



**INTERNATIONAL FEDERATION
OF ACCOUNTANTS**

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Agenda Item
2.0

Date: October 21, 2010
Memo to: Members of the IPSASB
From: John Stanford
Subject: Conceptual Framework: Objectives of Sessions

Objectives of Sessions

The objectives of the sessions on the Conceptual Framework are:

- To provide the current timetable for the project and consider the document ‘Key Characteristics of Government and the Public Sector’;
- To consider and approve a draft Exposure Draft addressing Phase One topics: Objectives, Scope, Qualitative Characteristics and the Reporting Entity;
- To consider and approve a draft Consultation Paper on Phase Two: Elements and Recognition and consider the flow chart, ‘Reporting Information in Accordance with the Conceptual Framework’;
- To consider and approve a draft Consultation Paper On Phase Three: Measurement; and
- To consider a further Issues Paper on Phase Four: Presentation and Disclosure.

Agenda Materials

- 2.1 Conceptual Framework: Coordinator’s Report
- 2A Phase One: Draft Exposure Draft
- 2B Phase Two: Elements and Recognition: Draft Consultation Paper
- 2C Phase Three: Measurement: Draft Consultation Paper
- 2D Phase Four: Presentation and Disclosure: Further Issues Paper

CONCEPTUAL FRAMEWORK: COORDINATOR'S REPORT

Objectives of Session(s)

1. The objectives of this session are:
 - to highlight issues related to the project timetable including some key pressure points;
 - to provide an update on the current composition of the Standards-Setters Advisory Panel;
 - to approve the 'Key Characteristics of Government and the Public Sector'; and
 - consider the flow chart, 'Reporting Information in Accordance with the Conceptual Framework'. (This will be considered after Agenda Item 2B)

Project Timetable

2. The current project timetable is attached at Appendix A. This is an update from the version that was posted on the intranet on July 29th following the Vienna meeting. The main difference is that, following discussion with the lead author for Phase One, the consultation period for the Phase One Exposure Draft has been reduced to 4 months. This is in order to allow a review of responses at two meetings in 2011 followed by a finalization of the Phase One chapter at the December 2011 meeting. The projected consultation period for the EDs for the other phases remains six months. It is proposed that this is reduced to four months (see also paragraph 4).
3. There are some obvious pressure points in the current timetable in order to meet the deadline of approval in late 2012 and issuance in the first quarter of 2013. In particular:
 - The time between approval of Consultation Papers on Phases Two, Three and Four and the first consideration of responses is about seven months for Phases Two and Three, and about six months for Phase Four and is extremely tight;
 - There is only one meeting for a review of responses for Phases Two and Three and a further meeting for approval of a final chapter;
 - There is only one meeting at which to discuss responses and approve an ED on Phase Four and, with a six month exposure period, the review of responses to the ED and approval of a finalized chapter take place at one meeting, which is contrary to the general principle that there are at least two meetings for these development components..
4. The trade-off between timeliness and quality needs to be evaluated on an ongoing basis. As indicated in paragraph 2 it is necessary to reduce the exposure period for EDs for Phases Two, Three and Four to four months or reconsider the 2012 deadline.

5. The project timetable will be re-circulated following this meeting.

Action Required

Members are asked to **note** the current project timetable and the pressure points identified by Staff and to consider whether the consultation period for all EDs should be four months rather than six months.

Standard-Setters Advisory Panel

6. At the Vienna meeting Staff gave an update on the membership of the Standards-Setters Advisory Panel (SSAP). Subsequent to the Vienna meeting, nominations have been received from the Governmental Accounting Standards Board (GASB) and the International Accounting Standards Board (IASB). GASB has nominated Bob Attmore, the GASB Chair, and IASB has nominated Warren McGregor. Both Bob and Warren are well known to IPSASB members. The current membership of the SSAP is shown at Appendix B.

Action Required

Members are asked to **note** the current composition of the Standards-Setters Advisory Panel.

Introduction to the Conceptual Framework and Key Characteristics of Government and the Public Sector

7. At the Vienna meeting Staff was directed to develop a general 'Introduction to the Conceptual Framework'. This provides information on the purpose of the Framework, the development of the project, the accrual basis of accounting and the scope of coverage. It also addresses the relationship with the IASB's joint project with the Financial Accounting Standards Board to develop an improved Conceptual Framework. It was circulated out-of-session and is included in the draft ED at Agenda Item 2A and Consultation Papers at Agenda Items 2B and 2C.
8. At the Vienna meeting in the discussion on Elements it was suggested that some of the background material on the nature of governments and their operations might better be better located in a separate document as an introduction to government and the public sector, so that background information on the public sector is not duplicated in each phase. Staff was directed to develop this material for circulation out-of-session. A preliminary draft of such an introduction was circulated on the intranet on September 9th. A further version, 'Key Characteristics of Government and the Public Sector' is provided at Appendix C in clean copy. A mark-up of changes to the draft previously circulated is available from Staff on request.
9. The aim of 'Key Characteristics of Government and the Public Sector' is to highlight briefly some of the main characteristics of government and the public sector that are likely to have an impact on the development of the conceptual framework and standards-setting for the public sector. The discussion signposts

- areas where there might be an impact, but does not get into the detail of what that impact might be, as this is the purpose of individual Consultation Papers and EDs.
10. Staff is very grateful to those who commented on the preliminary draft. The principal changes to the version circulated in September are:
- the subsection on the ‘Provision of Goods and Services’ has been considerably shortened and much of the discussion on different types of provision of goods and services and entitlement programs deleted;
 - the signposting to aspects of the Conceptual Framework that might be affected by the identified characteristics has been improved in each section;
 - references have been inserted to ‘the holding to account of the executive by a legislative body (or equivalent)’ and ‘accountability’;
 - clarification that Government Business Enterprises are part of the public sector, but that, in many jurisdictions, they report in accordance with private sector standards;
 - clarification that the private not-for-profit sector is not part of the public sector, although it shares some characteristics with the public sector;
 - some additional material has been inserted in the section on ‘The Longevity of Public Sector Entities and Programs’ to recognize that there are recent examples of nation-states fragmenting;
 - a reference to economic theory providing an underpinning for the provision of social goods; and
 - the heading of the section ‘Stewardship Obligation for Heritage Items’ has been replaced by ‘Responsibility for Heritage Items’ and the term ‘stewardship’ is not used. This is because, as discussed during the development of Phase 1, ‘stewardship’ is difficult to translate or is ambiguous in some languages.
11. As the introduction is providing background, rather than requesting views or making proposals, Staff does not think that there is any need for formal exposure. Staff thinks it should be issued with the Phase One ED.

Action Required

Members are requested to **approve** the ‘Key Characteristics of Government and the Public Sector’.

Flow Chart on Reporting information in Accordance with the Conceptual Framework

12. At the Vienna meeting Ian Carruthers circulated an initial version and a subsequent revision of a flow chart on how information is dealt with in the conceptual framework. Over the last 3 months Ian, Paul Sutcliffe and John Stanford have further developed the flow chart. It was circulated on the intranet on September 9th. Following comments from members, TAs and Staff the flow

- chart has been further updated and is attached at Appendix D. The flow chart is also included as an Appendix to the Elements and Recognition Consultation Paper at Agenda Item 2B.
13. The flow chart was originally developed in order to complement narrative in the Consultation Paper dealing with the definition and recognition of elements in order to demonstrate that, although the focus of that Paper is on the elements of the financial statements, the IPSASB acknowledges the importance of establishing a ‘more comprehensive scope’ for general purpose financial reporting by public sector entities, in order to meet the objectives of financial reporting.. However, in the view of the developers the flow chart is relevant to all phases of the Conceptual Framework. The developers acknowledge that the flow chart is a ‘work-in-progress’ and that in many areas the approach is contestable. For example, it is arguable whether Box 2 (an assessment of whether the information is likely to be useful to users) should precede Box 3 (an assessment of whether the information is within the scope).

Action Required

Members are asked to **indicate** whether development of the Flow Chart is worthwhile, to **suggest** improvements and **give views** on how it should be further developed.

Appendix A

Membership of Standards-Setters Advisory Panel for Conceptual Framework

- Australian Accounting Standards Board): Kevin Stevenson
- Conseil de Normalisation des Comptes Publics: France: Delphine Moretti
- Federal Accounting Standards Advisory Board: Wendy Payne
- Financial Reporting Standards Board of New Zealand: Kevin Simpkins
- Governmental Accounting Standards Board : Bob Attmore
- International Accounting Standards Board: Warren McGregor
- Public Sector Accounting Board of Canada: John Wiersema
- South African Accounting Standards Board: Rick Cottrell
- United Kingdom Accounting Standards Board: Andrew Lennard

Appendix B

Conceptual Framework (Accrual Basis) Schedule 2010–2012

	Phase One: Objectives	Phase One: Qualitative Characteristics	Phase One: Scope	Phase One: Reporting Entity	Phase Two: Elements and Recognition	Phase Three: Measurement:	Phase Four: Presentation and Disclosure	Introduction on Public Sector
Apr 2010	RR	RR	RR	RR	DI	DI		
Jun 2010	ED <i>discuss</i>	ED <i>discuss</i>	ED <i>discuss</i>	ED <i>discuss</i>	CP <i>discuss</i>	CP <i>discuss</i>	DI	
Nov 2010	ED <i>approve issue</i>	ED <i>approve issue</i>	ED <i>approve issue</i>	ED <i>approve issue</i>	CP <i>approve issue</i>	CP <i>approve issue</i>	DI	<i>discuss approve &issue</i>
Mar 2011							CP <i>discuss</i>	
Jun 2011	RR <i>directions to Staff</i>	RR <i>directions to Staff</i>	RR <i>directions to Staff</i>	RR <i>directions to Staff</i>	RR <i>directions to Staff</i>	RR <i>directions to Staff</i>	CP <i>approve issue</i>	
Sep 2011	RR	RR	RR	RR	ED <i>discuss</i>	ED <i>discuss</i>		
Dec 2011	FC <i>review</i>	FC <i>review</i>	FC <i>review</i>	FC <i>review</i>	ED <i>approve</i>	ED <i>approve</i>	RR <i>directions to Staff</i>	
Mar 2012	FC <i>approve subject to CIA</i>	FC <i>approve subject to CIA</i>	FC <i>approve subject to CIA</i>	FC <i>approve subject to CIA</i>			ED <i>discuss & approve</i>	
Jun 2012								
Sep 2012	CIA	CIA	CIA	CIA	RR <i>directions to Staff</i>	RR <i>directions to Staff</i>		
Dec 2012	<i>complete</i>	<i>complete</i>	<i>complete</i>	<i>complete</i>	FC <i>approve</i>	FC <i>approve</i>	RR FC <i>approve</i>	
First Half 2013	I	S	S	U	A	N	C	E
Second Half 2013								

Key: ED: Exposure Draft, DI: Discussion of Issues, RR: Review of Responses, FC: Final Chapter, CP: Consultation Paper, CIA: Consider Issues Arising from Other Phases of Project

Assumptions

1. The plan is based on the assumption that the IPSASB will issue an ED covering the four Phase One topics in late 2010/early 2011, ideally in conjunction with Consultation Papers on Phase Two and Phase Three, dependent on progression of these phases. In March 2012 the chapters on the Phase One topics will be finalized subject to a consideration of issues arising from Phases Two to Four in September 2012. Further discussions will be held at forthcoming meetings on whether to issue an umbrella ED covering all four phases, and, if so, in what format.
2. The timeline for the Phase Two (Elements & Recognition), Phase Three (Measurement) and Phase Four (Presentation & Disclosure) Consultation Papers assumes an exposure period of four months. If a six month exposure period is adopted the timeline will move out by one meeting (i.e., the Review of

Responses for Elements and Measurement would commence in September 2011 not June 2011 and for Presentation and Disclosure in March 2012 not December 2011).

3. The timetable reflects a four month consultation period for the Phase One ED and, at this stage, six months for the other EDs. It is proposed in this paper that the consultation periods for the EDs for Phases Two, Three and Four are reduced to four months.
4. 'Key Characteristics of Government and the Public Sector' will issued with the Phase One topics.

Projection is to issue finalized Framework in first half of 2013.

Appendix C

Key Characteristics of Government and the Public Sector

1 Introduction

- 1.1 The nature of governments and other public sector entities and the environment in which they operate has implications for the concepts that underpin accounting requirements and recommended guidelines. This short introduction identifies, and provides a general overview of, some of the main characteristics of the public sector that distinguish it from the private sector and therefore have a potential impact on the development of a conceptual framework reflecting public sector circumstances and accounting standards-setting for the public sector. It is not intended to be an exhaustive listing of all the areas in which the public sector can be distinguished from the private sector.
- 1.2 Governments are characterized by the breadth of their powers in comparison with the private sector. Such powers involve the ability to establish and enforce legal requirements. The main objective of governments and other public sector entities of governments and public sector entities is to deliver goods and services rather than to generate profits. Globally the public sector varies considerably in both constitutional arrangements and its methods of operation. The governance of governments and public sector bodies generally involves the holding to account of the executive by a legislative body (or equivalent). This needs to be considered when assessing the users of financial reports and determining the objectives of financial reporting. The size of the public sector and the goods and services that it provides are dependent upon factors such as political ideology and the size of the economy.
- 1.3 The term ‘government and the public sector’ includes national governments, sub-national governments, local government units and regulatory bodies. In the context of this Introduction the term also includes international organizations, such as the United Nations system. It also embraces Government Business Enterprises (GBEs). GBEs are cash-generating, profit making entities controlled by a public sector entity that satisfy certain conditions relating to their governance and operating environment. Historically GBEs have tended to adopt the same or similar reporting approaches as private sector entities. It does not include the private not-for-profit sector, although this sector shares many characteristics of the public sector.
- 1.4 This document discusses:
 - The volume and financial significance of non-exchange transactions;
 - Provision of goods and services;
 - Taxation and other involuntary transfers;
 - Property plant and equipment deployed in the public sector;
 - Stewardship obligations;

- The longevity of public sector entities;
- The importance of the budget;
- The regulatory role of government;
- Ownership or control of rights to natural resources and intangible items; and
- Statistical bases of accounting.

2 The Volume and Financial Significance of Non-Exchange Transactions

- 2.1 The overriding characteristic that distinguishes the public sector from the private sector is that the main objective of governments and public sector entities is to deliver goods and services rather than to generate profits. This means that there is a high incidence of non-exchange transactions of great financial significance in the public sector. In the private sector the large majority of transactions are of a voluntary exchange nature. Exchange transactions are transactions where one entity receives assets or services or has liabilities extinguished and directly gives approximately equally value in exchange. Conversely, under a non-exchange transaction, an entity receives value from another entity without giving directly equal value in exchange or gives value to another entity without receiving equal value.
- 2.2 While there are non-exchange transactions in the private sector they occur under more limited circumstances, such as where a controlling entity provides a controlled entity with a loan at off-market interest rates. Public sector entities engage in many commercial transactions of an exchange nature which are the same or similar to those in the private sector. These include contracts for the delivery of goods and services from private sector suppliers, construction contracts, and remuneration for employees under the terms of employment contracts and borrowing and lending on capital markets. However, in the public sector a high proportion of both inflows and outflows of economic resources are in non-exchange transactions. Such transactions involve the provision of goods and services financed by involuntary transfers, principally taxation, or transfers from other tiers of government, which will be initially financed through taxation. Governments and public sector entities are therefore primarily wealth accumulators and distributors rather than wealth creators. Unlike private sector entities their future existence is not dependent upon the generation of profits.
- 2.3 A public sector entity must constantly assess the need to undertake activities to provide goods and services. Such an assessment includes the governing legal framework, the cost, quantity and quality of the goods and services provided and the outcomes of key programs. It also involves the management of the assets used to provide those goods and services, the servicing of debt and the ability to raise revenue and/or borrow funds. Such an assessment of performance is important for accountability as well as decision-making.

- 2.4 Because the primary objective of governments and public sector entities is to deliver goods and services rather than to generate profits the success of public sector entities can be only partially evaluated by examination of financial position and financial performance at the reporting date. This means that users of financial reports have diverse information needs that are likely to go beyond those of users for profit-oriented entities, where the key issue is the return to investors. The questions that users of public sector financial reports may need information in order to answer include:
- (a) Has the entity provided its services in an efficient and effective manner?
 - (b) How did the entity finance its activities and meet its cash requirements? Were the current-year taxes and its other resources sufficient to cover the cost of current-year services?
 - (c) Did the entity's ability to provide services improve or deteriorate compared with the previous year? To what extent has the burden of paying for current services shifted to future-year taxpayers?
 - (d) What resources are currently available for future expenditures and to what extent are resources reserved or restricted for specified users?

Provision of Goods and Services

- 2.5 Economic theory suggests that governments have a role in providing social goods (also called public goods). One of the best examples is public parks. In accordance with this theory the main objective of government is to provide goods and services that enhance or maintain the well-being of citizens and other eligible residents. Many government services are provided in a non-competitive environment, because they are unlikely to be provided by other entities, e.g. welfare programs, or because it is not considered appropriate for them to be provided through competitive market mechanisms on public policy grounds, e.g., policing and defense. The level and quality of publicly provided goods and services is not normally related to the amount that an individual contributes through taxation or contributions. Dependent upon the provisions of the program an individual may have to pay a charge or fee and/or have had to make specified contributions to access certain services. Notwithstanding this point such transactions are still of a non-exchange nature because the amount that an individual or group of individuals obtains in benefits will not be approximately equal to the amount of any fees or contributions. The provision of goods and services through non-exchange transactions has implications for a number of aspects of a public sector conceptual framework. These include, but are not limited to (a) the scope of financial reporting (b) the definition of elements and (c) the measurement of those elements.

Taxation and Other Involuntary Transfers

- 2.6 The principal source of revenue for governments and other public sector entities is taxation, which is a legally mandated involuntary transaction between individuals and business enterprises and government. Conversely, for-profit entities rely for

the large majority of their revenue on exchange transactions that are entered into voluntarily.

- 2.7 Tax raising powers can vary considerably. In centralized nations it is likely that most tax raising powers will lie with central government with sub-national entities having circumscribed powers to inflows from specified taxes and a highly limited ability to create new tax sources. In decentralized countries sub-national entities may have much more extensive rights to the inflows from broader sources of taxation and much more discretion over levels of taxation and the creation of new sources of taxation.
- 2.8 Where entities have limited access to direct tax inflows they are likely to be dependent upon transfers from entities at higher levels of government. While some of these transfers may have conditions attached to them and, arguably, are quasi-contractual in nature, they are non-exchange in character. International organizations are largely funded by inflows of a non-exchange nature. These may be governed by treaties and conventions or be made on a purely voluntary basis. Similarly to the provision of goods and services in non-exchange transactions the reliance on taxation and other involuntary transfers has implications for a number of aspects of a public sector conceptual framework.

3 Property Plant and Equipment in the Public Sector

- 3.1 In the private sector the primary reason for holding property, plant and equipment and other assets is to generate cash flows that contribute to the profits of the entity, either directly or in combination with other assets. In the public sector, because the main objective of governments and public sector entities is the provision of goods and services to citizens and other eligible individuals and groups, most assets are not held primarily for cash-generating purposes, but in order to deliver services. Certain assets will generate cash flows, but in most cases this will be incidental to the provision of services, rather than the primary objective of holding them. For example, the tenants of social housing units will pay rents. While rental income may be an important inflow on which future maintenance and refurbishment of the housing stock wholly or partially depends, the primary purpose of social housing is to provide accommodation for individuals and families who are not home-owners and may not be able to participate in the private rental sector.
- 3.2 Because they exist primarily to deliver services a high proportion of assets deployed by public sector entities are specialized in nature. There may be a very limited market for such assets and, even then, they may need considerable adaptation in order to be used by other operators. This has potential implications for measurement. .

4 Responsibility for Heritage Items

- 4.1 Governments and other public sector entities may have extensive responsibilities for heritage items. Such items include national art treasures, historical buildings, and other artefacts that contribute to the historical and cultural character of the

- nation or region. Governments also have responsibilities for the preservation of national parks and other areas of natural beauty and towards native flora and fauna that are key to a nation's or region's distinctive character.
- 4.2 There is a strong intergenerational aspect to these responsibilities. Such buildings, art works and national parks are part of a nation's patrimony and therefore need to be maintained for future generations. There are issues around whether such items meet the definition of an asset and, if so, the appropriate measurement basis for their recognition.

5 The Longevity of Public Sector Entities and Programs

- 5.1 The nature and extent of activities undertaken by a public sector entity and the legal formation of such entities generally means that these entities continue to exist for a very long time. There are certainly recent examples of the division or fragmentation of nation-states into a smaller number of nation-states, particularly in the former Soviet Union and Eastern Europe in the 1990s. However, generally, although political power may change regularly, national governments usually remain in existence unless a catastrophic event, such as invasion or a revolution occurs.
- 5.2 At sub-national levels public sector entities may be merged or amalgamated, but it is likely that basic public services will continue to be provided by successor or merged entities. The nature and extent of activities undertaken by a public sector entity and the legal formation of such entities generally means that these entities continue to exist for a long time. While recent global experience has demonstrated that governments may encounter severe financial they will completely cease to exist only very rarely.
- 5.3 Governments may operate a number of programs with very long-term horizons where the effects of past decisions may only eventuate many years, even decades, in the future. It can be unclear whether obligations related to such programs meet the definition of a liability in the financial statements. The ability to meet such obligations depends upon future tax flows. There is an issue of whether the power to tax, of itself, gives rise to an asset.
- 5.4 The going concern principle is fundamental in compiling the financial statements. Going concern assumes that the reporting entity's activities are sustainable for the foreseeable future, unless there is an intention to liquidate the entity, to cease operating, or there is no realistic alternative to do so. Where there are material uncertainties that cast significant doubt upon the entity's ability to continue as a going concern, those uncertainties must be disclosed and particular accounting treatments ensue.
- 5.5 Going concern has generally been less relevant in the public sector than in the private sector because of the general longevity of governments, the long-term character of many public sector programs and the very broad tax-raising powers of national governments. While sub-national entities may get into financial difficulties their main service delivery commitments are generally transferred to restructured successor entities, rather than lapsing completely.

- 5.6 While going concern may be of less significance in the public sector, the long-term sustainability of key programs is of increasing relevance. Because the financial consequences of many decisions will only become certain many years or even decades in the future, prospective financial information covering time horizons many years in the future may be necessary for accountability and decision-making purposes. This has implications for the scope of financial reporting.

6 The Importance of the Budget

- 6.1 Most governments and public sector entities prepare annual financial budgets covering current revenue and capital spending. Entities may also develop budgets covering longer time scales. These budget documents are often widely distributed and published. In the private sector commercial confidentiality means that budgets will very rarely be made publicly available.
- 6.2 In many jurisdictions the budget has a special legal significance and, historically, has been more important than the financial statements for communicating with citizens. A government's overall budget is usually the basis for setting taxation levels and is a key part of the process for obtaining legislative approval for spending. Globally, the approved budget is still the primary method by which the legislature exercises oversight and citizens and their elected representatives hold the government's management financially accountable.
- 6.3 Because of the budget's significance, information that helps users assess actual spending against a budget and the resulting surplus or deficit for the reporting period is important in determining how well a public sector entity has met its financial objectives. Comparison of actual results to the budget therefore provides information about one aspect of financial performance and is important accountability information for users of public sector financial reports. The importance of the budget needs to be borne in mind in assessing the needs of the users of financial reports and the scope of financial reporting.

7 The Regulatory Role of Government

- 7.1 Many governments have powers to regulate entities operating in certain sectors of the economy either directly or through agencies specifically created for this purpose. The composition of such agencies and their modes of operation are likely to be governed by legislative requirements. The main public policy rationale for regulation is to safeguard the interests of citizens and residents acting as consumers or to protect the population from certain risks that would not be conveyed through pricing mechanisms. Regulatory intervention also occurs where the market for particular goods or services is imperfect or where the cost of particular transactions and activities are not transmitted through pricing and may therefore be borne by those other than producers or consumers.
- 7.2 Private sector entities do not have such regulatory responsibilities. Regulatory intervention can involve governments and regulatory agencies making determinations affecting the pricing structures and operating approaches of

private sector entities. The existence of regulatory responsibilities may need to be considered in the determination of the reporting entity.

8 Ownership or Control of Rights to Natural Resources and Intangible Items

- 8.1 Governments often have the rights to natural resources such as mineral reserves, water, fishing grounds and forests, which allow them to grant licences or obtain royalties and taxes. They also have rights over areas such as the electromagnetic spectrum. It may not be immediately clear whether such rights give rise to assets.

9 Statistical Bases of Accounting

- 9.1 The purpose of reporting under statistical bases of accounting is to provide aggregated information for macro-economic and statistical modeling purposes. In the public sector the Government Financial Statistics Manual (GFSM) issued by the International Monetary Fund provides the specialized macroeconomic statistical system (the GFS system) designed to support fiscal analysis. This system is generally consistent with the system of national accounts which was last updated in 2008. The GFSM provides the economic and accounting principles to be used in compiling the statistics and guidelines for the presentation of fiscal statistics.
- 9.2 Reporting on the statistical bases of accounting is highly important in the public sector. The focus of this reporting is on the general government sector (GGS). The GGS includes all institutional units whose output is intended for individual and collective consumption and mainly financed by compulsory payments made by units belonging to other sectors, and/or all institutional units principally engaged in the redistribution of national income and wealth. The GGS is subdivided into four subsectors: central government, state governments, local government and social security funds. Unlike whole of government accrual based accounts, where entities at sub-national levels of government are only consolidated where national government has the ability to control their financial and operating policies, the boundary of the GGS is not dependent upon the existence of such relationships.
- 9.3 Accounting and statistical bases for reporting financial information have different objectives, focus on different reporting entities and treat some transactions and events differently. However, they also have many similarities in treatment, deal with similar transactions and events and in some cases have a similar type of report structure. There has also been a considerable amount of convergence between statistical and accrual reporting bases in recent years, although the different objectives of the two systems and the focus on different reporting entities means that full convergence would be neither feasible nor desirable. The importance of statistical accounting can mean that users can be confused by the presentation of financial information according to two different bases and the differing reporting entities. In developing concepts for the public sector the

requirements of statistical accounting need to be considered, for example in developing definitions of elements.

10 Conclusion

- 10.1 There are numerous areas where the transactions of government and other public sector entities and other economic phenomena are the same as those in the private sector. In such cases the conceptual underpinning will probably not differ from the private sector. However, the areas identified in this paper may give rise to conceptual perspectives that differ from those in the private sector.

Appendix D

Reporting Information in Accordance with the Conceptual Framework

