



**INTERNATIONAL FEDERATION
OF ACCOUNTANTS**

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**Agenda Item
2D**

Date: October 5, 2010
Memo to: Members of the IPSASB
From: Gwenda Jensen
Subject: Conceptual Framework - Presentation and Disclosure

1 Objectives of this Session

1.1 The objectives of this session are to:

- **Discuss** certain issues related to P&D;
- **Identify** any further issues; and
- **Provide** directions to Staff for development of the draft Consultation Paper.

2 Background

2.1 P&D is included in Phase 4 of the IPSASB's Conceptual Framework (Framework) project. At its April 2010 meeting, the IPSASB had an initial discussion of P&D and directed staff to:

- Adopt a principles based approach that would not recommend detailed formats;
- Ensure that the scope includes General Purpose Financial Reports (GPFRs), not just financial statements; and
- Consider any public sector specific issues raised by P&D.

2.2 At its June 2010 meeting, the IPSASB discussed four P&D issues and directed staff to:

- Include explanations of the meaning of 'presentation' and 'disclosure' in the consultation paper, but not attempt to propose precise definitions of these two terms.
- Address principles for placement of information (*where* the information should be reported), principles for *what* should be disclosed, and principles related to *how* information should be reported.
- Develop principles applicable generally to GPFRs.
- Include high level principles, keeping the focus away from standards-level issues.
- Include specification of required financial statements.

2.3 The Task Based Group (TBG) for P&D has been working with Staff subsequently to develop these agenda papers for further discussion of specific issues related to P&D. As a reminder, the members of the TBG are Mariano D'Amore, Thomas Mueller-Marques Berger, Anne Owuor and Tim Youngberry. Subsequent to the meeting, Staff will work with the TBG to consider feedback from the IPSASB and develop the draft P&D consultation paper. A draft consultation paper is planned for initial Board discussion at the March 2011 IPSASB meeting.

3 Issues for Board Consideration

3.1 The following four issues are proposed for the Board's consideration:

- (a) Descriptions of 'presentation' and 'disclosure;'
- (b) Description and identification of GPFR 'components;'
- (c) Proposed GPFR presentation principles; and,
- (d) Significance of GPFR statements.

Key Issue #1: Descriptions of 'Presentation' and 'Disclosure'

3.2 This section proposes descriptions for 'presentation' and 'disclosure.' The descriptions are based on present standard setting practice (as evidenced in standards, conceptual frameworks developed by other standard setters, and standard setters' work-in-progress). The goal is to achieve greater clarity with respect to these two terms. The focus is particularly on the relationship between 'presentation' and 'disclosure' and their relationships with other fundamental GPFR concepts such as the objectives, qualitative characteristics, elements and measurement.

The relationship between 'presentation,' 'fair presentation' and other CF parts

3.3 One problem when explaining what 'presentation' means within the context of the Framework is that the word 'presentation' can have a wide meaning. For example, IPSAS 1 defines 'fair presentation' to include element recognition, measurement and classification. But 'presentation' is commonly also used with a narrow meaning. The narrow meaning of 'presentation' focuses on decisions about how to present information that has already been through the process of element identification, recognition and measurement. This narrow meaning is used, for example, in the IASB-FASB financial statement presentation project, where the focus is primarily on selection, organization and display of information to achieve financial statement objectives. Applying presentation's wide meaning would detract from that focus, while also involving coverage of areas that are presently addressed in other phases of the Framework. It is proposed that, for the IPSASB Framework, the focus should be on a narrow meaning of presentation, for both the GPFR as a whole and the financial statements subset. 'Presentation' will not address the concepts covered in Elements and Measurement.

3.4 Information displayed in a GPFR must meet GPFR qualitative characteristics. It must be relevant, understandable, representationally faithful, comparable, verifiable and timely. Amounts reported on the faces of financial statements must

meet the definition of an element and related recognition criteria, be correctly classified into the different element categories, and their values measured appropriately. Presentation takes over once these important constraints are met. How an entity presents information in a GPFR as a whole and in each GPFR component is critical to achieving GPFR objectives. Effective presentation provides the right information, organised in a manner that clearly communicates an integrated picture of an entity's performance.

What is meant by presentation?

3.5 Presentation concepts will guide the specific presentation decisions that the IPSASB makes as it develops standards. In order to develop such concepts, it is useful to consider the type of specific decisions covered by these concepts. Applying the narrow meaning of 'presentation,' GPFR presentation decisions would include decisions about such things as:

- *What* information needs to be displayed. For example decisions about:
 - At the GPFR level, what components specifically should be included in a GPFR in order to achieve GPFR objectives, consistent with users' needs and GPFR scope.
 - At the level of an individual GPFR component such as a statement, what particular line items, comparatives, totals, sub-totals, explanations and supporting schedules are needed in order to achieve that component's function.
- *How* information should be organized. For example, decisions about:
 - The use of a statement to show information (as opposed to using narrative, a table or a graph); and,
 - A statement's overall structure (use of columns and line items, location of the explanatory notes before or after the face of the statement, use of titles and headings, and use of different distinct sections within a single statement.).
- *Where* information should be displayed (sometimes called 'disclosure placement'). For example, decisions about:
 - Where within the GPFR information should be displayed, including whether information should be included within the financial statements or somewhere else within the GPFR¹.
 - Whether particular information belongs on the face of a statement, in the notes, or in related narrative information.

¹ The IPSASB has also already addressed a situation where information necessary to complete GPFR reporting will, in some cases, be reported in documents *outside* of the GPFR i.e. the IPSAS 24 treatment of explanations of budget variances.

- 3.6 Financial statement presentation decisions include such things as:
- Identification of the particular financial statements needed to provide a complete set of financial statements.
 - Separation of financial element totals into appropriate statements. (For example, decisions about whether assets, liabilities and equity should be reported in one statement, while revenue and expenses are reported in another separate statement or whether they should all be reported together in one statement.)
 - Disaggregation of these financial element totals into meaningful sub-totals. (For example, decisions about how total assets should be disaggregated, if at all.)
 - Ordering and grouping of the different items within each statement, so that each statement provides an understandable picture and fulfils its individual function. (For example, decisions about the order of line items in the statement of financial performance.)
 - Identification of appropriate totals (additive and subtractive) that provide key summary information and help to provide an understandable picture of important aspects of entity performance. (For example, decisions about whether items such as surplus/deficit and total cash flows from operating activities should be reported.)
 - Identification of other information that should be included on the face of the statement (for example reporting period or date, comparatives) and identification of information that should be provided in the notes in order to understand the amounts reported on the face of the statement.
- 3.7 As stated above, presentation concepts guide how decisions are made on specifics such as those in the examples above. Presentation concepts are not the resulting decisions, which are at the standards-level. For example, what principles standard setters apply when deciding that a new statement is necessary and when creating that statement's structure are presentation concepts. A specifically identified statement and its specific content and structure are addressed through a standard. Although included later in this paper, arguably, even high level specifics such as identification of GPFR components could be viewed as standards level rather than conceptual framework level.

'Disclosure' and its relationship to 'presentation'

- 3.8 'Disclosure' relates to what information is shown in a GPFR. Although 'disclosure' is commonly linked most strongly to information shown in the notes to a statement, this paper proposes that the term 'disclosure' be used more broadly to describe information that is required to be shown anywhere in the GPFR (for example, on the face of a statement, in the notes, in accompanying narrative). In exceptional circumstances, disclosure may even relate to locations outside of the GPFR (as in the case of budget variance explanations, which can be reported in budget documents). Face and note disclosures generally are not considered in isolation from each other, but rather work together to form an integrated whole.

- Decisions about what should be disclosed on the face of a statement impacts on what is disclosed in the notes. Whether on the face, in the notes, or elsewhere, all required disclosures add to the information available to users and to GPFRR preparation costs. Further discussion of this proposed broad concept of ‘disclosure’ is provided in **Appendix 1**.
- 3.9 Based on the descriptions of ‘presentation’ and ‘disclosure’ provided above, ‘disclosure’ (the selection of information for display) would be a subset of presentation.
- 3.10 Presentation considers the balance between showing too much information on the face of a statement versus showing not enough and requires, where necessary, that additional information be disclosed in the notes to the statement. Information that is considered relevant, but either too detailed or the wrong type of information to include on the face of a statement, is included in the notes. Disclosure decisions are integral to the process of designing a GPFRR component so that it effectively communicates the information necessary to achieve its function. In other words, disclosure is an integral part of presentation.
- 3.11 This is consistent with what happens in practice. In practice ‘presentation’ decisions about the structure of a statement involve decisions about what specific type of information should be disclosed on the face of the statement. For example, on the face of the statement of financial position, is a breakdown of total assets into specific categories necessary? On the face of a statement of service performance should information the outcomes towards which outputs contribute be disclosed, or is output information alone sufficient? In a budget-actual statement are three columns necessary (original budget, final budget and actuals) or are two (original budget and actuals) sufficient? These three considerations relate to the structure of these three statements and each consideration involves a decision about whether or not to disclose information.
- 3.12 The idea that ‘disclosure’ is a subset of ‘presentation’ does not prevent it being considered separately from other presentation concerns. In fact the discussion above is an argument to fully consider disclosure from an information quantity perspective, without confusing the issue by excluding from consideration information that is required to be disclosed in certain locations.

Action Requested:

- 3.13 Members are requested to provide initial direction to Staff on whether:
- (a) ‘Presentation’ should be described narrowly for the purpose of the CF and distinguished from the all-encompassing meaning of presentation implicit in the term ‘fair presentation’;
 - (b) A broad concept of ‘disclosure’ should be described such that disclosures are not confined to those that occur in the notes;
 - (c) ‘Disclosure’ should be described as a subset of ‘presentation; and
 - (d) Definitions for ‘presentation’ and ‘disclosure’ should also be developed for the consultation paper, based on the descriptions.

Key Issue #2 Description and identification of GPFR components

- 3.14 Phase 1 of the Framework has identified that the scope of financial reporting encompasses the provision of financial and non-financial information about:
- Economic resources of the reporting entity at the reporting date and claims to those resources;
 - The effect of transactions, other events, and activities that change the economic resources of the reporting entity and claims to those resources during the reporting period, including cash inflows and outflows and financial performance;
 - The reporting entity's compliance with relevant legislation or regulation and legally adopted or approved budgets used to justify the raising of monies from taxpayers and ratepayers;
 - The reporting entity's achievement of its service delivery objectives; and
 - Prospective financial and other information about the reporting entity's future service delivery activities and objectives, and the resources necessary to support those activities.
- 3.15 Financial reporting's scope also encompasses explanatory material about: (a) the major factors underlying the financial performance of the entity, the achievement of its service delivery and other objectives and the factors which are likely to influence its performance in the future; and (b) the assumptions underlying and major uncertainties affecting the information included in GPFRs.
- 3.16 In order to achieve GPFR objectives it is important to describe the structure and content of a GPFR, placement of information and the different parts that make up a GPFR. The concept of a 'component' is proposed to support discussion of these considerations.
- 3.17 A GPFR 'component' would be an identifiable part of a GPFR, such as a separate statement². IPSAS 1 presently uses the word 'component' to describe the parts that make up a 'complete set of financial statements,' which is why the word 'component' has been used in this discussion. However, the word is problematic, because 'component' is used with different meanings in other accounting and auditing standards. For example, ISA 600 defines a component to be: 'An entity or business activity for which group or component management prepares financial information that should be included in the group financial statements.' Alternative words with similar meanings include 'part' and 'constituent.'
- 3.18 In IPSAS 1 each financial statement is treated as a separate component and the notes to the statements are also identified as a separate component. The different items that could be reported outside of the GPFS are discussed, but not identified

² The dictionary meanings of 'component' include: (1) Ingredient; single piece which forms part of a larger unit; part; constituent; element; and, (2) a(n) an abstract part of something; b) (n) something determined in relation to something that includes it; or c) (n) an artefact that is one of the individual parts of which a composite entity is made up; especially a part that can be separated from or attached to a system. Synonyms: Element, constituent

as components. By contrast, in this paper the notes, although mentioned separately, are not identified as a separate component. The reason for this proposed treatment is that notes are meaningless without reference to the statements to which they relate and each financial statement is incomplete without its related notes. Another significant difference is that the meaning of ‘component’ is extended to include items outside of the financial statements, and those items are included in the list of GPFR components proposed below.

- 3.19 This paper proposes that GPFR components be grouped in terms of whether they are presently viewed as ‘necessary’ or ‘optional’.³ ‘Necessary’ is considered with respect to GPFR objectives, users’ needs and GPFR scope. A ‘necessary’ component may not apply to all reporting entities. It may be something that is conditional on an entity specific characteristic, such as making public an entity’s budget and be necessary only if the entity has that specific characteristic. ‘Optional’ components are components that reporting entities may include in their GPFRs, either voluntarily or because those components are required in their national jurisdictions, but which have not been identified as ‘necessary.’

Illustrative list of components - applying present IPSAS requirements

- 3.20 An illustrative list of GPFR components is shown in **Diagram 1** below. This list is based on present IPSAS requirements and work-in-progress. It is provided as an example of what components could be identified in the P&D paper, if a list of components is considered useful, and as a starting point for discussion.

Components could change in the future

- 3.21 Both the number of components and those components that are necessary may change as further IPSASs are developed. New information needs may be able to be integrated into existing GPFR components, but could also require the development of a new GPFR component. For example, environmental sustainability reporting and human resource reporting are two areas that could warrant the inclusion of additional GPFR components in the future. Some presently required components may also be identified, in the future, as unnecessary to meet GPFR objectives.

³ The words ‘mandatory’ or ‘required’ were also considered.

Diagram 1: List of GPFR Components (Illustrative)

Narrative information (Necessary, not required presently)

1. Narrative information: Information to assist users in assessing the performance of the entity, and its stewardship of assets, as well as making and evaluating decisions about the allocation of resources.

A complete set of financial statements⁴ (Necessary, presently required)

Made up of the following four ‘traditional’ financial statements:

2. A statement of financial position⁵
3. A statement of financial performance
4. A statement of movements in net assets/equity
5. A cash flow statement

And budget-actual information:

6. A comparison of budget and actual amounts either as a separate additional financial statement or as a budget column in the financial statements, when an entity makes its approved budget publicly available;

Other financial statements (Optional)

7. *General Government Sector (GGS) information:* Included in the financial statements when a government elects to present GGS information in its consolidated financial statements.

Other GPFR (Necessary, not presently required)

8. *Service performance information:* Information about the entity’s outputs and outcomes in the form of performance indicators, statements of service performance, program reviews and other reports by management about the entity’s achievements over the reporting period.
9. *Long term sustainability of public finances information:* Information related to the long-term fiscal sustainability of governmental programs.
10. *Compliance information:* Information about compliance with legislative, regulatory or other externally-imposed regulations

3.22 **Appendix 2** places this list of GPFR components in the context of GPFR objectives and users’ common information needs.

⁴ Each financial statement is supported by ‘notes’ that comprise a summary of significant accounting policies and other explanatory notes. Notes are viewed as integral to the statements rather than as a separate component.

⁵ The first four components listed under financial statements are referred to by a variety of names both within and across jurisdictions. The names included in this illustrative list are not intended to imply that only these names are acceptable for these statements.

Action Requested:

- 3.23 Members are requested to provide initial direction on whether:
- (a) The concept of a ‘component’ should be included in the P&D consultation paper;
 - (b) The term ‘component’ should be used or an alternative terms such as ‘part’ or ‘constituent’ would be better;
 - (c) Any changes need to be made to the list of GPFR components provided as an example;
 - (d) A list of GPFR components should be included in the P&D consultation paper; and,
 - (e) The groups into which the components have been divided (financial statements/non-financial statements; necessary and optional) and the allocation of components between groups are acceptable.

Key Issue #3: GPFR Principles

- 3.24 Starting from the premise that presentation must support GPFR objectives and be consistent with GPFR qualitative characteristics, the next consideration is whether principles specific to presentation exist, principles that sit below these high level over-arching concepts, but which are still conceptual in nature. It is proposed that there are identifiable general presentation principles that guide standard setters and preparers’ presentation choices. These are:
1. Functional design;
 2. Integration; and,
 3. Information sufficiency.

Presentation principle 1: Functional design

- 3.25 ‘Functional design’ is the principle that presentation decisions must be driven by function. GPFR objectives are the function for the GPFR as a whole. Presentation at the GPFR level should be designed to achieve the GPFR objectives. Then, each individual GPFR component will have an intended function, which is likely to be stated in the relevant IPSAS. Presentation at the level of GPFR components should be designed to achieve the function of each individual component.

Functional design applied to the GPFR

- 3.26 Decisions about whether a new GPFR component is needed will be made in reference to GPFR objectives. Is there a gap in GPFR coverage that warrants creation of a new component, on the basis that, without that new component, GPFR objectives will not be met? Similarly, decisions about whether an existing component is redundant will consider whether the component is necessary in order to achieve those objectives. Perhaps GPFR objectives can be equally well met if the information in this separate component is integrated into one of the other components?

- 3.27 Achievement of GPFR qualitative characteristics is necessary in order to meet GPFR objectives. The GPFR as a whole should achieve the qualitative characteristics. The different components making up a GPFR may meet those qualitative characteristics, but the way that the package of different components is put together transforms those parts into something that must, on its own terms, meet those qualitative characteristics.
- 3.28 For example, giving more prominence to one component compared to other equally important components (and thereby conveying the false impression that those equally important components are actually less important) would mean that the GPFR as a whole did not meet the qualitative characteristic of faithful representation, even if each individual component individually attains that qualitative characteristic. Similarly, lack of a component necessary for users' understanding of an essential aspect of entity performance would mean that the GPFR lacks understandability. Each of the other components could be understandable, yet the GPFR as a whole would still lack that qualitative characteristic.

Functional design applied to individual GPFR components

- 3.29 At the level of individual GPFR components (for example, an individual statement), good presentation means that a component will effectively communicate information so that the component function, for which the component has been designed, is achieved and the component functions as intended. Presentation requirements for a particular GPFR component (including the type and amount of information that must be disclosed) are driven by the function of that component. Information is selected, organized and displayed in each component in order to achieve a particular function. One way to describe presentation is that presentation is the process of moving from information function to a product that achieves that function.
- 3.30 Each GPFR component should achieve GPFR qualitative characteristics. The choice and organization of the different individual sections, subsections, categories, line items, columns, headings, etc should result in a component that, in terms of its intended function, achieves these qualitative characteristics. For example, an individual financial statement needs to show information that is relevant to its function, grouped and labelled in a way that supports that function, is understandable and overall provides a representationally faithful picture that fulfils the intended function of the statement.

Principle 2: Integration

- 3.31 'Integration' means 'combining parts so that they work together or form a whole.' The relationships between and among different GPFR components should be clear. Different components should complement each other where appropriate. GPFRs that are consistent with the integration principle will clearly associate related information across GPFR components. The way that information is displayed will also help to make clear important differences between components. For example, during development of IPSAS 24 the integration of budget information into the traditional financial statements was an important

consideration, involving different requirements depending on whether budget and actual amounts are on the same or a different basis.

IASB-FASB staff proposal of a ‘cohesiveness’ principle

- 3.32 The present IASB-FASB work on financial statement presentation includes a staff proposal for a ‘cohesiveness’ presentation principle. By contrast, this issues paper proposes an ‘integration’ principle for the GPFR as a whole, then treats ‘cohesiveness’ as a subset of ‘integration;’ a principle that applies to the financial statements and represents a closer form of integration. The reason for this is that the cohesiveness principle (discussed further below) is focused on the financial statements rather than the more comprehensive scope GPFRs. Using the same word both for linking information across the wider set of GPFR components and for linking information between the financial statements could be confusing. In addition, if the proposed cohesiveness principle is included in a revised IFRS 1, then it will be connected to IFRS 1 financial statement presentation specifics. Those presentation specifics may not be appropriate for public sector financial statements. Although the cohesiveness principle has been included in this paper, its connection with IFRS 1 specifics is also an argument in favour of treating cohesiveness as a standards level issue rather than a Framework issue.

Cohesiveness (Traditional financial statements)

- 3.33 The cohesiveness principle logically is a subset of the integration principle; a type of integration that can be applied to the traditional financial statements, because of their close relationships with each other. Cohesiveness involves the use of consistent labelling and ordering of items across the different financial statements, using labels that relate to the entity’s activities. This provides scope to enhance the usefulness and understandability of the financial statements. Such consistent labelling and ordering provides a more cohesive set of information about an entity’s financial performance.
- 3.34 Application of cohesiveness to the traditional financial statements reflects the idea that an entity’s traditional financial statements should be able to be closely related, because they all contribute to the same goal of understanding the entity’s financial performance. If the budget basis is the same as that for the traditional financial statements, then it may be possible to apply the cohesiveness principle to the budget-actual information; closely relating financial and budgetary performance.

Principle 3: Information sufficiency

- 3.35 That the GPFR contain sufficient information to achieve its objectives, with each GPFR component containing sufficient information to achieve its individual function is the ‘information sufficiency’ principle. This principle relates to finding the right balance between having too much information and having too little information. GPFRs do not report every single transaction and event affecting the entity, nor do they report on every single aspect of entity performance. GPFRs prioritize information, and provide high level summaries. Presentation involves decisions about what information is important enough to be

- reported; whether at the GPFR as a whole level, at the component level, at the level of line items on the face of a statement, or at the level of related note disclosures.
- 3.36 Financial statement presentation can be conceptualized as taking highly aggregated items (for example, total assets) and disaggregating them into smaller categories for display on the face of the statements. Each subset creates new information. Both the type of disaggregation (for example, disaggregation into current and non-current assets) and the level of disaggregation (for example, the extent of further detail provided going downwards into detail about different types of assets) should support GPFR objectives and GPFR component functions. The level of disaggregation used in each component should respond to user needs, without distracting users from an overall view of the performance portrayed. It should not mean that irrelevant information (in the sense that the information is too detailed to be important) is included.
- 3.37 Disaggregation should be balanced against understandability, with appropriate consideration given to materiality and clarity. Disaggregation is not a goal. The goal is sufficient information. The type of disaggregation used when constructing the structure of a statement will depend on the function of the statement. In the case of the traditional financial statements, the four statements should provide an understandable, relevant, comparable and representationally faithful overall view of an entity's financial position and financial performance. The level of disaggregation used should provide sufficient information to permit analysis of and insight into an entity's financial position and performance; should improve the user's understanding of the entity and provide a basis upon which to make informed decisions.
- 3.38 The notes to statements have an important function, which includes allowing further disaggregation of line items to be available to users, while maintaining the understandability of statements, which provide a clear, overall view of important aspects of the entity's performance, free from that additional detail. The information sufficiency principle should apply to the notes, as much as it applies to what is on the face of a statement.

IASB-FASB staff proposal of a 'disaggregation' principle

- 3.39 An alternative word for the 'information sufficiency' principle would be 'disaggregation,' which would be consistent with the proposal that has recently been put forward in the IASB-FASB staff draft of a financial statement presentation standard. The term 'information sufficiency' has been proposed instead for two reasons. First, 'disaggregation,' like cohesiveness, could acquire a financial statement specific meaning, given the work being done by the IASB. Second, 'disaggregation' assumes a direction in terms of information – towards greater detail. 'Information sufficiency,' is positive in terms of the endpoint (sufficient information), without involving an implication that what will be needed is more detail (disaggregation).

Information overload, information gaps, and the role of P&D concepts

3.40 Presentation concepts, including disclosure concepts, should support the resolution of problems such as information overload and information gaps. Concepts should be neutral in terms of whether more or less disclosure is needed and instead provide a solid basis for discussion of information needs. The comprehensive approach to disclosure, proposed under Issue #1 and the principle of information sufficiency, proposed in this section, are both intended to provide that solid basis for discussion.

Relationship between presentation principles and qualitative characteristics

3.41 Two issues with respect to the presentation principles proposed above are:

- Is it necessary to create a second level of presentation principles beneath the qualitative characteristics (QCs); and,
- Are the specific principles proposed already captured within the existing QCs?

3.42 With respect to the first issue, the position proposed here is that a second level of presentation principles is needed in order to further specify the concepts that standard setters apply, when developing specific GPFR requirements. The IASB and FASB are both actively considering the issue of principles that mediate between QCs and standards level specifics, within the context of the IASB-FASB financial statement presentation project (where the principles of ‘disaggregation’ and ‘coherence’ have been proposed) and the FASB disclosure framework (where the addition of the word ‘essential’ and a ‘disaggregation’ principle have been proposed). The IPSASB is already working on another way to mediate between the QCs and GPFR information, through the work-in-progress on the decision tree (funnel diagram), which considers information placement.

3.43 With respect to the second issue, the position proposed here is that the three presentation principles involve a shift from a broad perspective on what information goes into a GPFR to a focused perspective on the need for, and organization of, particular components. These principles describe the key presentation concepts that standard setters apply as they develop new GPFR components and revise existing components. The QCs are a starting point, but it is then a question of specifically what information is needed in order to fulfil the function of a particular statement or other GPFR component; how that information should be displayed and organized in order to fulfil the function of the specific component; and, how best to integrate information across the GPFR and within components.

Action Requested:

3.44 Members are requested to provide direction on whether:

- (a) GPFR presentation principles should be included in the P&D consultation paper.
- (b) The proposed principles are appropriate.

- (c) There are further principles that should be included, either in addition to these three principles or as replacements for them.

Key Issue #4: GPFR Statements

- 3.45 A statement is a fundamental presentation tool within the context of GPFR reporting. It is a structured representation of an aspect or aspects of an entity's performance. Statements provide a high level summary of performance in a format that is expected to be useful and understandable to users, while supporting comparisons with other entities and with the entity's previous year's performance. Standardization of statements' content and structure supports users' ability to find information, to understand that information, and compare different entities' statements. At the same time, preparers need to have enough flexibility to produce GPFRs that show the information relevant to their particular entities.
- 3.46 In order to meet these apparently conflicting needs, standards for GPFRs provide a mixture of 'absolute' requirements in terms of disclosures and their placement (this item must be shown on the face of this statement), 'flexible' requirements, where placement is left up to the preparer (for example, choice between disclosure either on the face or in the notes), and 'open-ended' requirements to provide further disclosures when necessary in order to meet the GPFR or particular component functions, and 'encouraged voluntary' disclosures. In addition, preparers in practice provide a large amount of additional information about the entity voluntarily in narrative information (also called 'management commentary' and 'management discussion and analysis').
- 3.47 Notes are an integral part of a statement. Without explanatory notes the information reported on the face of a statement would not meet GPFR qualitative characteristics, because it would not be understandable. In addition to explanatory notes, which support and explain what is shown on the face of a statement, notes may provide supplementary information (for example related party disclosures, segment disclosures, or linkage between budget information and related budget documentation). This information is either necessary to fully understand what is reported on the face of a statement or deepens and extends that understanding. When considering whether a statement's design fulfils its intended function both the face of the statement and its notes must be considered together.
- 3.48 Statements can be distinguished from schedules, which are displayed in the notes to a statement and not labelled as statements. Segment disclosures, for example, have a similar format to statements, but their location in the notes identifies them as a schedule rather than a statement. Arguably, this difference signals that segment disclosures are at a lower level of importance within the GPFR package of information, compared to a statement. The information displayed in a schedule is important and necessary, but not as important as the information displayed on the face of a statement. Another way to look at this difference is as a 'layering' of information downwards from the highest level of summarization to the lowest level of detail. Statements are at a higher level of summarization than are schedules.

- 3.49 The presentation principles of functional design, integration and information sufficiency have implications for the choice of a statement as a presentation technique. This is discussed in the section below.

Relationship between statements and performance

- 3.50 In terms of the statements that are presently required by IPSAS, each statement is a separate GPFRR component, designed to achieve a particular function. That function appears generally to be to show a particular type of or aspect of 'performance.'
- 3.51 Usually one type of performance will be represented in one statement, even if the statement shows more than one aspect of that performance. For example, a budget-actual statement reports on budget performance and includes two aspects of budget performance (budget compliance and budget performance against plan). Both aspects can be shown in the one statement, with the use of columns for both original budget and final budget on the face of the statement and appropriate explanation of differences in the notes. As another example, service performance reporting may warrant reporting on both outputs and outcomes, but the question then arises whether two different statements would be needed to report these two different aspects of service performance. Keeping both sets of information together in one statement may achieve a well integrated, coherent and comprehensive summary of an entity's service performance. Alternatively, it may create an overly complex statement that confuses the user and fails to highlight important differences between the two different aspects of service performance.
- 3.52 In some cases different aspects of one type of performance appear to warrant different statements. For example, the traditional financial statements report on different aspects of financial performance, with each separate performance aspect viewed as important enough and distinct enough to warrant a separate statement. While the name 'statement of financial performance' is commonly applied to one particular financial statement, the other three statements all show aspects of financial performance. For example, the cash flows statement shows performance in generating cash from different activities. The statement of financial position shows performance in the management or stewardship of assets, liabilities and equity and provides insights into income generating performance, as evidenced by balance sheet changes.
- 3.53 A new statement may be needed because, without that new statement, the necessary information to achieve GPFRR objectives is not available i.e. there would be insufficient information. This suggests that the additional information need is comparatively large and important enough to highlight through the use of a statement. If that were not the case then supplementary note disclosures could be used instead. In other cases, a different and distinct type of performance, which might ordinarily warrant a new statement, can be integrated into an existing statement. This is the situation with budget-actual information, when the budget is on the same basis as the reporting and the information can be integrated into the traditional financial statements.

- 3.54 Creation of a separate statement creates an integration problem. The alternative of incorporating new information into an existing statement should be considered, before making a decision to create a new statement, because this may help to integrate information. Alternatively, the new information may need to be separate in order to signal important differences. For example, the new information may be on a different basis from other information in other statements or validated in a different way. Integrating the different information into an existing statement may be misleading to users and, in effect, not meet the qualitative characteristic of representational faithfulness. The integration principle also emphasizes the importance of highlighting differences in relationships between components. If a new statement is needed, then ways to integrate the new statement with other GPFER components should be considered, for example narrative to explain the relationship or reconciliation of key related numbers.
- 3.55 The factors that are considered when reviewing the need for a statement include:
- Whether reporting on a performance (or an aspect of performance) requires a new statement or could equally well be communicated through narrative or through additional information in an existing statement.
 - How best to display the information needed to show that performance or aspect of performance.
 - How best to integrate information about different types of performance within the GPFER and show the extent to which the different types of performance are related.
- 3.56 A new type of performance may require a new *type* of ‘statement.’ For example, in the case of service performance reporting, it is possible that a ‘statement’ could be developed with three or even four distinct parts; one part focused on outcomes, a second part focused on outputs, a third part for inputs, then and a fourth part (equivalent to notes) that provides supporting explanation, including the meaning of key terms and information about how the reported numbers were reached. In other cases a new type of performance could require more just the tabular format established in traditional financial statements. The necessary new component could be a combination of statement and narrative (including graphs). It is possible, for example, that reporting on the sustainability of public finances could require this mixture of statement, dedicated narrative and graphs. In each case the presentation principles of functional design, integration, and information sufficiency would be applied to work through what is necessary to achieve the intended function of the new GPFER component.

Inclusion of component functions in the Framework.

- 3.57 Concepts statements produced by the GASB, FASAB, PSAB (Canada), and the ASB (United Kingdom) include the functions (also called ‘objectives’, ‘aims’ or ‘purposes’) of the individual financial statements under their presentation coverage. As explained above, the function of a component drives its presentation design, but function is independent of presentation. On that basis, the function of each financial statement should not be included under P&D concepts. Alternatively, if functions are viewed as an important part of the Framework,

which should be included somewhere in the Framework, then the argument would be that, since they need to be included somewhere, the best place to include them is under P&D. For example, the function of each financial statement could be included directly under the listing of GPFR components. (See **Appendix 2** for the present IPSAS descriptions of the functions of individual components presently described in IPSASs.)

Action Requested:

3.58 Members are requested to give direction on whether:

- (a) A description of a ‘statement’ should be included in the P&D consultation paper; and,
- (b) A function for each financial statement should be included in the P&D consultation paper.

Appendix 1: Concept of ‘Disclosure’

This appendix provides further information about the proposal that the term ‘disclosure’ apply generally to any information that is required to be disclosed, rather than be restricted to information that is disclosed in the notes to the statements. This proposal has been identified as particularly problematic by several respondents to drafts of this paper.

Present practice

The IPSASB has applied both a broad meaning and a narrow meaning for disclosure in IPSASs. IPSAS 1, for example, describes the broad meaning of ‘disclosure’ as follows:

60. This Standard sometimes uses the term disclosure in a broad sense, encompassing items presented on the face of the statement of financial position, statement of financial performance, statement of changes in net assets/equity and cash flow statement, as well as in the notes. Disclosures are also required by other IPSASs. Unless specified to the contrary elsewhere in this Standard, or in another Standard, such disclosures are made either on the face of the statement of financial position, statement of financial performance, statement of changes in net assets/equity or cash flow statement (whichever is relevant), or in the notes.

Topic-specific IPSASs commonly include a section with the heading ‘Disclosure,’ which usually focuses exclusively on disclosures to be made in the notes. Some standards have deviated from that practice. IPSAS 23 includes both notes-disclosures and optional notes/face-disclosures under the heading ‘Disclosures.’ IPSAS 24 describes both notes disclosures and face disclosures under the heading ‘Presentation and Disclosures.’ IPSAS 22 requires disclosures, but leaves their location for the preparer to decide, the only stipulation being that the information not be reported with greater prominence than the information in the normal financial statements.

Important distinctions would remain

If the Board decided to accept this proposed concept for ‘disclosure,’ then this would not mean that distinctions between note disclosures and face disclosures no longer matter. They would still be important. Disclosure in different parts of the GPFR could be described in terms of both characteristics and criteria.

Similarly, the distinction between recognizing something and disclosing it in the notes would also remain of fundamental importance. The statement that ‘disclosure is no substitute for recognition’ could be expressed in the following way:

‘Disclosure in the notes to the statements is no substitute for recognition.’

‘Recognition’ has sometimes been taken to mean that an item is reported on the face of a statement. For financial statements, the values of items that meet element definition and recognition criteria need to be included in element totals that are reported on the face of a financial statement. But the disaggregation of totals into individual subsets is not a recognition issue. For example, a decision to require disclosure of current assets and non-current assets on the face of a statement would not be treated as a recognition issue. This would be consistent with how recognition works conceptually, where recognition concepts are focused on criteria to determine totals for the different elements (assets, liabilities, revenue, etc) rather than on criteria to determine elements subtotals (current and non-current amounts, specifics such as ‘intangibles’ and ‘accounts receivable’).

Benefits of defining 'disclosure' broadly

This meaning has been proposed primarily because it better reflects how disclosure works in practice. Face and note disclosures do not take place separately; they are connected to each other. Standard setters recognize this when they provide the option of disclosing information either in the notes or on the face of a statement. The process of developing presentation standards also involves consideration of the level of detail that should be shown on the face of a statement, with one function of the notes being to take any overflow of detail that cannot be included on the face of a statement.

Similarly a comprehensive framework for deciding how much information can be required and where that information should be shown needs to consider all placement options. The extent to which information placement must be in a single place (e.g. this item must be shown on the face of the statement) versus there being a choice (e.g. this item must be shown either on the face of the statement or in the notes) could also be covered in such a framework. Discussion of this valid standard setting choice is made more difficult by concepts that embed a strict equivalence between presentation (on the face of the statement) and disclosure (in the notes to the statement) with these two possibilities treated as having no overlap. Work to clearly identify the characteristics of information that should be reported in each place will tend to ignore this third option (choice between either place), as if it does not exist.

Appendix 2: Objectives and Users' Needs Linked to Components and Their Functions

GPFR objectives ⁶	Users' common information needs	GPFR Components	GPFR component functions as <i>presently defined</i> ⁷
<p>To provide information useful for:</p> <ul style="list-style-type: none"> - Accountability purposes; and - Making resource allocation, political and social decisions. 	<ul style="list-style-type: none"> - The types and amount of resources available for providing services in future periods and claims to those resources; - The amount, sources, and uses of resources raised during the period; - The cost of services provided during the period and the amount and sources of cost recovery during the period; - Whether resources have been used economically, efficiently, and effectively, and in accordance with approved budgets and other authority that justified the raising and use of those resources; - The entity's performance in achieving its service delivery objectives, including quantitative and qualitative aspects of its service delivery; - Anticipated future service delivery activities and objectives of the entity, including information about their anticipated cost and the amount and sources of the resources that will be allocated to their provision; and - Prospective financial and other information useful in assessing the sustainability of government operations and programs, and at what level. 	<ol style="list-style-type: none"> 1. Narrative information 2. Statement of financial position 3. Statement of financial performance 4. Statement of movements in net assets/equity 5. Cash flow statement 6. Comparison of budget and actual amounts 7. General Government Sector information: 8. Service performance information 9. Fiscal sustainability information 10. Compliance information <p>(Other components as needs identified.)</p>	<p><i>Financial statements:</i> To provide the following information and support the following uses:</p> <ol style="list-style-type: none"> (a) The sources, allocation and uses of financial resources; (b) How the entity financed its activities and met its cash requirements; (c) The entity's ability to finance its activities and meet its liabilities and commitments; (d) The financial condition of the entity and changes in it; (e) Predicting the level of resources required for continued operations, the resources that may be generated by continued operations, and the associated risks and uncertainties; <p><u>Statement of cash flow</u></p> <ol style="list-style-type: none"> (f) To assist users to predict the future cash requirements of the entity, its ability to generate cash flows in the future and to fund changes in the scope and nature of its activities. (g) To hold the entity accountable for cash inflows and cash outflows during the reporting period. <p><u>Budget-actual information</u></p> <p>To demonstrate compliance with the approved budget(s) and, where the budget(s) and the financial statements are prepared on the same basis, their performance in achieving the budgeted results.</p> <p><i>General government sector</i></p> <p>To enhance transparency of and provide a better understanding of the relationship between the market and nonmarket activities of the government and between financial statements and statistical bases of financial reporting.</p>

⁶ The objectives and information that users need are taken from the views expressed in Consultation Paper 1.

⁷ These functions are taken from IPSAS 1, IPSAS 2, IPSAS 22 and IPSAS 24, with amendments to make them more concise.