 2.3 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.
- 2.4 Consequently, GPFRs of public sector entities are developed primarily to respond to the information needs of service recipients and resource providers who do not possess the authority to require a public sector entity to disclose the information they need for accountability and decision-making purposes. The legislature (or similar body) and members of parliament (or a similar representative body) are also primary users of GPFRs, and make extensive and ongoing use of GPFRs when acting in their capacity as representatives of the interests of service recipients and resource providers. Therefore, for the purposes of ~~this Conceptual~~ the Conceptual Framework, the primary users of GPFRs are service recipients and their representatives and resource providers and their representatives (hereafter referred to as service recipients and resource providers, unless identified otherwise).
- ~~2.5~~ Citizens receive services from, and provide resources to, the government and other public sector entities. Therefore, citizens are primary users of GPFRs. Some service recipients and some resource providers that rely on GPFRs for the information they need for accountability and decision-making purposes may not be citizens—for example, residents who pay taxes and/or receive benefits but are not citizens; ~~some~~ multilateral or bilateral donor agencies and many lenders and corporations that provide resources to, and transact with, a government; and those that fund, and/or benefit from, the services provided by international governmental organizations. In most cases, governments that provide resources to international governmental organizations are dependent on GPFRs of those organizations for information for accountability and decision-making purposes.

~~2.6~~ 2.5

- ~~2.7~~ 2.6 GPFRs prepared to respond to the information needs of service recipients ~~and their representatives~~ and resource providers ~~and their representatives~~ for accountability and decision-making purposes may also provide information useful to other parties and for other purposes. For example, government statisticians, analysts, the media, financial advisors, public interest and lobby groups and others may find the information provided by GPFRs useful for their own purposes. Organizations that have the authority to require the preparation of financial reports

tailored to meet their own specific information needs may also use the information provided by GPFRs for their own purposes—for example, regulatory and oversight bodies, audit institutions, subcommittees of the legislature or other governing body, central agencies and budget controllers, entity management and, in some cases, lending institutions and providers of development and other assistance. While these other parties may find the information provided by GPFRs useful, they are not the primary users of GPFRs. Therefore, GPFRs are not developed to specifically respond to their particular information needs.

Accountability and Decision Making

2.7 The primary function of governments and public sector entities is to provide services that enhance or maintain the well-being of citizens and other eligible residents including, for example, welfare programs and policing, public education, national security and defense services. In most cases, these services are provided as a result of a non exchange transaction and in a non-competitive environment. [Staff comment– subject to IPSASB decision regarding placement of text from the key characteristics ED, explanation of exchange/non-exchange transactions could usefully be included as a footnote here.]

2.8 Governments and other public sector entities are accountable to those that provide them with resources, and to those that depend on them to use those resources to delivery services during the reporting period and over the longer term. The discharge of accountability obligations requires the provision of information about the reporting entity's stewardship of the resources entrusted to it for the delivery of services to constituents and others and its compliance with legislation, regulation, or other authority that governs its service delivery and other operations. Given the way in which the services provided by public sector entities are funded (primarily by taxation revenues or other non exchange transactions), and the dependency of service recipients on the provision of those services over the long term, the discharge of accountability obligations will also require the provision of information about such matters as the entity's service delivery achievements during the reporting period, and its capacity to continue to provide services in future periods.

2.9 Service recipients and resource providers will also require information as input for making decisions. For example:

- Lenders, creditors, donors and others that provide resources on a voluntary basis, including in an exchange transaction, make decisions about whether to provide resources to support the current and future activities of the government or other public sector entity. In some circumstances, members of the legislature or similar representative body who depend on GPFRs for the information they need, can make or influence decisions about the service delivery objectives of government departments, agencies or programs and the resources allocated to support their achievement; and
- Taxpayers do not usually provide funds to the government or other public sector entity on a voluntary basis or as a result of an exchange transaction. In addition, in many cases, they do not have the discretion to choose whether or not to accept the goods and services provided by a public sector entity or to choose an alternative service provider. Consequently, they have little direct or immediate capacity to make decisions about whether to provide resources to the government, the resources to be allocated for the

provision of services by a public sector entity or whether to purchase or consume the services provided. However, they can make decisions about their voting preferences, and representations they make to elected officials or other representative bodies—these decisions may have resource allocation consequences for certain public sector entities.

2.82.10 Information provided in GPFRs for accountability purposes will contribute to, and inform, decision making. For example, information about the costs, efficiency and effectiveness of past service delivery activities, the amount and sources of cost recovery, and the resources available to support future activities will be necessary for the discharge of accountability. This information will also be useful for decision making by some users of GPFRs, including decisions that donors and other financial supporters make about providing resources to the entity.

2.1—Information Needs of Service Recipients and Resource Providers

2.11 For accountability and decision-making purposes, service recipients and resource providers will need information that supports the assessments of such matters as:

- The performance of the entity during the reporting period in, for example:
 - Meeting its service delivery and other operating and financial objectives;
 - Managing the resources it is responsible for; and
 - Complying with relevant budgetary, legislative, and other controls regulating the raising and use of public monies;
- The liquidity and solvency of the entity-;
- The sustainability of the entity's service delivery and other operations over the long term, and changes therein as a result of the activities of the reporting period including, for example:
 - The capacity of the entity to continue to fund its activities and to meet its operational objectives in the future (its financial capacity), including the likely sources of funding and the extent to which the entity is dependent, and therefore vulnerability, to funding or demand pressures outside its control; and
 - The physical and other resources currently available to support the provision of services in future periods (its operational capacity);
- The capacity of the entity to adapt to changing circumstances, whether changes in demographics or changes in domestic or global economic conditions which are likely to impact the nature or compositions of the activities it undertakes and the services it provides.

~~2.7 Service recipients include taxpayers and other members of the community that benefit from the services provided by the government or other public sector entity, whether as a result of exchange or non-exchange transactions..~~

~~2.22.12 2.8 For accountability and decision-making purposes, The information needs of service recipients and resource providers are likely to overlap in many respects. For example, service~~

recipients ~~and their representatives~~ will require information as input to assessments of such matters as whether:

- The entity is using resources economically, efficiently, effectively and as intended, and whether such use is in their interests;
- The range, volume and cost of services provided during the reporting period, and the amounts and sources of their cost recoveries, are appropriate; and
- Current levels of taxes or other charges are sufficient to maintain the volume and quality of services currently provided.

Service recipients ~~They~~ will also require information about the consequences of decisions made, and activities undertaken, by the reporting entity during the reporting period on the resources available to support the provision of services in future periods, the entity's anticipated future service delivery activities and objectives, and the amounts and sources of cost recoveries necessary to support those activities.

~~2.9 Resource providers include "involuntary resource providers" such as taxpayers, and "voluntary resource providers" such as lenders, donors, suppliers, fee-for-service consumers and employees.~~

~~2.10~~ 2.13 ~~For accountability and decision-making purposes, r~~Resource providers ~~and their representatives~~ will require information as input to assessments of such matters as whether the entity:

- Is achieving the objectives established as the justification for the resources raised during the reporting period;
- Funded current operations from funds raised in the current period from taxpayers or from borrowings or other sources; and
- Is likely to need additional (or less) resources in the future, and the likely sources of those resources.

~~2.11~~ Lenders and creditors will require information as input to assessments of the liquidity of the entity and to confirm that the amount and timing of repayment will be as agreed. Donors will require information to support assessments of whether the entity is using resources economically, efficiently, effectively and as intended. They will also need information about the entity's anticipated future service delivery activities and resource needs. ~~In most cases, governments that provide resources to international governmental organizations are dependent on GPFs of those organizations for information for accountability and decision-making purposes.~~

~~Accountability and Decision Making~~

~~2.12 Service recipients and resource providers will require information for accountability purposes and as input for making decisions. For example:~~

- ~~• Lenders, creditors, donors and others that provide resources on a voluntary basis, including in an exchange transaction, make decisions about whether to provide resources to~~

~~support the current and future activities of the government or other public sector entity. In some circumstances, members of the legislature or similar representative body who depend on GPFRs for the information they need, can make or influence decisions about the service delivery objectives of government departments, agencies or programs and the resources allocated to support their achievement; and~~

~~• Taxpayers do not usually provide funds to the government or other public sector entity on a voluntary basis or as a result of an exchange transaction. In addition, in many cases, they do not have the discretion to choose whether or not to accept the goods and services provided by a public sector entity or to choose an alternative service provider. Consequently, they have little direct or immediate capacity to make decisions about whether to provide resources to the government, the resources to be allocated for the provision of services by a public sector entity or whether to purchase or consume the services provided. However, they can make decisions about their voting preferences, and representations they make to elected officials or other representative bodies—these decisions may have resource allocation consequences for certain public sector entities.~~

~~2.13 Information provided in GPFRs for accountability purposes will contribute to, and inform, decision making. For example, information about the costs, efficiency and effectiveness of past service delivery activities, the amount and sources of cost recovery, and the resources available to support future activities will be necessary for the discharge of accountability. This information will also be useful for decision making by some users of GPFRs, including decisions that donors and other financial supporters make about providing resources to the entity.~~

Information Provided by General Purpose Financial Reports

~~2.14 To respond to the information needs of users, GPFRs will need to provide information about the financial position of the government or other public sector entity as at the reporting date and its financial performance, cash flows, and changes in net assets during the reporting period. GPFRs will also need to provide financial and non-financial information about such matters as the government's or other public sector entity's:~~

- ~~• Service delivery activities, achievements or outcomes during the reporting period, including whether resources have been used economically, efficiently, and effectively, and in accordance with approved budgets and other authority that justified the raising and use of those resources; and~~
- ~~• Plans and objectives for service delivery in the future, including the anticipated amount and sources of the resources needed to support those plans and objectives.~~

Financial Position, Financial Performance and Cash Flows

~~2.15~~2.14 Information about the financial position of a government or other public sector entity will enable users to identify the economic resources of the entity that can be used to provide particular services in future periods and claims to those resources at the reporting date. This will provide information useful as input to assessments of such matters as:

- The extent to which management has discharged its responsibilities for safekeeping and managing the economic resources of the entity;

- The extent to which economic resources are available to support future service delivery objectives, and changes during the reporting period in the amount and composition of those resources and claims to them; and
- The amounts and timing of future cash flows necessary to service and repay existing claims to the entity's economic resources.

~~2.16~~ 2.15 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. Information about the costs of service delivery and the amounts and sources of cost recovery during the reporting period will enable users to determine whether operating costs were recovered from, for example, taxes, user charges, contributions and transfers, or were financed by increasing the level of indebtedness of the entity.

~~2.17~~ The financial performance of public sector entities will not be fully or adequately reflected in any measure of their financial result (whether described as "surplus or deficit," "profit or loss," or by other terms). Rather, assessments of their financial performance will involve analysis of such matters as:

- ~~• The purposes for which resources were used during the reporting period;~~
- ~~• The costs, efficiency and effectiveness of service delivery during the reporting period; and~~
- ~~• Changes during the reporting period in the amount and composition of the resources that are available for the provision of services in the future and claims to those resources.~~

2.16 Information about the cash flows of a government or other public sector entity contributes to assessments of financial performance and the entity's liquidity and solvency. It indicates how the entity raised and used cash during the period, including its borrowing and repayment of borrowing and its acquisition and sale of, for example, property, plant, and equipment. It also identifies the cash received from, for example, taxes and investments and the cash transfers made to, and received from, other governments, government agencies or international organizations. Information about cash flows can also support assessments of the entity's compliance with spending mandates expressed in cash flow terms, and inform assessments of the likely amounts and sources of cash inflows needed in future periods to support service delivery objectives.

2.17 Information about financial position, financial performance and cash flows are typically presented in financial statements. To assist users to better understand, interpret and place in context the information presented in the financial statements, GPFRs may also provide financial and non-financial information that enhances, complements and supplements the financial statements, including information about such matters as the government's or other public sector entity's:

- Compliance with approved budgets and other authority governing its operations;
- Service delivery activities and achievements during the reporting period; and
- Expectations regarding service delivery and other activities in future periods, and the long term consequences of decisions made and activities undertaken during the reporting period, including those that may impact expectations about the future

This information may be presented in the notes to the financial statements or in additional reports included in GPFRs. These matters are explored below.

~~2.18~~

Compliance with the Budget

2.18 Some resources to support the activities of public sector entities may be received from donors, lenders or as a result of exchange transactions. However, resources to support the activities of public sector entities are predominantly provided in non-exchange transactions by taxpayers and others, consistent with the expectations reflected in an approved budget.

2.19 ~~Typically, Governments and other public sector entities are accountable to constituents for their use of the resources raised from them, or raised or provided on their behalf. The approved budget of a government or other public sector entity- prepares, approves and makes publicly available an annual budget. The approved budget provides interested parties with financial information about the reflects the financial characteristics of the entity's- operational plans for the forthcoming period its capital needs and, often, its service delivery objectives and expectations.~~ It is used to justify the raising of monies from taxpayers and other resource providers, and establishes the authority for expenditure of public monies.

2.20 GPFRs provide information about the financial results and performance of the entity during the reporting period, its assets and liabilities at the reporting date and the change therein during the reporting period, and its service deliver achievements.

2.21 The inclusion within GPFRs of information that assists users in assessing the extent to which revenues, expenses, cash flows and financial results comply with the estimates reflected in entity's compliance with legally adopted or approved budgets, and its adherence to relevant legislation or other authority governing the raising and use of public monies, is important in determining how well a public sector entity has met its financial objectives included in GPFRs. Such information is necessary for the discharge of a government's (or other entity's) accountability to its constituents, enhances the assessment of the financial performance of the reporting entity and will inform decision making.

~~2.20~~

Service Delivery Achievements

2.22 The primary objective of governments and most public sector entities is to provide needed services to constituents. Consequently, the financial performance of governments and most public sector entities will not be fully or adequately reflected in any measure of financial result (whether described as "surplus or deficit," "profit or loss," or by other terms). Therefore, their financial results will need to be assessed in the context of the achievement of service deliver objectives.

~~2.21~~ 2.23 Reporting non-financial as well as financial information about service delivery activities, achievements and/or outcomes during the reporting period will provide input to assessments of the economy, efficiency, and effectiveness of the entity's operations. Reporting ~~such~~ this information is necessary for a government or other public sector entity to discharge its obligation to be accountable—that is, to account for, and justify the use of, the financial resources raised from, or on behalf of, constituents. Decisions that donors make about the allocation of resources to particular entities and programs are also made, at least in part, in response to information about service delivery achievements during the reporting period, and future service delivery objectives.

Prospective Financial and Non-financial Information

2.24 Given the longevity of governments and many government programs, the financial consequences of many decisions made in the reporting period may only become clear many years into the future. Financial statements which present information about financial position at a point in time and financial performance and cash flows over the reporting period will then need to be assessed in the context of the long term.

2.222.25 Decisions made by a government or other public sector entity in a particular period about programs for delivering and funding services in the future can have significant consequences for:

- Constituents who will be dependent on those services in the future; and
- Current and future generations of taxpayers and other involuntary resource providers who will provide the taxes and levies to fund the planned service delivery activities and related financial commitments.

2.232.26 Information about the entity's anticipated future service delivery activities and objectives, their likely impact on the future resource needs of the entity, and the likely sources of funding for such resources, will be necessary as input to any assessment of the ability of the government or other public sector entity to meet its service delivery and financial commitments in the future. The disclosure of such information in GPFRs will support assessments of the sustainability of service delivery by a government or other public sector entity, enhance the accountability of the entity and provide additional information useful for decision-making purposes.

Narrative Reports

2.242.27 Narrative reports can provide additional information about the major factors underlying the financial and service delivery performance of the entity during the reporting period. They can also outline the assumptions that underpin expectations about, and factors that are likely to influence, the entity's future performance. This will assist users to better understand and place in context the financial and non-financial information included in GPFRs, and enhance the role of GPFRs in providing information useful for accountability and decision-making purposes.

2.252.28 In some cases, quantitative measures of the outputs and outcomes of the entity's service delivery activities during the period and anticipated activities in future periods will provide relevant information about the achievement of these service delivery objectives—for example, information about the cost, volume, and frequency of service delivery, and the relationship of services provided to the resource base of the entity. In other cases, the achievement of service delivery objectives may need to be communicated by an explanation of the quality of particular services provided or the outcome of certain programs.

Staff is of the view that the term "narrative reports" is not an appropriate term for matters covered in this section because a "narrative" may be included in notes to financial statements or reports dealing with service delivery achievements or prospective financial or non-financial information. Staff proposes that, if retained, this section be retitled "additional explanatory material" and paragraph 2.27 commence:

"Information about, for example, the major factors underlying the financial and service delivery performance of the entity during the reporting period, and the assumptions that underpin expectations about, and factors that are likely to influence, the entity's future performance may be

presented in GPFRs in notes to the financial statements or in separate reports. Such information will assist users to better understand”

Staff also propose that paragraph 2.28 be deleted, or moved/absorbed in the service delivery achievements section (Paragraphs 2.22 and 2.23).

Change of terminology here may have consequences for references to narrative reporting in other paragraphs such as 3.17, 3.25 and, arguably, BC3.9. Staff has already deleted reference to narrative reporting in paragraph 3.5.

Scope of Financial Reporting

2.29 The scope of financial reporting establishes the boundary around the transactions, other events and activities that may be reported in GPFRs. To respond to the information needs of users, the Conceptual Framework reflects a scope for financial reporting that that is more comprehensive than that encompassed by financial statements. It provides for the presentation within GPFRs of additional information that enhances, complements and supplements those statements. For example, it acknowledges that, in addition to financial statements that present financial information about past transactions and other events, GPFRs may encompass reports that present financial and non-financial information about the achievement of the entity's service delivery objectives during the reporting period, and prospective financial and non-financial information about its future service delivery activities, objectives, and resource needs.

Staff comment: The final sentence, commencing “For example,...” is repetitive of matters dealt with in the dot points of paragraph 2.17, Staff is of the view that this sentence should be eliminated.

2.30 While the Conceptual Framework reflects a scope of financial reporting that is more comprehensive than that encompassed by financial statements, information presented in financial statements remains at the core of financial reporting. How the elements of financial statements are defined, recognized and measured, and forms of presentation and communication that might be adopted for information included within GPFRs, is considered in other components of the Conceptual Framework and in the development of individual IPSASs or non-authoritative guidance, as appropriate.

Other Sources of Information

~~2.26~~2.31 GPFRs play a significant role in communicating information necessary to support the discharge of a government's or other public sector entity's obligation to be accountable, as well as providing information useful as input for decision-making purposes. However, GPFRs will not provide all the information users need for accountability and decision-making purposes. For example, budgets and financial forecasts issued by governments, provide detailed financial and non-financial information about the financial characteristics of the plans of governments or other public sector entities over the short and medium terms. Governments and independent agencies also issue reports on the need for, and sustainability of existing service delivery initiatives and the economic conditions and changes in jurisdiction demographics anticipated in the medium and longer term that will influence budgets and service delivery needs in the future. However, some information useful for accountability and decision-making purposes may also be provided by reports other than GPFRs. Consequently, service recipients and resource providers may also

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need to consider information from other sources, including reports on current and anticipated economic conditions, government budgets and forecasts, and information about government policy initiatives not reported in GPFRs.

2 Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, the Conceptual Framework.

Primary User Groups

~~BC2.1 The IPSASB Consultation Paper (Phase 1 CP), *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: The Objectives of Financial Reporting; The Scope of Financial Reporting; The Qualitative Characteristics of Information Included in General Purpose Financial Reports; The Reporting Entity* (September 2008) did not identify a primary user, or primary users, of GPFRs. Rather, the IPSASB's Preliminary View 3 (PV3) in the Phase 1 CP identified the potential users of GPFRs of public sector entities as recipients of services (service recipients) or their representatives; providers of resources (resource providers) or their representatives; and other parties, including special interest groups, and their representatives.~~

BC2.1 In developing the Conceptual Framework, the IPSASB sought views on whether the Framework should identify the primary users of GPFRs. Many respondents to due process documents argued that the Framework should identify the primary users of GPFRs, and the IPSASB should focus on the information needs of those primary users in developing IPSASs. The IPSASB was persuaded by these arguments.

Identifying the Primary User Groups

~~BC2.2 Many respondents to the Phase 1 CP expressed support for CF—ED1 identified service recipients and their representatives, and resource providers and their representatives as the primary users of GPFRs. It explained that PV3—, while the IPSASB will develop IPSASs and non authoritative guidance on the contents of GPFRs to respond primarily to the information needs of the primary users, GPFRs may still be used by others with an interest in financial reporting, and provide information of use to those other users.~~

~~BC2.2 Many respondents to CF—ED1 expressed support for the primary users as identified in CF—ED1. However, many others were of the view that the public, citizens or legislature, electors or their representatives (for example, the legislature, parliament, elected council or other representative body), should be identified as the primary or most important users of GPFRs of public sector entities. They explained that this is because governments are primarily accountable to the citizens or their representatives and, in many jurisdictions, the legislature and individual members of parliament (or similar representative body) acting on behalf of citizens are the main users of GPFRs.~~

BC2.3 Some ~~Other~~ respondents ~~also expressed the~~ ~~were of the~~ view that resource providers ~~and their representatives, funders, financial supporters or similar providers of resources~~ should be identified as the primary users of GPFRs of public sector entities. The ~~use respondents~~ explained that it is unlikely that GPFRs ~~would be able to~~ respond to the information needs of all users, and resource providers are likely to have the greatest interest in GPFRs. Therefore, identifying resource providers as the primary user group will allow the IPSASB to focus more sharply on the ~~the~~ information needs ~~of a single user group~~. They also noted that GPFRs prepared to respond to the information needs of resource providers are likely to also provide information useful to other potential users.

~~BC2.3~~

~~BC2.4~~ The IPSASB acknowledges that there is merit in many of the proposals made by respondents ~~to the Phase 1 CP~~ regarding the identity of the primary users of GPFRs of public sector entities, particularly as they apply to governments in many jurisdictions. However, on balance, the IPSASB remains ~~is~~ of the view that the primary users of GPFRs of public sector entities should be identified as service recipients and their representatives and resource providers and their representatives. This is because

- ~~governments and other public sector entities are accountable primarily to those that depend on them to use resources to deliver necessary services, as well as to those provide that provide them with the resources that enable the delivery of those services; and, and to those that depend on them to use those resources to deliver necessary services.~~
- GPFRs have a significant role in the discharge of that accountability and the provision of information useful to those users for decision making purposes.

As such, GPFRs should be developed to respond to the information needs of service recipients and their representatives and resource providers and their representatives as the primary users. In addition, the Conceptual Framework will apply to governments and a potentially wide range of other public sector entities in many different jurisdictions, and ~~as well as~~ international governmental organizations. Consequently, it is not clear that identification of other user groups as the primary users of GPFRs will be relevant, and operate effectively, for all public sector entities across all jurisdictions.

~~BC2.5~~ The IPSASB accepts that some information in GPFRs may be of more interest and greater use to some users than others. The IPSASB also accepts that, in developing IPSASs and non-authoritative guidance, it will need to consider and, in some cases, balance the needs of different groups of primary users. However, the IPSASB does not believe that such matters invalidate the identification of both service recipients and their representatives and resource providers and their representatives as the primary users of GPFRs.

~~BC2.4~~~~BC2.6~~ The IPSASB's views on the relationship between the individual primary user groups identified by respondents, and service recipients and resource providers are further elaborated ~~outlined~~ below.

Citizens

~~BC2.5~~~~BC2.7~~ The IPSASB is of the view that those that advocate that citizens, the public and/or their representative bodies be identified as the primary users of GPFRs are not adopting positions substantially different from those reflected in this Framework. ~~There is much common ground between the views of those that identify citizens and their representatives as the primary user group and the views of the IPSASB.~~ This is because citizens (or the public) are both service recipients and resource providers. The IPSASB acknowledges the importance of citizens and their representatives as users of GPFRs, but is of the view that classifying citizens as service recipients and resource providers provides a basis for assessing their potential information needs. This is because citizens encompass many individuals with a potentially wide range of diverse information needs –

focusing on the information needs of citizens as service recipients and resource providers enables the IPSASB to draw together those diverse interests and explore what information needs GPFRs should attempt to respond to. The IPSASB is also of the view that, in developing IPSASs, it is appropriate that it has the capacity to consider the information needs of a range of non-citizen service recipients and resource providers (including donors and lenders) who do not possess the authority to require a public sector entity to disclose the information they need for accountability and decision-making purposes.

Resource Providers

BC2.8 The IPSASB agrees that GPFRs directed at the provision of information to satisfy the information needs of resource providers will also provide information useful to other potential users of GPFRs. However, the IPSASB is of the view that the Conceptual Framework should make clear its expectation that governments and other public sector entities should be accountable to both those that provide them with resources and those that depend on them to use those resources to deliver necessary and/or promised services. In addition, in many-some jurisdictions, resource providers are primarily donors or lenders that , in many cases, may have the authority to require the preparation of special purpose financial reports to provide the information they need.

Staff is of the view that the final sentence of paragraph 2.8, while it may be true, does not flow from, and arguably dilutes, the point being made here, and should be deleted.

~~BC2.6~~BC2.9 The IPSASB is of the view that the Conceptual Framework should not exclude citizens who may be interested in GPFRs in their capacity as service recipients from the potential users of GPFRs, or identify their information needs as less important than those of resource providers. The IPSASB is also uncomfortable with proposals that would exclude donors, lenders, and others that provide resources on a voluntary or involuntary basis to governments and other public sector organizations as potential users of GPFRs, or identify their information needs as less important than those of service recipients.

The Legislature

~~BC2.7~~BC2.10 The IPSASB is of the view that the legislature or similar governing body is a primary user of GPFRs in its capacity as a representative of service recipients and resource providers. The legislature, parliaments, councils and similar bodies will also require information for their own specific accountability and decision-making purposes, and usually have the authority to require the preparation of detailed special purpose financial and other reports to provide that information. However, they may also use the information provided by GPFRs for their own particular purposes, including for example, as input to assessments of whether resources were used efficiently and as intended and in making decisions about allocating resources to particular government entities, programs or activities.

~~BC2.8~~BC2.11 Individual members of the legislature or other governing body, whether members of the government or opposition, can usually require the disclosure of the information they need for the discharge of their official duties as directed by the legislature or governing body. However, they may not have the authority to require the preparation of financial

reports that provide the information they require for other purposes, or in other circumstances. Consequently, they are users of GPFRs, whether in their capacity as representatives of service recipients and resource providers in their electorate or constituency, or in their personal capacity as citizens and members of the community.

Other User Groups

~~BC2.9~~—In developing the Conceptual FrameworkPhase 1 CP, the IPSASB considered a wide range of other potential users of GPFRs, including whether special interest groups and their representatives, or those transacting with public sector entities on a commercial or non-commercial basis or on a voluntary or involuntary basis (, such as public sector and private sector resource providers), should be identified as separate user groups. The IPSASB is of the view that identifying service recipients and their representatives and resource providers and their representatives as the primary users of GPFRs will respond appropriately to the information needs of ~~these~~ subgroups of service recipients and resource providers.

~~BC2.10BC2.12~~ The Phase 1 CP identified as potential users of GPFRs “other parties, including special interest groups and their representatives.” However, a number of respondents argued that many of these potential users of GPFRs would be encompassed within the groups identified as service recipients and their representatives and resource providers and their representatives. Consequently, they should not be identified as a separate user group. Some also expressed concern that identifying or implying that GPFRs should be developed to respond to the needs of special interest groups was contrary to the “general purpose” nature of GPFRs. The IPSASB was persuaded by these arguments.

BC2.13 The information provided by GPFRs may also be useful for compiling national accounts, as input to statistical financial reporting models, for assessments of the impact of government policies on economic activity and for other economic analytical purposes. However, GPFRs are not developed specifically to respond to the needs of those who require information for these purposes. Similarly, while those that act as advisors to service recipients or resource providers such as citizen advocacy groups, bond rating agencies, ~~and~~ credit analysts and public interest groups are likely to find the information reported in GPFRs useful for their purposes, GPFRs are not prepared specifically to respond to their particular information needs.

The Objectives of GPFRs

BC2.14 Many respondents to CF—ED1 agreed that the provision of information useful for both accountability and decision making purposes should be identified as the objectives of financial reporting by public sector entities. Some respondents advocated that only accountability be identified as the single or dominant objective of GPFRs of public sector entities, other respondents that decision making should be identified as the single objective. However, the IPSASB remains of the view that users of GPFRs of public sector entities will require information for both accountability and decision making purposes.

BC2.15 Some respondents to CF—ED1 advocated that the link between accountability and decision making be more clearly articulated and the public sector characteristics that underpinned the IPSASB's views on the objectives of financial reporting by public sector

entities be identified. The IPSASB has responded positively to these proposals. The Framework now includes a Preface/Introduction which outlines the key characteristics of the public sector *[Staff comment: retention of this observation is dependent on the IPSASBs decision regarding location of matters raised in the Key Characteristics ED]*.

BC2.16 The explanation of accountability and its relationship to decision making and GPFRs has also been strengthened. In this context, the IPSASB acknowledges that the notion of accountability reflected in this Framework is broad. It encompasses the provision of information about the reporting entity's stewardship of the economic resources entrusted to it, and information useful to users in assessing the sustainability of the activities of the entity and the continuity of the provision of services over the long term. The IPSASB is of the view that this broad notion of accountability is appropriate because citizens and other constituents provide resources to governments and other public sector entities on an involuntary basis and, for the most part, depend on governments and public sector entities to provide needed services over the long term. However, the IPSASB also recognizes that GPFRs will not provide all the information that service recipients and resource providers need for accountability and decision making purposes.

The Scope of Financial Reporting

BC2.17 Many respondents to CF—ED1 expressed support for the scope of financial reporting and its explanation as proposed by the IPSASB in CF—ED1, with some identifying matters for clarification and others noting that projects dealing with the broader scope issues would need to provide guidance on application of the qualitative characteristics (QCs) such as verifiability and consistency. Other respondents did not support expanding the scope of financial reporting beyond financial statements, expressing concern that the proposed broad scope deals with matters outside the existing Terms of Reference of the Board and noting that guidance on matters outside the financial statements, such as non-financial and prospective information, are appropriately a matter for individual governments, jurisdictions or governing bodies or other authority. Some also expressed concern that the scope is too sharply focused on the financial statements, and that additional guidance on non-financial information and sustainability reporting be included in the Framework.

BC2.18 The IPSASB remains of the view that it is necessary that the Conceptual Framework reflect a scope for financial reporting that is more comprehensive than that encompassed by financial statements. This is because, as noted in the *Preface/Introduction/Companion Piece to the Conceptual Framework: (Note: Still subject to IPSASB's decision re placement/use of Key Characteristics ED)*

- The primary objective of governments and public sector entities is to deliver these services to constituents rather than to generate profits.
- Citizens and other eligible residents are dependent on governments and public sector entities to provide a wide range of services on an ongoing basis over the long term. The activities of, and decisions made by, a reporting entity in a particular reporting period can have significant consequences for future generations of service recipients and future generations of taxpayers and other involuntary resource providers; and

- Most public sector entities operate within spending mandates and financial constraints established through the budgetary process. Monitoring implementation of the approved budget is the primary method by which the legislature exercises oversight and citizens and their elected representatives hold the government's management financially accountable.

BC2.19 Consequently, the performance of public sector entities in achieving their financial and service delivery objectives can be only partially evaluated by examination of their financial position at the reporting date and financial performance and cash flows during the reporting period. The IPSASB is of the view that, to respond to users' need for information for accountability and decision making purposes, the Conceptual Framework should enable GPFRs to encompass the provision of information that enables users to better assess and place in context the financial statements. Such information may be communicated by reports that present financial and non-financial information about the achievement of the entity's service delivery objectives during the reporting period, its compliance with approved budgets and prospective financial and non-financial information about its future service delivery activities, objectives, and resource needs.

BC2.20 In making decisions that extend the information presented in GPFRs beyond financial statements, the IPSASB will consider the benefits of the information to users and the costs of compiling and reporting such information.

Limiting the scope of financial reporting

BC2.21 Some respondents who agreed that the scope of financial reporting should extend beyond the financial statements expressed concern that the scope as proposed in CF—ED1 was too open ended and/or not adequately explained or justified - in some cases proposing that the scope be limited to enhancement of matters recognized in the financial statements.

BC2.22 The IPSASB has responded to these concerns by relocating and the explanation of the scope of financial reporting, clarifying its link to users' information needs, and including additional explanation of the relationship between users' information needs and the information that GPFRs may provide in response. In addition, the IPSASB has clarified that the scope of general purpose financial reporting is limited to the financial statements and information that enhances, complements or supplements the financial statements. Consequently, what is included in the more comprehensive scope of financial reporting will be derived from financial statements, and limited to matters that assist users to better understand and put in context the information included in those statements.

Resource considerations, authoritative requirements and audit status

BC2.23 Many respondents, whether supportive or opposed to the proposals in CF—ED1, expressed concern that dealing with "broad scope" issues would absorb too much of the IPSASB's resources and limit its ability to deal with financial statement issues. Some respondents to CF—ED1 also:

- Advocated that the Framework clarify that authoritative requirements would only be developed for financial statement matters, broader scope issues being the subject of guidelines; and

- Expressed concern about the audit implication of including non-financial information and prospective information in GPFRs.

BC2.24 While the IPSASB can develop IPSASs which include authoritative requirements, it is not inevitable that it will do so. For example, the IPSASB's publications include discussion papers and non-authoritative guidance intended to assist the financial reporting community to respond to particular financial reporting issues. Such guidance is frequently issued for evolving areas of financial reporting – whether as part of, or outside, the financial statements. Non- authoritative guidance may also be developed where the IPSASB wishes to encourage experimentation on reporting of emerging or particular problematic financial reporting issues³. In addition, any project dealing with the presentation of information in GPFRs, whether as part of the financial statements or enhancements to those statements, will be subject to full due process. Therefore in developing guidance on the presentation of information that broadens the scope of financial reporting, the IPSASB will need to respond to constituent concerns about the proposed technical content and authority of the guidance. In addition, the financial reports of public sector entities in many jurisdictions currently include information about service delivery achievements and prospective financial and non-financial information that is not specifically required by IPSASs.

BC2.25 The IPSASB acknowledges the concern of respondents regarding the deployment of the IPSASB's limited resources to “broad scope” issues. In this context, it is appropriate to note that information presented in financial statements remains at the core of financial reporting and, therefore will remain the primary focus of the IPSASs and non-authoritative guidance developed by the IPSASB. Consequently, the standards development work program of the IPSASB will continue to respond to users’ need for better financial reporting of transactions and other events that are reported in the financial statements.

BC2.26 The Conceptual Framework will define the elements of financial statements and establish the concepts that underpin the recognition and measurement of those elements. The format and contents of any statements, schedules or other reports that present information that enhances, complements and supplements the financial statements will be guided by the presentation concepts identified in this Conceptual Framework (Section X “Presentation in General Purpose Financial Reports” – **to be updated as appropriate**) and considered in the development of any IPSASs or other pronouncements of the IPSASB that deal with such matters.

BC2.27 The QCs provide some assurance to users about the quality of information included in GPFRs. The IPSASB is of the view that it is not the role of the Conceptual Framework, or the IPSASs that may be developed consistent with the concepts reflected in the Framework, to go further and attempt to establish the level of audit assurance that

3 For example the IPSASB has issued an Exposure Draft of proposed non-authoritative guidance on “Reporting on the Sustainability of Public Sector Entity’s Finances”. A Consultation Paper , “Reporting of Service Performance Information”, which seeks input from constituents on whether authoritative or non-authoritative guidance should be developed on matters addressed in the Consultation Paper. In addition, IPSASs have encouraged, but not required the disclosure of information about heritage assets in financial statements and identified disclosures to be made if an entity elects to disclose information about the general government sector in financial statements. (This footnote to be updated as projects are developed and the status of their guidance/authority are clarified.)

should be provided to particular aspects of GPFRs. Rather, responsibilities for the audit of financial statements and other components of GPFRs will be established by such matters as the regulatory framework in place in particular jurisdictions and the audit mandate agreed with and/or applying to the reporting entity.

STAFF COMMENT – IPSASB HAS AGREED TO REVISIT MECHANISMS TO CROSS REFERENCE TO IASB AND STATISTICAL BASES OF REPORTING AS AN OVERARCHING ISSUES IMPACTING ALL PHASES OF THE FRAMEWORK PROJECT

Appendix 2A

The IASB Conceptual Framework (September 2010)

Objectives and Users

The International Accounting Standards Board (IASB) develops and publishes International Financial Reporting Standards (IFRSs). IFRSs are designed to apply to the general purpose financial statements and other financial reporting of all profit-oriented entities. The IASB Conceptual Framework (issued in 1989 and updated in part in September 2010):

- Identifies the primary users of general purpose financial reports (GPFRs) as existing and potential investors, lenders and other creditors that cannot require reporting entities to provide information directly to them and must rely on GPFRs for much of the financial information they need.
- Identifies the objective of general purpose financial reporting as being to provide information about the reporting entity that is useful to existing and potential investors, lenders, and other creditors in making decisions about providing resources to the entity. Those decisions involve buying, selling or holding equity and debt instruments, and providing or settling loans and other forms of credit.
- Explains that existing and potential investors, lenders and other creditors need information to help them assess the prospects for future net cash inflows to an entity. For this purpose they need information about the resources of the entity, claims against the entity, and how efficiently and effectively the entity's management and governing board have discharged their responsibilities to use the entity's resources.
- Notes that other parties, such as regulators and members of the public other than investors, lenders and other creditors, may also find GPFRs useful. However, it also explains that GPFRs are not primarily directed to these other parties.

STAFF COMMENT – IPSASB HAS AGREED TO REVISIT MECHANISMS TO CROSS REFERENCE TO IASB AND STATISTICAL BASES OF REPORTING AS AN OVERARCHING ISSUES IMPACTING ALL PHASES OF THE FRAMEWORK PROJECT

Appendix 2B

The Statistical Bases of Reporting of the 1993 System of National Accounts (updated 2008) and other guidance derived from it (ESA 95 and GFSM 2001)

Objectives and Users

The primary objective of the System of National Accounts (SNA) is to provide a comprehensive conceptual and accounting framework that can be used to create a macroeconomic database suitable for analyzing and evaluating the performance of an economy.

Specific uses of the SNA include providing input for monitoring the behavior of the economy, macroeconomic analysis and making international comparisons.

The 2008 System of National Accounts (2008 SNA) does not identify specific user groups or primary users, but acknowledges that data generated in accordance with its principles may be used by many parties including, for example, analysts, politicians, the press, the business community and the public at large.

The objective of the SNA and the likely users of the information as identified in the 2008 SNA is reflected in the Government Finance Statistics Manual 2001 (GFSM 2001) and the European System of Accounts (ESA 95).

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

- 3.1 GPFRs present financial and non-financial information about economic or other phenomena. The qualitative characteristics of information included in GPFRs are the attributes that make that information useful to users and support the achievement of the objectives of financial reporting. The objectives of financial reporting are to provide information useful for accountability and decision-making purposes.
- 3.2 The qualitative characteristics of information included in GPFRs of public sector entities are relevance, faithful representation, understandability, timeliness, comparability, and verifiability.
- 3.3 Materiality, cost-benefit, and achieving an appropriate balance between the qualitative characteristics are pervasive constraints on information included in GPFRs.
- 3.4 Each of the qualitative characteristics is integral to, and works with, the other characteristics to provide in GPFRs information useful for achieving the objectives of financial reporting. However, in practice, all qualitative characteristics may not be fully achieved, and a balance or trade-off between certain of them may be necessary.
- 3.5 The qualitative characteristics apply to all financial and non-financial information reported in GPFRs, including historic and prospective information, and explanatory material ~~or other narrative reporting~~. However, the extent to which the qualitative characteristics can be achieved may differ depending on the degree of uncertainty and subjective assessment or opinion involved in compiling the financial and non-financial information. The need for additional guidance on interpreting and applying the qualitative characteristics to information that extends the scope of financial reporting beyond financial statements ~~including their notes~~ will be considered in the development of any IPSASs and other pronouncements of the IPSASB that deal with such matters.

Relevance

- 3.6 Financial and non-financial information is relevant if it is capable of making a difference in achieving the objectives of financial reporting. Financial and non-financial information is capable of making a difference when it has confirmatory value, predictive value, or both. It may be capable of making a difference, and thus be relevant, even if some users choose not to take advantage of it or are already aware of it.
- 3.7 Financial and non-financial information has confirmatory value if it confirms or changes past (or present) expectations. For example, information will be relevant for accountability and decision-making purposes if it confirms expectations about such matters as the extent to which managers have discharged their responsibilities for the efficient and effective use of resources, the achievement of specified service delivery objectives, and compliance with relevant budgetary, legislative and other requirements.
- 3.8 GPFRs may present information about an entity's anticipated future service delivery activities, objectives and costs, and the amount and sources of the resources that are intended to be allocated to providing services in the future. Such future oriented information will have predictive value and be relevant for accountability and decision-making purposes. Information about

economic and other phenomena that exist or have already occurred can also have predictive value in helping form expectations about the future. For example, information that confirms or disproves past expectations can reinforce or change expectations about financial results and service delivery outcomes that may occur in the future.

- 3.9 The confirmatory and predictive roles of information are interrelated—for example, information about the current level and structure of an entity's resources and claims to them helps users to confirm the outcome of resource management strategies during the period, and to predict an entity's ability to respond to changing circumstances and anticipated future service delivery needs. The same information helps to confirm or correct users' past expectations and predictions about the entity's ability to respond to such changes. It also helps to confirm or correct prospective financial information included in previous GPFRs.

Faithful Representation

- 3.10 To be useful in financial reporting, information must be a faithful representation of the economic and other phenomena that it purports to represent. Faithful representation is attained when the depiction of the phenomenon is complete, neutral, and free from material error. Information that faithfully represents an economic or other phenomenon depicts the substance of the underlying transaction, other event, activity or circumstance—which is not necessarily always the same as its legal form.
- 3.11 In practice, it may not be possible to know or confirm whether information presented in GPFRs is fully complete, neutral, and free from material error. However, information should be as complete, neutral, and free from material error as is possible.
- 3.12 A depiction of an economic or other phenomenon is complete if it includes all information that is necessary for faithful representation of the phenomenon that it purports to depict. An omission of some information can cause the representation to be false or misleading, and thus not useful to users of GPFRs. For example, a complete depiction of the item "plant and equipment" in GPFRs will include a numeric representation of the aggregate amount of plant and equipment together with other quantitative, descriptive and explanatory material necessary to faithfully represent that class of assets. In some cases, this may include the disclosure of information about such matters as the major classes of plant and equipment, factors that have affected their use in the past or might impact on their use in the future, and the basis and process for determining their numeric representation. Similarly, prospective financial and non-financial information, and information about the achievement of service delivery objectives and outcomes, included in GPFRs will need to be presented with the key assumptions that underlie that information, and any explanations that are necessary to ensure that its depiction is complete and useful to users.
- 3.13 Neutrality in financial reporting is the absence of bias. It means that the selection and presentation of financial and non-financial information is not made with the intention of attaining a particular predetermined result—for example, to influence in a particular way users' assessment of the discharge of accountability by the entity or a decision or judgment that is to be made, or to induce particular behaviour.
- 3.14 Neutral information faithfully represents the economic and other phenomena that it purports to represent. However, to require information included in GPFRs to be neutral does not mean that it

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is not without purpose or that it will not influence behaviour. Relevance is a qualitative characteristic and, by definition, relevant information is capable of influencing users' assessments and decisions.

- 3.15 The economic and other phenomena represented in GPFRs generally occur under conditions of uncertainty. Information included in GPFRs will therefore often include estimates that incorporate management's judgment. To faithfully represent an economic or other phenomenon, an estimate must be based on appropriate inputs, and each input must reflect the best available information. Caution will need to be exercised when dealing with uncertainty. It may sometimes be necessary to explicitly disclose the degree of uncertainty in financial and non-financial information to faithfully represent economic and other phenomena.
- 3.16 Free from material error does not mean complete accuracy in all respects. Free from material error means there are no errors or omissions that are individually or collectively material in the description of the phenomenon, and the process used to produce the reported information has been applied as described. In some cases, it may be possible to determine the accuracy of some information included in GPFRs—for example, the amount of a cash transfer to another level of government, volume of services delivered or the price paid for the acquisition of plant and equipment. However, in other cases it may not—for example, the accuracy of an estimate of the value or cost of an item or the effectiveness of a service delivery program may not be able to be determined. 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.

Understandability

- 3.17 Understandability is the quality of information that enables users to comprehend its meaning. GPFRs of public sector entities should present information in a manner that responds to the needs and knowledge base of users, and to the nature of the information presented. For example, explanations of financial and non-financial information and narrative reporting of achievements and expectations should be written in plain language, and presented in a manner that is readily understandable by users. Understandability is enhanced when information is classified, characterized, and presented clearly and concisely. Comparability also can enhance understandability.
- 3.18 Users of GPFRs are assumed to have a reasonable knowledge of the entity's activities and the environment in which it operates, to be able and prepared to read GPFRs, and to review and analyze the information presented with reasonable diligence. Some economic and other phenomena are particularly complex and difficult to represent in GPFRs, and some users may need to seek the aid of an advisor to assist in their understanding of them. All efforts should be undertaken to represent economic and other phenomena included in GPFRs in a manner that is understandable to a wide range of users. However, information should not be excluded from GPFRs solely because it may be too complex or difficult for some users to understand without assistance.

Timeliness

- 3.19 Timeliness means having information available for users before it loses its capacity to be useful for accountability and decision-making purposes. Having relevant information available sooner can enhance its usefulness as input to assessments of accountability and its capacity to inform and influence decisions that need to be made. A lack of timeliness can render information less useful.
- 3.20 Some items of information may continue to be useful long after the reporting period or reporting date. For example, for accountability and decision-making purposes, users of GPFRs may need to assess trends in the financial and service delivery performance of the entity and its compliance with budgets over a number of reporting periods. In addition, the outcome and effects of some service delivery programs may not be determinable until future periods—this may occur in respect of programs intended to, for example, enhance the economic well-being of constituents, reduce the incidence of a particular disease, or increase literacy levels of certain age groups.

Comparability

- 3.21 Comparability is the quality of information that enables users to identify similarities in, and differences between, two sets of phenomena. Comparability is not a quality of an individual item of information, but rather a quality of the relationship between two or more items of information.
- 3.22 Comparability differs from consistency. Consistency refers to the use of the same accounting policies and procedures, either from period to period within an entity or in a single period across more than one entity. Comparability is the goal, and consistency helps in achieving that goal. In some cases, accounting policies adopted by an entity may be revised to better represent a particular transaction or event in GPFRs. In these cases, the inclusion of additional disclosures or explanation may be necessary to satisfy the characteristics of comparability.
- 3.23 Comparability also differs from uniformity. For information to be comparable, like things must look alike, and different things must look different. An over-emphasis on uniformity may reduce comparability by making unlike things look alike. Comparability of information in GPFRs is not enhanced by making unlike things look alike, any more than it is by making like things look different.
- 3.24 Information about the entity's financial position, financial performance, compliance, service delivery achievements, and its future plans is necessary for accountability purposes and useful as input for decision-making purposes. The usefulness of such information is enhanced if it can be compared with, for example:
- The budget of the entity for the reporting period, or prospective financial and non-financial information previously presented for that reporting period or reporting date;
 - Similar information about the same entity for some other period or some other point in time; and
 - Similar information about other entities (for example, public sector entities providing similar services in different jurisdictions) for the same reporting period.

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- 3.25 Consistent application of accounting policies to prospective financial and non-financial information and actual outcomes will enhance the usefulness of any comparison of projected and actual results. Comparability with other entities may be less significant for narrative reporting of management's perception or opinion of the factors underlying the entity's current performance.

Verifiability

- 3.26 Verifiability is the quality of information that helps assure users that information in GPFRs faithfully represents the phenomena that it purports to represent. Supportability is sometimes used to describe this quality when applied in respect of explanatory information and prospective financial and non-financial quantitative information disclosed in GPFRs—that is, the quality of information that helps assure users that explanatory or prospective financial and non-financial quantitative information faithfully represents the phenomena that it purports to represent. Whether referred to as verifiability or supportability, the characteristic implies that different knowledgeable and independent observers could reach general consensus, although not necessarily complete agreement, that either:
- The information represents the phenomena that it purports to represent without material error or bias; or
 - An appropriate recognition, measurement, or representation method has been applied without material error or bias.
- 3.27 To be verifiable, information need not be a single point estimate. A range of possible amounts and the related probabilities also can be verified.
- 3.28 Verification may be direct or indirect. With direct verification, an amount or other representation is itself verified, such as by (a) counting cash, (b) checking records of service response times or records of patients treated, (c) observing marketable securities and their quoted prices, or (d) confirming that the factors identified as influencing past service delivery performance were present and operated with the effect identified. With indirect verification, the amount or other representation is verified by checking the inputs and recalculating the outputs using the same accounting convention or methodology. An example is verifying the carrying amount of inventory by checking the inputs (quantities and costs) and recalculating the ending inventory using the same cost flow assumption (for example, average cost or first-in-first-out).
- 3.29 The quality of verifiability (or supportability if such term is used to describe this characteristic) is not an absolute—some information may be more or less capable of verification than other information. However, the more verifiable is the information included in GPFRs, the more it will assure users that the information faithfully represents the phenomena that it purports to represent.
- 3.30 GPFRs of public sector entities may include financial and other quantitative information and explanations about (a) key influences on the entity's performance during the period, (b) the anticipated future effects or outcomes of service delivery programs undertaken during the reporting period, and (c) prospective financial and non-financial information. It may not be possible to verify the accuracy of all quantitative representations and explanations of such information until a future period, if at all.

- 3.31 To help assure users that prospective financial and non-financial quantitative information and explanations included in GPFRs faithfully represents the phenomena that they purport to represent, the assumptions that underlie the information disclosed, the methodologies adopted in compiling it, and the factors and circumstances that support any opinions expressed or disclosures made should be transparent. This will enable users to form judgements about the appropriateness of those assumptions and the method of compilation, measurement, representation and interpretation of the information.

Constraints on Information Included in General Purpose Financial Reports

Materiality

- 3.32 Information is material if its omission or misstatement could influence the discharge of accountability by the entity, or the decisions that users make on the basis of the entity's GPFRs prepared for that reporting period. Materiality depends on both the nature and amount of the item judged in the particular circumstances of each entity. GPFRs may encompass qualitative and quantitative information about service delivery achievements during the reporting period, and expectations about service delivery and financial outcomes in the future. Consequently, it is not possible to specify a uniform quantitative threshold at which a particular type of information becomes material.

3.33 Assessments of materiality will be made in the context of the legislative, institutional and operating environment within which the entity operates and, in respect of prospective financial and non-financial information, the preparer's knowledge and expectations about the future. Disclosure of information about compliance or non-compliance with legislation, regulation or other authority may be material because of its nature—irrespective of the magnitude of any amounts involved. In determining whether an item is material in these circumstances, consideration will be given to such matters as the nature, legality, sensitivity and consequences of past or anticipated transactions and events, the parties involved in any such transactions and the circumstances giving rise to them.

3.333.34 Materiality is classified as a constraint on information included in GPFRs in this Conceptual Framework. The materiality of the consequences of application of a particular accounting policy or disclosure of a particular item or type of information is considered by the IPSASB in developing IPSASs and non-authoritative guidance. However, subject to the requirements of any IPSAS to the contrary, the materiality of the separate disclosure of particular items of information will also be considered by individual entities in preparing GPFRs.

Cost-Benefit

3.343.35 Financial reporting imposes costs. The benefits of financial reporting should justify those costs. Assessing whether the benefits of providing information justify the related costs is often a matter of judgment, because it is often not possible to identify and/or quantify all the costs or benefits of information included in GPFRs.

3.353.36 The costs of providing information include the costs of collecting and processing the information, the costs of verifying it and/or presenting the assumptions and methodologies that support it, and the costs of disseminating it. Users incur the costs of analysis and interpretation.

Omission of useful information also imposes costs, including the costs that users incur to obtain needed information from other sources and the costs that result from making decisions using incomplete data provided by GPFRs.

~~3.36~~3.37 Preparers expend the majority of the effort to provide information in GPFRs. However, service recipients and resource providers ultimately bear the cost of those efforts—because resources are redirected from service delivery activities to preparation of information for inclusion in GPFRs.

~~3.37~~3.38 Users reap the majority of benefits from the information provided by GPFRs. However, information prepared for GPFRs may also be used internally by management and result in better management decision making. The disclosure of information in GPFRs consistent with the principles identified in ~~this~~ the Conceptual Framework and IPSASs derived from them will enhance and reinforce perceptions of the transparency of reporting by governments and other public sector entities and contribute to the more accurate pricing of public sector debt. Therefore, public sector entities may also benefit in a number of ways from the information provided by GPFRs.

~~3.38~~3.39 Application of the cost-benefit constraint involves assessing whether the benefits of reporting information are likely to justify the costs incurred to provide and use the information. When making this assessment, it is necessary to consider whether one or more qualitative characteristics might be sacrificed to some degree to reduce cost.

~~3.39~~3.40 In developing IPSASs, the IPSASB considers information from preparers, users, academics, and others about the expected nature and quantity of the benefits and costs of the proposed requirements. Disclosure and other requirements which result in the presentation of information useful to users of GPFRs for accountability and decision-making purposes and satisfy the qualitative characteristics are prescribed by IPSASs unless the costs of compliance with those requirements are assessed by the IPSASB to be greater than their benefits.

Balance Between the Qualitative Characteristics

~~3.40~~3.41 The qualitative characteristics work together in different ways to contribute to the usefulness of information. For example, neither a depiction that faithfully represents an irrelevant phenomenon, nor a depiction that unfaithfully represents a relevant phenomenon, results in useful information. Similarly, to be relevant, information must be timely and understandable.

~~3.41~~3.42 In some cases, a balancing or trade-off between qualitative characteristics may be necessary to achieve the objectives of financial reporting. The relative importance of the qualitative characteristics in each situation is a matter of professional judgment. The aim is to achieve an appropriate balance among the characteristics in order to meet the objectives of financial reporting.

3 Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, the Conceptual Framework.

Qualitative Characteristics of Information Included in General Purpose Financial Reports

BC3.1 In developing IPSASs, the IPSASB receives input from constituents on, and makes judgments about, information that best satisfies the objectives of financial reporting and should be included in GPFRs⁴. In making those judgements, the IPSASB considers the extent to which each of the qualitative characteristics can be achieved. Disclosure and other requirements are included in IPSASs only when the information that results from their application is considered to satisfy the qualitative characteristics and the cost-benefit constraint identified in ~~this Conceptual~~ the Conceptual Framework.

~~BC3.1~~**BC3.2** Some respondents to CF—ED1 expressed concern about the application of the QCs to all matters that may be presented in GPFRs, particularly those matters that may be presented in reports outside the financial statements. The IPSASB understands the concern of constituents and acknowledges that IPSASs and other pronouncements that deal with the presentation in GPFRs of information outside the financial statements may need to include additional guidance on the application of the qualitative characteristics to the matters dealt with. As part of its due process the IPSASB will seek input on application of the QCs in these circumstances.

Staff comment – the implications for due-process identified in paragraph BC3.2 have not been specifically discussed by the IPSASB but do follow from comments in Para 3.5.)

~~BC3.2~~**BC3.3** IPSASs and other non-authoritative guidance issued by the IPSASB will not deal with all financial and non-financial information that may be included in GPFRs. In the absence of an IPSAS or non-authoritative guidance that deals with particular economic or other phenomena, assessments of whether an item of information satisfies the qualitative characteristics and constraints identified in ~~this~~ the Conceptual Framework, and therefore qualifies for inclusion in GPFRs, will be made by preparers compiling the GPFRs. Those assessments will be made in the context of achieving the objectives of financial reporting, which in turn have been developed to respond to users' information needs.

Other Qualitative Characteristics Considered

~~BC3.3~~**BC3.4** Some respondents to ~~the Phase 1 CP CF—ED1~~ expressed the view that additional QCs~~qualitative characteristics~~ should be identified. Those characteristics included “sincerity,” “true and fair view,” “credibility,” “transparency,” and “regularity”.

~~BC3.4~~**BC3.5** The IPSASB notes that “sincerity” as used in financial reporting has a similar meaning to “true and fair”. The IPSASB is of the view that “sincerity,” “true and fair view,” “credibility,” and “transparency” are important expressions of the overarching qualities that financial reporting is to achieve or aspire to. However, they do not exist as single qualitative characteristics on their

⁴ ~~—In the development of IPSASs, the IPSASB seeks input from its constituents through a due process that provides for the issue of Consultation Papers and Exposure Drafts of proposed IPSASs and other public consultation.~~

own—rather, achieving these qualities is the product of application of the full set of qualitative characteristics identified in the Conceptual Framework, and the IPSASs that deal with specific reporting issues. Consequently, while important characteristics of GPFRs, they are not identified as separate individual qualitative characteristics in their own right. The IPSASB is also of the view that the notion of “regularity” as noted by some respondents is related to the notion of “compliance” as used in ~~this the~~ Conceptual Framework—~~therefore, therefore~~; regularity is not identified as an additional qualitative characteristic.

Relevance

~~BC3.5~~BC3.6 The Conceptual Framework explains that financial and non-financial information is relevant if it is capable of making a difference in achieving the objectives of financial reporting. As part of its due process, the IPSASB seeks input on whether the requirements of a proposed IPSAS are relevant to the achievement of the objectives of financial reporting—that is, are relevant to the discharge of the entity’s obligation to be accountable and to decisions that users may make.

~~BC3.6~~BC3.7 Appendix A of IPSAS 1, Presentation of Financial Statements explains that information is relevant if it can be used to assist in evaluating past, present or future events or in confirming, or correcting, past evaluations. IPSAS 1 also notes that to be relevant, information must be timely.

~~BC3.7~~BC3.8 The concept of relevance identified in ~~this the~~ Conceptual Framework possesses similar characteristics and operates with similar intent to the concept as identified in IPSAS 1 Appendix A. However, the predictive value of information is also explicitly identified as a component of relevance in ~~this the~~ Conceptual Framework. ~~In addition, timeliness is identified as a separate qualitative characteristic because it can influence the achievement of other qualitative characteristics and, through them, the usefulness of information included in GPFRs.~~

Faithful Representation

~~BC3.8~~BC3.9 The Conceptual Framework explains that to be useful information must be a faithful representation of the economic and other phenomena that it purports to represent. A single economic or other phenomenon may be represented in many ways. For example, the achievement of particular service delivery objectives may be depicted (a) qualitatively through a narrative explanation of the immediate and anticipated longer term outcomes and effects of the service delivery program, (b) quantitatively as a measure of the volume and cost of services provided by the service delivery program, or (c) by a combination of both qualitative and quantitative information. Additionally, a single depiction in GPFRs may represent several economic phenomena. For example, the presentation of the item “plant and equipment” in a financial statement may represent an aggregate of all of an entity’s plant and equipment, including items that have different functions, that are subject to different risks and opportunities and that are carried at amounts based on estimates that may be more or less complex and reliable.

~~BC3.9~~BC3.10 Completeness and neutrality of estimates (and inputs to those estimates) and freedom from material error are desirable, and some minimum level of accuracy is necessary for an estimate to faithfully represent an economic or other phenomenon. However, faithful

representation does not imply absolute completeness or neutrality in the estimate, nor does it imply total freedom from error in the outcome. For a representation of an economic or other phenomenon to imply a degree of completeness, neutrality, or freedom from error that is impracticable for it to achieve would diminish the extent to which the information faithfully represents the economic phenomena that it purports to represent.

Faithful Representation or Reliability

~~BC3.10~~BC3.11 IPSAS 1 Appendix A identifies reliability as a qualitative characteristic. It describes reliable information as information that is “free from material error and bias, and can be depended on by users to represent faithfully that which it purports to represent or could reasonably be expected to represent.” Faithful representation, substance over form, neutrality, prudence and completeness are identified as components of reliability. The ~~is~~ Conceptual Framework uses the term “faithful representation” rather than “reliability” to describe what is substantially the same concept. In addition, it does not explicitly identify substance over form and prudence as components of faithful representation.

BC3.12 Many respondents to CF—ED1 supported the use of faithful representation and its explanation in the ED, in some cases explaining that faithful representation is a better expression of the nature of the concept intended. Some respondents to the Phase 1 CP did not support the replacement of reliability with the term faithful representation, expressing concerns including that faithful representation implies the adoption of fair value or market value accounting, and reliability and faithful representation are not interchangeable terms, noting that their experience was that reliability is widely used and well understood in the public sector. Some also expressed the view that reliability is a more accurate reflection of the substance of this qualitative characteristic than is faithful representation, particularly as it applies to qualitative and prospective information included in GPFRs. However, some of these respondents also noted that in the interests of alignment with International Accounting Standards Board (IASB) terminology, faithful representation should be adopted.

BC3.13 The IPSASB is of the view that the use of the term faithful representation, or reliability for that matter, to describe this qualitative characteristic will not determine the measurement basis to be adopted in GPFRs, whether fair value, market value, historical cost or other value. The IPSASB does not intend that use of faithful representation be interpreted as such. The measurement basis or measurement bases that may be adopted for the elements of financial statements are considered in a separate phase of the Conceptual Framework project. The qualitative characteristics will then operate to ensure that the financial statements faithfully represents the measurement base or bases reflected in GPFRs.

~~BC3.11~~BC3.14 The IPSASB appreciates the concern of some respondents that the use of a different term may be interpreted to reflect different, and even lesser, qualities to that communicated by the term reliability. However, the IPSASB is of the view that explanation in the Framework that “Faithful representation is attained when the depiction of the phenomenon is complete, neutral, and free from material error”, and the elaboration of these key features will protect against the loss of any of the qualities that were formerly reflected in reliability.

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~~BC3.12~~ In addition, ~~t~~he IPSASB has ~~also~~ been advised that the term reliability is itself open to different interpretations and subjective judgements with consequences for the quality of information included in GPFRs.

- ~~• In some jurisdictions, reliability is sometimes interpreted to mean “verifiable” or “free from error” or “complete” or “neutral,” rather than its intended meaning of broadly representing faithfully the economic and other phenomena that it purports to represent;~~
- ~~• Difficulties in interpretation and application of reliability may be overcome by using the term faithful representation and re-expressing its role and components; and~~
- ~~• Faithful representation is less dependent on judgment than is reliability, is a better reflection of what preparers aspire to achieve in presenting information in GPFRs and is more readily translated into, and understood in, a wide range of languages.~~

~~BC3.13~~ BC3.15 The On balance, the IPSASB is of the view that was persuaded by arguments that use of the term faithful representation should be adopted in its Conceptual Framework, because it will overcome problems in the interpretation and application of reliability —that have been experienced in some jurisdictions without a lessening of the qualities intended by the term, and is more readily translated into, and understood in, a wide range of languages.

Substance over Form and Prudence

~~BC3.14~~ BC3.16 Some respondents to ~~the Phase 1 CP CF—ED1~~ expressed concern that substance over form and prudence are not identified as qualitative characteristics or that their importance is not sufficiently recognized or explained. Some also noted that prudence need not be incompatible with the achievement of neutrality and faithful representation.

~~BC3.15~~ BC3.17 The Conceptual Framework explains that “Information that faithfully represents an economic or other phenomenon depicts the substance of the underlying transaction, other event, activity or circumstance—which is not necessarily always the same as its legal form.” Therefore substance over form remains a key quality that information included in GPFRs must possess. It is not identified as a separate or additional qualitative characteristic because it is already embedded in the notion of faithful representation.

~~BC3.16~~ BC3.18 IPSAS 1 Appendix A explains that prudence refers to the exercise of caution in making estimates under conditions of uncertainty, such that assets or revenue are not overstated and liabilities or expenses are not understated. However, it does not allow for the deliberate understatement or overstatement of assets, liabilities, revenues, or expenses.

~~BC3.17~~ BC3.19 The IPSASB is of the view that the same notion of prudence as currently identified in IPSAS 1 Appendix A is reflected in the explanation of neutrality as a component of faithful representation, and the acknowledgement of the need to exercise caution in dealing with uncertainty. Therefore, like substance over form, prudence is not identified as a separate qualitative characteristic because its intent and influence in identifying information that is included in GPFRs is already embedded in the notion of faithful representation.

Understandability

~~BC3.18~~BC3.20 Although presenting information clearly and concisely helps users to comprehend it, the actual comprehension or understanding of information depends largely on the users of the GPFRs.

~~BC3.19~~BC3.21 Some economic and other phenomena are particularly complex and difficult to represent in GPFRs. However, the IPSASB is of the view that information that is, for example, relevant, a faithful representation of what it purports to represent, timely and verifiable should not be excluded from GPFRs solely because it may be too complex or difficult for some users to understand without assistance. Acknowledging that it may be necessary for some users to seek assistance to understand the information presented in GPFRs, does not mean that information included in GPFRs need not be understandable or that all efforts should not be undertaken to present information in GPFRs in a manner that is understandable to a wide range of users. However, it does reflect that, in practice, the nature of the information included in GPFRs is such that all the qualitative characteristics may not be fully achievable at all times for all users.

~~BC3.20~~BC3.22 The qualitative characteristic of understandability in ~~this-the~~ Conceptual Framework possesses similar characteristics to those identified in IPSAS 1 Appendix A. However, certain aspects of understandability have been explained more fully—in particular, that users should review and ~~analyze~~analyse the information in GPFRs with reasonable diligence. The Conceptual Framework also clarifies that in some circumstances, users may need to seek assistance to understand complex economic and other phenomena presented in GPFRs.

Timeliness

~~BC3.21~~BC3.23 IPSAS 1 Appendix A identifies timeliness as a constraint on relevant and reliable information. It notes that undue delay in the provision of information may reduce its relevance and that reporting on a timely basis may involve reporting before all aspects of a transaction are known, thus impairing reliability.

~~BC3.22~~BC3.24 The IPSASB is of the view that the nature of timeliness and the potential for timely reporting to increase the usefulness of GPFRs for both accountability and decision-making purposes, signals that it is more than a constraint on information included in GPFRs. This is reflected in its re-designation as a qualitative characteristic in its own right in ~~this-the~~ Conceptual Framework.

Comparability

~~BC3.23~~BC3.25 IPSAS 1 Appendix A identifies comparability as a qualitative characteristic. To better understand and place in context, for example, the financial and service delivery performance of an entity, users will frequently compare information reported in GPFRs for a particular period with GPFRs of the same entity for a prior ~~period-period~~, or with GPFRs of different entities. Consequently, comparability continues to be identified as a qualitative characteristic in ~~this-the~~ Conceptual Framework. The characteristic of comparability in ~~this-the Conceptual~~ Framework reflects and builds on that in IPSAS 1 Appendix A—in particular, by explaining its operation in respect of the more comprehensive scope of financial reporting.

BC3.26 Some degree of comparability may be attained by maximizing the qualitative characteristics of relevance and faithful representation. For example, faithful representation of a relevant economic or other phenomenon by one public sector entity is likely to be comparable to a faithful representation of a similar relevant economic or other phenomenon by another public sector entity. However, a single economic or other phenomenon can often be faithfully represented in several ways, and permitting alternative accounting methods for the same phenomenon diminishes comparability and, therefore, may be undesirable. Consequently, 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.

BC3.27 Some respondents to CF—ED1 expressed concern that the explanation of the relationship between comparability and consistency may be read as presenting an obstacle to the on-going development of financial reporting. This is because enhancements in financial reporting often involve a revision or change to the accounting policies currently adopted by the entity.

BC3.24BC3.28 Consistent application of the same accounting policies from one period to the next will assist users in assessing the financial performance and service achievements of the entity compared with previous periods. However, where accounting policies dealing with particular transactions or other events are not prescribed by IPSASs, achievement of the qualitative characteristic of comparability should not be interpreted as prohibiting the reporting entity from changing its accounting policies to better represent those transactions and events. In these cases, the inclusion in GPFRs of additional disclosures or explanation of the impact of the changed policy can still satisfy the characteristics of comparability.

Verifiability

~~BC3.25~~ The Phase 1 CP explains that verifiability encompasses, and in some cases may be described as, supportability when applied to qualitative and prospective information disclosed in GPFRs. However, whether referred to as verifiability or supportability, the characteristic is substantially the same.

BC3.29 Some respondents to the Phase 1 CP expressed the view that In developing the QCs identified in the Framework, the IPSASB considered whether supportability should be identified as a separate characteristic for application to information presented in GPFRs outside the financial statements. The IPSASB is of the view that identifying both verifiability and supportability as separate qualitative characteristics with essentially the same features may be confusing to preparers and users of GPFRs and others. However, the Conceptual Framework does acknowledge that supportability is sometimes used to refer to the quality of information that helps assure users that explanatory information and prospective financial and non-financial information included in GPFRs faithfully represents the phenomena that they purports to represent.

~~BC3.26~~BC3.30 Some respondents to CF—ED1 expressed concern about the application of verifiability to the broad range of matters that may be presented in GPFRs outside the financial statements, particularly explanatory information about service delivery achievements during the reporting period and qualitative and quantitative prospective financial and non-financial information. The IPSASB is of the view that the Framework provides appropriate guidance on the application of verifiability in respect of these matters, for example it explains that verifiability is not an absolute

and it may not be possible to verify the accuracy of all quantitative representations and explanations until a future period. The Framework It also acknowledges that disclosure of the underlying assumptions and methodologies adopted for the compilation of explanatory and prospective financial and non-financial information is central to the achievement of faithful representation.

~~BC3.27~~BC3.31 In addition, the IPSASB will consider the applicability and operation of the qualitative characteristics when it develops and gains experience with IPSASs and other IPSASB pronouncements that deal with prospective financial and non-financial information and explanatory material to be included in GPFRs.

Staff propose deletion of paragraph BC3.30 because it deals with matters that are broader than verifiability and BC3.2 already acknowledges the point made here.

Classification of the Qualitative Characteristics and Order of their Application

~~BC3.28~~BC3.32 Some respondents to ~~the Phase 1 CP-CF-ED1~~ expressed the view that the ~~IPSASB's~~ Conceptual Framework should identify:

- Relevance and faithful representation as fundamental qualitative characteristics, and explain the order of their application; and
- Comparability, verifiability, timeliness, and understandability as enhancing qualitative characteristics.

They note that this would provide useful guidance on the sequence of application of the qualitative characteristics and reflect the approach adopted by the IASB.

~~BC3.29~~BC3.33 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 and work together to contribute to the usefulness of information. 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. In addition, it 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 comparable basis may be as important as, and cannot be separated from, faithful representation of the information.

Constraints on Information Included in General Purpose Financial Reports

Materiality

~~BC3.30~~BC3.34 IPSAS 1 Appendix A describes materiality with similar characteristics to that described in ~~this Conceptual~~the Conceptual Framework, but identifies materiality as a factor to be considered in determining only the relevance of information. ~~The Preface to International Public Sector Accounting Standards explains that IPSASs are not meant to apply to immaterial items and IPSAS 3, Accounting Policies, Changes in Accounting Estimates and Errors explains that the accounting policies set out in IPSASs need not be applied when their effect is immaterial.~~

~~BC3.31 Some respondents to the Phase 1 CP expressed the view that there should be additional emphasis on the significance of materiality based on the “context and nature” of the item. The IPSASB has responded to these concerns by clarifying that judgments about the materiality of each item are made by reference to the circumstances of each entity, and by providing guidance on matters to be considered by public sector entities in assessing the materiality of particular items.~~

BC3.35 The IPSASB has considered whether materiality should be identified as an entity-specific aspect of relevance rather than a constraint on information included in GPFRs to be considered in setting financial reporting standards or guidances. As explained in the Conceptual Framework, and subject to requirements in an IPSAS to the contrary, materiality will be considered by preparers in determining whether an item of information should be separately disclosed in the financial statements of the reporting entity. This role of materiality is consistent with that reflected in IPSASs5.

5 For example The Preface to International Public Sector Accounting Standards explains that IPSASs are not meant to apply to immaterial items. In addition:

- IPSAS 1 “Presentation of Financial Statements” explains that applying the concept of materiality means that a specific disclosure requirement in an IPSAS need not be satisfied if the information is not material; and
- IPSAS 3, “Accounting Policies, Changes in Accounting Estimates and Errors” explains that the accounting policies set out in IPSASs need not be applied when their effect is immaterial.

~~BC3.32~~BC3.36 However, the IPSASB is of the view that that materiality has a more pervasive role than would be reflected by its classification as only an entity specific aspect of relevance. For example, materiality relates to, and can impact, a number of the qualitative characteristics of information included in GPFRs. Therefore, the materiality of an item should be considered when ~~, and is therefore better reflected as a broad constraint. For example, materiality should be considered when~~ determining whether the omission or misstatement of an item of information could undermine not only the relevance, but also the ~~relevance,~~ faithful representation, understandability or verifiability of financial and non-financial information presented in GPFRs. The IPSASB is also of the view that whether the effects of the application of a particular accounting policy or the information content of separate disclosure of certain items of information are likely to be material should be considered in establishing IPSASs and non-authoritative guidance. Consequently, the IPSASB is of the view that materiality is better reflected as a broad constraint on information to be included in GPFRs.

~~BC3.33~~BC3.37 ~~Some respondents to the Phase 1 CP expressed the view that~~ The Conceptual Framework ~~he IPSASB has considered whether the Conceptual Framework should reflect explain that legislation may require disclosure irrespective of the cost or perceived materiality of the item. The IPSASB acknowledges that~~ legislation, regulation or other authority may impose financial reporting requirements on public sector entities in addition to those imposed by IPSASs, ~~and the operation of this Conceptual Framework. However,~~ The IPSASB is of the view that, while a feature of the operating environment of many public sector (and many private sector) entities, the impact that legislation or other authority may have on the information included in GPFRs is not itself a financial reporting concept, ~~and the IPSASB~~ has not identified it as such in ~~this Conceptual~~ the Conceptual Framework. Preparers will, of course, need to consider such requirements as they prepare GPFRs. In particular, legislation may prescribe that particular items of information are to be disclosed in GPFRs even though they may not be judged to satisfy a materiality threshold (or cost-benefit constraint) as identified in ~~this Conceptual~~ the Conceptual Framework. Similarly, the disclosure of some matters may be prohibited by legislation because, for example, they relate to matters of national security, notwithstanding that they are material and would otherwise satisfy the cost-benefit constraint.

Cost-Benefit

~~BC3.34~~BC3.38 IPSAS 1 Appendix A identifies the balance between cost and benefit as a pervasive constraint and explains that the evaluation of benefits and costs is substantially a matter of judgment. ~~This~~ The Conceptual Framework also identifies consideration of costs and benefits as a pervasive constraint that standard setters, as well as preparers and users of financial reports, should be aware of and should consider in determining whether to provide a new item of information in GPFRs.

~~BC3.35~~BC3.39 Some respondents have expressed concern that the proposed ~~expressed concern that the Ph~~ Conceptual Framework ~~ase 1 CP does not specify that did not explain that~~ entities cannot decide to depart from IPSASs on the basis of their own assessments of the cost and benefits of particular requirements of an IPSAS. As noted previously in the basis for conclusions to the Conceptual Framework, authoritative requirements relating to recognition, measurement, presentation, and disclosure in GPFRs are specified in IPSASs. These requirements are

prescribed by IPSASs only when the benefits of compliance with them are assessed by the IPSASB to be greater than their costs. Preparers may also consider the costs and benefits in determining whether to include in GPFRs disclosure of information in addition to that required by IPSASs.

~~BC3.36~~BC3.40 Some respondents have also expressed concern that the proposed Conceptual Framework –Phase 1–CP–does did not recognize that cost-benefit trade-offs may differ for different public sector entities. They ~~expressed~~are of the view that acknowledgement of this may provide a useful principle to be applied when considering differential reporting issues. The IPSASB has considered these matters and determined that the Conceptual Framework will not deal with issues related to differential reporting including whether the costs and benefits of particular requirements might differ for different entities.

BC3.41 In the process of developing an IPSAS, the IPSASB considers and seeks input on the likely costs and benefits of providing information in GPFRs of public sector entities. However, in some cases, it may not be possible for the IPSASB to identify and/or quantify all benefits that are likely to flow from the inclusion of a particular disclosure, including those that may be required because they are in the public interest, or other r requirement in an IPSAS. In other cases, the IPSASB may be of the view that the benefits of a particular requirement may be marginal for users of GPFRs of some public sector entities. In applying the cost-benefit test to determine whether particular requirements should be included in an IPSAS in these circumstances, the IPSASB's deliberations may also include consideration of whether imposing such requirements on public sector entities is likely to involve undue cost and effort for the entities applying the requirements.

STAFF COMMENT – IPSASB HAS AGREED TO REVISIT MECHANISMS TO CROSS REFERENCE TO IASB AND STATISTICAL BASES OF REPORTING AS AN OVERARCHING ISSUES IMPACTING ALL PHASES OF THE FRAMEWORK PROJECT

Appendix 3A

The IASB Conceptual Framework (September 2010)

Qualitative Characteristics

The International Accounting Standards Board (IASB) develops and publishes International Financial Reporting Standards (IFRSs). IFRSs are designed to apply to the general purpose financial statements and other financial reporting of all profit-oriented entities. The IASB Conceptual Framework (issued in 1989 and updated in part in September 2010):

- Identifies relevance and faithful representation as fundamental qualitative characteristics.
- Explains that the process for applying the fundamental qualitative characteristics would usually be to first identify an economic phenomenon that has the potential to be useful to users, secondly to identify the type of information about that phenomenon that would be most relevant and then determine whether that information is available and can be faithfully represented.
- Identifies materiality as an entity-specific aspect of relevance based on the nature or magnitude, or both, of the items to which the information relates in the context of an individual entity's financial report.
- Identifies comparability, verifiability, timeliness, and understandability as enhancing qualitative characteristics, and explains that their application is an iterative process that does not follow a prescribed order.
- Identifies cost as a pervasive constraint that limits the information provided by financial reporting.
- Explains that the qualitative characteristics and the cost constraint apply to financial information provided in financial statements and in other ways. However, the considerations in applying the qualitative characteristics and the cost constraint may be different for different types of information—for example, in applying them to forward-looking information and to information about existing economic resources and claims, and to changes to them.

◆ **Appendix 3B**

The Statistical Bases of Reporting of the 1993 System of National Accounts (updated 2008) and other guidance derived from it (ESA 95 and GFSM 2001)

Qualitative Characteristics

The 2008 System of National Accounts (2008 SNA) identifies the qualitative characteristics that source data included in the national accounts are to possess as part of the accounting rules embedded in the system. Source data may be adjusted to be brought into line with SNA compilation principles.

Consistent with SNA, the Government Finance Statistics Manual 2001 (GFSM 2001) and the European System of Accounts (ESA 95) identify qualitative characteristics and constraints of information embedded in the statistical bases of financial reporting prepared in accordance with their requirements. The United Nations, *Fundamental Principles of Official Statistics* and data dissemination standards also apply to these data sets.

Some data included in the SNA is drawn from data in GPFRs, or prepared for inclusion in GPFRs which comply with IFRSs, IPSASs or national accounting standards. Such data will also satisfy the qualitative characteristics specified by those accounting standards, and/or related Conceptual Frameworks.

◆ **ESA 95**

Statistics produced within the European Statistical System (ESS) are expected to be compiled in an impartial, objective and reliable way, respecting statistical confidentiality and cost effectiveness. The main indicators of quality identified are relevance, accuracy, timeliness, punctuality, accessibility, clarity, comparability and coherence.

Individual areas of statistics are usually based on legislation which sets common methodological and reporting standards, including for quality issues, within the ESS framework.

◆ **GFSM 2001**

The data dissemination standards of the International Monetary Fund identify minimum qualitative requirements with which data and data reporters should comply. The “quality” of the statistics are assessed against a Data Quality Assessment Framework (DQAF) which is drawn from the United Nations code of *Fundamental Principles of Official Statistics*, which identifies qualitative requirements for all “official” statistics.

The International Monetary Fund DQAF identifies a set of prerequisites and the following five dimensions of data quality: assurances of integrity, methodological soundness, accuracy and reliability, serviceability, and accessibility. Each quality dimension identifies elements of good practice with indicators relevant for specific data sets.

4 The Reporting Entity

- 4.1 A public sector reporting entity is a government or other public sector organization, program or identifiable area of activity (hereafter referred to as an entity or public sector entity) that prepares GPFRs.
- 4.2 Key characteristics of a public sector reporting entity are that:
- It is an entity that raises economic resources from, or on behalf of, constituents and/or uses economic resources to undertake activities for the benefit of, or on behalf of, those constituents; and
 - There are service recipients or resource providers dependent on GPFRs of the entity for information for accountability or decision-making purposes.
- 4.3 A public sector reporting entity may comprise two or more separate entities that present GPFRs as if they are a single entity – these reporting entities are referred to as group reporting entities.

Key characteristic of a reporting entity

- 4.4 A government may establish and/or operate through administrative units such as ministries or departments. It may also operate through trusts, statutory authorities, government corporations and other entities with a separate legal identity or operational autonomy to undertake or otherwise support the provision of services to constituents. Other public sector organizations, including international public sector organizations and local government or municipal authorities, may also undertake certain of their activities through, and may benefit from and be exposed to a financial burden or loss as a result of, the activities of entities with a separate legal identity or operational autonomy.
- 4.5 GPFRs are prepared to report information useful to users for accountability and decision-making purposes. Service recipients and their representatives, and resource providers and their representatives are the primary users of GPFRs. Consequently, a key characteristic of a reporting entity, including a group reporting entity, is the existence of service recipients or resource providers who are dependent on GPFRs of that entity or group of entities for information for accountability or decision-making purposes.
- 4.6 GPFRs encompass financial statements and information that enhances, complements and supplements the financial statements. Financial statements present information about the economic resources of the entity or group of entities and claims to them at the reporting date and changes to them during the reporting period. Therefore, to enable the preparation of financial statements, a reporting entity will raise economic resources and/or use economic resources previously raised, or raised by others, to undertake activities for the benefit of, or on behalf of, its constituents.
- 4.7 The factors that are likely to signal the existence of users of GPFRs of a public sector entity or group of entities include the responsibility or capacity to raise or deploy public monies, acquire or manage public assets, incur liabilities, or undertake activities to achieve service delivery objectives. The greater the resources that a public sector entity raises, manages and/or has the capacity to deploy, the greater the liabilities it incurs and the greater the economic or social impact of its activities, the more likely it is that there will exist service recipients or resource providers who are dependent on GPFRs for information about it for accountability and decision-making

purposes. In the absence of these factors, or where they are not significant, it is unlikely that users of GPFRs of these entities will exist.

- 4.8 The preparation of GPFRs is not a cost-free process. Therefore, if the imposition of financial reporting requirements is to be efficient and effective, it is important that only those public sector entities for which such users exist are required to prepare GPFRs.
- 4.9 In many cases, it will be clear whether or not service recipients or resource providers are dependent on GPFRs of a public sector entity for information for accountability and decision-making purposes. For example, such users are likely to exist for GPFRs of a government at the national, state or local government level and for international public sector organizations – because these governments and organizations generally have the capacity to raise from and/or deploy substantial resources on behalf of their constituents, to incur liabilities and to impact the economic and/or social well being of the communities that depend on them for the provision of goods and services.
- 4.10 However, it may not always be clear whether there are service recipients or resource providers that are dependent on GPFRs of public sector entities such as, for example, individual government departments and agencies, particular programs or identifiable areas of activity for information for accountability and decision-making purposes. Determining whether these organizations, programs or activities should be identified as reporting entities and, consequently, be required to prepare GPFRs will involve the exercise of professional judgement.

Separate legal Entity

- 4.11 The government and some other public sector entities have a separate identity or standing in law (a legal identity) — for example, public corporations, trusts that are legally distinct from trustees and beneficiaries, or a statutory body with the authority to transact and enter contracts in its own right. However, public sector organizations, programs and activities without a separate legal identity may also raise or deploy public monies, acquire or manage public assets, incur liabilities, undertake activities to achieve service delivery objectives or otherwise implement government policy. Service recipients and resource providers may depend on GPFRs of these entities, programs and activities for information for accountability and decision-making purposes. Consequently, a public sector reporting entity may have a separate legal identity or be, for example, an organization, administrative arrangement or program without a separate legal identity.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, the Conceptual Framework.

Reporting Entities

The Key Characteristics of a Reporting Entity

- BC4.1 The concept of the reporting entity is derived from the objectives of financial reporting by public sector entities. 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 and decision-making purposes.
- BC4.2 Reporting entities prepare GPFRs. GPFRs include financial statements which present information about such matters as the financial position, performance and cash flows of the entity, and information that enhances, complements and supplements the financial statements. Therefore, a key characteristic of a public sector reporting entity is the existence of service recipients or resource providers who are dependent on GPFRs for information about such matters as (a) the resources raised, used and managed; (b) the financial obligations and losses incurred; and (c) the activities undertaken, and proposed to be undertaken, by a government or a particular public sector organization, agency program or identifiable area of activity for accountability or decision-making purposes.

Legislation, regulation or other authority

- BC4.3 CF—ED 1 did not identify which public sector entities should be identified as a reporting entity or group reporting entity and, therefore, be required to prepare GPFRs. It noted that the public sector organizations and programs that are to prepare GPFRs will be specified in legislation, regulation or other authority, or be determined by relevant authoritative bodies in each jurisdiction.
- BC4.4 Some respondents expressed the view that while legislation or other authority may, in practice, identify which entities are to prepare GPFRs, the Conceptual Framework should focus on the concept of the reporting entity, identify key features of that concept and provide guidance on the principles and factors that should be considered in determining whether a reporting entity exists. The IPSASB was persuaded by these arguments and has refocused its discussion on an explanation of the concept of the reporting entity.

Interpretation and Application

- BC4.5 Some respondents expressed concern that the characteristics of a reporting entity as explained in the CF—ED1 may be interpreted to identify particular activities or segments of an organization as separate reporting entities. These segments or activities would then be required to prepare GPFRs in accordance with all IPSASs. Some respondents also noted that it was not clear how the guidance in the CF—ED1 applied to public sector organizations other than governments including, for example, international public sector organizations.
- BC4.6 The IPSASB has responded to these concerns. The Framework explains that preparation of GPFRs is not a cost-free process. It also:
- Includes additional guidance on the factors that are likely to signal the existence of service recipients or resource providers who are dependent on GPFRs of a

government or other public sector entity for information for accountability or decision-making purposes; and

- Notes the likely implications of these factors for the identification of a range of public sector organizations, programs and activities as reporting entities, including government departments and agencies and international public sector organizations.

BC4.7 The Conceptual Framework acknowledges that in some cases it may be necessary to exercise professional judgment in determining whether particular public sector entities should be identified as a reporting entity. In exercising that judgement, it should be noted that, in certain circumstances, IPSASs respond to users' need for information about particular programs or activities undertaken by a government or other public sector reporting entity by providing for separate disclosures within the GPFRs of that government or other public sector reporting entity¹. Jurisdictional factors such as the legislative and regulatory framework in place and institutional and administrative arrangements for the raising of resources and the delivery of services are also likely to inform deliberations on whether it is likely that service recipients and resource providers dependent on GPFRs of particular public sector entities exist.

The Group Reporting Entity

BC4.8 CF—ED1 outlined the circumstances that would justify the inclusion of an entity or activity within a public sector group reporting entity. It explained that:

- A government or other public sector entity may (a) have the authority and capacity to direct the activities of one or more other entities so as to benefit from the activities of those entities; and (b) be exposed to a financial burden or loss that may arise as a result of the activities of those entities; and
- To satisfy the objectives of financial reporting, GPFRs of a group reporting entity prepared in respect of a government or other public sector entity should include that government (or other public sector entity) and the entities whose activities it has the authority and capacity to direct, when the results of such direction can (a) generate financial or other benefits for the government (or other public sector entity); or (b) expose it to a financial burden or loss.

BC4.9 Many respondents to the CF—ED1 noted their agreement with the IPSASB's views about the criteria that should be satisfied for inclusion in a public sector group reporting entity. However, other respondents expressed their concern about the potential interpretation and application of the criteria in particular circumstances. In some cases, they noted that the Framework would need to provide additional application guidance if it was to be effective in dealing with circumstances not dealt with in IPSASs. A number of respondents also expressed the view that the criteria to be satisfied for inclusion in a group reporting entity was more appropriately addressed and resolved at the standards level, where those criteria and their consequences could be tested across a range of particular circumstances and supported with specific examples of the circumstances likely to exist in many jurisdictions.

¹ For example, International Public Sector Accounting Standards (IPSASs) such as IPSAS 18 Segment Reporting and IPSAS 22 Disclosures of Information about the General Government Sector provide a mechanism to satisfy users' need for information about particular segments or sectors of an entity without their identification as separate reporting entities

FIRST DRAFT ONLY, FOR IPSASB REVIEW MARCH 2012: CONCEPTUAL FRAMEWORK: PHASE 1

BC4.10 The IPSASB found these concerns persuasive. It has reconstructed and drawn together its discussion of the reporting entity and group reporting entity to focus on the principles underlying the identification of a public sector reporting entity - whether that reporting entity comprises a single public sector entity or a group of entities. The identification of the criteria to be satisfied for inclusion in a group reporting entity consistent with these principles will then be developed and fully explored at the standards level.

Financial Statements

BC4.11 The Conceptual Framework does not specify the basis on which financial statements are to be prepared, including for example:

- Whether, and in what circumstances, consolidated, combined or other financial statements should be prepared for a reporting entity which comprises two or more public sector entities; and
- The techniques to be adopted in compiling such statements.

The IPSASB is of the view that these are also matters that should be dealt with at the standards level.

Staff note: With the deletion of the section dealing with the group reporting entity, staff does not believe this paragraph (BC 4.12) is necessary.

STAFF COMMENT – IPSASB HAS AGREED TO REVISIT MECHANISMS TO CROSS REFERENCE TO IASB AND STATISTICAL BASES OF REPORTING AS AN OVERARCHING ISSUES IMPACTING ALL PHASES OF THE FRAMEWORK PROJECT

Appendix 4A

The IASB Conceptual Framework (September 2010)

Reporting Entity

The International Accounting Standards Board (IASB) develops and publishes International Financial Reporting Standards (IFRSs). IFRSs are designed to apply to the general purpose financial statements and other financial reporting of all profit-oriented entities.

The IASB Conceptual Framework (issued in 1989) identified a reporting entity as an entity for which there are users who rely on the financial statements as their major source of financial information about the entity.

The IASB issued Exposure Draft, *Conceptual Framework for Financial Reporting: The Reporting Entity* in March 2010. However, the IASB has not yet approved a final updated Chapter of its Conceptual Framework that deals with the reporting entity.

STAFF COMMENT – IPSASB HAS AGREED TO REVISIT MECHANISMS TO CROSS REFERENCE TO IASB AND STATISTICAL BASES OF REPORTING AS AN OVERARCHING ISSUES IMPACTING ALL PHASES OF THE FRAMEWORK PROJECT

Appendix 4B

The Statistical Bases of Reporting of the 1993 System of National Accounts (updated 2008) and other guidance derived from it (ESA 95 and GFSM 2001)

Reporting Entity

The focus of the 2008 System of National Accounts (2008 SNA) is on institutional units which are allocated into mutually exclusive sectors, one of them being the general government sector. The general government sector comprises central, state and local government (with possibly separate social security funds) in any country. The 2008 SNA also provides for reporting by the public sector which comprises the general government sector and public corporations.

An institutional unit is an economic entity that is capable, in its own right, of owning assets, incurring liabilities and engaging in economic activities and in transactions with other entities.

A similar focus on institutional units and sectors is reflected in the Government Finance Statistics Manual 2001 (GFSM 2001), the European System of Accounts (ESA 95) and other statistical bases of reporting derived from the 2008 SNA.

As a rule, the entries in the SNA are not consolidated. Rather, there is a summation of entries of all resident institutional units belonging to a sector, and for the economic territory (referred to as economy-wide aggregates). However, in some circumstances, in some jurisdictions, consolidation within a sector may be allowed or required.

The GFSM 2001 requires that data presented for a group of units be consolidated so that flows and positions of entities within such a grouping are eliminated and the data is presented as flows and positions with the remainder of the economy.

4 ~~First Draft~~ – The Reporting Entity

- 4.1 A public sector reporting entity is a government or other public sector organization, program or identifiable area of activity (hereafter referred to as an entity or public sector entity) that prepares GPFRs. ~~A public sector reporting entity may comprise two or more separate entities that present GPFRs as if they are a single reporting entity – these reporting entities are referred to as group reporting entities.~~

~~Figure 1: Alternative approach to paragraph 4.1 – Include description of an entity~~

- 4.2 Key characteristics of Aa public sector reporting entity ~~are is that – government or other public sector organization, agency, program or identifiable area of activity that:~~
- ~~It is an entity that~~ raises economic resources from, or on behalf of, constituents and/or uses economic resources to undertake activities provide goods or services to for the benefit of, or on behalf of, those constituents; and
 - ~~prepares general purpose financial reports. There are service recipients or resource providers dependent on GPFRs of the entity for information for accountability or decision-making purposes.~~

- 4.3 A public sector reporting entity may comprise two or more separate entities that present GPFRs as if they are a single entity – these reporting entities are referred to as group reporting entities.

Key characteristic of a reporting entity

- 4.34.4 A government may establish and/or operate through administrative units such as ministries or departments. It may also operate through, trusts, statutory authorities, government corporations and other entities with a separate legal identity or operational autonomy to undertake or otherwise support the provision of services to constituents. Other public sector organizations, including international public sector organizations and local government or municipal authorities~~government ministries and departments~~, may also undertake certain of their activities through, and may benefit from and be exposed to a financial burden or loss as a result of, the activities of entities with a separate legal identity or operational autonomy.

- 4.5 GPFRs are prepared to report information useful to users for accountability and decision-making purposes. Service recipients and their representatives, and resource providers and their representatives are the primary users of GPFRs. Consequently, a key characteristic of a reporting entity, including a group reporting entity, is the existence of service recipients or resource providers who are dependent on GPFRs of that entity or group of entities for information for accountability or decision-making purposes.

- 4.44.6 GPFRs encompass financial statements and information that enhances, complements and supplements the financial statements. Financial statements present information about the economic resources of the entity or group of entities and claims to them at the reporting date and changes to them during the reporting period. Therefore, to enable the preparation of financial statements, a reporting entity will raise economic resources and/or use economic resources previously raised, or raised by others, to undertake activities for the benefit of, or on behalf of, its constituents.

4.5—

~~4.6 Factors likely to signal the existence of users of GPFRs~~

- 4.7 ~~4.4~~The factors that are likely to signal the existence of users of GPFRs of a public sector entity ~~government or other public sector organization or program or identifiable area of activity (or groups of entities thereof)~~ include the responsibility or capacity to raise or deploy public monies, acquire or manage public assets, incur liabilities, or undertake activities to achieve service delivery objectives. The greater the resources that a ~~government or other~~ public sector entity ~~organization or program or identifiable area of activity~~ raises, manages and/or has the capacity to deploy, the greater the liabilities it incurs and the greater the economic or social impact of its activities, the more likely it is that there will exist service recipients or resource providers who are dependent on GPFRs for information about it for accountability and decision-making purposes. In the absence of these factors, or where they are not significant, it is unlikely that users of GPFRs of these entities will exist.
- 4.8 ~~4.5~~The preparation of GPFRs is not a cost-free process. Therefore, if the imposition of financial reporting requirements is to be efficient and effective, it is important that only those public sector entities ~~organizations, programs and identifiable areas of activity~~ for which such users exist are required to prepare GPFRs.
- 4.9 ~~4.6~~In many cases, it will be clear whether or not service recipients or resource providers are dependent on GPFRs of a public sector entity ~~government, organization, program or identifiable area of activity for information~~ for information for accountability and decision-making purposes. For example, such users are likely to exist for GPFRs of a government at the national, state or local government level and for international public sector organizations – because these governments and organizations generally have the capacity to raise from and/or deploy substantial resources on behalf of their constituents, to incur liabilities and to impact the economic and/or social well being of the communities that depend on them for the provision of goods and services. ~~However, it may not always be clear whether users exist for GPFRs of other public sector organizations such as individual government departments and agencies, or for particular programs or identifiable areas of activity.~~
- 4.10 ~~4.7~~However, it may not always be clear whether there are service recipients or resource providers that are dependent on GPFRs of public sector entities such as, for example, individual government departments and agencies, particular programs or identifiable areas of activity for information for accountability and decision-making purposes. Determining whether these organizations, programs or activities should be ~~Judgment will be necessary to ensure that public sector departments and other organizations and/or particular government programs, or groups thereof, are~~ identified as reporting entities and, consequently, be required to prepare GPFRs will involve the exercise of professional judgement only when appropriate. In exercising that judgement, it should be noted that in certain circumstances, International Public Sector Accounting Standards (IPSASs) respond to users' need for information about particular programs or activities undertaken by a government or other public sector reporting entity by providing for the separate disclosure of such information in the GPFRs of that government or other public sector reporting entity.

Separate legal Entity

- 4.11 The government and some other public sector entities have a separate identity or standing in law (a legal identity) — for example, public corporations, trusts that are legally distinct from trustees

and beneficiaries, or a statutory body with the authority to transact and enter contracts in its own right. However, public sector organizations, programs and activities without a separate legal identity may also raise or deploy public monies, acquire or manage public assets, incur liabilities, undertake activities to achieve service delivery objectives or otherwise implement government policy. Service recipients and resource providers may depend on GPFRs of these entities, programs and activities for information for accountability and decision-making purposes. Consequently, a public sector reporting entity may have a separate legal identity or be, for example, an organizational ~~structure~~, administrative arrangement or program without a separate legal identity.

Jurisdictional Differences

~~4.12 IPSASs apply across jurisdictions that adopt different forms of government and different institutional and administrative arrangements for the delivery of services. IPSASs that give authority to the principles for determining the whole of government or other public sector reporting entity will need to respond to operational and implementation issues that may arise in different jurisdictions.~~

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, the Conceptual Framework.

Reporting Entities

The Key Characteristics of a Reporting Entity

BC4.1 ~~BC4.1~~ The concept of the reporting entity is derived from the objectives of financial reporting by public sector entities. 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 and decision-making purposes.

~~BC4.2~~ Reporting entities prepare GPFRs. GPFRs include financial statements which present information about such matters as the financial position, performance and cash flows of the entity, and information that enhances, complements and supplements the financial statements. Therefore, ~~the Framework identifies the a~~ key characteristic of a ~~public sector~~ reporting entity ~~is as~~ the ~~existence of service recipients or resource providers who are dependent on GPFRs for information about~~ such matters as (a) the resources raised, used and managed; (b) the financial obligations and losses incurred; and (c) the activities undertaken and proposed by a government or a particular public sector organization, agency program or identifiable area of activity for accountability or decision-making purposes.

Legislation, regulation or other authority

~~BC4.2~~BC4.3 The Conceptual Framework Phase 1 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” (CF—ED 1) ~~did~~ explained that the Conceptual Framework ~~did~~ not identify which public sector entities should be identified as a reporting entity or group reporting entity and, therefore, be required to prepare GPFRs. It noted that the public sector organizations and programs that are to prepare GPFRs will be specified in legislation, regulation or other authority, or be determined by relevant authoritative bodies in each jurisdiction.

~~BC4.3~~BC4.4 Some respondents expressed the view that while legislation or other authority may, in practice, identify which entities are to prepare GPFRs, the Conceptual Framework should focus on the concept of the reporting entity, identify key features of the ~~at e-reporting entity~~ concept and provide guidance on the principles and factors that should be considered in determining whether a reporting entity exists. The IPSASB was persuaded by these arguments and has refocused its discussion on an explanation of the concept of the reporting entity.

Interpretation and Application

~~BC4.4~~BC4.5 Some respondents expressed concern that the characteristics of a reporting entity as explained in the CF—ED1 may be interpreted to identify particular activities or segments of an organization as separate reporting entities. These segments or activities would then be required to prepare GPFRs in accordance with all IPSASs. Some respondents also noted that it was not clear how the guidance in the CF—ED1

applied to public sector organizations other than governments including, for example, international public sector organizations.

BC4.6 The IPSASB has responded to these concerns. The Framework explains that preparation of GPFRs is not a cost-free process. It also:

- includes additional guidance on the factors that are likely to signal the existence of service recipients or resource providers who are dependent on GPFRs of a government or other public sector entity for information for accountability or decision-making purposes; users of GPFRs of public sector entities; and
- Notes their likely implications of these factors for the identification of a range of public sector organizations, programs and activities as reporting entities, including governments, departments and agencies and international public sector organizations.

BC4.7 The Conceptual Framework acknowledges that in some cases it may be necessary to exercise professional judgment in determining whether particular public sector entities should be identified as a reporting entity. In exercising that judgement, it should be noted that, in certain circumstances, International Public Sector Accounting Standards (IPSASs) respond to users' need for information about particular organizational units, programs or activities undertaken by a government or other public sector reporting entity may be provided by separate disclosures within the GPFRs of that government or other public sector reporting entity¹. In addition, Jurisdictional factors such as the legislative and regulatory framework in place and institutional and administrative arrangements for the raising of resources and the delivery of services are also likely to inform deliberations on whether it is likely that service recipients and resource providers dependent on GPFRs of particular public sector entities exist.

~~The Framework also explains that, in certain circumstances, users' need for information about particular organizational units, programs or activities undertaken by a government or other public sector reporting entity may be provided by separate disclosures within the GPFRs of that government or other public sector reporting entity². For example, International Public Sector Accounting Standards (IPSASs) such as IPSAS 18 *Segment Reporting* and IPSAS 22 *Disclosures of Information about the General Government Sector* provide a mechanism to satisfy users' need for information about particular segments or sectors of an entity without their identification as separate reporting entities.~~

The Group Reporting Entity

~~BC4.5—CF—ED1 noted that different terms were used in IPSASs to refer to a public sector reporting entity that comprised two or more separate entities that present GPFRs as if they are a single reporting entity. It explained that the IPSASB would use the term group reporting entity to refer to these reporting entities.~~

¹ For example, International Public Sector Accounting Standards (IPSASs) such as IPSAS 18 *Segment Reporting* and IPSAS 22 *Disclosures of Information about the General Government Sector* provide a mechanism to satisfy users' need for information about particular segments or sectors of an entity without their identification as separate reporting entities

~~BC4.6~~BC4.8 ~~CF—ED1 included a separate section dealing with the group reporting entity~~
~~which~~ outlined the circumstances that would justify the inclusion of an entity or activity within a public sector group reporting entity. It explained that:

- A government or other public sector entity may (a) have the authority and capacity to direct the activities of one or more other entities so as to benefit from the activities of those entities; and (b) be exposed to a financial burden or loss that may arise as a result of the activities of those entities; and
- To satisfy the objectives of financial reporting, GPFRs of a group reporting entity prepared in respect of a government or other public sector entity should include that government (or other public sector entity) and the entities whose activities it has the authority and capacity to direct, when the results of such direction can (a) generate financial or other benefits for the government (or other public sector entity); or (b) expose it to a financial burden or loss.

~~BC4.7~~BC4.9 Many respondents to the CF—ED1 noted their agreement with the IPSASB's views about the criteria that should be satisfied for inclusion in a public sector group reporting entity. However, other respondents expressed their concern about the potential interpretation and application of the criteria in particular circumstances. ~~in~~ some cases ~~they noted~~ that the Framework would need to provide additional application guidance if it was to be effective in dealing with circumstances not dealt with in IPSASs. A number of respondents also expressed the view that the criteria to be satisfied for inclusion in a group reporting entity was more appropriately addressed and resolved at the standards level, where those criteria and their consequences could be tested across a range of particular circumstances and supported with specific examples likely to exist in many jurisdictions.

~~BC4.8~~BC4.10 The IPSASB found these concerns persuasive. It has reconstructed and drawn together its discussion of the reporting entity and group reporting entity to focus on the principles underlying the identification of a public sector reporting entity - whether that reporting entity comprises a ~~single government, an individual~~ public sector entity or a group of entities. The identification of the criteria to be satisfied for inclusion in a group reporting entity consistent with these principles will then be developed and fully explored at the standards level.

Financial Statements

~~BC4.9~~BC4.11 The Conceptual Framework does not specify the basis on which financial statements are to be prepared, including for example:

- Whether, and in what circumstances, consolidated, combined or other financial statements should be prepared for a reporting entity which comprises two or more public sector entities; and
- The techniques to be adopted in compiling such statements.

The IPSASB is of the view that these are also matters that should be dealt with at the standards level.

FIRST DRAFT ONLY, FOR IPSASB REVIEW MARCH 2012: CONCEPTUAL FRAMEWORK: PHASE 1

Staff note: With the deletion of the section dealing with the group reporting entity, staff does not believe this paragraph (BC 4.12) is necessary.

STAFF COMMENT – IPSASB HAS AGREED TO REVISIT MECHANISMS TO CROSS REFERENCE TO IASB AND STATISTICAL BASES OF REPORTING AS AN OVERARCHING ISSUES IMPACTING ALL PHASES OF THE FRAMEWORK PROJECT

Appendix 4A

The IASB Conceptual Framework (September 2010)

Reporting Entity

The International Accounting Standards Board (IASB) develops and publishes International Financial Reporting Standards (IFRSs). IFRSs are designed to apply to the general purpose financial statements and other financial reporting of all profit-oriented entities.

The IASB Conceptual Framework (issued in 1989) identified a reporting entity as an entity for which there are users who rely on the financial statements as their major source of financial information about the entity.

The IASB issued Exposure Draft, *Conceptual Framework for Financial Reporting: The Reporting Entity* in March 2010. However, the IASB has not yet approved a final updated Chapter of its Conceptual Framework that deals with the reporting entity.

STAFF COMMENT – IPSASB HAS AGREED TO REVISIT MECHANISMS TO CROSS REFERENCE TO IASB AND STATISTICAL BASES OF REPORTING AS AN OVERARCHING ISSUES IMPACTING ALL PHASES OF THE FRAMEWORK PROJECT

Appendix 4B

The Statistical Bases of Reporting of the 1993 System of National Accounts (updated 2008) and other guidance derived from it (ESA 95 and GFSM 2001)

Reporting Entity

The focus of the 2008 System of National Accounts (2008 SNA) is on institutional units which are allocated into mutually exclusive sectors, one of them being the general government sector. The general government sector comprises central, state and local government (with possibly separate social security funds) in any country. The 2008 SNA also provides for reporting by the public sector which comprises the general government sector and public corporations.

An institutional unit is an economic entity that is capable, in its own right, of owning assets, incurring liabilities and engaging in economic activities and in transactions with other entities.

A similar focus on institutional units and sectors is reflected in the Government Finance Statistics Manual 2001 (GFSM 2001), the European System of Accounts (ESA 95) and other statistical bases of reporting derived from the 2008 SNA.

As a rule, the entries in the SNA are not consolidated. ~~Rather~~However, there is a summation of entries of all resident institutional units belonging to a sector, and for the economic territory (referred to as economy-wide aggregates). However, in some circumstances, in some jurisdictions, consolidation within a sector may be allowed or required.

The GFSM 2001 requires that data presented for a group of units be consolidated so that flows and positions of entities within such a grouping are eliminated and the data is presented as flows and positions with the remainder of the economy.

EXTRACT OF DRAFT MINUTES FROM LAST IPSASB MEETING (DECEMBER 2011 – BRASILIA)

Conceptual Framework Phase 1 - Responses to Phase 1 Exposure Draft (CF—ED1)

At this meeting the IPSASB completed its review of the 55 responses to the Exposure Draft of Phase 1 of the Conceptual Framework (CF—ED1). Staff also provided Members with a verbal report that included an update on staff's ongoing discussions with:

- Staff of the International Integrated Reporting Committee (IIRC) regarding the work of the IPSASB on its Conceptual Framework and other projects, and potential implications of that work for integrated reporting (see also Agenda Item 3.1); and
- Some respondents to CF—ED1, to clarify certain aspects of their response.

The IPSASB confirmed that the Conceptual Framework was not an IFRS convergence project and that the mechanisms in place for monitoring developments in the IASB Conceptual Framework were appropriate. The IPSASB also agreed that the role, nature and placement of the appendices which outline how similar matters are dealt with in the IASB Conceptual Framework and in the statistical bases of reporting be classified as an “overarching issue” and be revisited and dealt with on a consistent basis as all Phases of the Conceptual Framework are brought together and finalized. Some Members noted that:

- On completion of the Conceptual Framework, it would be useful to prepare a separate document outlining in some detail differences between the IPSASB Conceptual Framework and the IASB Conceptual Framework across all phases of the Conceptual Framework, and particularly in respect of phases 2 and 3 of the IPSASB's Conceptual Framework which deal with the elements and measurement; and
- Input should continue to be provided to the IASB on progress being made on all phases of the IPSASB's Conceptual Framework, since this may be useful to, and influence the thinking of, the IASB when it reactivated its Conceptual Framework project.

The IPSASB identified certain text in the CF—ED1 that was to be further clarified and refined and agreed that a first draft of these sections of the Conceptual Framework reflecting the matters identified below be prepared for consideration at its next meeting in March 2012:

Section 1 dealing with the role and authority of the Conceptual Framework

- The Conceptual Framework will establish the concepts that underpin financial reporting and will be applied by the IPSASB in developing IPSASs. Members confirmed that the Conceptual Framework will not establish authoritative requirements or override the requirements of IPSASs and agreed the text in the Basis for Conclusions (BC) that notes that the Conceptual Framework has lesser authority than IPSASs could be included in the draft Conceptual Framework itself and:
 - IPSAS 3 “*Accounting Policies, Changes in Accounting Estimates and Errors*” which deals with the “hierarchy” of guidance for selection of accounting policies in the absence of an IPSAS should be updated and issued contemporaneously with the issue of the Conceptual Framework; and
 - If possible, a single improvements Exposure Draft to reflect editorial, terminology and similar immediate consequential changes to existing IPSASs proposed by the IPSASB

as a consequence of issue of the Conceptual Framework should be prepared following completion of the Conceptual Framework; and

- GPFRs prepared at the whole-of-government level may include information about government business enterprises (GBEs). In addition, the Conceptual Framework should acknowledge that, in some jurisdictions, GBE's may apply IPSASs and, consequently, would be encompassed by the Conceptual Framework. Members also noted that the explanation of the relationship of GBEs to the Conceptual Framework may need to be further developed if the proposal to action a project on GBE's was agreed. (See Agenda Item 4 below);

Section 2 dealing with users, objectives and information provided by GPFRs

- The primary users of general purpose financial reports (GPFRs) are service recipients (and their representatives) and resource providers (and their representatives) and the objectives of financial reporting are the provision of information useful for accountability and decision making purposes by these users. The IPSASB also directed that explanation of the following matters could usefully be further developed, and incorporate matters discussed in the Key Characteristics ED where appropriate:
 - The relationship between users, objectives and information that may be provided by GPFRs and by the budget;
 - Accountability for public sector entities and decisions making by users of GPFRs of public sector entities; and
 - That identification of the primary users of GPFRs was intended to enable the IPSASB to more sharply focus on the information needs of those users that IPSAS would be developed to respond to. However, many others, whether organizations or individuals may use GPFRs, with Parliaments or similar representative body amongst the most engaged of users;
- The principles underlying the specific information categories identified in CF—ED1 should be explored and developed. In particular, that an additional step or link should precede the information categories currently identified in CF—ED1. The draft Conceptual Framework would then identify that for accountability and decision making purposes users need information useful as input to assessments of such matters as the solvency, financial and operational capacity and flexibility of public sector entities and the sustainability of the services they provided. Information about financial position, performance and cash flows; service achievements; compliance with budget; prospective information; and additional explanation to put the financial and other information in context would then be included in GPFRs to respond to these needs. Members also reflected on the working decisions of the IPSASB's September 2011 meeting relating to the scope of financial reporting and agreed that the draft Conceptual Framework:
 - Is to explain that scope of financial reporting should be broad enough to encompass financial statements, including notes thereto, and the presentation of information that enhances, complements and supplements the financial statements; and
 - Is to include in this section the explanation of the scope of general purpose financial reporting, rather than in section 1 as in the CF—ED1; and
- Members also noted a staff overview of its initial high level review of responses to the Key Characteristics exposure draft and agreed the explanation of the scope of general purpose financial

reporting would be considered and further developed as appropriate in light of the detailed analysis of responses to the Key Characteristics exposure draft, which will also be considered at the next meeting.

Section 3 dealing with the qualitative characteristics and constraints

- The qualitative characteristics (QCs) of information included in GPFRs are relevance, faithful representation, understandability, timeliness, comparability and verifiability. The IPSASB confirmed that the term “faithful representation” rather than “reliability” is to be adopted and that the QCs are not to be classified as either fundamental or enhancing – rather, the draft is to reflect that the QCs work together to contribute to the usefulness of information;
- The constraints on information included in GPFRs are materiality, cost-benefit, and achieving an appropriate balance between the qualitative characteristics. Members also agreed the draft Conceptual Framework is to explain that materiality can relate to a number of the QCs and can operate at the standards setting and individual entity level – that is, it will be considered by the IPSASB in developing IPSASs and by individual entities in preparing GPFRs; and
- The BC should acknowledge that comparability should not be read as limiting the ability of accounting policies to change to better represent particular transactions and events that are not dealt with by IPSASs.

Section 4 dealing with the reporting entity

The IPSASB considered a first draft of a revised reporting entity section of the Conceptual Framework which:

- Outlined the concept of the reporting entity in the public sector and factors that are likely to give rise to the need for public sector entities to prepare GPFRs; and
- Included a more expansive description of a public sector reporting entity.

The IPSASB agreed with the broad approach adopted in the draft and provided directions for its further development, including that the next draft should reflect that a public sector reporting entity would encompass economic resources and activities (rather than focusing the explanation on the provision of goods or services). The IPSASB also identified drafting and editorial refinements and improvements and agreed that:

- The reference to “users” in the last sentence of paragraph 4.6 should be further developed to refer to the existence of service recipients or resource providers that are dependent on GPFRs for information for accountability and decision-making purposes in respect of these other public sector organizations;
- Staff are to consider whether paragraphs 4.5 and 4.7 cover the same or similar ground and should be consolidated in some way;
- Paragraph 4.9 which deals with jurisdictional differences is to be deleted; and
- The Appendix referring to the statistical bases of reporting should be updated to reflect that in some circumstances consolidation within a sector may be allowed or required.

Other matters

Members also agreed a range of editorial and other proposals for clarifying the text as highlighted by the staff in the covering memorandum should be developed and considered at the IPSASB's March 2012 meeting.

CONCEPTUAL FRAMEWORK PHASE 1 - Summary of IPSASB Decisions made to date

Review of responses to CF—ED1 and development of Framework

IPSASB Meetings: September 2011, December 2011

The following identify working decisions regarding substantial matters agreed by the IPSASB at meetings held in September and December 2011. They are drawn from the IPSASB minutes of each meeting. They do not identify decisions relating to all editorial, phrasing or explanatory matters. Rather they focus on broad directional/strategic decisions. For a fuller explanation of the IPSASB deliberations on this Phase of the Framework refer to the minutes themselves.

This register of decisions will be updated following each IPSASB meeting at which Phase I of the Conceptual Framework is discussed.

Re Section 1: Role, Authority and Scope

The Conceptual Framework will establish the concepts that underpin financial reporting and will be applied by the IPSASB in developing IPSASs. It will not establish authoritative requirements or override the requirements of IPSASs. **(Agreed December 2011)**

Text in the Basis for Conclusions (BC) noting that the Conceptual Framework has lesser authority than IPSASs is to be moved to the Framework. **(Agreed December 2011)**

Scope of Financial Reporting

The scope and related sections of CF—ED1 is not to be further developed until Members have had the opportunity to consider responses to the Key Characteristics ED **(Agreed September 2011, revised December 2011 – see below)**

The explanation of the scope of general purpose financial reporting is to be moved from Section 1 in the CF—ED1 to section 2 (which deals with objectives, users and information needs). **(Agreed December 2011)**

The Framework is to clarify that the scope of financial reporting is limited to information that “enhances, complements or supplements the financial statements”. **(Agreed September 2011, Confirmed December 2011)**

Diagrams illustrating the scope of financial reporting and the relationship between financial statements and other GPFRs are not to be incorporated in the Framework itself as practice and expectations may change and evolve over time. **(Agreed September 2011, Confirmed December 2011)**

The Framework is not to express a view on the level of assurance that is anticipated for financial statements and other components of GPFRs. **(Agreed September 2011)**

The BC is to explain that the IPSASB may develop non-authoritative guidance in evolving areas of financial reporting outside the financial statements to assist preparers to respond to users’ information needs and to encourage experimentation on reporting of emerging or problematic reporting issues. **(Agreed September 2011)**

Government Business Enterprises (GBEs)

The Framework is to acknowledge that GPFRs prepared at the whole-of-government level may include information about government business enterprise. In some jurisdictions GBEs may apply IPSASs for their own separate GPFs and, consequently, would be encompassed by the

Framework. (Relationship of GBE's to the Framework may need to be further developed as the project on GBE's is developed). **(Agreed December 2011)**

Re Section 2 Users, Objectives and Information Needs

The objectives of financial reporting are the provision of information useful for accountability and decision making purposes by users. **(Agreed December 2011)**

The primary users of general purpose financial reports (GPFRs) are service recipients (and their representatives) and resource providers (and their representatives), but others may use GPFRs, with Parliaments or similar representative body amongst the most engaged of users. **(Agreed December 2011)**

The following matters could usefully be further developed:

- The relationship between users, objectives and information provided by GPFRs;
- The relationship between accountability and decision making by users of GPFRs of public sector entities; **(Agreed December 2011)**

An additional step or link should precede the information categories currently identified in CF—ED1 to identify that for accountability and decision making purposes users need information useful as input to assessments of solvency, financial and operational capacity and flexibility of public sector entities and the sustainability of the services they provided. Information about financial position, performance and cash flows; service achievements; compliance with budget; prospective information; and additional explanation would then be included in GPFRs to respond to these needs. **(Agreed December 2011)**

Re Section 3 the Qualitative Characteristics

The qualitative characteristics (QCs) of information included in GPFRs are relevance, faithful representation, understandability, timeliness, comparability and verifiability. **(Agreed December 2011)**

The term “faithful representation” rather than “reliability” is to be adopted. **(Agreed December 2011)**

The QCs are not to be classified as either fundamental or enhancing. **(Agreed December 2011)**

The constraints on information included in GPFRs are materiality, cost-benefit, and achieving an appropriate balance between the qualitative characteristics. **(Agreed December 2011)**

The draft Conceptual Framework is to explain that materiality can relate to a number of the QCs and will be considered by the IPSASB in developing IPSASs and by individual entities in preparing GPFRs. **(Agreed December 2011)**

The BC should explain that comparability should not limit the ability of accounting policies to change to better represent particular transactions and events that are not dealt with by IPSASs. **(Agreed December 2011)**

Re Section 4 the Reporting Entity

The Framework is to include a section dealing with the reporting entity and acknowledge that a reporting entity may include two or more separate entities. **(Agreed September 2011)**

The section dealing with the group reporting entity is to be deleted. The BC is to explain that the criteria for determining which entities will be included within a group reporting entity will be developed at standards level. **(Agreed September 2011)**

The observations that the Framework does not identify the reporting entity and this is not the role of the Framework, are to be deleted. **(Agreed September 2011)**

Text that may be interpreted to imply segments of an entity are likely to be separate reporting entities in their own right are to be “softened”. **(Agreed September 2011)**

The revised approach to the reporting entity section (considered in December 2011) is to be adopted. It is to be further developed to reflect that key characteristics of a public sector reporting entity are existence of users and the raising and use of economic resources for provision of goods or services or other activities. **(Agreed December 2011)**

The Appendix referring to the statistical bases of reporting is to be updated to reflect that in some circumstances consolidation within a sector may be allowed or required. **(Agreed December 2011)**

Members agreed that all substantive issues identified in responses had been addressed and editorial and drafting type issues not yet dealt with would be considered as drafting of this Phase progressed. **(Agreed December 2011)**

Re Ongoing activities as Framework is developed

Input should continue to be provided to the IASB on progress being made on all phases of the IPSASB Framework. **(Agreed December 2011)**

Re Overarching issues

The role, nature and placement of the appendices dealing with the IASB Framework and statistical bases of reporting are to be revisited and dealt with on a consistent basis as all Phases of the Framework are brought together and finalized. **(Agreed December 2011)**

Re Follow-up actions contemporaneously with or following the issue of the Framework

On completion of the Framework, a separate document outlining in some detail differences between the IPSASB Framework and the IASB Framework across all phases of the Framework should be prepared **(Agreed December 2011)**

IPSAS 3 “Accounting Policies, Changes in Accounting Estimates and Errors” which deals with the “hierarchy” of guidance for selection of accounting policies in the absence of an IPSAS should be updated and issued contemporaneously with the issue of the Framework. **(Agreed December 2011)**

If possible, an “improvements type” Exposure Draft to reflect editorial, terminology and similar immediate consequential changes to existing IPSASs proposed by the IPSASB as a consequence of issue of the Framework should be prepared following completion of the Framework. **(Agreed December 2011)**