

Meeting: International Public Sector Accounting
Standards Board

Meeting Location: Abu Dhabi, UAE

Meeting Date: March 11–14, 2013

Agenda Item 3

For:

☐ Approval

☒ Discussion

☐ Information

Criteria for Determining the Status of a Pronouncement

Objective(s) of Agenda Item

1. The objective of this session is to **obtain directions** on further developing the criteria that are relevant for various types of pronouncements.

Background

2. At the December 2012 meeting, the IPSASB directed staff to develop a set of criteria for determining the types of documents the IPSASB might develop and whether these would be authoritative or non-authoritative pronouncements.
3. To respond to the information needs of users, the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities (Conceptual Framework)*, issued in January 2013, reflects a scope for general purpose financial reporting (GPFR) that is more comprehensive than that encompassed by general purpose financial statements (GPFs). It provides for the presentation within GPFRs of additional information that enhances, complements, and supplements the GPFs. Therefore, pronouncements that address reporting issues outside the GPFs are likely to be an increasing feature of the IPSASB's literature in the future.
4. Currently, the IPSASB are undertaking three "more comprehensive scope" projects. They are:
 - (a) Reporting on the long-term sustainability of an entity's finances (LTFS);
 - (b) Financial statement discussion and analysis (FSDA); and
 - (c) Reporting service performance information (SPR).
5. The IPSASB has debated the nature of the pronouncements that might be developed for each of these projects as well as whether they should be authoritative or non-authoritative.

Types of Pronouncements

6. This section discusses the types of pronouncements that the IPSASB has developed or is in the process of developing.

Existing Pronouncements

7. Currently, the only authoritative pronouncements are International Public Sector Accounting Standards (IPSASs) that an entity is required to apply if it wishes to assert compliance with IPSASs. Within the IPSASs there are three types of authoritative pronouncements:
 - (a) Comprehensively authoritative (IPSASs 1–21, IPSAS 23 and IPSASs 25–32);

- (b) Authoritative where an entity is required or elects to report that information (IPSAS 24, *Presentation of Budget Information in Financial Statements* is the only example of this); and
- (c) Authoritative where an entity elects to report that information (IPSAS 22, *Disclosure of Financial Information about the General Government Sector* is the only example of this).

Authoritative Pronouncements

- 8. IPSAS 1, *Presentation of Financial Statements* lists the composition of financial statements and requires a (a) statement of financial position, (b) statement of financial performance, (c) statement of changes in net assets/equity, (d) cash flow statement, (e) notes, and (f) when the entity makes publicly available its approved budget, a comparison of budget and actual amounts. IPSASs set out the requirements related to these items.

Authoritative where an Entity is Required or Elects to Report that Information

- 9. IPSAS 24 is an authoritative standard only where an entity is required or elects to make its approved budget publicly available. If an entity's approved budget is publicly available and it does not apply IPSAS 24, then it will be unable to assert compliance with IPSASs.

Authoritative where an Entity Elects to Report that Information

- 10. IPSAS 22 is a voluntary standard. It applies only to governments which elect to disclose financial information about the General Government Sector (GGS) in the financial statements. When a government elects to do this, it is then required to apply the guidance in IPSAS 22.
- 11. Although this standard does not make it explicit, staff assumes that if an entity discloses financial information about the GGS in its financial statements and does not apply IPSAS 22, then it will be unable to assert compliance with IPSASs.
- 12. IPSAS 22 applies only to governments rather than all public sector entities because it deals only with disclosures related to the GGS.

Proposed Pronouncements

Non-authoritative

- 13. Exposure Draft (ED) 46, *Reporting on the Long-Term Sustainability of a Public Sector Entity's Finances* has been developed as a new type of pronouncement that is non-authoritative in nature and is termed a "Recommended Practice Guideline" (RPG). The objective of this project is to provide guidance to entities on how to supplement the GPFs by providing users with information on the projected long-term sustainability of the entity's finances over a specified time horizon in accordance with transparent assumptions. The IPSASB has tentatively concluded that it would be premature to issue an authoritative pronouncement on this topic, because reporting LTFS information in the GPFRs is an area where practice is developing and the IPSASB wishes to encourage innovative and flexible approaches. Entities are not required to apply non-authoritative pronouncements and therefore such pronouncements do not affect an entity's ability to assert compliance with IPSASs.

Authoritative but is not a Component of the GPFSS

14. ED 47, *Financial Statement Discussion and Analysis* was developed as an authoritative pronouncement, i.e., an IPSAS. The objective of this project is to require entities to prepare and present a discussion and analysis of the GPFSS. This type of report is considered a GPFR.
15. The IPSASB has tentatively concluded that it considers FSDA to be essential to the understanding of the GPFSS but considers that the way in which an entity applies this standard should not affect its ability to assert compliance with IPSASs applicable to the GPFSS. Because FSDA is not a component of the GPFSS the ED includes requirements relating to the assertion of compliance that are separate from the requirements in IPSAS 1. In drafting the proposed final pronouncement explicit wording is being considered to highlight that FSDA is not a component of the GPFSS.

Reporting Service Performance Information Project

16. The Reporting Service Performance Information project is at an earlier stage of development than either the LTFS or FSDA projects. The Consultation Paper (CP), *Reporting Service Performance Information* included Specific Matter for Comment (SMC) 1 asking respondents whether the IPSASB should consider issuing (a) non-authoritative guidance for those entities that elect to report service performance information, (b) authoritative guidance requiring entities that elect to issue a service performance report to apply the guidance (comparable to IPSAS 22) or (c) authoritative guidance requiring entities to report service performance information.
17. The responses to the CP on this issue were mixed, with a slight majority supporting some type of authoritative guidance. In addition, some respondents who supported non-authoritative guidance expressed a preference for an authoritative pronouncement in the long-term. The IPSASB has not determined the type of pronouncement to be used for the development of an ED.
18. The issues raised by these projects demonstrates that there is a need for criteria to guide the IPSASB in determining the types of documents that it might develop and whether these would be authoritative or non-authoritative pronouncements rather than considering this on an ad hoc basis whenever a “more comprehensive scope” project is underway.

Summary of Types of Pronouncements

19. From the above discussion, the IPSASB could potentially have five types of pronouncements, as follows:
 - (a) Authoritative as relates to GPFSS (IPSASs 1–32 excluding IPSAS 22 and IPSAS 24);
 - (b) Authoritative, but is not a component of the GPFSS and therefore does not affect an entity’s ability to assert compliance with IPSASs applicable to the GPFSS (current proposal for FSDA);
 - (c) Authoritative where an entity is required or elects to report that information (IPSAS 24);
 - (d) Authoritative where an entity elects to report that information (IPSAS 22); and
 - (e) Non-authoritative, currently proposed RPGs (LTFS).
20. In order to develop criteria it is necessary to consider the existing variety of pronouncements. Staff considers that the number of different types of pronouncements the IPSASB issues should be reduced. The *Conceptual Framework* envisages that authoritative requirements will be specified in

IPSASs (related to GPFs) and non-authoritative guidance (related to GPFRs) will be specified in RPGs. In other words, IPSASs will always be authoritative in nature and RPGs will be non-authoritative. This means that if the IPSASB is issuing an authoritative pronouncement related to the GPFs the pronouncement would be an IPSAS. If a non-authoritative pronouncement is desired it would be an RPG. This covers the types of pronouncements listed in (a) and (e) above.

21. Consideration is then needed on how to address the pronouncements outlined in (b) through (d) above.

IPSAS 22 and IPSAS 24

22. The types of pronouncements listed in (c) and (d) above are described as authoritative but do not immediately fit into the types of pronouncements envisaged by the *Conceptual Framework* because they are largely voluntary but can affect the ability of an entity to assert compliance with IPSASs applicable to the GPFs.
23. IPSAS 24 is required to be applied where an entity is required or elects to make its approved budget publicly available. Staff considers that the requirement is not really authoritative because an entity can choose whether or not to make its approved budget publicly available and this has the effect of making it voluntary. Where an entity's approved budget is publicly available then it would be required to apply IPSAS 24 in order to assert compliance with IPSASs applicable to the GPFs.
24. IPSAS 22 is voluntary and could be seen as being very similar to an RPG except that where an entity does disclose information about the GGS in its financial statements then it is implicitly required to apply IPSAS 22 in order to assert compliance with IPSASs applicable to the GPFs. Since it is voluntary the use of the term authoritative with respect to this IPSAS is questionable.
25. In considering these two particular IPSASs, both of which are the only IPSAS of their type, it is useful to assess current practices. Staff does not consider that many entities have applied these standards and for those entities that do disclose this information it is unclear whether they comply with the requirements of these standards. Moreover, these IPSASs do not fit into what is currently envisaged by the *Conceptual Framework*.
26. Therefore staff considers that these IPSASs should be reviewed at some stage using the criteria for determining the status of a pronouncement (see the next section of this memo) to assess whether they should become authoritative standards without the current qualifications or become non-authoritative guidance. If they become authoritative standards then they should affect an entity's ability to assert compliance with IPSASs applicable to the GPFs.

Authoritative, but is not a Component of the GPFs—Current Proposal for FSDA

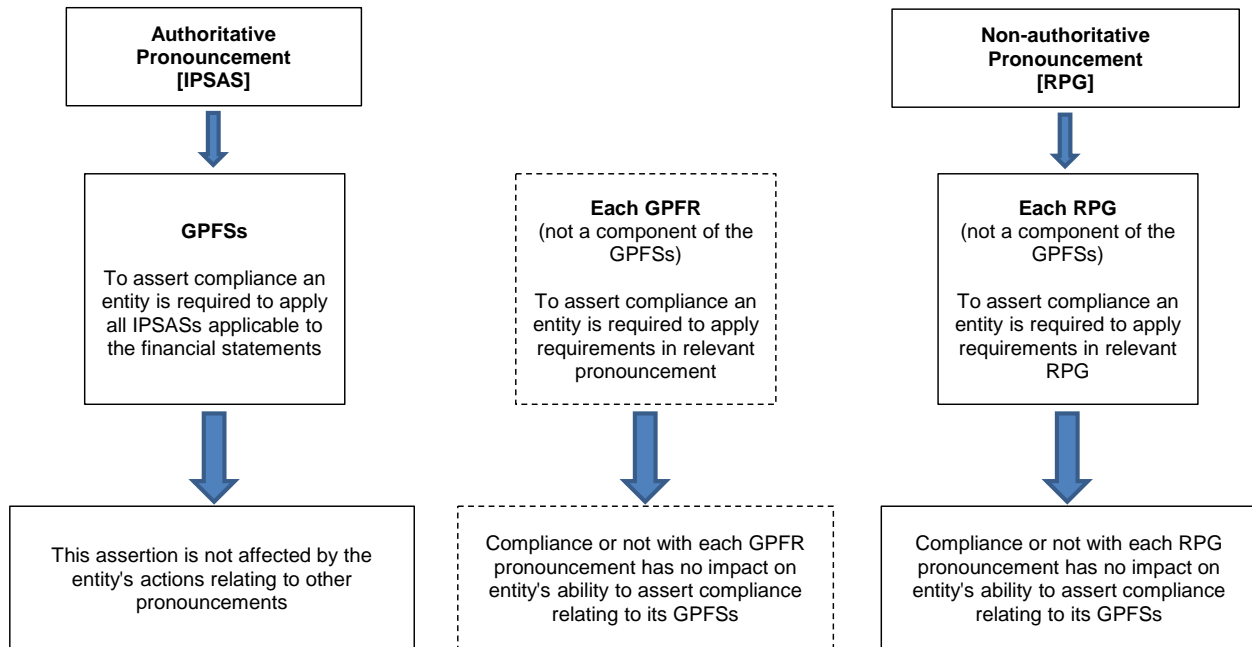
27. So at this stage of the discussion the type of pronouncement still to be addressed is that set out in (b) above—the possibility of an authoritative pronouncement that relates to a GPFR but is not a component of the GPFs and therefore does not affect an entity's ability to assert compliance with IPSASs applicable to the GPFs.
28. Because the entity's actions related to this type of pronouncement do not affect its ability to assert compliance with IPSASs applicable to the GPFs an entity may (a) report the information required in accordance with the requirements of the pronouncement, (b) may not report the information required or (c) report the information but not comply with the requirements of the pronouncement. Where an entity chooses (b) or (c) there are no adverse effects for not complying.

29. Staff considers that this type of pronouncement is similar to a non-authoritative RPG where compliance with the RPG does not impact an entity's ability to assert compliance with IPSASs applicable to the GPFSS. Therefore, staff is unsure whether such a category can exist and, if so, how will it be distinguished from the non-authoritative RPG.

The Way Forward—Possible Types of Pronouncements

30. The *Conceptual Framework* reflects the view that, although the financial statements are at the core of financial reporting, a more comprehensive scope is necessary to meet the needs of users. Staff acknowledges the view that if information is necessary to meet the objectives of financial reporting then it should be authoritative. However, the types of reporting encompassed by GPFs may be areas where practice is still developing and therefore it would be premature to issue an authoritative pronouncement. The IPSASB has used this rationale in developing the RPG for its LTFS project. The majority of respondents to the due process documents issued for the LTFS project (a Consultation Paper and ED 46) supported the voluntary application of this proposed guidance.
31. As noted above, the *Conceptual Framework* currently envisages two types of pronouncements (authoritative IPSASs and non-authoritative RPGs). As discussed above, not all of the IPSASB's existing and proposed types of pronouncements fit into these categories. Because staff proposes that the status of IPSASs 22 and 24 be reviewed, these types of pronouncements are not included in the following discussion. At this stage staff considers that given the lack of uptake on these two IPSASs and questions on the authority of these IPSASs, it would be preferable not to pursue further pronouncements of this nature.
32. The two types of pronouncements envisaged in the *Conceptual Framework* could be characterized, as follows:
- (a) **Essential to the understanding the GPFSS:** indicates that the information should be in an authoritative pronouncement (IPSAS) and an entity is required to apply that pronouncement in order to be able to assert compliance with IPSASs applicable to the GPFSS; and
 - (b) **Supplements the GPFSS:** indicates that the information will enhance users understanding of the entity and its operations and should be in a non-authoritative pronouncement (RPG) and does not affect an entity's ability to assert compliance with IPSASs applicable to the GPFSS.
33. The potential third type of pronouncement relates to the current proposal for FSDA—the pronouncement is authoritative, is applicable to a GPF and is not a component of the GPFSS and does not affect an entity's ability to assert compliance with IPSASs applicable to the GPFSS. Would this type of pronouncement be an IPSAS or another type of document such as an International Public Sector Financial Reporting Standard (IPSFRS)?
34. These three types of pronouncements are illustrated in Diagram 1 below.

Diagram 1: Three Types of Pronouncements



35. The authority of a pronouncement may be changed, when appropriate, by reassessing the criteria for determining the status of a pronouncement.
36. Staff asks the IPSASB to provide direction on the types of pronouncements that should be a part of the IPSASB's literature.

Matter(s) for Consideration

1. The IPSASB is asked:
 - (a) Do you agree that the IPSASB should not pursue further pronouncements of the nature of IPSAS 22 and IPSAS 24; and
 - (b) Do you agree that the status of IPSAS 22 and IPSAS 24 should be reviewed at some stage in the future using the criteria for determining the status of a pronouncement?
2. The IPSASB is asked:
 - (a) Do you think that there should be authoritative pronouncements for GPFRs (the current proposal for FSDA); and
 - (b) If so, should this type of pronouncement be an IPSAS or another type of document such as an International Public Sector Financial Reporting Standard (IPSFRS)?

Potential Criteria to Determine the Status of a Pronouncement

37. Potential criteria to guide the IPSASB in determining the status of a pronouncement are listed below:
 - (a) Relevance to the fair presentation of the GPFSs.
 - (b) Verifiability or supportability of information.

- (c) Cost-benefit.
 - (d) Stage of development of that area of information.
 - (e) Assertion of compliance with IPSASs and adoption of IPSASs.
 - (f) Audit and/or assurance issues.
38. The criteria are grouped into two categories. The first three ((a)–(c)) relate directly to the GPFRs in that they are an application of the qualitative characteristics of information included in GPFRs and pervasive constraints on information included in GPFRs. The last three criteria ((d)–(f)) are factors that relate to the external environment.

Relevance to the Fair Presentation of the GPFSS

39. IPSAS 1 requires that the GPFSS present fairly the financial position, financial performance, and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events, and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue, and expenses set out in IPSASs.
40. If the omission of information is likely to result in the GPFSS not reflecting a fair presentation then this information is essential to the understanding of the GPFSS and should be in an authoritative pronouncement.

Verifiability or Supportability of Information

41. The *Conceptual Framework* explains that verifiability is the quality of information that helps assure users that information in GPFRs faithfully represents the economic and other phenomena that it purports to represent. The term “supportability” has been used to describe the quality of information relating to explanatory information and prospective financial and non-financial quantitative information disclosed in GPFRs.
42. Information that is highly verifiable is likely to be information included in an authoritative pronouncement whereas information that has a low level of verifiability is likely to be information included in a non-authoritative pronouncement.

Cost-Benefit

43. The *Conceptual Framework* explains that cost-benefit means that the benefits of providing information should justify the costs of preparing that information.
44. Where the benefit of providing the information clearly outweighs cost of preparing it, this may indicate that it should be included in an authoritative pronouncement. Where the benefit of providing the information is more marginal, this may indicate that it should be included in a non-authoritative pronouncement.

Stage of Development of that Area of Information

45. The experience of users, preparers and auditors with this information may affect the level of authority of a pronouncement. If the level of experience with this information is low or it is an area where practice is developing this may indicate that the information supplements the GPFSS and a non-authoritative pronouncement may be appropriate. A pronouncement may be non-authoritative

in nature but the status might be reassessed at a later date, when there is greater familiarity with reporting this information.

46. The decision to issue a non-authoritative pronouncement could indicate to users that the IPSASB wishes to encourage entities to adopt good practice in an area of financial reporting that is still developing. It can also encourage innovative and flexible approaches. In particular, the flexibility of a non-authoritative pronouncement may help entities in jurisdictions that already have requirements for that area of reporting. Conversely, the decision to issue an authoritative pronouncement could indicate to users that the IPSASB wishes to “be bold” by requiring a pronouncement to be applied. In this situation it may be appropriate to consider issuing an authoritative pronouncement for a GPFR. Since this is outside the GPFs entities can still assert compliance with IPSASs applicable to the GPFs.

Assertion of Compliance with IPSASs and Adoption of IPSASs

47. Where an entity's GPFs comply with IPSASs, IPSAS 1 requires that entity to make an explicit and unreserved statement of such compliance in the notes. It also requires that an entity shall not describe its GPFs as complying with IPSASs unless they comply with all the requirements of IPSASs.
48. If the area of information is required by an authoritative pronouncement, then in order to assert compliance with IPSASs, entities will need to comply with that pronouncement. In some instances this may deter entities and/or jurisdictions from adopting IPSASs. To encourage jurisdictions' to adopt IPSASs it may be that the IPSASB could issue an authoritative pronouncement with an extended implementation period rather than issuing a non-authoritative pronouncement. Alternatively, the IPSASB could issue a non-authoritative pronouncement with the expectation that a reassessment of the authority of the pronouncement will be undertaken. As noted above, the IPSASB could consider issuing an authoritative pronouncement related to GPFRs that is outside of the GPFs, so that entities can still assert compliance with IPSASs applicable to the GPFs.
49. Where a non-authoritative pronouncement is issued, entities are not discouraged from applying IPSASs or from being able to assert compliance with IPSASs. This can help entities that do not have the information or lack expertise in the area covered by the non-authoritative pronouncement.

Audit and/or Assurance Issues

50. The IPSASB is of the view that it is not the role of its pronouncements to attempt to establish the level of audit assurance that should be provided to particular aspects of GPFRs. The qualitative characteristics, such as verifiability (see above), may provide some assurance to users about the quality of information included in GPFRs. However, the IPSASB does wish to make informed decisions that take into account any potential effects that the authority of a pronouncement may have on the provision of assurance.
51. Some areas of information in GPFRs may not be able to be audited or otherwise be subjected to assurance. This may indicate that a non-authoritative pronouncement should be issued.

Developments relating to the IPSASB's Current “More Comprehensive Scope” Projects

52. In the more comprehensive scope projects outlined above, respondents to the IPSASB's due process documents have expressed concerns relating to assurance issues. For example,

respondents to the LTFS ED expressed reservations about the “auditability” of this type of information. Respondents to the FSDA ED expressed concerns that entities may have problems in asserting compliance with IPSASs applicable to the GPFSs if they do not also comply with the proposed requirements for FSDA.

53. For the FSDA project, staff has tentatively concluded that the explicit statement in the draft IPSAS that FSDA is not a component of the GPFSs addresses the concerns raised relating to assurance issues. In relation to the more comprehensive scope projects generally, the IPSASB staff is working with the staff of the International Auditing and Assurance Standards Board (IAASB) to consider how due process documents arising from these projects could be reviewed so that any assurance issues can be identified. See Agenda Paper 5.1 for details.

Matter(s) for Consideration

3. The IPSASB is asked:
- (a) To confirm that potential criteria, set out in paragraph 37, are appropriate?
 - (b) To identify other aspects that could be included in the potential criteria.
 - (c) To identify further potential criteria.

Next Steps

54. Staff plans to present the following agenda papers at the June 2013 meeting:
- (a) A draft document on the Criteria for Determining the Status of a Pronouncement, revised for the comments made at this meeting; and
 - (b) A draft assessment of the FSDA project using the Criteria for Determining the Status of a Pronouncement.