



**INTERNATIONAL FEDERATION
OF ACCOUNTANTS**

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DATE: 20 FEBRUARY 2006
MEMO TO: MEMBERS OF THE IPSASB
FROM: PAUL SUTCLIFFE
SUBJECT: IPSASB CONCEPTUAL FRAMEWORK

ACTION REQUIRED

The Board is asked to:

- **Consider** strategic issues relating to the IPSASB Conceptual Framework Project and provide staff with directions for further development.

AGENDA MATERIAL:

	Pages
13.2 Summary Table of Survey results	13.12 – 13.19
13.3 Concepts and other matters addressed in the current IASB Framework and in the Accrual IPSASs	13.20 – 13.24
13.4 Definitions, concepts and “framework” issues - Accrual IPSASs	13.25 – 13.29
13.5 Verbal update from members on the potential for actioning a collaborative or co-ordinated project with standards setters in their jurisdiction	

BACKGROUND

At the Cape Town meeting in November/December 2005, Members determined that at this meeting (March 2006), the IPSASB would discuss its strategy for the development of its own conceptual framework (Framework) project. That discussion was to include consideration of how to resource such a project and the potential to co-ordinate development work with, and draw on the resources of, national standards setters.

This memorandum is intended to be a primer to that discussion. It raises a number of broad strategic issues and provides staff views thereon.

Concepts and Definitions in current IPSASs

The IPSASs currently on issue are based on IASs/IFRs to the extent that the requirements of the IASs/IFRSs are relevant to the public sector. The IPSASs therefore draw on concepts and definitions in the IASB “Framework for the Preparation and Presentation of Financial Statements”, (IASB Framework) with modifications where necessary to address public sector circumstances.

Agenda items 13.3 and 13.4 provide an overview of materials addressed in the IASB Framework and in the IPSASs (item 13.3) and the definitions and explanations included in the IPSASs (item 13.4).

This material is provided at this stage as background to assist members in considering strategic matters. (The summary/overview material in your papers is supported by a more extensive staff document prepared in 2003. The document identifies differences in greater detail. It is available to IPSASB members on request but is more relevant as input to technical discussions of the contents of any Framework, rather than of strategic issues. It will also need to be updated for any amendments resulting from the IPSAS improvements project.)

Frameworks in IPSASB Member jurisdictions

Agenda item 13.2 summarizes the result of a brief survey of IPSASB members regarding the existence, nature and contents of Frameworks in place in their jurisdictions. (It reflects responses to the survey document issued on February 6.) It indicates that Frameworks are in place or under development in a number of member jurisdictions. It also indicates that those Frameworks have a similar coverage in respect of scope, nature and content.

ISSUES

This paper attempts to identify and present staff views on a range of key issues that the Board will need to deal with in framing the scope and content of its Framework project, and in establishing operating procedures for the project development.

For the purposes of this discussion, issues that need to be considered by the IPSASB as it develops the strategy for development of its Framework can be grouped into those that relate to project initiation and those that relate to project nature, content and scope. These issues of course are interrelated, with decisions on some impacting others. For example, a positive response to 3 will influence views regarding 4 and 5. Similarly, views on 6, 7 and 8 may impact on 3, 4 and 5. Of course a negative response to issue 1 renders the other issues irrelevant.

Issues related to Project Initiation include:

1. Is an IPSAS Framework needed?
2. If yes, should the project be actioned at this stage?
3. Should the IPSASB seek to initiate it as a joint project with other national standards setters?
4. How will the project be resourced?
5. How will the project be developed – that is, will a subcommittee be used and, if yes, how will the work of that subcommittee be shared with and influenced by the views of the IPSASB?

As members' views on this issue take shape, the IPSASB will then need to consider matters that relate to the nature, content and scope of the project such as:

6. Should the Framework deal with both the accrual and cash basis of accounting?
7. Is the Framework to be developed as an authoritative document?
8. The specific components that will be addressed in the Framework.
9. Will the first stage of the project be a Consultative Paper or will the IPSASB move directly to draft an ED (or series of EDs).

This paper deals in some detail with the first five of these issues and identifies staff views and recommended actions. This paper also provides preliminary staff views on the remaining four issues dealing with nature, content and scope. While views on the nature, content and scope of the Framework will no doubt evolve as the project develops, it may be useful to put

in place some preliminary “working positions” at this time, as a basis for discussion with any potential project partners or subcommittee.

Summary of staff recommendations

In summary, staff views on these matters are that:

1. A Framework is needed.
2. The IPSASB should action the project at this meeting – though some further preliminary work on developing a detailed project brief will be necessary before the technical debate is engaged.
3. Ideally the project should be developed with the involvement of, or on a collaborative basis with, national standards setters.
4. IPSASB staff would act to co-ordinate the development and drafting work, but staff resources from national standards setters or similar should be sought to prepare drafts of key documents.
5. An IPSASB subcommittee (of 4 or 5 members) should be established to present materials to the full IPSASB for discussion at each meeting. That subcommittee could work electronically but would meet for half a day before each IPSASB meeting to finalize views on papers developed between each meeting. The subcommittee, together with the IPSASB Chair if not otherwise a subcommittee member, would be responsible for liaison with the national standards setters if a collaborative project is to be developed. That co-ordination may involve meetings with national standards setters. At key milestones in the development of the project, the national standards setters would be invited to discuss the Framework in a round table meeting with the IPSASB or subcommittee as possible.
6. The Framework should deal with both cash and accrual basis issues.
7. The Framework should not have the same authoritative status as an IPSAS, but should guide the IPSASB in the development of IPSASs.
8. The Framework should deal with the reporting entity, objectives, qualitative characteristics, assets, liabilities, revenue, expenses, net assets/equity (or similar), recognition criteria, measurement bases and scope of financial reporting.
9. Rather than developing a formal discussion paper or consultation paper as the initial document in its due process, the IPSASB should develop and publish for comment a detailed project plan.

The reasons for these staff views are outlined below.

At this early stage of project development, it is not possible, nor arguably appropriate, to develop detailed projections of staff resource requirements, IPSASB meeting time commitments or a time frame for completion of major milestones in the project. That can only be undertaken when the IPSASB’s views on a number of matters raised in this paper are known. It will also be influenced by the willingness of national standards setters to participate in, and provide staff resources in support of, the project. However, staff have included in this paper recommendations for follow up actions dependant on IPSASB decisions at this meeting, staff and member roles in that follow up and a timeline for drawing together of the components of the project. These are outlined below as the final component of this paper.

1. Is an IPSAS Framework needed?

When it first actioned its standards setting program, the PSC (subsequently reconstituted as the IPSASB in November 2004) determined that as its first task it would focus on developing a credible core set of IPSASs that could be adopted by those entities seeking

guidance on financial reporting issues. This approach was supported by the funders of the standards setting program. It also reflected the approach of many standards setters - that is, to develop their knowledge of concepts in conjunction with the development of standards before formally developing and publishing a Framework.

As the IPSASs gain more prominence and influence, and as the IPSASB deals with more public sector specific issues, so the need for its own explicit Framework increases. Such a Framework will be of use to the IPSASB and its subcommittees in guiding decisions and deliberations in the standards setting process, and to users of IPSASs who will be faced with issues not specifically dealt with by IPSASs. The Framework will provide a set of tools that will be useful to users in analyzing issues in the absence of authoritative standards.

While many concepts and principles may be embedded in specific IPSASs, they have not been drawn together in a separate document, and their interrelationships highlighted and tested as appropriate.

In addition, the IPSASB has had experience in working with the existing concepts embedded in the IPSASs and in applying them to public sector specific issues, in particular, the notion of a liability and its application to social policy obligations, conditions on transferred assets, and advance receipts. That experience has identified some aspects of the definition and related explanations in IPSAS 19 that could usefully be the subject of discussion. The same may apply in respect of notions of contributions from owners (which does not appear in the IASB current Framework), revenue (which is being further developed by the IPSASB through ED 29, and which incorporates notions of income in the some national Frameworks and the IASB Framework) and reporting entity (which is not explained in the IPSAS literature though it is quite widely used).

Staff Views

The IPSASB should develop a Framework for the Preparation and Presentation of Financial Statements of Public Sector Entities (other than Government Business Enterprises), or similar.

The need for an IPSASB Framework has been recognized by members and observers around the IPSASB table, by the IPSASB Consultative Group and by others in the financial reporting community. It is an important component in the literature of standards setters around the world, will reinforce the ongoing creditability of the IPSASB and supports efficient and consistent decision making by the IPSASB.

It will also assist those adopting IPSASs in dealing with dealing with public sector specific issues not specifically dealt with in any particular IPSAS.

2. Should the IPSASB framework be actioned at this time?

During 2002 and early 2003, the PSC considered whether to action a project to develop and publish an explicit statement of its Framework.

At that time, the PSC decided not to proceed but to action its own project, but to monitor development in the IASB Framework and in frameworks at the national level through its members. The reasons for not proceeding at that time included concerns about the availability of staff resources, and the expectation that the IFRS improvements project may

lead to changes in the IASB Framework. The PSC determined it would review its decision not to proceed in twelve months.

Subsequently, an external review of the PSC was actioned, and the PSC deferred the decision on whether or not to action the development of its own Framework dependant on feedback from the review.

The External Review Panel completed its report in mid 2004. It recommended that the PSC not initiate a project to develop its own Framework, but consider a project directed at interpreting the IASB's existing Framework in a public sector context. The PSC expressed concern with this recommendation and proposed to the IFAC Board that it (the PSC) should be provided with the authority to develop its own Framework. The IFAC Board agreed that, as resources allow, the PSC should develop its own Framework, using the work of the IASB and other standards setters as appropriate. The IFAC Board also agreed that progress on the public sector specific issues on the PSC's work program should have higher priority than the development of a Framework. It noted that an IPSASB framework project itself could benefit from work on those public sector specific projects.

The action plan prepared for implementation of the Review Panel recommendations proposed that the PSC action development of its own Framework as resources allow, use and interpret the IASB Framework where appropriate and add additional, public sector specific characteristics and consideration where necessary. This action plan was accepted by the IPSASB and the IFAC Board.

Staff Views

Some of the factors that influenced the PSC's decision not to progress a Framework project in 2002/2003 remain in place. In particular, the limited staff resources available to the IPSASB. In addition, the IPSASB already has a heavy work program and a number of important public sector specific projects will be competing for IPSASB meeting time in 2006 and beyond. The IPSASB has already increased its meeting time from 3 to 4 days and tends to use all of these 4 days for its technical and liaison work program projects and activities.

These factors are likely to be a constraint in the consideration of all new projects – for example, they will come into play in considering further action on current projects on service concessions, review of cash basis IPSAS, heritage assets, the IFRS convergence program and on new projects that the IPSASB has expressed an interest in pursuing such as management discussion and analysis (operations review) and accounting for the Kyoto protocols.

However, other of the factors have changed and create more favorable conditions (and arguably more urgency) for actioning a project on an IPSAS Framework in 2006. A number of those factors were addressed in item 1 above. They relate to the experience of the IPSASB in working with the concepts in IPSASs. In that sense, work on the IPSASB Framework project will be informed by and benefit from the work on public sector specific projects, as previously noted by the IFAC Board.

Of particular importance to actioning a Framework project at this time is that the IASB is proposing changes to its concepts and definitions in its Framework. A group of national standards setters (NSS) with public sector responsibilities is monitoring the IASB-FASB

project and is preparing papers that draw out implications of proposed amendments to the IASB Framework for the public sector. An IPSASB subcommittee is an observer on that NSS group. As noted in the reports of the IPSASB subcommittee, in many cases, the changes being proposed at this stage do not fit well with public sector needs.

Staff View

The IPSASs embrace many of the concepts in the IASB Framework. The IASB is currently considering proposed amendments to its Framework that appear not appropriate for the public sector. It is then timely that the IPSASB action its own Framework project.

As noted in item 13.2, a number of standards setters in IPSASB member jurisdictions have in place Frameworks and in some cases are considering developments thereof. There is then the opportunity for the IPSASB to draw on this expertise.

Actioning an IPSASB project at this time can make use of the work of the NSS – this clearly has favorable resource implications for an IPSASB project. It also provides the potential for the IPSASB to seek resources from the NSS in support of the IPSASB project, and for the IPSASB to provide input to the IASB-FASB when they consider issues related to not-for-profit entities towards the end of their joint project in 2009.

3. Should the IPSASB seek to initiate a joint project with other national standards setters?

4. How will the project be resourced?

These issues are closely linked and are therefore considered together.

The development of a Framework is likely to be a long term project. The original IASC Framework project was commenced in the early eighties with a series of separate projects on for example, objectives, assets and liabilities. It was then brought together as a Framework project in the mid 1980's and finalized and issued in 1989. The current IASB-FASB project was actioned in late 2004 and is scheduled for completion in 2010. National standards setters and similar bodies may have been able to move more quickly given their focus on national issues and potential to meet more frequently, but I suspect Framework projects will have been long term national projects also.

Significant IASB-FASB staff resources and Board meeting time is being allocated to the current project. The IASB-FASB project has substantially more staff committed to it than will be available to the IPSASB. Similarly the IASB-FASB meets more frequently than does the IPSASB and allocates more of their meeting time to the project than is likely to be available to the IPSASB. To some extent this reflects the additional process needed to work through two Boards. However, it also indicates the resource intensive nature of the project.

The IPSASB Framework project is also likely to be resource intensive, in terms of both IPSASB meeting time and member and staff resources. In this context, actioning the development of the IPSASB Framework as a joint project with a number of national standards is very appealing. It provides the opportunity for the development of a substantially harmonized Framework (the national standards setters may make use of the IPSASB development work as appropriate, and vice versa) and has the potential to be a resource efficient mechanism for all that are party to it. As noted above (issue 2), actioning a

project now and coordinating with national standards setters in IPSASB member (and other) jurisdictions provides the opportunity for the IPSASB to be informed by the work already undertaken and to seek resources from those standard setters to support the IPSASB project.

Staff Views

Staff are of the view that the IPSASB should actively explore the potential for national standards setters or similar bodies to provide staff resources to support development of an IPSASB Framework. It is unlikely that the IPSASB staff complement in 2006 will itself be sufficient to develop the materials necessary to progress this project.

At the last IPSASB meeting members indicated they would explore the potential for a collaborative project with standard setters or other authority in their jurisdiction. Subject to any feedback at this meeting, staff are of the view that the IPSASB Chair should write to national standards setters and other bodies to explore the potential for a collaborative project on the development of IPSASB Framework and/or for those bodies to provide staff resources to support the IPSASB project.

5. How will the project be developed?

As noted above, the IPSASB Framework project is likely to be resource intensive, in terms of both IPSASB meeting time and member and staff resources. In this context, there is merit in using an IPSASB subcommittee to work with staff in preparing much of the preliminary materials, in subjecting papers to an initial review and in coordinating with national standards setters if a collaborative project is established.

The potential benefit of the use of a subcommittee is that initial development and identification of viable options and approaches to different concepts could be identified and developed without use of the full Board time. There are, of course, risks and costs in using subcommittees. Those risks include that the subcommittee develops its knowledge base in advance of the full IPSASB itself, forms views in advance of hearing the full debate at the IPSASB table and duplicates subcommittee debates at the full IPSASB meeting.

There is also the potential for subcommittees to involve more use of staff resources, as staff prepare papers for subcommittee meetings and Board meetings.

Staff Views

The IPSASB should use a subcommittee to develop material for its consideration on this project and to co-ordinate with national bodies.

Given that IPSASB meeting time is the scarce resource, the benefit of the use of a subcommittee to act as a first level filter for Board papers is likely to outweigh the risks identified above. It is also likely to be an efficient mechanism for coordinating activity with national standards setters and similar bodies.

However, it does mean that mechanisms need to be put in place to ensure timely reporting back to the full Board and the efficient use of staff resources. Different subcommittee operating models may be implemented dependant on IPSASB staff available and the participation of staff of national standards setters in the project development. For example, the subcommittee could conduct its business primarily by electronic means and meet for a half day before each IPSASB meeting to ensure some discussion occurred face to face and that meeting (and travel) time was used effectively. Where staff of national standards setters

were tasked with initial development of certain components of the Framework, an IPSASB member from that jurisdiction could be a member of the subcommittee and could act as a sounding board to staff of the national standard setter in his/her jurisdiction.

6. Should the Framework deal with both the accrual and cash basis of accounting?

The Frameworks of the IASB deals with only one basis of accounting – the accrual basis. This approach is reflected in the Frameworks of standards setters in IPSASB member jurisdictions – see Agenda item 13.2. It reflects that those standards setters issue standards for financial reporting under the accrual basis of accounting.

However, the IPSASs encompass financial reporting under both the cash and accrual bases of accounting.

Staff View

The IPSASB has developed a comprehensive Cash Basis IPSAS as well as a series of accrual IPSASs. Therefore it is appropriate that, at least at the project formulation stage, the Framework encompass the cash basis of accounting. While the concepts to be dealt with under a cash basis may be limited, they should not be excluded at this stage.

7. Should the Framework be authoritative?

The IASB Frameworks is not an authoritative document. However, it is recognized as a relevant source of guidance to management in selecting accounting policies to deal with circumstances not specifically dealt with in an IFRS.

The authority of the Framework in IPSASB member jurisdictions differs – see Agenda item 13.2

Staff View

The notion of an authoritative framework is appealing in that it will establish clear authoritative principles to be applied in dealing with transactions and events not specifically dealt with in an IPSAS.

However, staff are concerned that at the international level the principles reflected in a Framework may be too broad to apply authoritatively to all transactions not dealt with specifically in an IPSAS – this is particularly so given the potential for different legal and institutional norms and conventions to apply in jurisdictions which may apply IPSASs. (While these issues are considered by the IPSASB in dealing with specific transactions and events, considerations at the conceptual level will necessarily be broad.).

Consequently, Staff are of the view that the Framework should act primarily as a guide to the IPSASB in the standards development process and should be acknowledged as a valid source of guidance to preparers in dealing with matters not specifically addressed by IPSASs.

8. What should be addressed in the Framework?

Feedback from the survey of member jurisdictions provides a basis for ongoing discussion of matters that should be addressed by the framework. The IASB Framework and Frameworks in member jurisdictions deal with objectives, qualitative characteristics, assets, liabilities, revenue (under development in Canada), expenses, equity/net assets, recognition criteria, measurement bases (descriptive only in Australia) and financial statements (except Australia, with requirements also outside the Framework in Canada). A number, but not all, deal with

reporting entity and the scope of financial reporting. Additional matters are also addressed in some Frameworks.

Staff Views

Clearly there is strong agreement about the core items that should be dealt with in the Framework: objectives, qualitative characteristics, assets, liabilities, revenue, expenses, equity/net assets, recognition criteria, measurement bases and financial statements.

There is also a case for including concepts of the reporting entity and the scope of financial reporting in the public sector within the IPSASB Framework. The definition of a reporting entity is not included in all Frameworks in member jurisdictions. While notions of reporting entity may be well understood in the private sector and in statistical reporting in the public sector, they are not well developed for financial reporting in the public sector. There is then the opportunity for the IPSASB Framework to provide needed guidance in this area. Similarly, while the focus of private sector financial reporting and statistical financial reporting is primarily or exclusively on financial information, there is a strong case that general purpose financial reports intended to discharge the accountability of a public sector reporting entity should support the disclosure of the financial characteristics of performance with information about service achievements. There is then also the opportunity for the IPSASB Framework to deal with issues related to the scope of financial reporting in the public sector.

9. Should the first stage of the IPSASB's due process be the issue of a Consultative Paper or similar

The IPSASB has initiated a number of its major projects with an Invitation to Comment (ITC), or Research Report of Study. Similarly, in a number of jurisdictions a discussion paper or series of discussion papers has set the ground work for the development of the Framework. However, at the international level, the IASB commenced its original Framework project with the issuance of a series of EDs in the early 1980's and does not propose issuing a Discussion Paper as its first step in the revision of its Framework.

Staff View

The publication of a Consultation Paper on the IPSASB Framework would draw valuable input, particularly on the structure and content of the Framework. However, the development of such a paper is likely to take considerable Board and staff time.

Staff are of the view that a case can be made to move more quickly to prepare exposure drafts of the key components of the Framework and in so doing to take advantage of the recent and current development work undertaken in member jurisdictions. Such an approach would develop and maintain momentum on this project. However, to ensure constituents are provided with the opportunity to provide input on such matters as the nature, scope and components to be addressed in the Framework, staff propose that a detailed project proposal which clearly outlines the proposed scope, authority and components of the Framework be developed and issued for comment.

Staff are of the view that the subcommittee monitoring the IASB-FASB Framework project should be charged with the task of developing that project proposal in conjunction with staff and should present it for consideration by the IPSASB at the next meeting.

FOLLOW UP ACTIVITIES

Staff propose the following follow up activities subject to the IPSASB's agreement at this meeting to:

- action the development of an IPSAS Framework project during 2006; and
- seek the involvement of national standards setter and similar bodies in the project.

The IPSASB Chair to write to national standards setters and similar bodies to seek their views on a collaborative project and their capacity to provide staff resources to support development of the IPSASB project. That letter would request a response by late April 2006 to facilitate further IPSASB planning.

The subcommittee currently monitoring the development of the IASB-FASB Framework project, with staff support, be tasked to develop for consideration at the next IPSASB meeting a detailed project plan dealing with process, content and timing of development of the Framework. That plan is to reflect decisions made at this meeting and is to be prepared for circulation to IPSASB members towards the end of May 2006. The subcommittee would meet electronically between meetings to develop the project plan.

That project plan also to be circulated to those standards setters who respond positively to the Chair's letter with a request for feedback. Any such feedback is to be considered by IPSASB at its July 2006 meeting. The project plan is also to be discussed with Consultative Group members and others at round table discussions held in conjunction with the July 2006 meeting.

The project plan to be further developed based on IPSASB review at its July 2006 meeting and issued as a Consultative Paper/document with a request for comment on such matters as the components of the Framework and its authority. That paper to be issued in early August 2006 with request for comment within 6 weeks. IPSASB subcommittee to review feedback and prepare for consideration of the IPSASB any recommendations for amendment. Feedback and subcommittee recommendations thereon to be considered by IPSASB at the November 2006 meeting and development of technical papers initiated.

Figure 1 below outlines key time lines and project milestones that could be established for 2006.

Figure 1 – Project Establishment	
March 2006	IPSASB agree to action the project, and establish preliminary parameters for project.
April/May 2006	IPSASB explore with national standards setters the potential for joint collaborative project, and/or potential for national standards setters to provide staff resources to IPSASB. IPSASB subcommittee develop draft of detailed project plan, including proposed timelines for key milestones.
June 2006	IPSASB subcommittee provide draft project plan to IPSASB members and national standards setters as appropriate.
July 2006	IPSASB consider response from national standards setters and review detailed project plan, finalize and agree to publish it as consultative document on short term exposure.
August/September 2006	Project plan issued as a consultative document. IPSASB Chair and subcommittee liaise with national standards setters re finalization of resource issues and logistics of project development. Subcommittee review responses to exposure of project plan and develop recommendations for any amendments.
November 2006	IPSASB review responses to project plan and subcommittee recommendations thereon, developments with national standards setters, resource availability and project time lines.

SUMMARY TABLE OF RESULT FROM SURVEY – March 2006

Where appropriate/necessary please include a brief note on the conceptual framework in your country on the following page.

Country	ARG	AUS	CAN	FRA	IND	ISRL	ITAL	JAPN	MAL	MEX	NETH	NZ	NOR	S.AFR	SWIT	UK	USA
1. In your country is there a conceptual framework (CF) for accounting standards?		Y	Y	Y		Y	Y	Y		Y	Y	Y		Y	Y	Y	Y
2. If Yes, does it: a) apply to public sector? b) also apply to private sector? Are there separate CFs for the public and private sectors?		Y Y N*	Y N Y	Y N N		N Y N	Y N Y	N Y N				Y Y N		N Y Y	N Y n/a	N* Y N*	
3. Are there plans for further developments which impact the public sector? Please attach a brief overview.		Y*	Y ¹	N		Y	Y	N				Y		N	Y	Y	
4. Is the CF (A) authoritative or (B)a guide only?		G*	B	A		A	B	DP				A*		Y N	Y	N	
5. Does the CF deal with: a) the cash basis? b) the accrual basis? c) both cash and accrual bases		N Y N	b)	N Y N		N Y N	C	N Y N				b) Acc rual		N Y N/A	b)	N Y N	
6. Does the CF deal with:							Y										
a). Reporting Entity		Y	N ³	Y		N		N				Y		Y	N	Y	
b). Objectives		Y	Y	Y		Y	Y	Y				Y		Y	Y	Y	
c). Qualitative Characteristics		Y	Y	Y		Y	Y	Y				Y		Y	Y	Y	

Country	ARG	AUS	CAN	FRA	IND	ISRL	ITAL	JAPN	MAL	MEX	NETH	NZ	NOR	S.AFR	SWIT	UK	USA
d). Definitions of:								-									
Assets,		Y	Y	Y		Y	Y	Y				Y		Y	Y	Y	
Liabilities,		Y	Y	Y		Y	Y	Y				Y		Y	Y	Y	
Revenues,		Y	N1	Y		Y	Y	Y				Y		Y	Y	Y	
Expenses,.		Y	Y	Y		Y	Y	Y				Y		Y	Y	Y	
Equity/net assets		Y	Y			Y	Y	Y				Y		Y	Y	Y	
Other terms (indicate in notes)		N	Y4			N	Y	N				Y				Y	
e) Recognition criteria		Y	Y	Y		Y	Y	Y				Y		Y	Y	Y	
f) Measurement bases		N*	Y	Y		Y	Y	Y				Y		Y	Y	Y	
g) Financial statements		N	N5	Y		Y	Y	N				Y		Y	Y	Y	
h) Scope of financial reporting		N	Y			N	Y	N				Y		Y	N	Y	
i) Frequency of presentation		N	N			N	Y	N				N		Y	(Y)	N	
7. Are other Matters addressed		Y*	Y6			Y	N	N				Y		N	Y	Y	

In some cases, members provided additional comments on Framework in their country. Those notes are identified below (they only identify notes in English):

ARG – Argentina (2002 comment)

The Inter-American Development Bank has requested the National Accounting Office of Argentina to harmonize Argentinean public sector accounting standards with International Public Sector Accounting Standards. The Law of Financial Administration states that the National Accounting Office shall be the body responsible for the issuance of any regulations for the national public sector.

AUS – Australia (2006 Comment)

With effect from 1 January 2005, Australia has adopted the International Accounting Standards Board's (IASB's) Framework for the Preparation and Presentation of Financial Statements (Framework), modified to include limited additional guidance on not-for-profit entities in the public and private sectors. The Australian Framework applies to entities in both the public and private sectors. As a consequence of issuing an Australian equivalent to the IASB Framework, the following Australian Statements of Accounting Concepts were withdrawn:

- SAC 3 Qualitative Characteristics of Financial Information
- SAC 4 Definition and Recognition of the Elements of Financial Statements

However, the following Statements of Accounting Concepts were retained:

- SAC 1 Definition of the Reporting Entity
- SAC 2 Objective of General Purpose Financial Reporting

SAC 1 was retained because the IASB Framework does not include a concept of a reporting entity. SAC 2 was retained as guidance to amplify the discussion of the objective of financial statements in the IASB Framework.

In relation to Question 4, the concepts in the Australian Framework are not set out as requirements. However, like International Financial Reporting Standards, some Australian Accounting Standards require application of the Framework in specific circumstances. The Australian equivalent to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors outlines a hierarchy to be followed in developing an accounting policy when an Australian Accounting Standard does not specifically address the transaction. The Framework is an integral part of this hierarchy. In addition, the Australian equivalent to IAS 1 Presentation of Financial Statements specifies application of the accrual basis of accounting (except for cash flow information), and describes the accrual basis as recognition of assets, liabilities, equity, income and expenses when they satisfy the definitions and recognition criteria for those financial statement elements in the Framework.

In relation to Question 3, the Australian Framework is incomplete. The Australian Accounting Standards Board (AASB) will monitor the joint project of the IASB and US Financial Accounting Standards Board to complete and update their conceptual frameworks, and will develop a revised Australian Framework in the light of that

international project. That revision will apply to entities in both the private and public sectors.

In relation to Question 2, the AASB has yet to decide whether to develop a separate Statement composed of additional guidance for not-for-profit entities in the public and private sectors, as the UK Accounting Standards Board (ASB) is doing with its Proposed Interpretation for Public Benefit Entities in respect of the ASB's Statement of Principles for Financial Reporting. The Financial Reporting Council (the federal government body that oversees the AASB) has commissioned research that may lead to consideration of whether the AASB should retain its policy of issuing sector-neutral pronouncements. The outcome of that research has the potential to lead to changes in the content and structure of Australian pronouncements, including the conceptual framework applicable to public sector entities.

Question 6(f) was answered in the negative because, although the Australian Framework (like the IASB Framework) discusses measurement bases, it does so only in a descriptive sense, not normatively.

In relation to Question 7, the Australian Framework (like the IASB Framework) also discusses concepts of capital and capital maintenance.

CAN – Canada (2006 Comment)

1) Canada's conceptual framework for the public sector does not currently include a definition of revenue though a general revenue recognition principle is included in the general standards of financial statement presentation. This gap is currently being addressed with completion scheduled for November 2006.

2) Canada's conceptual framework for the public sector does not constitute a financial reporting standard, however, where the Public Sector Accounting Handbook is silent on an issue, any proposed solution must be consistent with the conceptual framework if those financial statements are to be described as having been prepared in accordance with GAAP.

3) Canada has a separate financial reporting standard addressing the reporting entity Section PS 1300 *Government Reporting Entity*.

4) Definitions of 'Financial Asset', 'Non-Financial Asset' and 'Tangible Capital Asset' are also given in the public sector conceptual framework. The first two definitions necessary to providing a key measure of financial performance for Canadian governments – the measure of 'Net Debt'.

5) The conceptual framework does discuss what information must be portrayed in the financial statements as well as naming those financial statements. However a separate financial reporting standard (Section PS 1200 *Financial Statement Presentation*) gives the actual directive as to what financial statements should be prepared.

6) Canada's conceptual framework for the public sector provides discussion on user identification and user information needs. Further, the framework acknowledges the

'benefit vs cost' constraint when complying with standards for example, in considering disclosure of information beyond that required by the standards.

ISRL – ISRAEL (2006 Comment)

In July 2005, the board of directors of the Israel Accounting Standards Board (private sector), approved a decision in respect of fully adoption of all IFRS's in Israel as of the year 2008.

One of the steps towards the adoption of IFRS's was adoption of the International Framework for the Preparation and presentation of Financial Statements in October, 2005.

The Israeli Government Accounting Standards Board (the Israeli GASB) has been established In the End of 2005. One of its mandatory goals is to adopt the International Public Sector Accounting Standards (Copyright 12/2005). As an integral part of the adoption process, the Israeli GASB will adopt a Conceptual Framework after one will be published by the IPSASB.

JAPN – Japan (2006 Comment)

Accounting Standards Board of Japan (ASBJ), the accounting standards setter for private sector entities issued Discussion Paper on Conceptual Framework in July 2004. The DP was developed by Working Group of ASBJ and does not necessarily represent formal view of Board of ASBJ. The DP has been under "field testing" since the issuance. The DP is considered when ASBJ develop or amend standards but DP itself might be revised by the result of this field testing process. ASBJ seems not to finalize the CF project in a few years.

Since ASBJ is the accounting standards setter for private sector entities, the DP may not impact directly on public sector. However, this is the first and only authoritative document regarding CF of accounting standards in Japan. The DP may have impact on public sector to some extent. My answer in this questionnaire is based on my understanding of the DP issued by ASBJ.

The Japanese Institute of CPAs (JICPA) set up a Project Team to discuss CF for the public sector in 2001. However, the PT did not reach consensus in many aspects. Points of discussion during intensive talks in the PT for one and half years were summarized into "Discussions on CF for public sector accounting" in March 2003. The document is open to the public through JICPA website to aim fostering discussions on CF of public sector accounting. It is in my opinion that, the document has not influence so much on developing public sector accounting standards so far. JICPA currently does not have a plan to further develop CF for public sector.

MEX – Mexico (2002 comment)

The legislation applicable to the Superior Audit Institution was changed a few months ago. It establishes that the Superior Audit Institution will have the responsibility for

issuing (or at least approving) accounting standards for the public sector. The current private sector statement of concepts does not apply to the public sector.

NZ – New Zealand (2006)

*The Conceptual Framework is authoritative but not legally enforceable.

Up until the decision to adopt IFRS New Zealand had in place a single concepts statement - New Zealand's Statement of Concepts for General Purpose Financial Reporting. This was issued in 1993 and some minor amendments were made in 2001.

In 2004 New Zealand adopted IFRS. New Zealand equivalents to IFRS are mandatory for reporting periods commencing on or after 1 January 2007, with early application permitted from 1 January 2005.

New Zealand has adopted the IASB Framework as the New Zealand Equivalent to the IASB Framework for the Preparation of Financial Statements. This Framework will supercede the Statement of Concepts and is applicable by all entities adopting the New Zealand equivalents to IFRS.

The NZ Framework is based on the IASB Framework. The NZ Framework is an essential component of New Zealand financial reporting pronouncements as it establishes definitions and recognition criteria that are applied in other pronouncements.

The IASB Framework was developed for application by profit-oriented entities. The NZ Framework includes material additional to that in the IASB Framework to ensure that it can be applied by all reporting entities required to prepare general purpose financial statements that comply with generally accepted accounting practice in New Zealand. In order to preserve the integrity of the IASB Framework and to enable this NZ Framework to be readily updated for future revisions of the IASB Framework, changes to the text of the IASB Framework have been minimised.

In adopting the IASB Framework for application as the NZ Framework, the following changes have been made.

- (a) The discussion in paragraphs 1-4 has been revised to reflect the purpose of the proposed NZ Framework and the role of the FRSB (paragraphs NZ 4.1 to NZ 4.4).
- (b) The description of a complete set of financial statements has been amended for consistency with NZ IAS 1 Presentation of Financial Statements (paragraph 7).
- (c) A discussion acknowledging the role of non-financial and supplementary information has been included (paragraph NZ 7.1).
- (d) Additional paragraphs have been inserted to acknowledge the range of entities that are required to prepare general purpose financial statements (paragraphs NZ 8.1 to NZ 8.3).
- (e) A discussion of two additional users of financial statements (funders or financial supporters, and elected or appointed representatives) has been inserted (paragraph NZ 9.1).

- (f) A discussion of the role of financial statements in demonstrating accountability has been included (paragraphs NZ 14.1 and NZ 14.2).
- (g) A discussion of various types of non-financial and supplementary information has been included (paragraphs NZ 20.1 to NZ 20.8).
- (h) Additional guidance for public benefit entities in respect of materiality has been inserted (paragraph NZ 30.1).
- (i) An additional paragraph discussing “future economic benefits” and “service potential” has been inserted (paragraph NZ 49.1).
- (j) Additional guidance has been inserted stating that in the context of public benefit entities, references to contributions from (or distributions to) equity participants should be read as contributions from (or distributions to) equity holders acting in their capacity as equity holders (paragraph NZ 70.1).
- (k) A brief discussion of the elements of non-financial statements has been included. The NZ Framework requires that the quality of the information presented in non-financial and supplementary information should be considered with regard to the qualitative characteristics and constraints on those qualitative characteristics discussed in paragraphs 24 to 45 of the Framework (paragraphs NZ 101.1 to NZ 101.3).
- (l) A brief rationale for the New Zealand specific sections has been included as an Appendix.

Projects to revise the Framework

The NZ FRSB is actively monitoring the IASB project to revise the Framework. New Zealand Institute staff are on IASB-FASB project team revising the Framework.

In addition the FRSB is monitoring the project to review the revised IASB Framework from a public sector perspective. The FRSB plans to work with standard setters from other jurisdictions and expects that this work will assist the FRSB in considering what approach to take to the adapting the revised IASB framework for application to public benefit entities in New Zealand.

SWIT – Switzerland (2006 Comment)

The Swiss Foundation for accounting and reporting recommendations, the issuer of Swiss GAAP FER, has issued a conceptual framework with an effective date of 01 January 2006. This framework, as well as the standards, is only applicable for private sector companies. It is only authoritative for companies applying Swiss GAAP FER.

There are currently discussions between the various stakeholders, whether a Swiss Public Sector Accounting Standard should be developed. While larger entities like the federal government, large states and cities have decided to apply the IPSASs, it remains unclear whether a national standard could prove to be helpful for the numerous small and very small entities. A draft project brief suggests to initiate such a potential project with the development of a conceptual framework.

SAFR – South Africa (2006 comment)

The South African conceptual framework applicable to the private sector is identical to the International Accounting Standards Board's Framework for the Preparation and Presentation of Financial Statements. The South African Public Sector Accounting Standards Board's Framework for the Preparation and Presentation of Financial Statements is based on the private sector framework, but has been updated to reflect the public sector perspective.

UK – United Kingdom (2006 Comment)

In 1999 the UK Accounting Standards Board issued its Statement of Principles for Financial Reporting. This applies straightforwardly to the private sector, and has substantially influenced UK public sector standard setting.

The UK ASB has developed, but has not issued in final form, guidance on how the private sector Statement of Principles should be applied to non-profit or 'public benefit' entities. After a discussion paper released in 2003, a full exposure draft "Statement of Principles for Financial Reporting: Proposed Interpretation for Public Benefit Entities" was issued for comment in August 2005.

The Statement of Principles is authoritative for the private sector inasmuch as it sets out principles which must be considered in the development of UK GAAP. Its status will need to be reviewed in the light of adoption of or convergence with IFRS in the UK jurisdiction. As of 2006, the Statement of Principles remains extremely influential for public sector standard setters, particularly as financial reporting for central government is required to have due regard to UK GAAP.

In addition to the points listed, the Statement of Principles also considers accounting for interests in other entities.

US – United States of America (2002 comment)

There are two bodies responsible for public sector accounting standards – the Federal Accounting Standards Advisory Board (FASAB), which issues concepts and standards for the federal government and its agencies, and the Governmental Accounting Standards Board (GASB), which issues concepts and standards for state and local governments and their agencies. FASAB has issued three Statements of Federal Financial Accounting Concepts (SFFAC) whilst GASB has issued two Concepts Statements. GASB's current work program includes two conceptual framework projects, one on communications, and one on financial statements elements. FASAB is currently requesting comments on its proposed work plan, which includes a project to develop a concepts statement on the elements of financial statements. The statements currently on issue are:

SFFAC 1 Objectives of Federal Financial Reporting;

SFFAC 2 Entity and Display;

SFFAC 3 Management's Analysis and Discussion – Concepts;

GASB Concepts Statement No. 1 Objectives of Financial Reporting; and

GASB Concepts Statement No. 2 Service Efforts and Accomplishments Reporting.

Concepts and other matters addressed in current IASB Framework and in the Accrual IPSASs

IASB Framework	IPSASs
<p>Introduction</p> <ul style="list-style-type: none"> Purpose and Status Scope Users and Their Information Needs 	<p>No separate IPSAS Framework. IPSAS 1 and Preface to IPSASs provide a brief overview of the users of general purpose financial statements.</p> <p>The IASB Framework (IASBF) provides details on major groups of users and the reasons for requesting financial information.</p>
<p>Objective of Financial Statements</p> <ul style="list-style-type: none"> - Financial Position, Performance and Changes in Financial Position 	<p>The IASB Framework identifies the objectives of each individual financial statement.</p> <p>IPSASs include a detailed exposition of the objective for a cash flow statement in IPSAS 2 <i>Cash Flow Statement</i>. The IPSASs provide a broad overview of the objective of financial statements in IPSAS 1. See item 13.4 “Definitions and concepts”: for objectives of financial statements.</p>
<p>Underlying Assumptions</p> <ul style="list-style-type: none"> - Accrual Basis - Going Concern 	<p>As specified, IPSASs deal with the accrual and the cash bases of accounting.</p> <p>The notion of going concern is outlined in IPSAS 1.</p>
<p>Qualitative Characteristics</p> <ul style="list-style-type: none"> - True and Fair View/ Fair Presentation 	<p>Qualitative characteristics are included as Appendix 2 to IPSAS 1. They are drawn from the IASB Framework, but do not reproduce it fully. See the attachment to this item for more information about differences in the qualitative characteristics.</p>
<p>Elements of Financial Statements</p> <ul style="list-style-type: none"> - Financial Position - Assets - Liabilities - Equity - Performance - Income - Expenses 	<p>Broadly speaking, the elements are the same. However, the IPSASs define contributions from owners and distributors to owners which are not included in the IASB Framework.</p> <p>There are also differences in some of the definitions. For example, assets include reference to ‘service potential’ in addition to ‘economic benefits’. IPSASs use the term “net assets/equity” while IASB uses the term “equity”.</p> <p>The IPSASs do not define income and interpret the definition of revenue more broadly than in the IASB framework (to include gains).</p>

IASB Framework	IPSASs
<p>Recognition of the Elements of Financial Statements: The Probability of Future Economic Benefit Reliability of Measurement</p> <ul style="list-style-type: none"> - Recognition of Assets - Recognition of Liabilities - Recognition of Income - Recognition of Expenses 	<p>The IASBF establishes general criteria for the recognition of all elements of financial statements. Recognition criteria for certain elements of financial statements is included in specific IPSASs that deal with the particular transaction or event. These criteria are consistent with the general criteria for recognition of elements in IASBF.</p>
<p>Measurement of the Elements of Financial Statements</p>	<p>The IASBF notes that different measurement bases may be adopted. The IPSASs generally reflect the same requirements as in the IASs/IFRSs. However, for items acquired at no or nominal cost, (this is being updated to non-exchange transaction) the IPSAS framework provides additional guidance.</p>
<p>Concepts of Capital and Capital Maintenance</p> <ul style="list-style-type: none"> - Concepts of Capital - Concepts of Capital Maintenance and Determination of Profit 	<p>Not referred to in IPSASs.</p>

Concepts and other matters addressed in current IASB Framework and in the Accrual IPSASs – terminology/explanation differences

The Preface to International Public Sector Accounting Standards (IPSASs) notes that most IPSASs are based on International Accounting Standards. Therefore, the IASB's *Framework for the Preparation and Presentation of Financial Statements* (IASBF) is a relevant reference for users of IPSASs. However, in developing IPSASs, some public sector context has been added to the IPSASs that differ from the concepts used in IASBF.

Financial Statements

In certain cases, the IPSASs use different terminology to the IASBF. The table below identifies differences in key terms.

In IPSAS	IASB Conceptual Framework
Entity	Enterprise
Reporting date	Balance sheet date
Statement of Financial Position	Balance Sheet
Statement of Financial Performance	Income Statement
Statement of Changes in Net Assets/Equity	Statement of Changes in Financial Position
Net Assets/Equity	Equity
Revenue only	Income and Revenue

IPSASs apply to all public sector entities except for government business enterprises. Government business enterprises apply IASs/IFRSs.

Preparation of Financial Statements: the Underlying Assumptions

Basis of Accounting

Financial statements prepared under IASBF use only accrual accounting. However, IPSASs encompass (as specified) both the accrual and cash bases of accounting.

Going Concern

Financial statements are prepared on the assumption that the entity is a going concern. IPSASs and IASBF contain similar guidance for assessing whether an entity is a going concern or not. However, IPSASs include additional explanations to place the notion in a public sector context.

Qualitative Characteristics

1. *Understandability*

IASBF notes that financial information should be 'readily understandable by users'. IPSASs (see IPSAS 1, Appendix 2) stipulate that "information is understandable when users might reasonably be expected to comprehend its meaning". However, the characteristic of understandability is essentially the same in both frameworks.

2. *Reliability*

Reliable information satisfies five criteria - faithful representation, substance over form, neutrality, prudence and completeness. IPSASs (IPSAS 1, Appendix 2) uses slightly different words to note that faithfully represented information should reflect the

substance of the transactions rather than just their legal form. ‘Substance over form’ is a criterion used in both the IASB and IPSAS frameworks.

IASBF provides more guidance on prudence than in IPSAS 1, Appendix 2 – IASBF notes that uncertainties surrounding events and circumstances are recognized by disclosure and by exercise of prudence in the preparation of financial statements. IASBF defines prudence and warns against exercising prudence to a degree that affects the reliability of financial information.

3. *Comparability*

While the notions are not different and there is much overlap, IASBF provides more guidance on comparability. The IASBF emphasizes that the measurement and presentation of financial effect of like transactions and other events must be carried out in a consistent way throughout an enterprise and over time for that enterprise and in a consistent way for different enterprises. IASBF also explains that the need for comparability should not be confused with mere uniformity and should not be allowed to impede the introduction of improved accounting standards or policies when more relevant and reliable alternatives exist.

Fair Presentation

IASBF notes that financial statements are frequently described as showing a ‘true and fair view’ or ‘presenting fairly’, while the IPSAS only uses the term ‘fair presentation’.

The Elements of Financial Statements

Definition of Elements

The IPSASs include the same “elements” as in the IASBF, with some terminology differences and, in the case of assets, the inclusion of ‘service potential’ in the definition.

In the IASBF, ‘income’ comprises ‘revenue’ which is limited to ordinary activities. In the IPSASs income is not defined, ‘revenue’ is not limited to ordinary activities and gains are presented as revenue. Similarly, expenses in the IPSASs encompass both expenses from ordinary activities (as defined in the IASBF) and losses. In current IPSASs, the definition of “extraordinary activities” includes an extra criterion requiring the transactions to be ‘outside the control or influence of the entity’.

Equity is used in IASBF as the residual interest of the assets after deducting all liabilities while in the IPSASs the term used is net assets/equity. Many public sector entities do not have share capital, but are separate reporting entities owned by another public sector entity. The structure of a public sector entity’s net assets/equity may include contribution by owners, aggregate accumulated surpluses or deficits and reserves. For the IASs/IFRSs terminology such as capital, retained earnings and reserves is used.

Recognition of Elements of Financial Statements

Under IASBF, an item that meets the definition of an element should be recognized if:

- it is probable that any future economic benefits associated with the item will flow to or from the enterprise; and
- the item has a cost or value that can be, measured reliably.

The IPSASs do not have general recognition criteria (because there is no framework) - rather, the IPSASs identify specific recognition criteria for certain elements of financial statements such as exchange revenue, property, plant and equipment and provisions. The criteria used are similar to those in their equivalent IASs.

Measurement of Elements of Financial Statements

Both frameworks include the same measurement bases: historical cost, current cost, realizable value, fair value and present value when preparing financial statements. The definitions of measurement bases are also similar in the two frameworks.

In regards to items acquired at no or for nominal costs, the IPSASs provide additional guidance that these items should be measured at fair value as at the date it was acquired.

(The term “no or nominal costs” is being replaced with a reference to non exchange transactions.)

Definitions, Concepts and “Framework” issues – Accrual IPSASs

Source

Accrual Basis

Accrual basis is a basis of accounting under which transactions and other events are recognized in the financial statements in the period when they occur (and not only when cash or its equivalent is received or paid). The elements recognized under accrual accounting are assets, liabilities, net assets/equity, revenue and expenses.

IPSAS 1.6

SCOPE

International Public Sector Accounting Standards (IPSASs) apply to all public sector entities that prepare financial statements. IPSASs do not apply to Government Business Enterprises and to other information presented in an annual report or other documents.

Preface to
IPSASs.20,
IPSAS 1.67

Objective of Financial Statements

Financial statements that are issued for users that are unable to demand financial information to meet their specific information needs are deemed to be general purpose financial statements (GPFS). The objectives of GPFS are to provide information about the financial position, performance and cash flows of an entity that is useful to a wide range of users in making and evaluating decisions about the allocation of resources. Specifically general purpose financial statements provide:

IPSAS 1.13, 14,
2

- a predictive or prospective role;
- information on solvency of the entity (providing information on the flow of resources); and
- information to evaluate the performance in terms of service costs, efficiency and accomplishments.

Reporting Entity

Implicit in the IPSASs is that the reporting entity encompasses resources and entities controlled by the reporting entity.

Financial Statements

A complete set of financial statements includes the following components:

IPSAS 1.19

- (a) statement of financial position;
- (b) statement of financial performance;
- (c) statement of changes in net assets/equity;
- (d) cash flow statement; and
- (e) accounting policies and notes to the financial statements.

The Elements of Financial Statements

The definitions of elements extracted from the Glossary are stated below:

Assets are resources controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity.

Glossary, IPSAS
1.6 and other
IPSASs as
appropriate
(Note Glossary
to be updated
following the
improvements
project)

Liabilities are present obligations of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits or service potential.

Contributions from owners means future economic benefits or service potential that has been contributed to the entity by parties external to the entity, other than those that result in liabilities of the entity, that establish a financial interest in the net assets/equity of the entity, which:

- (a) conveys entitlement both to distributions of future economic benefits or service potential by the entity during its life, such distributions being at the discretion of the owners or their representatives, and to distributions of any excess of assets over liabilities in the event of the entity being wound up; and/or
- (b) can be sold, exchanged, transferred or redeemed.

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets/equity, other than increases relating to contributions from owners.

Expenses are decreases in economic benefits or service potential during the reporting period in the form of outflows or consumption of assets or incurrences of liabilities that result in decreases in net assets/equity, other than those relating to distributions to owners.

Net assets/equity is the residual interest in the assets of the entity after deducting all its liabilities.

IPSAS 1.12

Recognition of the Elements of Financial Statements

The IPSASs do not have a general “Framework” type rule for recognizing the elements of the financial statements. Rather, the recognition criteria are identified in individual IPSASs. To date, IPSASs have dealt with recognition criteria in specific IPSASs such as property plant and equipment, inventories, leases, investment property, exchange revenue and provisions. Current EDs on issue will extend coverage to non-exchange revenue, and assets from all non-exchange transactions.

IPSAS 19.22,
9.28, 19, 33,
17.13, 16.19

Recognition of Exchange Revenue

Revenue from the sale of goods should be recognized when all the following conditions have been satisfied:

IPSAS 9.28

- (a) the entity has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- (b) the entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- (c) the amount of revenue can be measured reliably;
- (d) it is probable that the economic benefits or service potential associated with the transaction will flow to the entity; and
- (e) the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Recognition of Property, Plant & Equipment

An item of property, plant and equipment should be recognized as an asset when:

- (a) it is probable that future economic benefits or service potential associated with the asset will flow to the entity; and
- (b) the cost or fair value of the asset to the entity can be measured reliably.

Recognition of a provision

19.22

A provision should be recognized when:

- (a) an entity has a present obligation (legal or constructive) as a result of a past event;
- (b) it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- (c) a reliable estimate can be made of the amount of the obligation.

Although each standard outlines specific criteria in recognizing certain items, there is a common thread evident. For an item to be recognized,

- a) a probable outflow/inflow of economic benefits or service potential into the entity has to be evident; and
- b) the amount recognized are to be reliably estimated/measured.

Measurement of the Elements of Financial Statements

IPSAS 1.129,
13.20, Glossary

The measurement basis (bases) used in IPSASs (historical cost, current cost, realizable value, fair value or present value) form the basis on which the whole of the financial statements are prepared.

The defined measurement bases in IPSASs are:

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Current replacement cost is the cost the entity would incur to acquire the asset on the reporting date.

Net realizable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Market value is the amount obtainable from the sale, or payable on the acquisition, of a financial instrument in an active market.

The "reach" of financial statements - Accounting Policies and Notes to the Financial Statements

IPSAS 1.16
1.23-24

The information contained in the financial statements is unlikely to enable all the objectives (stated above) to be met. Therefore, supplementary information, including non-financial statements is encouraged to be reported alongside the financial statements to provide a more comprehensive picture of the entity's activities during the period. Examples would include:

- presenting additional information to assist users in assessing the performance of the entity, its stewardship of assets and making and evaluating decisions about the allocation of resources; and
- disclosing information about compliance with legislative, regulatory or other externally-imposed regulations. Knowledge of non-compliance is

- likely to be relevant for accountability purposes and may affect a user's assessment of the entity's performance and direction of future operations.
- presentation options under ED 27 "Presentation of Budget Information in Financial Statements may extend this reach.

Underlying Assumptions

Of the four usual assumptions underlying financial statements, the IPSAS framework refers to two explicitly. These are going concern and consistency of presentation. Consistency (comparability) is also presented as part of reliability characteristic. The accrual assumption is implicit in IPSASs and the prudence concept is now presented as part of the reliability characteristic:

Going Concern

Financial statements are normally prepared on the assumption that the entity is a going concern and will continue in operation and meet its statutory obligations for the foreseeable future. In assessing whether the entity is a going concern, preparers of the financial statements take into account all available information for the foreseeable future, which should be at least, but is not limited to, twelve months from the approval of the financial statements.

IPSAS 1.43-44

Consistency of Presentation

The presentation and classification of items in the financial statements should be retained from one period to the next unless:

IPSAS 1.47

- (a) a significant change in the nature of the operations of the entity or a review of its financial statement presentation demonstrates that the change will result in a more appropriate presentation of events or transactions; or
- (b) a change in presentation is required by an International Public Sector Accounting Standard.

Qualitative Characteristics of Financial Statements

Qualitative characteristics are the attributes that make the information provided in financial statements useful to users. The four principal qualitative characteristics are understandability, relevance, reliability and comparability.

IPSAS
1.Appendix 2

Understandability

Information is understandable when users might reasonably be expected to comprehend its meaning. Users are assumed to have a reasonable knowledge of the entity's activities and the environment in which it operates, and to be willing to study the information.

Relevance

However, the materiality criteria, still applies information is relevant to users if it can be used to assist in evaluating past, present or future events or in confirming, or correcting, past evaluations. The relevance of information is affected by its timeliness, nature and materiality. Information is material if its omission or misstatement could influence the decisions of users made on the basis of the financial statements.

Definitions and Concepts – Cash Basis IPSAS

Cash Basis

Cash basis means a basis of accounting that recognizes transactions and other events only when cash is received or paid. Financial statements prepared under the cash basis provide readers with information about the sources of cash raised during the period, the purposes for which cash was used and the cash balances at the reporting date.

Reporting Entity

The IPSAS requires the reporting entity to report cash it controls.

Financial Statements

General purpose financial statements include the following components:

- (a) a statement of cash receipts and payments which:
 - (i) recognizes all cash receipts, cash payments and cash balances controlled by the entity;
and
 - (ii) separately identifies payments made by third parties on behalf of the entity; and
- (b) accounting policies and explanatory notes.

The measurement focus in the Standard is balances of cash and changes therein. Notes to the financial statements may provide additional information about liabilities, such as payables and borrowings, and some non-cash assets, such as receivables, investments and property, plant and equipment.

Qualitative Characteristics

The cash basis standard uses the same qualitative characteristics as in IPSAS framework (IPSAS 1. Appendix 2). The only exception is the exclusion of a paragraph in the prudence assumption providing guidance on practicing caution such that assets and revenue are not understated and liabilities and expenses are not overstated. (Please refer to the comparison between the accrual basis IPSAS framework and the IASBF to note the difference between the IASBF and the qualitative characteristics in IPSASs.)

Going Concern

The requirement to make an assessment of the entity's ability to continue as going concern and to disclose information about the entity's ability to continue is included in the section in the Cash Basis IPSAS. Fair presentation is not mentioned in the Standard. These are both required in the accrual IPSASs.

Understandably, the elements, measurement and recognition of the elements of the financial statements do not reflect the accrual basis of accounting.