

# STAFF COLLATION OF RESPONSES TO EXPOSURE DRAFT, KEY CHARACTERISTICS OF PUBLIC SECTOR WITH POTENTIAL IMPLICATIONS FOR FINANCIAL REPORTING

## List of Respondents:

Response #	Respondent Name	Country	Function
001	Accounting Standards Board	South Africa	Standard Setter/Standards Advisory Body
002	Dr. Joseph S. Maresca	USA	Academic
003	Joint Accounting Bodies	Australia	Member or Regional Body
004	Ministry of Finance Quebec	Canada	Preparer
005	KPMG IFRG Limited	UK	Accountancy Firm
006	Cour des Comptes	France	Audit Office
007	Danish Agency for Governmental Management	Denmark	Preparer
008	Government of Canada	Canada	Preparer
009	Conseil de Normalisation des Comptes Publics (CNOCP)	France	Standard Setter/Standards Advisory Body
010	Zambia Institute of Chartered Accountants	Zambia	Member or Regional Body
011	HM Treasury	UK	Preparer
012	The Institute of Chartered Accountants in English and Wales(ICAEW)	UK	Member or Regional Body
013	Australasian Council of Auditors-General (ACAG)	Australia	Audit Office
014	Chartered Institute of Public Finance and Accountancy (CIPFA)	UK	Member or Regional Body
015	Corte dei conti	Italy	
016	Denise Silva Ferreira Juvenal	Brazil	Other: Accountant
017	Department of Finance and Deregulation	Australia	Preparer
018	Felicitas T Irungu	Kenya	Other: Accountant
019	Association of Government Accountants	USA	Other: national professional body
020	Grant Thornton UK LLP	UK	Accountancy Firm
021	Institut der Wirtschaftsprufer (IDW)	Germany	Member or Regional Body
022	The International Consortium on Governmental Financial Management (ICGFM)	Supranational	Other
023	Prof. Michael E. Bradbury(Massey University)	New Zealand	Academic
024	Prof. Martin Dees (Nyenrode University)	Netherlands	Academic
025	Provincial Government of Newfoundland and Labrador	Canada	Preparer
026	United Nations Systems	Supranational	Preparer
027	Frank Walker	USA	Other: Accountant
028	Federation of European Accountants (FEE)	Supranational	Member or Regional Body
029	Ministry of Finance of Ontario	Canada	Preparer
030	Ministry of Finance of Saskatchewan	Canada	Preparer
031	Public Sector Accounting Board (PSAB, from staff)	Canada	Standard Setter/Standards Advisory Body

<b>Response #</b>	<b>Respondent Name</b>	<b>Country</b>	<b>Function</b>
032	Direction Générale des Finances Publiques	France	Preparer
033	Australian Accounting Standards Board (AASB)	Australia	Standard Setter/Standards Advisory Body
034	Comptroller's Division of Manitoba	Canada	Preparer
035	Province of British Columbia	Canada	Preparer
036	Swiss Public Sector Financial Reporting Advisory Committee	Switzerland	Standard Setter/Standards Advisory Body
037	Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC)	Australia	Preparer
038	Advancing Government Accountability (AGA)	USA	



The Technical Director

International Public Sector Accounting Standards Board

International Federation of Accountants

277 Wellington Street West, 6<sup>th</sup> Floor

Toronto, Ontario M5V 3H2 Canada

Per e-mail [stepheniefox@ifac.org](mailto:stepheniefox@ifac.org)

31 August 2011

Dear Stephenie,

**COMMENTS ON KEY CHARACTERISTICS OF THE PUBLIC SECTOR WITH POTENTIAL IMPLICATIONS FOR FINANCIAL REPORTING**

We welcome the opportunity to provide comments on the Paper on *Key Characteristics of the Public Sector with Potential Implications for Financial Reporting*. Overall, we are supportive of the Paper and believe that it is an extremely useful tool which can be used by readers with both a financial and non-financial background, to familiarise themselves with the main issues affecting financial reporting in the public sector. We have outlined comment on the detail of the document in the Annexure to this letter.

In response to the specific question raised in the Invitation to Comment regarding the placement of this document, we are of the view that:

- The document should not necessarily form part of the introduction to, or text of, the conceptual framework. This document has links to the conceptual underpinnings of the pronouncements issued by the IPSASB and it has very clear implications for the standard-setting agenda and standard-setting activities of the IPSASB.
- As a result, we believe that this document could enhance certain aspects of the existing Preface. In particular, it could be used to enhance paragraph 18 of the Preface which outlines the process followed by the IPSASB in identifying projects and how it sets specific standards. By using the Paper to enhance the Preface, credibility would also be given to the pronouncements issued by the IPSASB's as a clear outline would be provided of the key issues the Board considers in developing its Standards.
- Regardless of the placement of the document, the scope of the Paper could be expanded to highlight the fact that, while there are many public sector issues that may result in different reporting to the private sector, there are certain transactions that are sector neutral, e.g. leases and certain financial instruments. In these instances, there may be little or no difference between the issues faced by the private and public sector.

Board Members: Ms K Bromfield, Mr R Cottrell (Chairperson), Mr V Jack, Ms CJ Kujenga, Mr K Kumar,  
 Mr T Makwetu, Mr F Nomvalo, Mr G Paul, Mr I Sehoole, Mr V Smith  
 Chief Executive Officer: Ms E Swart

- If this Paper supplements the Preface, the conceptual framework should state that these are the key issues that were considered in formulating the concepts underlying the IPSASB's pronouncements.

The comments outlined in this letter have been prepared by the Secretariat and not the ASB Board. In formulating these comments, the Secretariat undertook a limited consultation with preparers, auditors and other interested parties in South Africa.

Please feel free to contact me should you require clarification on any of our comments.

Yours sincerely

A handwritten signature in cursive script that reads "Erna Swart". The signature is written in dark ink and is positioned above the printed name and title.

Erna Swart

Chief Executive Officer

**Annexure – Detailed comments on *Key Characteristics of the Public Sector with Potential Implications for Financial Reporting***

Our specific comments on the content of the Paper are outlined in the table below:

Ref	Comment
2.3	<p>This paragraph focuses on the performance of an entity in the context of its service delivery objectives, and has been included under the heading of “The Volume and Significance of Non-exchange Transactions”.</p> <p>An entity’s performance in terms of its service delivery objectives is critical to all services provided by an entity, some of which may result from exchange transactions. As a result of the importance of performance reporting and, the fact that this has been identified as a key information area by the IPSASB, it warrants greater prominence in this Paper.</p> <p>Part (a) of this paragraph refers to whether an entity has provided services in an efficient and effective manner. It might be useful to add to the beginning of the sentence “<u>The quantum of services provided and, whether the entity</u> has provided its services in an efficient and effective manner.”</p>
2.8	<p>Paragraph notes that “Economic theory suggests that governments have a major role in providing public goods (also called social goods).” This paragraph then goes on to explain that (a) consumption of the goods by one individual does not reduce their availability for consumption by others and (b) individuals cannot be effectively excluded from consuming the goods.</p> <p>We contend that there is in fact a difference between public goods and social goods, although the opening sentence of this paragraph suggests that they are one and the same thing. While the consumption of public goods by one person does not reduce their availability of others (e.g. parks, defence and policing), the availability of social goods can be reduced as they are consumed by others, e.g. healthcare and education.</p> <p>As a result, we suggest deleting the wording “also called social goods” in the opening sentence.</p>
5.2	<p>The last sentence of paragraph 5.2 states that: “There are issues concerning whether such items meet the definitions of an asset, the recognition criteria for assets and, if so, the appropriate measurement basis.”</p> <p>We would suggest amending the sentence as follows as it is clear that some heritage items do meet the definition of an asset, e.g. a painting acquired by a public sector entity: “There are issues concerning whether <u>all</u> such items meet the definitions of an asset, the recognition criteria for assets and, if so, the appropriate measurement basis.”</p>
6.1	<p>In order to strengthen the argument for the continued existence of governments, we would suggest adding a sentence between the last and penultimate sentence in the paragraph indicating that, it is usually the political landscape that threatens the existence of governments (and entities) rather than their financial viability.</p>
6.2	<p>We question the reference to ‘sub-national’ in the opening sentence. In our experience, mergers and amalgamations may occur at any level of government and not just sub-national government.</p>

Technical Director  
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 Stepheniefox@ifac.org

## **Public Sector Financial Reporting**

**Due: 8-31- 2011**

**Comments By: Dr. Joseph S. Maresca CPA, CISA**

Colleagues,

Thank you for the opportunity to critique this reporting requirement. Details follow:

Background:

**Question 1:** Is there useful background information for public sector financial reporting? *Yes*

**Question 2:** Should documents be included as IPSASB literature? *Yes*

**Question 3:** Should the documents be formulated in terms of conceptual formulation or a handbook?

Critique:

*The member believes that conceptual formulation would provide more useful information because the matter would be identified as an accounting principle. Handbooks tend to get discarded. In addition, conceptual formulation should be described fully to all students of accounting in current texts on the subject.*

Public Sector Financial Reporting serves government established legal requirements. 1.2/pp.5  
*Generally, government and municipal accounting tends to be grounded firmly in statute or stare decisis which is a creature of the Courts which interpret law.*

The government makes decisions on the distribution of scarce resources. 1.4/ pp. 5  
*Generally, budgets are formulated periodically which set forth how scarce resources are to be expended for the public benefit.*

The government doesn't generate profit but does generate value. 2.1/ pp. 6  
*Government systems generate continuing value because the tracking mechanisms become predefined and needn't be extensively recreated over time. Government infrastructure projects generate cash flows over future decades of use and utilization fees. The Great Wall of China generated value over the centuries once it was built because marauders were kept at bay. Today, solar energy panels could be built along the Great Wall to generate value for decades to come.*

*Combination technologies like solar and desalination plants could generate value into the future by putting into place enhanced water capabilities for human and farm use.*

Taxes are a primary source of revenue. 2.1 to 2.7 / pp. 7  
*Current taxes are a source of revenue. Excess consumption taxes are both a source of revenue and a "carrot and stick" approach. This approach tends to discourage behavior that is inimical to the public health or interest.*

Assets generate cash flows like buildings, highways, bridges, tunnels etc. 4.1/ pp. 9  
*Assets generate both continuing value and future cash flows to pay off debt servicing in current periods.*

The "Going Concern" principle is fundamental to the compilation of financial statements. 6.4 to 6.5/ pp. 10  
*In places like China, the "Going Concern" concept is undermined by random Acts of G-d like huge floods, earthquakes and tsunamis. The advent of these natural crises force governments to*

*expend huge amounts of resources to attend to the needs of local citizens and repair public and private property.*

*Long term sustainability is a most fundamental or elemental principle.*

The government may control rights to natural resources. 8.1/ pp.11

*Generally, the government may quantify what exists in the form of natural resources via provable reserves*

*of oil, gas and other precious resources in a finite supply- at least on Earth. Places like Saturn's moon Titan*

*have huge reserves of hydrocarbons and gases which are in finite supply on the Earth.*

What are the requirements for statistical accounting? 9.1 to 9.3 / pp. 11

The requirements of statistical accounting are varied. Examples are as follows:

- *range of data quantification i.e. fund balances*

- *error rates in data entry/ preparation described by distributions like the Poisson or Normal Distributions*

- *correlation of data and regression ; such as, National Income Accounting data and trends*

- *probabilistic implications may be seen in Contingency Planning and Contingency Accounting*

31 August 2011

Stephenie Fox  
Technical Director  
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TORONTO ONTARIO CANADA M5V 3H2

By email: [stepheniefox@ifac.org](mailto:stepheniefox@ifac.org)

Dear Stephenie

**IPSASB Exposure Draft; Key Characteristics of the Public Sector with Potential Implications for Financial Reporting**

CPA Australia, the Institute of Chartered Accountants in Australia and the Institute of Public Accountants (the Joint Accounting Bodies) are pleased to respond to the IPSASB Exposure Draft (ED); Key Characteristics of the Public Sector with Potential Implications for Financial Reporting.

The Joint Accounting Bodies represent over 190,000 professional accountants. Our members work in diverse roles across public practice, commerce, industry, government and academia throughout Australia and internationally.

The Joint Accounting Bodies comments to the two specific matters raised in the ED follow;

**Do you agree that this document provides useful background information on the key characteristics of the public sector and identifies some potential implications of those key characteristics for financial reporting? If not, please indicate how you would modify the document.**

Financial reporting by the public sector in Australia has been based on the conceptual framework (CF) and accounting standards issued by the Australian Accounting Standards Board (AASB) for some years now. The CF and accounting standards are IASB's Framework for the Preparation and Presentation of Financial Statements and the International Financial Reporting Standards (IFRS) with additional text to deal with the limited cases where there is a need to have additional or different requirements for public sector entities. Australia's regime of standard setting has been based on the principle of transaction neutrality, which means that wherever possible transactions should be accounted for the same way. Exceptions are only made where the circumstances of the public sector and not-for profit sector require them.

One example is AASB 102 – Inventories, where “Aus” paragraphs were inserted to ensure inventories held for distribution by public sector entities are measured at cost adjusted when applicable for any loss of service potential (instead of net realisable value). In addition, to ensure the specific reporting needs of the public sector are met, the AASB have issued additional standards, including AASB 1004 – Contributions, AASB 1049 – Whole of Governments and General Government Sector Financial Reporting, AASB 1050 – Administered Items, AASB 1051- Land Under Roads and AASB 1052 – Disaggregated Disclosures.

**Representatives of the Australian Accounting Profession**



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The Institute of  
Chartered Accountants  
in Australia

[charteredaccountants.com.au](http://charteredaccountants.com.au)



IPA INSTITUTE OF PUBLIC  
ACCOUNTANTS

[publicaccountants.com.au](http://publicaccountants.com.au)

The characteristics of the Australian public sector are much like those articulated in the ED. We agree the ED provides useful background information on key characteristics of the public sector and identifies some potential implications of those key characteristics for financial reporting. As supporters of transaction neutrality we would continue to encourage the IPSASB to liaise closely with the architects of the IASB/FASB CF to ensure a sufficiently broad accounting framework whose language can accommodate the key characteristics and reporting needs of the public and private sectors. We consider the ED can be used to further that approach.

**Do you agree that this document should be included as part of the IPSASB's literature? If you agree, where do you think the material in this document should be located:**

- (a) As part of the Conceptual Framework;**
- (b) As a separate section of the *Handbook of International Public Sector Accounting Pronouncements*; or**
- (c) Elsewhere with some other status – please specify?**

The Conceptual Framework Exposure Draft issued by IPSASB in December 2010 includes a dedicated section on the reporting entity. Whilst this subsequent ED provides useful background information in understanding the key characteristics of a public sector entity's financial reporting, we believe that the information should be integrated as part of the Conceptual Framework to demonstrate not only the key characteristics of public sector entities, but also how these characteristics would impact upon the financial (and non-financial) reporting of those entities. It may be possible that such a discussion could be suitably located within the basis of conclusions that form part of the CF.

If you require further information on any of our views, please contact Ram Subramanian, CPA Australia by email [ram.subramanian@cpaaustralia.com](mailto:ram.subramanian@cpaaustralia.com), Kerry Hicks, the Institute of Chartered Accountants by email [kerry.hicks@charteredaccountants.com.au](mailto:kerry.hicks@charteredaccountants.com.au) or Tom Ravlic, the Institute of Public Accountants by email [tom.ravlic@publicaccountants.org.au](mailto:tom.ravlic@publicaccountants.org.au).

Yours sincerely

**Alex Malley**  
**Chief Executive Officer**  
**CPA Australia Ltd**

**Graham Meyer**  
**Chief Executive Officer**  
**Institute of Chartered**  
**Accountants in Australia**

**Andrew Conway**  
**Chief Executive Officer**  
**Institute of Public Accountants**

August 31, 2011

Ms. Stephenie Fox  
Technical Director  
International Public Sector Accounting Standards Board  
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277 Wellington Street West, 6th floor  
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**RE: Exposure Draft - Key Characteristics of the Public Sector with  
Potential Implications for Financial Reporting**

Dear Madam,

Please find enclosed our comments on the above-referenced exposure draft.

**Item for comment 1:**

- Do you agree that this document provides useful background information on the key characteristics of the public sector and identifies some potential implications of those key characteristics for financial reporting? If not, please indicate how you would modify the document.

We agree and, in our view, it is essential that these items be addressed in IPSASB literature.

**Item for comment 2:**

- Do you agree that this document should be included as part of the IPSASB's literature? If you agree, where do you think the material in this document should be located:
  - As part of the Conceptual Framework,
  - As a separate section of the *Handbook of International Public Sector Accounting Pronouncements*, or
  - Elsewhere with some other status - please specify?

We agree. In our view, the content of this document should be placed with the conceptual framework given the close interrelationship between the items.

...2

**Other comments**

- The content of the exposure draft should be more factual, i.e. it should avoid setting out the potential impacts of the public sector's characteristics on the conceptual framework and focus on the characteristics themselves. These impacts should be examined in the other phases of development of the IPSASB conceptual framework.
- **Paragraph 1.3:** the expression "public sector" should be defined more precisely. The proposed content of the paragraph identifies entities that are part of the public sector, but it gives no guidance on the criteria to be used to conclude that a given entity is included in the public sector. In Canada, for example, the guidelines to be used are clear and refer to entities that are either included or not in the government reporting entity.
- **Paragraph 2.3:** The needs of users of public sector financial reports should be exhaustively described. Among the examples cited, we note that the need "Has the entity provided its services in an efficient and effective manner?" is too broad in coverage and exceeds the scope of accounting.
- **Paragraph 6.6:** Prospective financial information frequently involves assumptions based on disciplines outside accounting and subject to interpretation. Accordingly, prospective financial information should not be included in the scope of financial reports.
- Transparency in the presentation of decisions, events, activities, policies and results arises from the obligation of public sector accountability. In our view, this characteristic of the public sector should be added to the document's content.

We hope that these comments will be helpful as you continue your work.

Yours truly,

André Miville, CA  
Director General,  
Professional Practice

Le 31 août 2011

Madame Stephenie Fox  
Directrice technique  
Conseil des normes comptables internationales du secteur public  
Fédération internationale des comptables  
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**OBJET : Exposé-sondage - Principales caractéristiques du secteur public et répercussions potentielles sur la publication de l'information financière**

Madame,

Vous trouverez ci-joints nos commentaires concernant l'exposé-sondage ci-dessus mentionné.

**Sujet à commenter 1 :**

- Êtes-vous d'accord que ce document procure de l'information fondamentale sur les caractéristiques clés du secteur public et identifie des impacts potentiels sur les rapports financiers? Si non, indiquez comment ce document pourrait-il être modifié.

Nous sommes d'accord et, à notre avis, il est primordial que ces éléments soient abordés dans la littérature de l'IPSASB.

**Sujet à commenter 2 :**

- Êtes-vous d'accord que ce document devrait être inclus à la littérature de l'IPSASB? Si vous êtes d'accord, où le contenu de ce document devrait-il être situé :
  - avec le cadre conceptuel,
  - dans une section distincte du Manuel des recommandations internationales pour le secteur public, ou
  - ailleurs avec un autre statut? Spécifiez.

Nous sommes d'accord. À notre avis, le contenu de ce document devrait être situé avec le cadre conceptuel étant donné l'étroite interrelation entre les éléments.

...2

**Autres commentaires**

- Le contenu de l'exposé-sondage doit être plus factuel, c'est-à-dire qu'il doit éviter d'élaborer les impacts potentiels des caractéristiques du secteur public sur le cadre conceptuel et se concentrer sur les caractéristiques elles-mêmes. Ces impacts devraient être analysés dans les autres phases du développement du cadre conceptuel de l'IPSASB.
- **Paragraphe 1.3 :** L'expression « secteur public » devrait être mieux définie. Le contenu proposé du paragraphe identifie des entités qui font partie du secteur public, mais il ne donne pas d'indications sur les critères à utiliser pour conclure qu'une entité donnée en fait partie. Au Canada, par exemple, les balises à utiliser sont claires et font référence aux entités qui sont incluses ou non au périmètre comptable du gouvernement.
- **Paragraphe 2.3 :** Les besoins des utilisateurs des rapports financiers du secteur public devraient être décrits exhaustivement. Parmi les exemples cités, nous constatons notamment que le besoin suivant « L'entité a-t-elle fourni ses services de manière efficace et efficiente? » a une portée trop large qui excède le champ d'application de la comptabilité.
- **Paragraphe 6.6 :** L'information financière prospective fait fréquemment intervenir des hypothèses établies selon des disciplines autres que comptables et sujettes à interprétations. En conséquence, l'information financière prospective ne devrait pas être incluse dans la portée des rapports financiers.
- La transparence dans la présentation des décisions, des événements, des activités, des politiques et des résultats découle de l'obligation de reddition de comptes du secteur public. À notre avis, cette caractéristique du secteur public devrait être ajoutée au contenu du document.

Nous espérons que ces commentaires seront utiles dans la poursuite de vos travaux.

Veillez agréer, Madame, nos salutations distinguées.

Le directeur général de la  
pratique professionnelle,



André Miville, CA

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Your ref ED – Key Characteristics  
of the Public Sector  
Our ref  
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31 August 2011

Dear Ms. Fox

**ED – Key Characteristics of the Public Sector with potential implications for financial reporting**

*Summary comments*

We appreciate the opportunity to respond to the International Public Sector Accounting Standards Board's ('IPSASB' or the 'Board') Exposure Draft ('ED') entitled *Key Characteristics of the Public Sector with potential implications for financial reporting*, dated April 2011. We have consulted within the KPMG network in respect of this letter, which represents the views of the KPMG network.

We recognise that the Public Sector has a number of specific characteristics that set it apart from other sectors (e.g. commercial entities or not-for-profit organisations); these characteristics can give rise to assets and liabilities that are very different from those in other sectors. We therefore welcome this ED, which should be a fundamental part of the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* ('the Conceptual Framework').

We acknowledge the need to approach the development of the Conceptual Framework, including the Key Characteristics, in phases as is the current approach being undertaken by the Board. However, we do not consider that the final result should be separate documents, one for each individual phase of the Framework and an additional Key Characteristics standard. Instead, we consider that a single Conceptual Framework document, incorporating the complete Framework and Key Characteristics, should be issued. The Framework is a single project and a single standard will make this clearer and easier for preparers and users to understand how the different aspects relate with each other and form part of the whole. In order to accomplish this, we recognise that later phases of the Board's joint framework project may need to include amendments to those parts of the Framework completed in previous phases.

We consider that the relationships between the concepts addressed in each phase of the Framework, including this Key Characteristics document, are sufficiently interdependent such that an opportunity to provide commentary on the whole Framework should be provided once all phases are tentatively completed. We therefore consider that the complete Framework should be exposed in proposal form for public comment prior to issuance in a final standard.

While supportive of the draft, we have considered the specific matters for comments in the ED and also have some comments on specific issues addressed in the ED. These follow below:



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*Specific Matter for Comment 1*

You ask whether “*this document provides useful background information on the key characteristics of the public sector and identifies some potential implications of those key characteristics.*” Whilst we have a number of comments on specific issues, raised later in this letter, we consider that the document does provide useful background information. However, it only gives a brief overview of the key characteristics. This is perhaps unavoidable, as a comprehensive discussion would require “a book”, and we do believe that the relative brevity of the discussion does not detract from the value of the document; however, this should be acknowledged in the introduction.

More important, however, the ED does not always state clearly what are the potential financial reporting implications of the specific characteristics described, or how they would be taken into account. We consider that the final document, when incorporated into the Conceptual Framework, should include references to where the reporting implications are described in more detail, whether in the Conceptual Framework or in specific standards.

*Specific Matter for Comment 2*

You ask whether “*this document should be included as part of IPSASB’s literature and, if so, where should it be located.*” As noted above, we consider that it provides useful information which will help those new to Public Sector accounting to understand the Conceptual Framework, and that it should therefore be included as an integral part of the Conceptual Framework, in the same way that Bases for Conclusions and Implementation Guidance are integral to International Public Sector Accounting Standards.

*Comments on specific issues raised in the ED*

**Section 1: Introduction**

While we agree with the example public sector entities in Section 1.3, the section would be more helpful if it also provided a clear definition of the public sector. The section should include a discussion on the treatment of specific groups among the public (e.g. First Nations) and their inclusion in or exclusion from the public sector. Similar discussion should be included regarding treatment of quasi-government bodies such as state funded school systems.

Whilst we concur with the IPSASB’s comments in this Section, we would wish to add the following to Section 1.4:

“Moreover, the success of public sector entities often reflects the effectiveness with which they deliver services and/or the efficiency of their delivery, rather than the impact of the activities. For example, a department with responsibility for collecting taxes would be assessed on whether taxes were collected efficiently and in accordance with the law, and on the comparison of the actual amount collected with the estimate in the budget. It is only at the Whole-of-Government level that the overall income and expenses can be examined.”

**Section 2: The Volume and Financial Significance of Non-Exchange Transactions**

We concur that the high incidence of non-exchange transactions is a feature of the public sector that currently distinguishes it from the commercial sector. However, we note that revenue recognition under International Financial Reporting Standards is moving to the concept of



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performance obligation; the distinction between exchange and non-exchange transactions will therefore diminish in future.

We would therefore stress the third paragraph of this Section (i.e. that the primary objective of public sector entities is to deliver goods and services and not to generate profits), rather than the first two paragraphs.

We would add that, in addition to non-exchange transactions, the public sector also has more examples of exchanges of assets with approximately equal value, which result in little or no change in the economic status of either entity. Two examples of such exchanges are:

- 1 Exchanges of parcels of land between an urban public sector agency and a developer, enabling the agency to obtain land in a blighted area in order to redevelop it; or
- 2 Exchanges of artifacts between museums.

Whilst we concur with the questions listed in Section 2.3, we would add the following to the list:

“Was the entity’s ability to provide services greater or less than had been anticipated in its budget and workplan?”

Section 2.8 describes public goods (also called social goods). We concur with the definition but we would add the following additional factors:

- Some business models in the commercial sector include assets that are public goods, as defined here. One example is open-source computer coding (e.g. Linux); and
- Some public goods have competing uses, where the consumption by one set of users can impair the consumption by another. For example, national parks can be used for conservation, research or public recreation. However, if one of these uses is given clear priority, it will reduce the use for other purposes.

### **Section 3: The Importance of the Budget**

Further differences between the public and commercial sectors are that:

- In the commercial sector, income and expenses are closely related. An entity incurs expenses in order to generate income; some of this income is then used to pay for further expenses, which in turn generate additional income. (Some expenses are not intended to generate income in the current period, but are important for the growth and development of an entity – e.g. research and development, marketing, etc.) In the public sector, income and expenses are often unrelated activities below the ‘whole of government’ level of reporting and, as a result, the budgets for income and expenses are often unlinked; and
- In the commercial sector, organisations incur expenditure on fixed assets (tangible or intangible) in order to generate additional income; the budgets for such assets need to assess whether they will generate sufficient income to justify their costs. In the public sector, expenditure on fixed assets usually leads to additional running costs; the budgets for these assets need to include such costs and the assessment is normally whether the assets will generate sufficient services to justify their cost (capital expenditure and running costs).



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#### **Section 4: The Nature of Property, Plant and Equipment**

We concur with this section and have no comments to add.

#### **Section 5: Responsibility for National and Local Heritage**

We concur with this section and have no comments to add.

#### **Section 6: The Longevity of the Public Sector**

Whilst we generally concur with the section, we note that some commercial sector activities also have a long lifespan. In particular, some mortgages and other insurance policies can last more than one generation.

Moreover, the example of changes in Section 6.1 is good but will quickly become dated. We therefore recommend the following changes (the additions and deletions are highlighted):

“There are certainly **recent** examples of the division or fragmentation of nation-states into a number of smaller nation-states, **particularly e.g.** in the former Soviet Union and Eastern Europe in the 1990s.

#### **Section 7: The Regulatory Role of Government**

We concur with this section and have no comments to add.

#### **Section 8: Ownership or Control of Rights to Natural Resources or Phenomena**

We concur with this section and have no comments to add.

#### **Section 9: Statistical Bases of Accounting**

We concur with this section and have no comments to add.

We appreciate the opportunity to respond to this Exposure Draft. Please contact Archie Johnston at +1 604 527-3757, Peter Greenwood at +1 604 691 3187, Mark Jerome at +856 20 7808 3399 or Mary Tokar at +44 207 694 8871 if you wish to discuss any of the issues in this letter.

Yours sincerely

*KPMG IFRG Limited*

KPMG IFRG Limited



À Paris, le 30 AOUT 2011

**Comité consultatif sur la normalisation des comptes publics***Le Président***Objet : exposé-sondage de l'IPSAS Board sur les « caractéristiques clés du secteur public »**

Le présent document constitue une réponse de la Cour des comptes française, relative à l'exposé-sondage de l'IPSAS Board sur les « *caractéristiques clés du secteur public pouvant avoir des implications sur le reporting financier* ».

Au sein de la Cour des comptes, le comité consultatif des juridictions financières sur la normalisation des comptes publics prépare les avis de celle-ci sur les questions de normalisation comptable relatives aux trois secteurs des administrations publiques (Etat, collectivités territoriales, sécurité sociale). Ce comité prépare les positions qui seront tenues par les représentants des juridictions financières dans les différentes instances de normalisation.

**1. La situation en France**

En France, la comptabilité des entités du secteur public non marchand relève de normes et règles généralement proches de celles appliquées par le secteur privé, avec des différences selon les secteurs :

- la Constitution dispose, depuis la dernière révision constitutionnelle du 21 juillet 2008, dans son article 47-2, que « *les comptes des administrations publiques sont réguliers et sincères. Ils donnent une image fidèle du résultat de leur gestion, de leur patrimoine et de leur situation financière* » ;

- pour l'Etat, le principe fixé dans la loi organique relative aux lois de finances<sup>1</sup> est celui d'une application des règles du secteur privé, « *sous réserve des spécificités de l'action de l'Etat* » ;
- les organismes de sécurité sociale appliquent un plan comptable dont les règles ne s'écartent du plan comptable général (applicable aux entreprises non soumises aux IFRS) que si des mesures législatives et réglementaires spécifiques en disposent autrement ;
- les collectivités territoriales appliquent un plan comptable inspiré du plan comptable général, tout en conservant des spécificités liées aux contraintes budgétaires<sup>2</sup>.

Dès lors, compte tenu de ce cadre, il est justifié de rechercher les spécificités de ces entités qui peuvent conduire à adapter les règles comptables applicables aux entreprises. L'exposé sondage de l'IPSAS Board y contribue.

## **2. Les spécificités identifiées par l'IPSAS Board**

Comme l'indique l'IPSAS Board dans son exposé-sondage, les entités du secteur public, parmi lesquelles les Etats, disposent d'une large étendue de pouvoirs, tout en étant caractérisées par une grande variété de systèmes d'organisation juridique dans le monde.

L'IPSAS Board identifie les spécificités suivantes relatives aux entités publiques :

- le volume et le poids financier des opérations dites sans contrepartie, parmi lesquelles les prélèvements fiscaux et sociaux, les transferts et la production de biens et services hors marché ;
- l'importance du budget ;
- la nature des actifs corporels détenus par les entités publiques ;
- la responsabilité de la préservation des biens historiques nationaux et locaux, ainsi que de certaines zones naturelles ;
- la longévité des entités du secteur public ;
- le rôle juridique (législatif et réglementaire) des entités publiques ;

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<sup>1</sup> Loi organique n°2001-692 du 1<sup>er</sup> août 2001, article 30

<sup>2</sup> Les budgets comprennent une section de fonctionnement retraçant les recettes et dépenses courantes, et une section d'investissement comprenant les subventions, les emprunts et un virement de la section de fonctionnement. La comptabilité publique locale reprend des principes de gestion orthodoxes : le budget des collectivités territoriales doit être voté en équilibre réel, les dépenses obligatoires doivent être couvertes en début d'exercice, le remboursement en capital des emprunts se fait sur ressources définitives, l'autofinancement est d'abord destiné au remboursement des dettes.

- la détention de droits sur des ressources naturelles (ex. : eau, spectre hertzien, etc.), qui leur permettent de décerner des licences ;
- l'importance de la comptabilité nationale.

### 3. Compléments

Les spécificités identifiées par l'IPSAS Board sont pertinentes. Deux compléments pourraient y être apportés.

En premier lieu, l'importance de la comptabilité nationale dans le secteur public justifie une bonne articulation avec la comptabilité générale, qui doit être recherchée, sans pour autant signifier une totale adéquation, les deux systèmes poursuivant des objectifs distincts. Il convient donc de davantage expliciter ces objectifs dans l'exposé-sondage.

En second lieu, les spécificités identifiées par l'IPSAS Board rendent nécessaire une réflexion sur la forme même des états financiers établis par les entités du secteur public, et notamment du compte de résultat, du bilan et de l'annexe.

S'agissant du bilan, IPSAS 1 « *Présentation des états financiers* » retient la forme « particulière » du bilan des entités du secteur public, avec la présentation en « blocs » des actifs, des passifs, et, de manière isolée, de la situation nette. En France, le bilan de l'Etat est établi sous cette forme, qui présente l'intérêt de refléter le simple caractère arithmétique de la situation nette.

S'agissant du compte de résultat cependant, IPSAS 1 ne tire pas toutes les conséquences des spécificités recensées dans le présent exposé-sondage. L'importance des opérations sans contrepartie conduit en effet à largement atténuer le lien entre les charges et les produits, alors qu'en comptabilité d'entreprise cette relation est fondamentale. En France, le compte de résultat de l'Etat en tire les conséquences puisqu'il est également présenté en trois « blocs » distincts (1- Produits régaliens nets, 2- Charges nettes, 3- Solde des opérations de l'exercice), et non comme le compte de résultat des entreprises.

Enfin, compte tenu de ces spécificités, une annexe plus développée que celle généralement établie par les entreprises doit être prévue, notamment pour tenir compte de la « longévité des entités du secteur public ».

Ces compléments devraient être mentionnés dans l'exposé-sondage, qui recueille néanmoins sur le fond l'accord de la Cour des comptes.



Christian BABUSIAUX

## Réponses aux questions

### Question 1

*Etes-vous d'accord sur le fait que ce document comporte des informations de contexte utiles sur les caractéristiques clefs du secteur public et identifie leurs conséquences éventuelles pour l'information financière ? Si ce n'est pas le cas, indiquez de quelle manière vous modifieriez le document.*

La Cour des comptes considère que l'exposé sondage de l'IPSAS Board apporte des éléments utiles sur les caractéristiques clés du secteur public. Les conséquences éventuelles devront en être tirées dans le cadre conceptuel des IPSAS en cours de rédaction.

### Question 2

*Etes-vous d'accord sur le fait que ce document devrait faire partie de la littérature de l'IPSAS Board ? Si oui, où ce document devrait-il figurer :*

- (a) Dans une partie du cadre conceptuel ;*
- (b) Dans une section propre au « Handbook of International Public Sector Accounting Pronouncements »; ou*
- (c) Ailleurs, avec un statut différent à préciser ?*

Cet exposé sondage vient à la suite de trois premiers documents sur le cadre conceptuel des entités du secteur public. Il doit faire partie des documents publiés par l'IPSAS Board, dans le cadre conceptuel ou ailleurs.



Paris, 7<sup>th</sup> Sept., 2011

## **Advisory Committee for the Standardisation of Public Accounts**

*The Chairman*

### **Re: IPSAS Board Exposure Draft on the Key Characteristics of the Public Sector**

The present document is the response from the French Court of Auditors to the IPSAS Board Exposure Draft on “*Key Characteristics of the Public Sector with Potential Implications for Financial Reporting.*”

Within the French Court of Auditors, the advisory committee of financial jurisdictions for the standardisation of public accounts prepares the opinions of the Court on the standardisation of financial reporting for the three sectors of public administration (national government, territorial authorities and social security). This committee prepares the positions to be defended by representatives of the financial jurisdictions before the various standardisation bodies.

#### **1. The situation in France**

In France, accounting for non-trading public sector entities is governed by rules and standards which are generally similar to those applied by the private sector, with some differences depending on the sector:

- Article 47-2 of the French Constitution, as amended further to the latest constitutional review dated 21 July 2008, provides that “*the accounts of public administrations shall be lawful and faithful. They shall provide a true and fair view of the result of the management, assets and financial situation of the said public administrations*”;
- For national government, the principle laid down in the organic law relative to the laws of finance<sup>1</sup> is that the rules related to the private sector shall apply “*subject to the specific features of government action*”;
- Social security bodies apply a chart of accounts whose rules only depart

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<sup>1</sup> Organic law no. 2001-692 dated 1 August 2001, article 30

from those of the General Accounting Chart (applicable to companies which are not subject to the IFRS) if specific legislative and regulatory measures provide otherwise;

- Territorial authorities apply a chart of accounts inspired by the General Accounting Chart, while retaining certain specific features relative to budgetary constraints<sup>2</sup>.

Accordingly, given this framework, there is a need to pinpoint the key characteristics of these entities which may lead to the adaptation of accounting rules applicable to companies. The IPSAS Board Exposure Draft is instrumental in this respect.

## **2. The key characteristics identified by the IPSAS Board**

As stated by the IPSAS Board in its Exposure Draft, public sector entities, including national governments, have broad powers, while being characterised by a large variety of legal organisation schemes throughout the world.

The IPSAS Board has identified the following key characteristics for public sector entities:

- The volume and financial significance of non-exchange transactions, including fiscal and social contributions, non-exchange transfers and the provision of goods and services in a non-market or limited market environment;
- The importance of the budget;
- The nature of property, plant and equipment held by public entities;
- Responsibility for the protection and preservation of the national and local heritage, including certain natural areas;
- The longevity of the public sector;
- The regulatory role of Government;
- Ownership or control of rights to natural resources and phenomena (e.g.: water, the electromagnetic spectrum) which enable governments to grant licences;
- The importance of national accounting (statistical bases of accounting).

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<sup>2</sup> Budgets include an operating section which tracks ordinary revenue and expenditure and an investments section including subsidies, borrowings and a transfer from the operating section. Local public accounting uses orthodox management principles: territorial authority budgets have to be voted at actual balance, mandatory expenditure must be covered at the start of the fiscal year, repayment of loan capital is drawn from definitive resources and self-financing is first and foremost earmarked for the repayment of debts.

### 3. Additional characteristics

The key characteristics identified by the IPSAS Board are appropriate. Two additions could be made to these characteristics.

First and foremost, the importance of national accounting in the public sector requires the appropriate convergence with financial accounting, without necessarily meaning that the two can converge entirely, since both systems pursue distinct objectives. Accordingly, these objectives should be explained in more detail in the Exposure Draft.

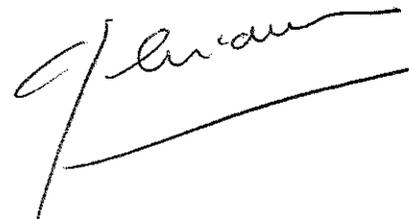
Secondly, the key characteristics identified by the IPSAS Board call for some reflection as to the form in which financial statements are presented by public sector entities and, more specifically, the statement of financial performance (or revenue statement), the statement of financial position (or balance sheet) and the notes to the financial statements.

Regarding the statement of financial position, IPSAS 1 "*Presentation of financial statements*" prescribes the "specific" form of the statement of financial position for public sector entities, where assets and liabilities are presented in "blocks" and the net position is presented separately. In France, the government's statement of financial position is presented in this form, which offers the advantage of reflecting the purely arithmetic nature of the net position.

However, regarding the statement of financial performance, IPSAS 1 fails to take account of all of the implications of the key characteristics presented in the Exposure Draft. Indeed, the scope of non-exchange transactions largely blurs the link between revenue and expenditure, while in corporate accounting, this link is absolutely fundamental. In France, the government's statement of financial performance takes these implications into account, since, unlike corporate financial performance statements, it is presented in three distinct "blocks" (1- Net State tax and fines revenue, 2- Net expenditure, 3- Balance of transactions for reporting periods).

Finally, given these characteristics, more detailed notes than those generally used by companies should be prescribed, more specifically to take account of the "longevity of the public sector".

These additions should be made to the Exposure Draft, the substance of which nonetheless meets with the approval of the French Court of Auditors.



Christian BABUSIAUX

## Answers to the questions

### Question 1

*Do you agree that this document provides useful background information on the key characteristics of the public sector and identifies some potential implications of these key characteristics for financial reporting? If not, please indicate how you would modify the document.*

The French Court of Auditors considers that the IPSAS Board Exposure Draft provides useful background information on the key characteristics of the public sector. The potential implications of these characteristics should be included in the IPSAS Conceptual Framework which is currently being drafted.

### Question 2

*Do you agree that this document should be included as part of the IPSASB's literature? If you agree, where do you think the material in this document should be located:*

- (a) As part of the Conceptual Framework;*
- (b) As a separate section of the "Handbook of International Public Sector Accounting Pronouncements"; or*
- (c) Elsewhere with some other status – please specify?*

This Exposure Draft follows on from the first three documents on the Conceptual Framework of public sector entities. It should be included as part of the IPSAS Board literature, either in the Conceptual Framework or elsewhere.

# Memo

30. august 2011  
ØKO/str

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## **Comments to the Exposure Draft: “Key Characteristics of the Public Sector with Potential Implications for Financial Reporting”**

Below, the comments from the Danish Agency for governmental management are divided into a general comments and a some specific comments regarding the conceptual framework exposure draft.

### **I. General comments**

The Danish Government Accounts Council agrees that the document – in general - provides basic background information to the key characteristics of the public sector and is a useful tool in the overall setup of the accounting standard of the public sector.

#### **Ad. ”Specific Matter for Comment 1”**

As mentioned above we generally agree to the statement - that the document provides useful background information on the key characteristics of the public sector and secondly that it identifies some potential implications of those key characteristics for financial reporting!

#### **Ad. ”Specific Matter for Comment 2”**

It is our opinion that this document should be included as part of the IPSASB’s literature and that it preferable should be located as a part of the Conceptual Framework (a).

We consider that the paper 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 potential implications on the development of a conceptual framework that reflects public sector circumstances, and accounting standard setting for the public sector. Further more we agree with the view, that the paper not is intended to provide an exhaustive listing of all the areas concerning the basic characteristics of the public sector.

### **II. Specific comments**

#### **Ad. 1.3 - concerning the general definition of the “The public sector”.**

In the Danish system the ”Government Business Enterprises (GBEs)” - known as public corporations - are considering to be basically operating on market conditions and are as a consequence not covered by the state regulatory framework but follow the private sector accounting rules.

The public sector should not include the private not-for-profit sector, even though this sector - as mentioned - does share many of the same characteristics of the public sector. However not for profit entities, which operate under government license, are primarily financed by government and can not be sold according to the law - in Denmark covered by the state regulatory framework.

**Ad. 1.5 - concerning the fact that there is numerous of areas where the transactions, events and other economic phenomena that occur in the public sector are the same as those in the private sector.**

In such cases the concepts that should be applied to determine appropriate financial reporting will probably resemble those in the private sector. On the other hand, this does not preclude conceptual perspectives that differ from those in the private sector and in some cases significantly.

**Ad. 2.3 - concerning the broader information needs for users of financial reports of public sector entities than users of financial reports of private sector entities**

In general the users of financial reports of public sector entities have a broader information needs than users of financial reports of private sector entities, where key issues are the return to investors and the ability to meet obligations to creditors. For the public sector the principles first and foremost should serve to assess the resource and target fulfilment.

**Ad. 2.5 – 2.6 - concerning tax raising powers.**

In this connection we find cause to note, that we in “the Danish system” do not include public sector rights as those associated with the power to pay tax in our financial statements. In the same way we do not include public sector entity obligations such as those associated with its duties and responsibilities as a government.

**Ad. 3.1 – concerning the Importance of the Budget**

In Denmark the licensing system and the connected budget is the central tool to the economic management of public sector entities - and the reporting of the financial results will relate to the original budget.

**Ad. 3.1 – continued – a proposed addition to the text – see below**

“Most governments and other public sector entities prepare annual financial budgets covering areas such as revenue and capital spending. Entities may also develop budgets covering longer time scales and possibly also shorter time periods (eg quarterly budgets etc. used for monitoring and internal control)”. This has special relevance to situations, where the respective entities have an ongoing focus on internal budgetary control in a context with financial management.

**Ad. 5.2 - concerning whether items considered to be of a national and local heritage meet the definition of an asset and the recognition criteria for assets**

In this context we consider it important to note, that the main aim not should be to calculate what the state or respective entity is worth. The balance should not necessarily include a valuation of all national property, the national heritage assets such as castles, historical buildings, monuments and works of art. It is important that the assets are recognized in order to be able to define and measure the cost of preserving, monitoring and providing public access, but the economic value does not present any meaningful information. Only assets that contribute to the entities output – should in principles contribute to the state of balance.



Government  
of Canada      Gouvernement  
du Canada

Ottawa, Canada  
K1A 0R5

AUG 30 2011

The Technical Director  
International Public Sector Accounting Standards Board  
International Federation of Accountants  
277 Wellington Street West, 6th Floor  
Toronto, Ontario  
M5V 3H2

Dear Sir/Madam:

**Re: Exposure Draft: Key Characteristics of the Public Sector with Potential Implications for Financial Reporting**

Thank you for the opportunity to comment on the Exposure Draft– *Key Characteristics of the Public Sector with Potential Implications for Financial Reporting* (ED) which is part of your development of the conceptual framework issued in April 2011.

The Government of Canada bases its accounting policies on the Accounting Standards issued by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants (CICA). Our government is therefore not required to follow the International Public Sector Accounting Standards (IPSAS). However, given that PSAB is reviewing its conceptual framework and will use the work of IPSASB in its deliberations, we have a vested interest in the ED. As well, IPSAS are an important secondary source of Generally Accepted Accounting Principles (GAAP).

In response to “specific matter for comment 1” we agree that the document provides useful background information on the key characteristics of the public sector. However, we feel that the link to potential implications of those key characteristics on financial reporting is not clear. The commentary is very high level and generic. Furthermore, as we noted in our responses to the documents for comment issued earlier this year on the conceptual framework, we believe that the scope of this ED goes beyond financial statements and we have concerns with IPSASB introducing characteristics related to other financial reports. In particular, we feel that incorporating the prospective financial information described in Section 6 and the statistical bases of accounting described in Section 9 introduces concepts that go well beyond the scope of financial statement reporting.

Canada

The Public Sector Accounting Board of the Canadian Institute of Chartered Accountants discusses unique characteristics of the public sector and directly links the characteristics to the financial reporting requirements within its standards. We feel that this format, outlined in section PS1100 Financial Statement Objectives provides a clearer link between the unique characteristics of the public sector and the financial reporting implications. We suggest that the IPSASB consider the format of the Canadian standard as it finalizes its conceptual framework.

In response to "Specific Matter for Comment 2", if the document is restructured to provide a clearer link between the characteristics of the public sector and the financial reporting implications as suggested above, we feel that this should be part of the conceptual framework within the IPSASB literature. However, as the current exposure draft is worded, we do not feel that it provides information that should be part of the conceptual framework. It would be better positioned as a useful reference or information source on the IPSASB website, outside of its authoritative literature and standards, providing generic information on the public sector.

We thank you again for providing us with the opportunity to comment on this ED. If you have further questions related to these comments, please do not hesitate to contact either Ms. Diane Peressini at [Diane.Peressini@tbs-sct.gc.ca](mailto:Diane.Peressini@tbs-sct.gc.ca) (613-957-9671) or me at [Suzie.Gignac@tbs-sct.gc.ca](mailto:Suzie.Gignac@tbs-sct.gc.ca) (613-952-0886).

Yours sincerely,



Suzie Gignac  
Executive Director  
Government Accounting Policy and  
Reporting Division

c.c.: James Ralston, Comptroller General of Canada



Paris, 26 August 2011

**LE PRESIDENT**

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Ms Stephenie Fox  
Technical director  
International Public Sector  
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277 Wellington Street, 4th floor  
Toronto,  
Ontario M5V 3H2 CANADA

Re: Exposure Draft  
Key Characteristics of the Public Sector with Potential Implications for Financial Reporting

Dear Ms Fox,

I am writing on behalf of the French “Conseil de normalisation des comptes publics” (CNOCP)<sup>1</sup> to express its views on the above-mentioned Exposure Draft<sup>2</sup>.

The CNOCP (the “Council”) welcomes the publication of the Exposure Draft on the Key Characteristics of the Public Sector (the “Exposure Draft”), which complements the first three documents on the Conceptual Framework for Public Sector Entities published by the IPSAS Board. Therefore, this document has to be read in the light of our answers to those previous papers.

As the Exposure Draft follows on from the three previous documents on the Conceptual Framework for Public Sector Entities, it naturally raises the question of its status and place. The Council feels that the Exposure Draft is intended to identify and clarify the specific characteristics of the public sector for non-specialists.

<sup>1</sup> See Appendix 2.

<sup>2</sup> See the French original version in Appendix 3.



Consequently, in the Council's opinion, the Exposure Draft should not be reproduced in full in the Conceptual Framework itself. Nevertheless, because it provides a very relevant description of the specific characteristics of the public sector, the Council would like the IPSAS Board to draw out all the accounting implications of these elements, both in the Conceptual Framework and in the standards as a whole (question 2).

With regard to the contents of the Exposure Draft, the Council would prefer the purpose of the public sector to appear directly in the introduction. Clearly, the fundamental objective of the public sector in defining and implementing public policy in the exercise of its sovereign powers without systematically seeking profitability is the main characteristic of public entities.

The Council is pleased to note that the main characteristics of public sector entities with accounting consequences are described (question 1): the scope of the entities with these characteristics, the non-market nature of certain transactions, funding through taxation, the existence of specialized assets and the fact that the missions of the public sector are of a long term nature.

The specific point of the content of the financial statements of public entities and the way the latter link to budget and statistical documents is also dealt with and the Council agrees with the characteristics mentioned.

The Council is very keen for further thought to be put into this aspect of the specific characteristics of the public sector and encourages the IPSAS Board to go further in this direction in particular on the basis of the results of the Exposure Draft for developing the Conceptual Framework.

I hope you find these comments useful and would be pleased to provide any further information you might require.

Yours sincerely,

Michel Prada

## APPENDIX 1

### REPLIES TO THE QUESTIONS AND SPECIFIC COMMENTS

#### *REPLIES TO THE QUESTIONS*

##### QUESTION 1

*Do you agree that this document provides useful background information on the key characteristics of the public sector and identifies some potential implications of those key characteristics for financial reporting? If not, please indicate how you would modify the document.*

The Council welcomes the publication of the Exposure Draft on the Key Characteristics of the Public Sector. The Council agrees that the public sector has distinctive characteristics with implications for financial reporting which differentiate it from the private sector and that the primary distinction is to be non-profit seeking.

In our opinion, the Exposure Draft makes the main points on the key characteristics of the public sector. We would however be in favour of certain changes or additional comments that are set out below in the section “Specific Comments”.

##### QUESTION 2

*Do you agree that this document should be included as part of the IPSAS Board’s literature? If you agree, where do you think the material in this document should be located:*

- (a) As a part of the Conceptual Framework ;*
- (b) As a separate section of the Handbook of International Public Sector Accounting Pronouncements; or*
- (c) Elsewhere, with some other status – please specify?*

The Exposure Draft follows on from the three first documents on the Conceptual Framework for Public Sector Entities. We therefore agree that it should be included as part of the literature published by the IPSAS Board.

The Council feels that the Exposure Draft has the aim of identifying and clarifying the specific characteristics of public sector entities for non-specialists. Consequently, the Council believes that it should not be included as such in the Conceptual Framework

itself, but should be used to help support the positions adopted in developing the Conceptual Framework.

### *SPECIFIC COMMENTS*

#### **1. Scope**

The scope includes national governments and related entities, local authorities, regulatory bodies, international organisations, as well as public corporations whose funding is mainly public. Entities with public status carrying out non-market activities such as social security organisations are also included in the scope. According to the Exposure Draft, not-for-profit private sector entities are rightly excluded from the scope when they are mainly privately funded (by public generosity, donations...).

We have two comments on the introduction to the Exposure Draft. Firstly, we think that supranational organisations like the European Union should also be explicitly included in the scope. Secondly, the criteria for including an entity in the scope should be clarified.

In this respect, it is essential to emphasise the non-market or non-competitive characteristic of goods and services provided by public entities, which does not preclude the beneficiaries from making a financial contribution to some of them.

#### **2. The Volume and Financial Significance of Non-Exchange Transactions**

Paragraphs 2.1 and 2.2 of the Exposure Draft underline the importance of non-exchange transactions for public entities, and explain that one of the roles of public entities is to provide goods and services without a profitability objective. The Council agrees with these two characteristics. Nevertheless, it is also essential to point out that the primary objective of public entities is to define and implement public policies. Lastly, it is important to remember that public action is funded by taxation, which concerns all citizens.

Moreover, it should be emphasized that decisions taken by public entities have a mandatory nature for citizens, which is a major distinction from the private sector which operates according to a contractual model on a voluntary basis.



Lastly, the Council agrees with the Exposure Draft that the conduct of missions of public service and the importance of non-exchange transactions give rise to specific reporting requirements. However, the Council wishes to stress, as in its replies to the previous consultations on the Conceptual Framework for Public Entities, that where this information is not of an accounting nature it should be presented in an additional report outside the financial statements.

- *Taxation and Other Non-Exchange Transfers*

We have no particular comments on the description set out in the paragraphs on taxation, other than to stress the importance of the social role of central government.

The Council also wishes to draw attention to the fact that the elements mentioned in paragraphs 2.5 and 2.6 are particularly important because of the substantial amount of funding by transfers.

On this subject, paragraph 2.6 stipulates that transfers to entities that have limited or no capacity to raise taxation are of a quasi-contractual nature; the Council believes that the term contractual is inappropriate, and that it would be more correct to say that the transfers represent “binding commitments”.

### **3. The Importance of the Budget**

The Council shares the point of view expressed in the Exposure Draft in relation to the importance of the budget, which, in public entities, is approved by a deliberative body and is of a binding nature.

The Council is reflecting on the links that should exist between the budget and the financial statements and is of the opinion that further thought should be given to the issue of how budget execution reports link with the financial statements.

### **4. The Nature of Property, Plant, and Equipment**

The Council agrees with the presentation on property, plant and equipment which is specialized either by nature (such as roads, military assets, etc.) or by use. It has no further comments on this point.

## **5. Historical and Cultural Heritage**

The Council would like the Exposure Draft to mention that for historical and cultural heritage assets the most difficult issue is the entry value in the accounts. This point was raised in the Council's reply to the Consultation Paper number 3 on the Conceptual Framework, relating to measurement<sup>1</sup>.

## **6. The Longevity of the Public Sector**

The Council agrees that one of the key characteristics is that the missions of public entities are generally of a long-term nature. In this respect, it should be remembered that for public entities the going concern principle is not relevant, because even if a public entity disappears its mission continues and is generally taken over by another entity.

The long-term nature of public service missions also leads to the issue of the place of reporting on the sustainability of public finances. At this stage, the Council wishes to reiterate the position expressed in the reply to the Exposure Draft (ED 1<sup>2</sup>) on the Conceptual Framework. In the Council's opinion, the Conceptual Framework is of an accounting nature and should only apply to the financial statements, that is to say the balance sheet, the income statement and the notes and not to the additional information which the IPSAS Board proposes to include in the General Purpose Financial Report. The Council does however consider that complementary information may be given but that the Conceptual Framework does not apply to it.

## **7. The Regulatory Role of Government**

The Council agrees with the content of this point and has no further comments.

## **8. Ownership or Control of Rights to Natural Resources**

This paragraph deals, under the general heading of Control of Rights to Natural Resources, with various topics of a different nature, as a result of which it is not possible to draw any relevant conclusions for accounting. The Council gave its

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<sup>1</sup> *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Measurement of Assets and Liabilities in Financial Statements.*

<sup>2</sup> *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Role / Authority and Scope / Objectives and Users / Qualitative Characteristics / Reporting Entity*



opinion on recognition principles for exploitation rights of resources in the public domain by the central government in its reply to Consultation Paper number 2 of the Conceptual Framework<sup>3</sup>.

## **9. Statistical Information**

National and general accounting rules coexist today and each set of rules has its own specific objectives. The Council encourages the IPSAS Board to continue its analysis of the differences between the two forms of reporting with a view to ensuring the understandability of the information produced.

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<sup>3</sup> *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Elements and Recognition in Financial Statements*



## APPENDIX 2

### CONSEIL DE NORMALISATION DES COMPTES PUBLICS (CNOCP)

#### **1. Establishment of the “Conseil de normalisation des comptes publics” as Public Sector Accounting Standards Council and jurisdiction.**

The Public Sector Accounting Standards Council was established by a Budget Amendment on the 30<sup>th</sup> December 2008 and supersedes the Public Accounting Standards Committee.

This new Council is in charge of setting the accounting standards of all entities with a non-market activity and primarily funded by public funding, including compulsory levies.

The Central Government and the agencies working for the Central government, Local authorities and local public institutions, Social Security and affiliated agencies are all within the jurisdiction of the CNOCP.

Extending the scope of the former Public Accounting Standards Committee which used to only regulate the French Central government accounting standards has empowered Public Finances with the ability to develop consistent accounting standards for the whole of French Public Administrations.

#### **2. Organisation of the “Conseil de normalisation des comptes publics”.**

The Council is an advisory body under the authority of the Minister for the Budget which publishes preliminary advice on all the legislative texts concerning accounting issues relevant to any entity within its jurisdiction. It can also put forward new and innovative provisions and participates actively in the regulation of accounting standards on a national and international level. All this information is available to the public.

The Council is managed by a President appointed by the Minister for the Budget and any decisions are taken consensually by a College made up of eighteen members of whom nine are statutory and nine are external experts. The President and the College are supported by three standing commissions and a steering committee. The three standing commissions are as follows: “the Central Government and the agencies working for the Central government”, “Local authorities and local public institutions”, “Social Security and affiliated agencies”.

The Council has at its disposal a permanent team of specialists who report to the President and who are managed by a General Secretary.



## **APPENDIX 3**

**Here is the French original version of our response  
to the Conceptual Framework Exposure Draft 1  
dedicated to the French speaking people**

Le Conseil se félicite de la publication de l'exposé sondage sur les caractéristiques clefs des entités du secteur public, qui complète les trois premiers documents de travail publiés par l'IPSAS Board sur le cadre conceptuel des entités du secteur public. A cet égard, ce dernier document doit être lu à la lumière des trois précédentes réponses du Conseil.

Cet exposé sondage venant à la suite de trois premiers documents sur le cadre conceptuel des entités du secteur public, nous comprenons que la question du statut et du positionnement de ce document se pose. Le Conseil a le sentiment que ce document a vocation à identifier et expliciter les particularités du secteur public aux interlocuteurs qui n'en sont pas spécialistes. En conséquence, le Conseil est d'avis de ne pas inclure ce document dans son intégralité dans le cadre conceptuel lui-même. Néanmoins, dans la mesure où ce document met en évidence avec une grande pertinence les spécificités du secteur public, le Conseil souhaite que l'IPSAS Board tire toutes les conséquences en matière comptable de ces éléments, dans le cadre conceptuel ainsi que dans le référentiel normatif dans son ensemble (question 2).

A propos du contenu du document lui-même, le Conseil souhaiterait que la finalité du secteur public soit mise en évidence dès l'introduction. En effet, l'objectif fondamental du secteur public, consistant à définir les axes de politiques publiques et mettre en œuvre les missions y afférentes, dans le cadre d'un principe de souveraineté et sans recherche systématique de profitabilité, est la spécificité centrale des entités publiques.

Le Conseil note avec satisfaction que les principales caractéristiques des entités du secteur public, ayant des conséquences en matière comptable sont décrites (question 1) : le périmètre des entités concernées par ces spécificités, le caractère non marchand de certaines opérations, le financement par l'impôt, l'existence d'éléments d'actifs particuliers et le fait que les missions du secteur public s'inscrivent dans un horizon à long terme.



Le point particulier du contenu des états financiers des entités publiques et de leur articulation, tant avec les documents budgétaires qu'avec les états de nature statistique, est également évoqué et le Conseil est d'accord avec les caractéristiques avancées.

Le Conseil souhaite vivement que les réflexions se poursuivent sur ce thème des spécificités du secteur public et encourage l'IPSAS Board à progresser en ce sens en prenant notamment en compte les éléments de cet exposé sondage pour l'élaboration du cadre conceptuel.

## ANNEXE 1

### REPONSES AUX QUESTIONS ET COMMENTAIRES SPECIFIQUES

#### REPONSES AUX QUESTIONS

##### QUESTION 1

*Etes-vous d'accord sur le fait que ce document comporte des informations de contexte utiles sur les caractéristiques clefs du secteur public et identifie leurs conséquences éventuelles pour l'information financière ? Si ce n'est pas le cas, indiquez de quelle manière vous modifieriez le document.*

Le Conseil se félicite de la publication de l'exposé sondage sur les caractéristiques clefs des entités du secteur public. En effet, le Conseil considère que le secteur public se caractérise par un ensemble de spécificités, en premier lieu par sa finalité qui n'est pas de rechercher le profit, qui le distinguent du secteur privé et qui ont des conséquences notamment en matière d'informations comptables.

En matière de caractéristiques clefs du secteur public, il nous semble que l'exposé sondage identifie les points essentiels. Nous considérons toutefois que les points exposés pourraient faire l'objet de quelques modifications ou compléments qui sont exposés dans la partie « Commentaires spécifiques » ci-après.

##### QUESTION 2

*Etes-vous d'accord sur le fait que ce document devrait faire partie de la littérature de l'IPSAS Board ? Si oui, où ce document devrait-il figurer :*

- (d) *Dans une partie du cadre conceptuel ;*
- (e) *Dans une section propre au « Handbook of International Public Sector Accounting Pronouncements »; ou*
- (f) *Ailleurs, avec un statut différent à préciser ?*

Cet exposé sondage vient à la suite de trois premiers documents sur le cadre conceptuel des entités du secteur public. Nous sommes donc d'accord pour dire qu'il doit faire partie des documents publiés par l'IPSAS Board.

Le Conseil a le sentiment que ce document a vocation à identifier et expliciter les particularités du secteur public aux interlocuteurs qui n'en sont pas spécialistes. En

conséquence, le Conseil est d'avis que ce document ne doit pas être inclus en tant que tel dans le cadre conceptuel lui-même, mais doit contribuer à étayer les positions prises dans le cadre de l'élaboration du cadre conceptuel.

## *COMMENTAIRES SPECIFIQUES*

### **1. Périmètre**

Le périmètre couvert inclut les Etats et entités rattachées, les collectivités locales, les autorités de régulation, les organisations internationales, mais également les entreprises publiques (« public corporations ») financées majoritairement par des fonds publics. Les entités de statut public exerçant des activités non marchandes telles que les organismes de sécurité sociale font également partie du champ d'application. Selon l'exposé sondage, les entités du secteur privé à but non lucratif sont à juste titre exclues du périmètre lorsqu'elles sont financées principalement par des fonds privés (générosité publique, dons ...).

Les paragraphes d'introduction de l'exposé sondage nous conduisent à exprimer deux remarques, la première concernant les organisations supra-nationales comme l'Union européenne qu'il nous semble également utile d'inclure explicitement dans le périmètre, la seconde concernant la nécessité d'identifier plus clairement les critères conduisant à inclure une entité dans le périmètre.

A cet égard, il nous semble fondamental de mettre en avant le critère du caractère non marchand ou non concurrentiel des prestations fournies par les entités publiques, ce qui n'empêche toutefois pas les bénéficiaires des prestations de contribuer directement au financement de certaines d'entre elles.

### **2. Volume et poids financier des transactions « sans contrepartie »**

Dans les paragraphes 2.1 et 2.2, l'exposé sondage met en avant l'importance, pour les entités publiques, des transactions sans contrepartie (« non-exchange transactions »), et indique qu'un des rôles des entités publiques consiste à fournir des biens et services sans objectif de profitabilité. Le Conseil est d'accord avec ces deux caractéristiques. Néanmoins, il semble fondamental d'indiquer également que l'objectif des entités publiques consiste avant tout à définir les axes de politiques publiques et à mettre en œuvre les missions y afférentes. Enfin, il est

également important de rappeler que cette action publique est menée grâce à un financement par l'impôt, qui concerne tous les citoyens.

Par ailleurs, il convient de souligner que les décisions prises par les entités publiques revêtent un caractère obligatoire et s'imposent aux citoyens, ce qui est une différence majeure avec le secteur privé qui fonctionne sur le modèle du contrat et de la libre volonté des parties.

Enfin, le Conseil partage l'avis de l'exposé sondage, selon lequel la mise en œuvre des missions de service public et l'importance des transactions sans contrepartie génèrent des besoins spécifiques en matière d'information publiée. Cependant, le Conseil souhaite rappeler, comme indiqué dans sa réponse aux consultations précédentes sur le cadre conceptuel des entités publiques, que ces informations, dès lors qu'elles ne sont pas de nature comptable, relèvent de documents complémentaires aux états financiers.

- *Impôts et autres transferts « sans contrepartie »*

Les caractéristiques développées dans les paragraphes relatifs aux impôts n'appellent pas de remarques de notre part, étant rappelée l'importance du rôle d'intervention sociale de l'Etat.

Le Conseil souhaite également faire remarquer que les éléments mentionnés aux paragraphes 2.5 et 2.6 ont une importance particulière en raison du poids financier significatif des financements par transferts.

A cet égard, dans le paragraphe 2.6, il est indiqué que les transferts effectués au profit des entités publiques qui n'ont pas la capacité ou qui ont une capacité restreinte à prélever des taxes, ont un caractère quasi « contractuel » ; le Conseil considère que le terme « contractuel » est inapproprié, et qu'il serait plus juste de dire que ces transferts ont la nature « d'engagements fermes ».

### **3. L'importance du budget**

Le Conseil partage le point de vue exprimé dans l'exposé sondage sur l'importance du budget, qui, dans les entités publiques, fait l'objet d'un processus d'approbation par un organe délibérant et revêt un caractère contraignant.

Le Conseil s'interroge sur les liens qui doivent exister entre les éléments budgétaires et les états comptables et considère que la question de l'articulation

entre les rapports sur l'exécution budgétaire et les états comptables doit être approfondie.

#### **4. La nature des immobilisations corporelles**

Le Conseil adhère aux éléments développés sur les immobilisations corporelles qui s'avèrent spécifiques soit par leur nature (cas des routes, des actifs militaires, etc.) soit par leur utilisation. Il n'a pas de complément à apporter sur ce point.

#### **5. Le patrimoine historique et culturel**

Le Conseil souhaite que l'exposé sondage mentionne que pour le patrimoine historique ou culturel, la question la plus délicate est celle de la valeur d'entrée dans les comptes. Ce point a été soulevé dans la réponse du Conseil au document de consultation n°3 sur le cadre conceptuel, relatif aux méthodes d'évaluation<sup>1</sup>.

#### **6. La longévité du secteur public**

Le Conseil est d'accord sur le fait qu'une des caractéristiques clefs est le fait que les missions des entités publiques s'inscrivent généralement dans des perspectives à long terme. A cet égard, il rappelle d'ailleurs que pour les entités publiques, le principe de continuité d'exploitation n'est pas pertinent, car même dans les cas où une entité publique disparaît, ses missions, elles, perdurent et sont généralement reprises par une autre structure.

Le fait que les missions de service public soient menées dans la durée conduit également à s'interroger sur la place des informations sur la soutenabilité des finances publiques. A ce stade, le Conseil souhaite rappeler la position exprimée dans la réponse à l'exposé sondage (ED 1<sup>2</sup>) sur le cadre conceptuel. Il considère que le cadre conceptuel comptable ne devrait s'appliquer qu'aux seuls états financiers, c'est-à-dire au bilan, au compte de résultat et à l'annexe aux comptes et non aux éléments complémentaires que l'IPSAS Board propose d'inclure dans les rapports financiers à usage général. Le Conseil précise toutefois qu'une information venant compléter celle figurant dans les comptes peut être donnée,

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<sup>1</sup> *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Measurement of Assets and Liabilities in Financial Statements.*

<sup>2</sup> *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Role, Authority and Scope / Objectives and Users / Qualitative Characteristics / Reporting Entity*

sans pour autant que le cadre conceptuel comptable ne s'applique à cette information complémentaire.

## **7. Le rôle de régulateur du gouvernement**

Le Conseil est d'accord avec le contenu de ce point et n'a pas de complément à y apporter.

## **8. La propriété ou le contrôle des droits sur les ressources naturelles**

Sous la rubrique générale de contrôle des ressources naturelles, ce paragraphe regroupe en réalité un ensemble de thèmes de natures diverses, ce qui ne permet pas d'en tirer des conclusions pertinentes en matière comptable.

Le Conseil s'est prononcé dans le document de consultation n°2 du cadre conceptuel<sup>3</sup> sur les principes qui permettent la comptabilisation par l'Etat des droits d'exploitation des ressources de son domaine public.

## **9. Informations statistiques**

Les règles de comptabilité nationale et celles de comptabilité générale coexistent aujourd'hui, chacune d'entre elles poursuivant des objectifs spécifiques. Le Conseil encourage l'IPSAS Board à poursuivre ses travaux d'analyse des écarts entre ces deux référentiels pour permettre d'assurer la lisibilité des informations produites.

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<sup>3</sup> *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Elements and Recognition in Financial Statements*



## ANNEXE 2

### CONSEIL DE NORMALISATION DES COMPTES PUBLICS (CNOCP)

#### **1. Création du Conseil de normalisation des comptes publics et champ de compétence**

Le Conseil de normalisation des comptes publics a été créé par la loi de finances rectificative du 30 décembre 2008, et remplace le Comité des normes de comptabilité publique.

Ce nouveau Conseil est en charge de la normalisation comptable de toutes les entités exerçant une activité non marchande et financées majoritairement par des ressources publiques et notamment des prélèvements obligatoires.

Entrent dans son périmètre l'Etat et les organismes dépendant de l'Etat, les collectivités territoriales et les établissements publics locaux, et la Sécurité sociale et les organismes qui lui sont assimilés.

Cette extension de périmètre par rapport à l'ancien Comité des normes de comptabilité publique qui était en charge de la normalisation des comptes de l'Etat français se justifie par la nécessité de définir une politique de normalisation comptable cohérente au niveau de l'ensemble des administrations publiques.

#### **2. Mode de fonctionnement du Conseil de normalisation des comptes publics**

Le Conseil est un organisme consultatif placé auprès du Ministre chargé des comptes publics qui doit donner un avis préalable sur tous les textes réglementaires comportant des dispositions comptables applicables à des entités entrant dans son champ de compétence. Il peut également proposer des dispositions nouvelles et doit participer aux réflexions sur la normalisation comptable au niveau national et international. Ses avis sont publics.

Le Conseil est dirigé par un Président nommé par le Ministre chargé des comptes publics et ses attributions sont exercées par un Collège composé de dix huit membres dont neuf membres de droit et neuf personnalités qualifiées. Le Président et le collège sont assistés par trois commissions permanentes et un comité consultatif d'orientation. Les trois commissions permanentes sont les suivantes : « Etat et organismes dépendant de l'Etat », « Collectivités territoriales et établissements publics locaux », « Sécurité sociale et organismes assimilés ».

Le Conseil dispose d'une équipe technique permanente placée sous l'autorité du Président et dirigée par un secrétaire général.



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**18<sup>th</sup> August 2011**

**The Technical Director  
International Public Sector Accounting Standards Board  
International Federation of Accountants  
277 Wellington Street West, 6<sup>th</sup> Floor  
Toronto, Ontario M5V 3H2  
CANADA**

Dear Stephenie,

**Comments on key characteristics of the public sector with potential implications for financial reporting.**

The Zambia Institute of Chartered Accountants welcomes the opportunity to comment on the exposure drafts issued by the International Public Sector Accounting Standards Board (IPSASB). Our specific comments on the Exposure Draft (Key Characteristics of the Public sector with Potential Implications for Financial Reporting):

**Question 1**

Do you agree that this document provides useful background information on the key characteristics of the public sector and identifies some potential implications of those key characteristics for financial reporting? If not, please indicate how you would modify the document.

***Comment***

*We do agree that the exposure draft has provided beneficial background on the characteristics of the public sector that may have implication for the development of a conceptual framework for public sector entities.*

**Question 2**

Do you agree that this document should be included as part of the IPSASB's literature? If you agree, where do you think the material in this document should be located:

- (a) As part of the Conceptual Framework;
- (b) As a separate section of the *Handbook of International Public Sector Accounting Pronouncements*; or
- (c) Elsewhere with some other status – please specify?

***Comment***

*We entirely support the inclusion of the document as part of the IPSASB's literature and recommend that it should be part of the conceptual framework, for easy reference.*

The Institute will be ready to respond to any matters arising from the above comments.

Yours faithfully

**Musonda Boniface**

**Technical Officer**

**HM TREASURY**

Ken Beeton  
Director, Financial Management & Reporting  
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1 Horse Guards Road  
London  
SW1A 2HQ

22 August 2011

Stephenie Fox  
Technical Director  
International Public Sector Accounting Standards Board  
International Federation of Accountants  
277 Wellington Street West  
Toronto, Ontario M5V 3H2  
Canada

Dear Stephenie

**IPSASB EXPOSURE DRAFT – KEY CHARACTERISTICS OF THE PUBLIC SECTOR WITH IMPLICATIONS FOR FINANCIAL REPORTING**

1. The UK Treasury welcomes the opportunity to respond to the exposure draft on the Key Characteristics of the Public Sector with Implications for Financial Reporting.
2. We understand that the exposure draft has been released as part of the wider project to develop a Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities. We support the role that a Conceptual Framework plays in setting financial reporting standards and recognise the considerable work undertaken by IPSASB and its various stakeholders in developing the framework.
3. The ED provides a comprehensive overview of the Key Characteristics of the Public Sector with Implications for Financial Reporting. As is correctly observed, characteristics of the public sector such as the widespread prevalence of non-exchange transactions, the crucial role of the budget, and the government's regulatory role raise a number of implications for financial reporting. Understanding these implications is crucial if general purpose financial reports are to allow users to make a wide range of decisions and to hold reporting entities and those charged with governance to account.
4. As you may know, central government in the UK has used generally accepted accounting practice since 2000, and transition was made to IFRS for the 2009-10 financial year. Our rationale for adopting independently set standards is to instil financial discipline in our stewardship, accountability and performance reporting. The reason we have based our financial reporting standards on those used by the private sector is the need to demonstrate the public sector's use of its share of what is a single economy. For this reason, while we recognise that there are key characteristics of the public sector that have implications for

financial reporting and support the IPSASB's development of a conceptual framework, we maintain that financial reporting standards should be as sector neutral as possible.

5. I attach an annex in which we respond to the Specific Matters for Comment. If you would like any further information or to discuss the contents of this letter, please contact Chris Wobschall in the first instance ([chris.wobschall@hmtreasury.gsi.gov.uk](mailto:chris.wobschall@hmtreasury.gsi.gov.uk), +44 (0)20 7270 4508), whom of course you know as the Technical Adviser to the UK IPSASB member.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Ken Beeton', with a stylized flourish at the end.

**KEN BEETON**

Annex  
Specific Matters for Comment

**1: Do you agree that this document provides useful background information on the key characteristics of the public sector and identifies some potential implications of those key characteristics for financial reporting? If not, please indicate how you would modify the document.**

We agree that the document provides useful background information on the key characteristics of the public sector and identifies some potential implications of those key characteristics for financial reporting.

As the document itself indicates, it is not intended to be an exhaustive list of all the areas in which the public sector can be distinguished from the private sector. Rather, it rightly focuses on key areas of importance, and also highlights the fact that users of financial reports of public sector entities have broader information needs than users of financial reports of private sector entities.

**2: Do you agree that this document should be included as part of the IPSASB's literature? If you agree, where do you think the material in this document should be located:**

- (a) As part of the Conceptual Framework;
- (b) As a separate section of the *Handbook of International Public Sector Accounting Pronouncements*; or
- (c) Elsewhere with some other status – please specify?

The need for an IPSASB Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities is driven by the key characteristics of the public sector that distinguish it from the private sector. If these key characteristics did not exist, then it is likely that the IASB's conceptual framework would be sufficient to meet the needs of users of general purpose financial reports of public sector entities.

We would support the inclusion of the material in this document as part of the Conceptual Framework. We believe that by identifying the key characteristics of the public sector and the potential implications of those key characteristics for financial reporting, it provides a justification of the need for a Conceptual Framework and the foundation upon which the rest of the framework is developed.



15 August 2011

Our ref: ICAEW Rep 79/11

The Technical Director  
International Public Sector Accounting Standards Board  
International Federation of Accountants  
277 Wellington Street West, 6th Floor  
Toronto,  
Ontario M5V 3H2  
CANADA

By email: [stepheniefox@ifac.org](mailto:stepheniefox@ifac.org)

Dear Ms Fox

**Key Characteristics of the Public Sector with Potential Implications for Financial Reporting**

ICAEW is pleased to respond to your request for comments on *Key Characteristics of the Public Sector with Potential Implications for Financial Reporting*.

Please contact me should you wish to discuss any of the points raised in the attached response.

Yours sincerely

John Boulton ACA  
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## ICAEW REPRESENTATION

### **Key Characteristics of the Public Sector with Potential Implications for Financial Reporting**

Memorandum of comment submitted in August 2011 by ICAEW, in response to IFAC exposure draft *Key Characteristics of the Public Sector with Potential Implications for Financial Reporting* published in April 2011.

<b>Contents</b>	<b>Paragraph</b>
Introduction	1
Who we are	2
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## INTRODUCTION

1. ICAEW welcomes the opportunity to comment on the exposure draft *Key Characteristics of the Public Sector with Potential Implications for Financial Reporting* published by IFAC on 29 April 2011. A copy of the Exposure Draft is available from this [link](#).

## WHO WE ARE

2. ICAEW is a world-leading professional accountancy body. We operate under a Royal Charter which obliges us to work in the public interest. ICAEW's regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the UK Financial Reporting Council. We provide leadership and practical support to over 136,000 member chartered accountants in more than 160 countries, working with governments, regulators and industry in order to ensure that the highest standards are maintained.
3. ICAEW members operate across a wide range of areas in business, practice and the public sector. They provide financial expertise and guidance based on the highest professional, technical and ethical standards. They are trained to provide clarity and apply rigour, and so help create long-term sustainable economic value.
4. The Financial Reporting Faculty is recognised internationally as a leading authority on financial reporting. The Faculty's Financial Reporting Committee is responsible for formulating ICAEW policy on financial reporting issues, and makes submissions to standard setters and other external bodies. The faculty also provides an extensive range of services to its members, providing practical assistance in dealing with common financial reporting problems.

## MAJOR POINTS

### **We agree that specific attributes of the public sector are relevant for financial reporting purposes**

5. We welcome this ED and the contribution it makes to providing a coherent framework for financial reporting by the public sector. We agree that there are a number of factors differentiating the public from the private sector that may have implications for financial reporting and that it is useful to take these into account in drawing-up a conceptual framework for the public sector. The much more widespread use of non-exchange transactions, the role of the budget and the regulatory capacity of government are all areas where the public sector differs from the private sector. It is important that the implications of these differences are acknowledged such that general purpose financial statements prepared by public sector organisations are effective in enhancing transparency and meeting the information needs of service recipients and resource providers.

### **It is important that financial reporting standards remain sector neutral**

6. However, while we support the inclusion of these differences in the IPSASB's conceptual framework we are slightly concerned that their recognition and categorisation could result in future financial reporting standards becoming inappropriately sector specific. General purpose financial statements, a key function of which is to allow comparisons to be drawn between different organisations, rely upon a body of standards that are modified as little as possible for application by entities in different sectors or regions. Comparability is impaired where standards become sector specific and in our opinion they should remain neutral where possible. Therefore, while we support the definition of public sector characteristics for the purposes of establishing the concepts that underpin financial reporting by the public sector, we do believe that careful consideration should be given to ensuring that these factors, once established, do not lead to greater sector specificity in the development of future standards.

## RESPONSES TO SPECIFIC POINTS

### Specific Matter for Comment 1

**Do you agree that this document provides useful background information on the key characteristics of the public sector and identifies some potential implications of those key characteristics for financial reporting? If not, please indicate how you would modify the document.**

7. We agree. The ED provides a useful summary of some key considerations that are of particular significance to the public sector. As such it provides a useful focus for the conceptual framework and facilitates a better understanding of what general purpose financial statements in the public sector are intended to achieve. We appreciate that the ED is not intended to be an exhaustive list of all of the areas where the public sector is distinct and we do not believe that generally there is any need to make it more extensive. However, it may be useful to include a consideration of the boundary of the public sector in the context of alternative arrangements to deliver public services (ie. they could be provided directly by government or by a private sector provider). There are also connected issues relating to the control model of consolidation and how this is defined in a public sector context.

### Specific Matter for Comment 2

**Do you agree that this document should be included as part of the IPSASB's literature? If you agree, where do you think the material in this document should be located:**

- (a) As part of the Conceptual Framework;  
(b) As a separate section of the Handbook of International Public Sector Accounting Pronouncements; or  
(c) Elsewhere with some other status – please specify?

8. We agree that this document should be included as part of IPSASB literature. The discussion of each issue concludes with an indication of which element of financial reporting in the public sector would be affected, and therefore we feel that it would integrate well into the conceptual framework, perhaps as part of the preamble or introductory sections. Were it to be established as a stand-alone document we feel that it would risk appearing rather awkward as it would be difficult to place the issues it raised in an appropriate context, locating it within the conceptual framework therefore appears to be the best solution. However, as we set out in paragraph 6 above, although it can play a useful role in the conceptual framework, there is also the danger that the document could influence the development of standards toward greater sector specificity. This would, we feel, be detrimental and therefore we urge the Board to consider these implications carefully.

**E** [john.boulton@icaew.com](mailto:john.boulton@icaew.com)

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29 August 2011

Ms Stephenie Fox  
The Technical Director  
International Public Sector Accounting Standards Board  
International Federation of Accountants  
277 Wellington Street West, 6<sup>th</sup> Floor  
Toronto, Ontario M5V 3H2 CANADA

Dear Ms Fox,

**Exposure Draft - Key Characteristics of the Public Sector  
with Potential Implications for Financial Reporting**

Attached is the Australasian Council of Auditors-General (ACAG) response to the exposure draft referred to above.

The views expressed in this submission represent those of all Australian members of ACAG.

While ACAG strongly supports the development of a statement on key characteristics of the public sector and the related implications, we have significant reservations about the exposure draft in its present form.

ACAG is strongly of the view that the development of public sector financial reporting standards should proceed on the basis of what is most appropriate for the public sector and draw on the best available sources without favouring any particular pre-existing approach. Therefore, we are primarily concerned with the emphasis placed upon the statistical bases of accounting (GFS) at paragraphs 9.1 – 9.3 of the exposure draft and an earlier stated intention by the IPSASB to minimise divergence from GFS where appropriate<sup>1</sup>.

As noted at paragraphs 9.1 – 9.2 the statistical bases of accounting are aimed at macro-economic analysis and the GFS system is designed to support fiscal analysis. Therefore, reports prepared on this basis best serve a particular user group. We have seen no compelling arguments for favouring GFS when developing standards for public sector general purpose financial reports intended to satisfy the needs of a broad range of users.

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<sup>1</sup>. Refer to 'Project Development' section in the background section of each of the three consultation papers for the conceptual framework project.

On the other hand, an argument can be made in respect of many governments that their participation in global financial markets, the size and nature of their public sector corporations engaged in commercial activities and the government's own involvement in significant private sector projects both directly and indirectly (via guarantees for example) mean that many users of financial reports would increasingly expect the financial performance and financial position of those governments to be measured in a manner consistent with the private sector.

This is not to advocate a preference for IFRS but merely to demonstrate that an argument can be mounted for favouring both GFS and IFRS, and that is without considering possible approaches to not-for-profit accounting that may also suit the public sector.

Expressing a preference for one pre-existing accounting approach over another sub-ordinates the standard setting development process and increases the likelihood of sub-optimal outcomes. ACAG have a strong preference for a neutral stance on the issue allowing alternative approaches to be judged on their merits in the particular circumstances.

The opportunity to comment is appreciated and I trust you will find the attached comments useful.

Yours sincerely

## **Exposure Draft - Key Characteristics of the Public Sector with Potential Implications for Financial Reporting**

ACAG provides the following comments in response to specific questions raised by the IPSASB.

### **Specific Matter for Comment 1**

*Do you agree that this document provides useful background information on the key characteristics of the public sector and identifies some potential implications of those key characteristics for financial reporting? If not, please indicate how you would modify the document.*

#### ACAG Overall Comment:

ACAG is of the view that the exposure draft, in its current form, provides limited useful background information on the key characteristics of the public sector. In what follows immediately below, we have summarised the suggested modifications. More detail appears later.

- We consider the “Introduction” section requires a more detailed description and discussion of the term “public sector” in order to provide a firm foundation for what follows in the exposure draft.
- There is no clear identification of what the public sector characteristics are (but we assume they are the items appearing at paragraph 1.6 and could be headed as such).
- Due to the deficiencies in the opening section (as mentioned above) there is no clear rationale for how the “list” at paragraph 1.6 was derived.
- We consider that two items on the (assumed) list – the budget and the statistical bases of accounting – are not characteristics having implications for financial reporting but are, in fact, financial reporting methods themselves which have emerged in response to underlying characteristics, as discussed later.
- As there is no clear rationale it is not possible to judge the completeness of the (assumed) list of characteristics.
- We consider the (assumed) list of characteristics is incomplete for the reasons set out later.
- As expressed in our covering letter, we are concerned with the emphasis placed upon the statistical bases of accounting (GFS) for reasons explained there.

#### Introduction (Paragraphs 1.1 -1.6)

We consider that it would be more useful to discuss the nature of government (and other public entities) in their own right rather than limit the introduction to a discussion of how governments and public sector entities differ from the private sector. The approach at present is limited in providing the understanding necessary for identification of key characteristics with potential implications for financial reporting.

ACAG note that the opening “Background” statement in each of the Phase 1, 2 and 3 of the Conceptual Framework project states that:

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

ACAG suggest that the present exposure draft needs a much fuller discussion of that diversity in order to be useful. We suspect (but without more information, cannot be sure) that the diversity of political systems and forms of government will have implications for financial reporting. Without this discussion, a reader gains little understanding of “government” in its various forms.

ACAG also suggest that as part of that fuller discussion and better understanding of “government”, comparisons could be made with the not-for-profit private sector, generally regarded in Australia as the third sector after government and for-profit private sector and for which financial reporting standards are emerging.

As stated earlier, ACAG has assumed that paragraph 1.6 attempts to identify the key characteristics of public sector entities. However, it is not clear why some of the items are listed.

Take “the importance of the budget” for example. ACAG do not see the budget as an inherent characteristic of the public sector that “has implications for financial reporting” as it is a form of financial reporting itself. That is, it is a response to certain public sector characteristics and it is those underlying characteristics that we assume the paper wishes to identify. To do that, a consideration of the more detailed discussion in Section 3 “The Importance of the Budget” is useful:

- **paragraph 3.1:** ACAG suggest that the key characteristic here is not the budget itself but the fact that financial information is generally more available in the public sector compared to the private sector because of the commercial confidentiality aspect
- **paragraph 3.2:** ACAG suggest that it is not the budget which is the characteristic, but the Appropriations system (or its equivalent) of which the budget is simply a component
- **paragraph 3.3:** purely in terms of assessing actual results against planned results we doubt that a public sector budget is more important than a private sector one but, if it is, then one might say that the “characteristic” is that users of public sector financial information place greater emphasis on the ability to compare actual results with planned results.

ACAG notes that the public sector budget has assumed its important status because it is usually the only financial report which provides a reasonably comprehensive forward-looking financial picture. It may be that a fuller consideration of the underlying characteristics would lead to the design of a forward-looking financial report better suited to users' needs. (Refer to ACAG's submission to the consultation paper on Phase 2 of the Conceptual Framework.)

Likewise, ACAG don't see the statistical bases of accounting as a "characteristic" itself but, rather, it is the form of accounting adopted in response to certain underlying characteristics that are referred to in Section 9 "Statistical Bases of Accounting":

- **paragraph 9.1:** ACAG would suggest that the key characteristic is not the statistical bases of accounting but the importance of macro-economic analysis
- **paragraph 9.2:** the key characteristic here is the need for statistical information organised into the four sub-sectors mentioned.

To reiterate, ACAG suggest that a full consideration of all the underlying factors may lead to different bases of accounting being used for general purpose financial reports (otherwise the argument seems to be: This is the basis of accounting we have used in the past, it serves a particular purpose and therefore we should lean towards using it for general purpose financial reporting in future.)

As mentioned above, ACAG are of the view that a much fuller background discussion would lead to a fuller identification of characteristics. With that caveat, one omission from the list of characteristics might be the obligation which most governments have to maintain social cohesion through the provision of social services, law and order, and the like. There are potential implications in terms of the recognition and measurement of obligations and liabilities where transactions are often the result of moral considerations rather than economic ones.

A further omission may be the typical absence in the public sector of equity instruments and formal agreements which establish the rights and obligations of the various administrative units and other entities both between themselves and between them and the government as owner. One of the effects is that restructures, transfers of assets and some other transactions between entities cannot always be clearly categorised as being on capital or revenue account.

#### Additional Detailed Comments:

- There is inconsistency within the exposure draft about whether the term 'public sector' encompasses only not-for-profit entities or whether it includes both for-profit and not-for-profit entities. Paragraph 1.3 states that "they (other public sector entities) may be profit seeking or have a financial objective to break even". However, paragraph 2.3 notes that "the primary objective of public sector entities is to deliver goods and services and not to generate profits". ACAG suggests removing the inconsistency and clearly defining what the term encompasses.
- ACAG believes that the comments at paragraph 6.6 regarding prospective financial information have very important financial reporting implications and they emphasise the usefulness of the ACAG Conceptual Model provided in our response to Phase 2 of the Conceptual Framework project.

- At paragraph 7.2, it is unclear what is meant by the statement “the existence of such regulatory responsibilities will need to be considered in the determination of the reporting entity and the scope of financial reporting in the public sector.” ACAG suggests that the IPSASB clarify this paragraph to clearly explain what the implications could be. In our view, the government’s regulatory power over the private sector is less important than the ability of some governments, through their control of the legislature, to change the law to alter the government’s rights and obligations to other parties. For example, in extreme cases, the government could disown obligations it has entered into, or create assets by exercising its legal rights, such as by auctioning of the radio magnetic spectrum. We also suggest that the title at 7 could be expanded to "The Regulatory roles and Legislative roles of Government".

### **Specific Matter for Comment 2**

*Do you agree that this document should be included as part of the IPSASB literature? If you agree, where do you think the material in this document should be located:*

- (a) *As part of the Conceptual Framework;*
- (b) *As a separate section of the Handbook of International Public Sector Accounting Pronouncements; or*
- (c) *Elsewhere with some other status – please specify?*

#### ACAG Comment:

We consider that a suitably modified document should be included as part of the IPSASB literature.

When complete, it should be integrated with other parts of the Conceptual Framework, clearly linked to and from the other statements in the Conceptual Framework so that together they form a robust and coherent basis for the development of related standards.

It is important to note that in Phase 1 of the Conceptual Framework, the Government Business Enterprises (GBEs) were clearly excluded from the scope. However, this paper states that the term ‘public sector’ includes GBEs. On the assumption that this paper and the Conceptual Framework papers are intended to be consistent it is important to clarify this issue in the exposure draft to avoid any confusion/misinterpretation by the users.

IPSASB Exposure Draft, Key Characteristics of the Public Sector  
with Potential Implications for Financial Reporting

# **response to exposure draft**

2 September 2011

CIPFA, the Chartered Institute of Public Finance and Accountancy, is the professional body for people in public finance. Our 14,000 members work throughout the public services, in national audit agencies, in major accountancy firms, and in other bodies where public money needs to be effectively and efficiently managed.

As the world's only professional accountancy body to specialise in public services, CIPFA's portfolio of qualifications are the foundation for a career in public finance. They include the benchmark professional qualification for public sector accountants as well as a postgraduate diploma for people already working in leadership positions. They are taught by our in-house CIPFA Education and Training Centre as well as other places of learning around the world.

We also champion high performance in public services, translating our experience and insight into clear advice and practical services. They include information and guidance, courses and conferences, property and asset management solutions, consultancy and interim people for a range of public sector clients.

Globally, CIPFA shows the way in public finance by standing up for sound public financial management and good governance. We work with donors, partner governments, accountancy bodies and the public sector around the world to advance public finance and support better public services.

Our ref: Responses/110902 SC166

Stephenie Fox  
Technical Director  
International Public Sector Accounting Standards Board  
International Federation of Accountants  
277 Wellington Street, 4th Floor  
Toronto  
Ontario M5V 3H2  
CANADA  
Submitted electronically  
2 September 2011

Dear Stephenie Fox

**IPSASB Exposure Draft, Key Characteristics of the Public Sector with Potential Implications for Financial Reporting**

CIPFA is pleased to present its comments on this Exposure Draft, which have been reviewed by CIPFA's Accounting and Auditing Standards Panel.

**General comments**

CIPFA strongly supports IPSASB's programme which helpfully develops public sector specific IPSASs on matters which are unique to the sector, and IFRS converged IPSASs on matters which are relevant to both private and public sectors. CIPFA particularly welcomes the continuing development of IPSASB's conceptual framework for public sector financial reporting, which will be helpful both where IPSASs are developed for circumstances covered by IFRS, and when dealing with sector specific matters.

We are conscious that the IPSASB Conceptual Framework discussions may be seen as rather specialised discussions between technical experts, and less accessible to interested stakeholders with less technical background, or without a history of conceptual discussion of public sector aspects of financial reporting. A document based on the ED could be very helpful for stakeholders who are new to public sector standard setting discussions, especially when combined with the more technical and authoritative material in the emerging draft conceptual framework for public sector financial reporting.

In order to fulfil this role, we envisage such a document being

- as clear as possible, having regard to the fact that potential readers of the document may not use English as a first language
- as short and concise as possible, while recognising that sufficient coverage has to be given to relevant public sector issues, and that these need to be clearly explained
- useful because it discusses public sector arrangements which occur in many jurisdictions, while avoiding suggesting that arrangements are universal where they are not

In the light of the preceding points, we would note our view that the Exposure Draft is well drafted and the broad direction of the material is excellent. However, in order to maximise the usefulness of the document, it is important that it is of very high quality. In our view further development will be required to produce a document which achieves the right balance between clarity, conciseness and sufficiency of coverage. In particular, rather than

providing a statement of key public sector characteristics, there may be too much use of 'compare and contrast' drafting style. This adds to the length but may not significantly add to the substance of the document.

In line with the above, we attach as an Annex some suggested amendments which we hope the Board will consider in taking this document forward.

We also suggest that it is important that IPSASB should more clearly demonstrate that the material is sufficiently general to apply to a wide range of jurisdictions. While we followed the logic of all the discussions, we had some concerns that this might be because they share the regulatory context of 'western' mixed economies or social market economies.

### **Specific Matters for Comment**

#### *Specific Matter for Comment 1*

*Do you agree that this document provides useful background information on the key characteristics of the public sector and identifies some potential implications of those key characteristics for financial reporting? If not, please indicate how you would modify the document.*

We agree that the document provides useful information on the key characteristics of the public sector which are relevant in financial reporting discussions, and that it also identifies some potential implications for financial reporting, and provides a background against which other implications can be considered and discussed.

#### *Specific Matter for Comment 2*

*Do you agree that this document should be included as part of the IPSASB's literature? If you agree, where do you think the material in this document should be located:*

*(a) As part of the Conceptual Framework;*

*(b) As a separate section of the Handbook of International Public Sector Accounting Pronouncements; or*

*(c) Elsewhere with some other status – please specify?*

We agree that it would be useful to include a document developed from this material in the IPSASB literature, attached to or placed with the Conceptual Framework material to which it provides introductory background.

I hope this is a helpful contribution to the development of the Board's guidance in this area.

Yours sincerely

Paul Mason  
Assistant Director  
CIPFA  
3 Robert Street, London WC2N 6RL

## DRAFTING COMMENTS ON IPSASB EXPOSURE DRAFT

### Key Characteristics of the Public Sector with Potential Implications for Financial Reporting

#### Section 1/ General comments on structure and repeated content

1. The introductory section combines an explanation of the purpose of the paper with rather different material which seeks to introduce the public sector. We are not sure that significant introductory material is necessary, especially as the effect is that material in the introduction is echoed or duplicated elsewhere.

2. Paragraph 1.3 seems rather unclear and provides a definition of IGOs which seems both circular and incomplete. An alternative drafting would be:

1.3 In the context of this paper the term "the public sector" includes

- national governments, sub-national governments, local government units and regulatory bodies which do not generally operate on a 'for-profit' basis.
- Government Business Enterprises (GBEs) or public corporations, which operate on a for-profit or break-even basis but are governed by a public sector entity
- a number of other entities with varying structures and governance arrangements
- international governmental organizations (IGOs) and their agencies, including the United Nations and its agencies, regional IGOs such as the European Union or ASEAN, and other IGOs such as the OECD, La Francophonie, and the Organisation of Islamic Cooperation.

The public sector does not include the private not-for-profit sector, although the sectors share many characteristics. Public sector organisations may perform social welfare or other roles which in other jurisdictions are supported by the not-for-profit sector and vice versa.

3. The material in para 1.4 on public sector longevity could be deleted as it is duplicated in section 6. The remaining material on the varying size and role of the public sector could be reduced. Para 1.4 also focuses on economic management: it might be helpful to provide brief information on the other roles of government as provider of social benefits and collective goods.

4. Paragraphs 1.5 and 1.6 could be deleted.

#### Comments on section 2

5. The material in paragraph 2.2 after "...money markets." can be deleted.

6. The document needs to reflect the fact that financial reporting may provide accountability on the performance of governments and politicians, and does not only provide information for politicians. The bullet point list at 2.3 might therefore include:

Has the entity provided services or achieved results in line with public promises or agreements by government or the management of the entity?

7. The final sentence of paragraph 2.4, and all of paragraph 2.5 can be deleted.

8. Paragraph 2.7 is unclear, and might be better reworded and split into two paragraphs which cover rather different subjects. For example:

International organizations are also largely funded by non-exchange revenue transfers. Transfers from member governments or public sector bodies may be governed by treaties and conventions or be made on a purely voluntary basis.

and

The significance of taxation and other involuntary transfers has implications for a number of aspects of a public sector conceptual framework, such as the definition of assets and liabilities.

As redrafted, the second paragraph makes a very general point and might be better placed elsewhere or otherwise highlighted.

9. The discussion in para 2.8 of 'public goods' uses a very specific meaning which is not used by all economists, and so might be incorrectly seen as equating non-excludable or 'pure' public goods with public sector provision, without remarking on wider public goods such as breathable air. It also characterises government intervention as arising from a particular economic view of the objective of government: it might be better to reflect on the fact that many governments provide services. The first half of the paragraph might therefore be deleted. The remaining text might more directly address existing practice, for example:

Many governments provide goods and services that enhance or maintain the well-being of citizens and other eligible residents. These services are often provided in a non-competitive environment, either because they are not 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.

10. Para 2.9 mainly echoes material in other sections and can be deleted..

### Comments on section 3

11. Generally this section should be more concise. In particular para 3.3 mainly states that budgetary comparison is important and relevant to financial reporting and could be rendered more concisely as follows:

Information that helps users assess actual spending against budget estimates is important in determining how well a public sector entity has met its financial objectives. The usefulness of budget information for assessing performance and for accountability purposes therefore needs to be borne in mind when considering the needs of the users of public sector financial reports and in determining the scope of that reporting.

### Comments on section 4

12. Paragraph 4.1 could be rendered more concisely as follows:

In the private sector the primary reason for holding property, plant, and equipment and other assets is to generate positive cash flows. In the public sector, the primary reason for holding property, plant, and equipment and other assets is to provide goods and services to citizens and other eligible individuals and groups. For example, 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 households which are not home owners and may not be able to participate in the private rental sector.

### Comments on section 5

13. Paragraph 5.2 mainly reflects on aspects of heritage assets which are important and relevant to government policy rather than financial reporting. In terms of characteristics which might result in different financial reporting, it might be more appropriate to note that in addition to being generally managed without regard to commercial return

- Heritage assets may be donated or may have been in public sector control for a very long time and may have very long or indefinite lives.
- Many heritage resources may not be sold in markets, or governments may wish to discourage sale.

- In other cases, information on historical cost or current market value may not be available either in principle or at reasonable cost.

For these reasons, heritage resources raise a number of issues including whether particular resources should be recognised as assets. They also raise different conceptual and practical considerations to those faced in profit focussed reporting when considering how they might best be measured and disclosed in financial statements.

### Comments on Section 6

14. The overall tone of paras 6.4 and 6.5 might be read as implying that the going concern *principle* is less significant for government. This seems inappropriate, especially in the light of recent of the recent economic crisis, and IPSASB's work in the area of long term fiscal sustainability. It might be better to mainly focus on the going concern *assumption*, noting that, in the light of the longevity of governments and their recourse to tax-raising powers, the going concern assumption is not often significantly challenged.

15. We therefore suggest that an additional sentence "As a result, the going concern assumption is rarely challenged in respect of the public sector" is added to para 6.2.

16. Also, while the power to tax is highly relevant to going concern considerations and supporting public sector longevity, the question as to whether that power is an asset might fit better in the section on non-exchange transactions.

17. Paragraphs 6.4 and 6.5 and the first and final sentences of paragraph 6.6 can be deleted, leaving the text:

Because the financial consequences of many decisions will only become clear years or even decades into the future, prospective financial information covering lengthy time horizons may be necessary for accountability and decision-making purposes.

### Comments on Section 7

18. We suggest that the first two sentences of paragraph 7.2 are deleted.

### Comments on Section 9

19. For readers who are not already familiar with statistical/economic reporting, paragraphs 9.1 and 9.2 may not adequately explain why this discussion is important. They would be easier to understand with some reordering and a little more background, starting with the use of statistical accounting by government. Perhaps as follows:

9.1 Reporting under statistical bases of accounting is very important in the public sector. This reporting is used by governments and other bodies to provide aggregated information for macro-economic analysis and modeling purposes. Governments and international public sector bodies use such information for economic analysis and comparisons between jurisdictions, primarily for decision-making purposes. The System of National Accounts (SNA), issued by the United Nations, is an internationally agreed basis for such economic reporting. The European System of Accounts (ESA) provides guidelines for Member States of the European Union and is consistent with SNA. Additionally, the Government Finance Statistics Manual (GFSM), issued by the International Monetary Fund, provides a specialized macroeconomic statistical system designed to support fiscal analysis, and is consistent with SNA. The GFSM provides economic and statistical guidelines to be used in compiling statistics on the fiscal position of nations.

9.2 For statistical reporting purposes, the public sector is divided into the general government sector (GGS) and public corporations. The GGS includes all institutional units whose output is intended for individual and collective consumption and that are mainly financed by compulsory payments made by units belonging to other sectors, and institutional units principally engaged in the redistribution of national income and wealth. The GGS is typically subdivided into four subsectors: central government, state government, local government and social security funds.

## IFAC – IPSASB

### Exposure Draft on “Key characteristics of the Public Sector with Potential implications for Financial Reporting”

#### *Comments by Corte dei conti, Italy*

The draft paper makes an important contribution to identifying the key characteristics of the public sector world wide by substantially following a handbook approach. It can be further enriched by also considering common basic principles arising from concepts actually adopted in the different countries which may have a bearing on the assessment and the comparability of results by public entities at all levels of government.

Comments by respondents could contribute to integrate the paper along the lines suggested above. The following comments are accordingly made by drawing from the Italian experience.

*Paragraphs from 1.3 to 1.5.* It should be made clear that GBEs are not to be included in the public sector when their future existence is dependent - as for private entities – upon generation of profits.

*Paragraph.1.5:* Based upon our experience as well as on the contents of the ED we do believe that the characteristics of the public sector “do give rise” to conceptual perspective that differ from those in the private sector. Therefore we do not agree with the expression used in the ED, where it is said that the characteristics of the public sector “may give rise” to conceptual perspective that differ from those in the private sector;

*Paragraph 2.2.* The assessment, made by public entities, of the need to undertake activities to provide goods and services in a non-exchange environment and of its capacity (financial, operational, etc.) to do so should include also consideration of standard costs of inputs to be used.

*Paragraph 2.3.* The following letter d1) should be added: “Did part of the burden of paying for current services restrict expenditures for other specified uses (especially investment expenditures)?”

*Paragraph 2.9.* The paper underlines the importance of taxation or contributions to determine the level and the quality of publicly provided goods and services. Reference should be made to the growing relevance of contributions requested to citizens/users (particularly within the public health system) via tickets or other forms of participation to public expenditures, with the effect of making the behaviour of public agent similar to the private one.

*Paragraphs 3.2 – 3.3.* Although one can agree on the importance of the budget for the assessment of the actual results, attention should be paid both to the progressive loss of planning significance of such document and to the need to consider also budgets and

results of specific private entities set up by public entities to which they partially entrust their functions.

*Paragraph 4.2.* Is difficult *a priori* draw an exhaustive list of public assets as their extent also depends upon discretionary national political decisions.

*Paragraph 5.2.* It should be specified that, while responsibility to maintain national and local heritage for future generations is unquestionably a public concern, its management aimed at making a productive/economic use of it can well be private in nature (obviously under pre-set conditions).

*Paragraph 6.1.* It should be added that also at present – as in the case of Italy’s “fiscal federalism” – there are examples, not only of division or fragmentation, but simply of reorganisation of nation-states into sub-national public entities (regions, provinces, commons), endowed with financial autonomy.

*Paragraph 6.3.* It should be added: “On the other hand, the issue of whether the future obligations of the social security service are a liability should also be considered”.

*Paragraph 7.1.* Where the role of public regulation is underlined, also its redistribution function should be specified, as it may affect the assessment of results obtained within single government sectors or levels.

*Paragraph 8.1.* It may be difficult to practically recognize it in financial statements, but there is no doubt that ownership or control of rights to natural resources and phenomena have actually given rise to assets at least in a number of European countries. As a matter of fact, significant royalties and taxes have been and are still collected by governments and sub-national public entities.

**Denise Silva Ferreira Juvenal**

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**Accountant**

**Individual Commentary**

**Rio de Janeiro / Brazil**

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**Key Characteristics of the Public Sector with Potential  
Implications for Financial Reporting**

**31 August 2011**

I'm Denise Juvenal this is pleased to have the opportunity to comment on this consultation Key Characteristics of the Public Sector with Potential Implications for Financial Reporting. This is my individual commentary for International Public Sector Accounting Standards Board - International Federation of Accountants

**Guide for Respondents**

The IPSASB would welcome comments on all of the matters discussed in the ED. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale and, where applicable, provide a suggestion for proposed changes to the ED. The IPSASB would particularly value comments on the Specific Matters for Comment below.

**Specific Matter for Comment 1**

**Do you agree that this document provides useful background information on the key characteristics of the public sector and identifies some potential implications of those key characteristics for financial reporting? If not, please indicate how you would modify the document.**

I agree and considering very important this proposal about the key characteristics for financial reporting of public sector with implications for financial reporting as part of project of the IPSASB. I think that as described Kearney and Benedict as follows, the principal points of the conceptual framework are the accordance with accounting standards and manage activities and operations properly.

Kearney et al (2006, 101) comments that: "Historically, within the federal government, considerable effort was expended to meet only legally required reporting mandates of Congress. Although such reports were important, these requirements were not the reporting information most needed by federal entity executives to manage activities and operations properly."

In Benedict (2008, 337;339) comments: "the framework suggests that the financial statements would convey a true and fair view if they are prepared in accordance with accounting standards and if the information they contain possesses identified qualitative characteristics which make the statements useful. ... as explain about "understandability is whether the users of financial statements will be able to recognize the significance of the information. This depends on both the preparer of the financial statements and the users themselves."

These comments is relationship the numbers 1.2 will be observed how's the procedures for Audit for Government, principally in the point 1.4 about Public sector entities may contribute to wealth generation through the application of economic stimulus measures and fiscal interventions. Governments also make decisions on the distribution of resources between different sectors of the economy.

In the point 2.3 described those users of public sector financial reports may need information in order to answer questions such as for example: services in an efficient and effective; finance its activities; revenues from current-year; and others questions about procedures for government services. I have doubt if some information that will be included in the financial reporting is possible, the transparency is very different than publicly, I think must be observed and described what's the idea of the financial reporting for public sector.

For example, in the page 330 Benedict et al, "the objective of financial reports is to provide information that is useful to those for whom they are prepared. The same set of financial reports is expected to satisfy the information needs of a variety of stakeholders we have identified above."

Kearney et al (2006; 103) comments that: "the federal government operates as a network of somewhat autonomous entities: departments, agencies, subdepartments and subagencies, commissions, and other federally funded or federally assisted organizations. Each entity manage activities, can legally obligate the government, and

is authorized by Congress to spend federal monies. ... Historically, federal accounting and reporting for some departments and agencies was based on congressional legislation that provided a single appropriation to a single federal agency as the primary financing resource for operations, which considerably simplified accounting and reporting. ... Financial information on individual federal entities and programs arrayed only by appropriation or budget authority was of limited value to federal executives and managers in operating the day-to-day activities. These were macrolevel reports and statements of appropriation balances, essentially a cash-basis reporting, that provided few clues as to the economy, efficiency, or relative effectiveness of federal operations.”

The government has many stakeholders, don't be users only, citizens as Kearney et al (2006, 102) described that:

“FASAB suggested that there could be several levels of accountability: policy, program, performance, processes and procedural, and legal. In its statement of objectives, FASAB noted that this accountability must have utility to a variety of users, which FASAB categorized into four groups:

1. Individual citizens (e.g. taxpayers, voters, or service recipients of federal assistance);
2. Congress (individual members, committees, plus legislative agencies with budget and other federal financial responsibilities, such as CBO and GAO);
3. Federal executives and those with oversight responsibilities (including the President and those acting as the President's agents);
4. Program managers (i.e., those federal entity executives responsible for operating plans, program operations, and budget execution).

To meet the needs of this myriad of users, FASAB recommended that financial statements and reports be issued for individual federal entities and for all entities, in total, government-wide.”

These points are very important for discuss for the government in this moment, principally, Provision of goods and services in a non-market or limited-market environment; The importance of the budget; The nature of property, plant, and equipment; Responsibility for national and local heritage; The longevity of the public sector; The regulatory role of government; Ownership or control of rights to natural resources and phenomena; Statistical bases of accounting.

So, I think that is very important to described and make definitions for integrated and relationship more the functions of government with relationship in the jurisdictions and laws of countries around the world, the experience of regulators for government is fundamental for process of implementation of IPSASB.

**Specific Matter for Comment 2**

**Do you agree that this document should be included as part of the IPSASB's literature? If you agree, where do you think the material in this document should be located:**

- (a) As part of the Conceptual Framework;**
- (b) As a separate section of the *Handbook of International Public Sector Accounting Pronouncements*; or**
- (c) Elsewhere with some other status – please specify?**

I agree with this document I think that these information can be included in the Conceptual Framework and one indicated considering the importance in the Handbook of International Public Sector Accounting Pronouncements documents.

**References:**

BENEDICT, Augustine and ELLIOT, Barry. Financial Accounting – An Introduction. Prentice Hall. Financial Times. England: 2008.

KEARNEY, Edward F.; GREEN, Jeffrey W.; FERNANDEZ, Roldan; TIERNEY, Cornelius E. Federal Government Auditing. Wiley. New Jersey: 2006.

Thank you for opportunity for comments this proposal, if you have questions don't hesitate contact to me, [rio1042370@terra.com.br](mailto:rio1042370@terra.com.br).

Yours Sincerely,

Denise Silva Ferreira Juvenal

[rio1042370@terra.com.br](mailto:rio1042370@terra.com.br)

552193493961



**Australian Government**

**Department of Finance and Deregulation**

Contact: Peter Gibson  
Phone: 612 6215 3551  
Our Ref: RMS11/03803

Ms Stephenie Fox  
The Technical Director  
International Public Sector Accounting Standards Board  
International Federation of Accountants  
277 Wellington Street West, 6<sup>th</sup> Floor  
Toronto, Ontario M5V 3H2 CANADA

Dear Ms Fox *Stephenie*

**Exposure Draft: Key Characteristics of the Public Sector and Implications for Financial Reporting.**

The Australian Department of Finance and Deregulation (Finance) welcomes the opportunity to provide comments to the International Public Sector Accounting Standards Board (IPSASB) on the Exposure Draft *Key Characteristics of the Public Sector with Potential Implications for Financial Reporting* ("the ED").

Finance has contributed to the Australian Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC) comments on the ED, and supports the views contained in the HoTARAC submission. However, Finance believes it is appropriate to submit its own response to add to an issue that is of a particular concern to the Australian Government.

Specifically, Finance strongly supports the view that a key characteristic of public sector entities, in particular, at national level is the significance of government to economic management. As a consequence, the financial reporting implication relates to the consideration of statistical reporting in developing the IPSASB's Conceptual Framework.

In particular, Finance identifies two major drivers for public sector statistical reporting:

1. At an international level: Inter-government financial management arrangements; and
2. At a national level: The critical role of government in economic management.

## Inter-Government Financial Management Arrangements

Many national governments enter into financial arrangements with other governments and international organisations. These include memberships of the International Monetary Fund (IMF), World Bank and economic unions (such as the European Union (EU)) and other trading arrangements. These arrangements are fundamentally different from those applying to the private sector in that they do not necessarily seek to maximise financial advantage to the participating entities, rather goals include the promotion of international and domestic economic development, economic growth and the implementation of sound economic policies. Some of these international organisations may be providers of resources to governments.

In the international sphere, statistical bases of accounting are the accepted standard for measuring and reporting fiscal information of governments. Eurostat in the EU, the IMF and World Bank all require reporting on these bases. Measurements of these variables may be used to determine eligibility for loans; members' contributions to global institutions and membership of economic unions. Examples include, membership contributions to the UN and IMF being based on economic size and strength, the EU setting a maximum budget deficit of 3% of economic output for member states in the eurozone and the possible imposition of economic performance targets by the IMF as a precondition for loans.

## A Critical Role of a Government Economic Management

The size of Governments, their policy role in implementing fiscal and monetary policy and their impact on national economies are differentiating characteristics of the public sector. Even in cases where government does not adopt an actively interventionist economic policy, the scale and complexity of Government operations usually have a far more significant impact on national economies<sup>1</sup> than any single private entity, both through the contribution of government expenditures to national output and the impact on financial markets of government's management of its finances.

Christine Lagarde, managing director of the IMF, recently highlighted the importance of Governments adopting appropriate economic policy settings in maintaining market confidence and promoting strong, sustainable and balanced growth.<sup>2</sup>

The statistical bases of accounting presentations have evolved to analyse, *inter alia*, the interactions between economic agents, the net investment/savings of government, the measurement of government debt and the contribution of different sectors of the economy to national output. Concepts underlying the statistical bases, such as the separation of valuation adjustment from other transactions, the division of the economy into institutional sectors, and the particular reporting formats used support this type of analysis.

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<sup>1</sup> In most countries government expenditure is between 20% and 50% of GDP  
[http://en.wikipedia.org/wiki/Government\\_spending#Government\\_spending\\_as\\_a\\_percentage\\_of\\_GDP](http://en.wikipedia.org/wiki/Government_spending#Government_spending_as_a_percentage_of_GDP)

<sup>2</sup> <http://www.imf.org/external/np/speeches/2011/082711.htm>

Statistical reporting not just for National Governments

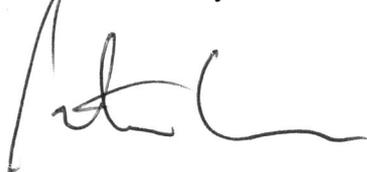
Although the significance of statistical reporting is easier to highlight with regards to national governments, it is important to note that statistical reporting is also applied to sub national level, including local governments. This reflects the critical role of public sector financial and economic management and its significant impact on the community.

Financial Reporting Implications

Both of the above characteristics are currently satisfied through financial reporting based on statistical concepts. The implication is that IPSASB will need to determine the relationship between this particular form of financial reporting and the scope of its own activities. Finance notes the Australian accounting standards require harmonisation between statistical and accounting bases or their inclusion in General Purpose Financial Reports (GPFRs).

If you have any queries regarding Finance's comments, please contact me on +612 6215 3551.

Yours sincerely



Peter Gibson  
Assistant Secretary  
Accounting Policy Branch  
30 August 2011

## **Comments on IFAC Exposure Draft on Key Characteristics of the Public Sector with Potential Implications for Financial Reporting.**

### **Specific Matter for Comment 1**

I **agree** the document provides useful background information on the key characteristics of the public sector and identifies some potential implications of those key characteristics for financial reporting.

### **Specific Matter for Comment 2**

I **agree** the document should be included as part of IPSASB literature.

I think it should be included as an **Appendix to the Conceptual Framework**, and a more detailed guidance where these issues are discussed in more detail issued as a **Supplement to the IPSAS Handbook**. The Supplement guidance could also have best practices and lessons learnt from the countries where IPSAS have been successfully implemented. This way this guide serves as a tool for finance people (accountant general, auditor general etc) in the public sector to use as they convince the policy makers to enforce IPSAs implementation possibly through some enacted law(s). While IFAC and the Member Bodies may push for IPSAS implementation those who influence law making and enforcement are those with political power, hence the need for a tool to facilitate the discussion with the law enforcement group in the various countries.

### **Comments on the specific matters discussed:**

1. Introduction: paras 1.1 and 1.5 Information needs for public sector may be much more than for private sector, given the various stakeholders hence the level of disclosures will be different from those of private sector. The supplement guidance would thus be helpful in this.
2. Budget – the budget is widely recognized as a useful tool for planning and expenditure control in the public sector. Preparation of the budget on the accrual basis could be a good starting point towards IPSAs adoption and examples can be discussed in the supplement guidance.
3. PPE para 4: Challenges of measurement and the determination of the useful lives of the assets and capitalization policy could also be discussed in the supplement and examples given.
4. Longevity of the Public Sector: Sustainability of government projects and public participation may also need to be discussed in the supplement guide and examples given.

5. Regulatory role of the government: the need for proper and full accounting for the public sector is seen especially with the recent global credit crisis which is still biting many economies to date. The government had to step in and bail out financial institutions and possibly other private sector entities. Hence sustainability of public finances and the govt ability to meet its obligations and cater for emergencies like the crisis, recent earthquake in Japan and other natural disasters and eventualities which may not be foreseen and where the govt intervention is required puts more pressure on the sources (mainly the taxes) and the greater need for more efficient use of the scarce resources and more transparency and accountability.
6. Statistical basis of accounting: this information is crucial for decision making and macro economic analysis and guidance may be required in the supplement like has been done for the European Union.
7. Provision of goods and services in a non-market or limited market environment, para 2.8. The indivisible nature of public services and goods poses challenges in financial accounting and guidance could be given in the supplement while adopting full accounting on the accrual basis.
8. Govt Accounting Reforms and the Millenium Development Goals (MDGs) could also be discussed in the supplement guide
9. Social Value of Gove accounting: This could also be discussed in the supplement guide –
  - Accurate record keeping
  - Directing policy makers and managers to problem areas
  - Providing information for decision making
  - Fighting against corruption etc

**Submitted by:**

Felicitas T Irungu

Ernst & Young and member of Institute of Certified Public Accountants of Kenya (ICPAK)

Date: 30<sup>th</sup> Aug 2011

**N.B**

These are personal views and not the views of Ernst & Young or ICPAK



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August 21, 2011

Ms. Stephanie Fox  
Technical Director  
International Public Sector Accounting Standards Board  
International Federation of Accountants  
277 Wellington Street West, 6<sup>th</sup> Floor  
Toronto, Ontario M5V 3H2 CANADA

Dear Ms. Fox:

On behalf of the Association of Government Accountants (AGA), the Financial Management Standards Board (FMSB) appreciates the opportunity to provide comments to the International Public Sector Accounting Standards Board (IPSASB) on its April 29, 2011 exposure draft entitled *Key Characteristics of the Public Sector with Potential Implications for Financial Reporting*. This exposure draft highlights certain characteristics of the public sector that may have implications for the development of a conceptual framework and accounting standard setting.

The FMSB is comprised of 25 members (list attached) with accounting and auditing backgrounds in federal, state and local government, as well as academia and public accounting. The FMSB reviews and responds to proposed standards and regulations of interest to AGA members. Local AGA chapters and individual members are also encouraged to comment separately.

The FMSB support the concepts and positions stated by the IPSASB in this exposure draft and we support the inclusion of this document in the Conceptual Framework. Our answers to the two matters posed by the IPSASB for specific comment follow. We also have two suggestions for your document that should help to clarify certain matters.

Specific Matter for Comment 1 - Do you agree that this document provides useful background information on the key characteristics of the public sector and identifies some potential implications of those key characteristics for financial reporting? If not, please indicate how you would modify the document.

We agree that the document provides useful background information on the key characteristics of the public sector and that the document provides useful information that will assist in the financial standard setting process.



Specific Matter for Comment 2 - Do you agree that this document should be included as part of the IPSASB's literature? If you agree, where do you think the material in this document should be located:

- (a) As part of the Conceptual Framework;
- (b) As a separate section of the *Handbook of International Public Sector Accounting Pronouncements*; or
- (c) Elsewhere with some other status – please specify?

We agree that this document should be included as part of the IPSASB's literature and we believe that it should be included in the Conceptual Framework. To clarify two portions of the document, we have suggested additions to the wording of the document. These are as follows:

Paragraph 7.1, pg. 10

“Regulatory intervention also occurs where there are market imperfections or market failure for particular goods or services, and where the total costs of particular transactions and activities are not transmitted through pricing and may therefore be borne by those other than producers or consumers (that is, externalities occur, often resulting in costs borne by the society as a whole (“social costs”), not just by parties to particular transactions. Examples include taxation of toxic/hazardous waste byproducts, environmental pollution/degradation, and unwholesome or unsafe products - such as nicotine and alcohol, etc. - which cause illnesses, injuries, and remediation costs to both transactors and to third parties).”

Paragraph 8.1, pg. 11

“ .... They also have rights over phenomena such as the electromagnetic spectrum. The electromagnetic spectrum extends from low frequencies used for modern radio to gamma radiation at the short-wavelength end. Governments frequently regulate the use of wavelengths within their territory and lease the rights to use specific frequencies in specific locations, both to protect those that have a legitimate social purpose in the use of a particular wavelength and to prevent unauthorized use of restricted public-purpose wavelengths that could result in risk to public health and safety

We appreciate the opportunity to comment on this document and would be pleased to discuss this letter with you at your convenience. No member of the FMSB objected to the issuance of this letter. If there are any questions regarding the comments in this letter, please contact Steven E. Sossei, CPA, and AGA's staff liaison for the FMSB, at [ssossei@agacgfm.org](mailto:ssossei@agacgfm.org) or at 703-684-6931, extension 307.

Sincerely,

A handwritten signature in black ink, appearing to read 'Eric S. Berman', with a long horizontal flourish extending to the right.

Eric S. Berman, CPA, Chair  
AGA Financial Management Standards Board

cc: Richard O. Bunce, Jr., CGFM, CPA  
AGA National President

**Association of Government Accountants  
Financial Management Standards Board**

**July 2011 – June 2012**

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Stephen B. Watson  
Sheila Weinberg

Relmond P. Van Daniker, Executive Director, AGA (Ex-Officio Member)  
Steven E. Sossei, Staff Liaison, AGA

**Specific Matter for Comment 1**

Do you agree that this document provides useful background information on the key characteristics of the public sector and identifies some potential implications of those key characteristics for financial reporting? If not, please indicate how you would modify the document.

***We agree that the document provides useful background on the characteristics of the public sector.***

**Specific Matter for Comment 2**

Do you agree that this document should be included as part of the IPSASB's literature? If you agree, where do you think the material in this document should be located:

(a) As part of the Conceptual Framework;

(b) As a separate section of the *Handbook of International Public Sector Accounting Pronouncements*; or

(c) Elsewhere with some other status – please specify?

***We believe that the document should be part of IPSASB's Conceptual Framework.***

August 31, 2011

Ms. Stephenie Fox  
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 International Public Sector  
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Dear Ms Fox

**Re: Exposure Draft, Key Characteristics of the Public Sector with Potential Implications for Financial Reporting**

The IDW appreciates the opportunity to comment on the above mentioned exposure draft. We have made a few general comments below and include our responses to the two questions raised by the IPSASB in an Appendix to this letter.

In our view, the IPSASB has drafted a much needed description of key public sector specifics that will help the wide range of users of financial reporting to appreciate why financial reporting in the public sector may need to differ in certain respects from that prevalent in the private sector.

Information about where and how certain public sector specific features and circumstances potentially impact general purpose financial reporting (GPFR) will be very helpful to the IPSASB in its future standard setting activities and will also serve as a point of reference for those preparing financial reports when they face issues not previously addressed by standards, etc. In our opinion, this exposure draft provides some essential information relevant to public sector specifics – although, as we explain in the Appendix to this letter, it is not yet sufficiently detailed – which is highly relevant to financial reporting and could usefully be incorporated into the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities.

GESCHÄFTSFÜHRENDER VORSTAND:  
 Prof. Dr. Klaus-Peter Naumann,  
 WP StB, Sprecher des Vorstands;  
 Dr. Klaus-Peter Feld, WP StB CPA;  
 Manfred Hamannt, RA

**page 2/5** to the comment letter to the IPSASB dated August 31, 2011

We hope our comments will be useful to the IPSASB in determining the final content and position of this paper. We would be pleased to answer any questions that you may have or discuss any aspect of this letter.

Yours sincerely

Norbert Breker  
Technical Director  
Accounting and Auditing

Gillian Waldbauer  
Technical Manager  
International Affairs

page 3/5 to the comment letter to the IPSASB dated August 31, 2011

## APPENDIX

### Specific Matter for Comment 1

**Do you agree that this document provides useful background information on the key characteristics of the public sector and identifies some potential implications of those key characteristics for financial reporting? If not, please indicate how you would modify the document.**

In order to identify potential implications for financial reporting certain parts of the exposure draft would benefit from a fuller discussion, as there are additional aspects of certain areas that may also have significant implications for financial reporting.

Section 2 provides an example to illustrate this point. Paragraph 2.4 states that taxation is “a legally mandated involuntary transaction between individuals or business entities and the government”. Subsequent paragraphs discuss only which type of public sector entities may have the power to tax and which do not and are therefore reliant on intergovernmental transfers, etc. In our view, this information is too general to give a balanced picture of the implications for financial reporting, particularly as it could be read as implying that there is always an unlimited power to tax. In addition, paragraph 6.5 subsequently refers to the “very broad tax raising powers of national governments” in the context of going concern. In our view, mention of the entity’s ability to collect tax and factors that have an impact on that ability would be useful in a paper of this nature. For example, the economy may prove to be less robust or alternatively perform better than originally anticipated in forecasting taxation receipts; systems for tax collection may be inefficient or be influenced by cultural issues such as corruption, light sentencing for evasion, etc; tax regimes are often a significant factor considered by business enterprises or high earning individuals in making residence decisions. Such factors may mean that governments experience quite significant differences between their forecast tax receipts and actual tax collected. It may not always be feasible for governments to adopt compensatory means such as curtailing expenditure, adjusting taxation rates or introducing additional taxes to counteract such differences.

Similarly, the discussion of non-exchange transactions in paragraphs 2.8 and 2.9 is too generalized to allow readers to appreciate the full potential impact on financial reporting in the public sector. In particular, some features of certain transactions in the private sector may appear to have non-exchange elements similar to those found in the public sector (e.g., incentives, to which – in the

**page 4/5** to the comment letter to the IPSASB dated August 31, 2011

private sector – IFRS revenue recognition provisions apply). Just as public sector entities may decide whether to fully fund particular schemes and not others, there may be decisions in the private sector to use loss leaders or subsidized prices. It would be helpful for the exposure draft to point out where the differences are in this respect and what factors might need to be considered in determining whether similar accounting treatment may or may not be appropriate in the public sector.

Sections 6.5 and 6.6 refer to the going concern principle as having been generally of less significance in the public sector. Without foundation, this statement is overly simplistic. Given recent developments in certain jurisdictions particularly within Europe, a fuller discussion pertaining to an appropriate application of the going concern assumption in the public sector context is called for. For example, a discussion as to in what type of circumstances might it be appropriate for a public sector entity to set aside the going concern assumption would be helpful.

In the context of GPFR, and particularly general purpose financial statements (GPFS), the intended purpose and relevance of section 9 of this exposure draft is unclear, and the implications for financial reporting mentioned in the title of the exposure draft are unexplained. As currently drafted, this section seems only to inform readers that there are differences between IPSAS and statistical bases for reporting financial information and notes that despite the difference in their respective objectives considerable convergence has been achieved, whereas full convergence may not be feasible. In particular, if this section is to be useful in future standard setting, the last sentence needs to be explained further, as simply stating that developing definitions of elements is an area in which the requirements of statistical accounting need to be considered is not enlightening. We suggest this section be enhanced to explain why statistical bases for reporting are relevant in the public sector and why and how this impacts GPFR and GPFS.

In our letter dated June 10, 2011 concerning Phase 3 of the Conceptual Framework Project, we questioned why fair value had not been given more attention as a measurement basis in the discussion in this phase of the project, and suggested that a discussion of the merits and disadvantages of fair value would seem to be appropriate in this phase of the Framework. Such a discussion would be particularly useful if it were to identify public sector specifics to highlight where and why it would and would not likely be relevant for the IPSASB to consider fair value as a measurement basis.

page 5/5 to the comment letter to the IPSASB dated August 31, 2011

### **Specific Matter for Comment 2**

**Do you agree that this document should be included as part of the IPSASB's literature? If you agree, where do you think the material in this document should be located:**

- (a) As part of the Conceptual Framework;**
- (b) As a separate section of the Handbook of International Public Sector Accounting Pronouncements; or**
- (c) Elsewhere with some other status – please specify?**

Subject to our comments above, we agree that the paper provides useful background information on the key characteristics of the public sector as well as potential implications of those key characteristics for financial reporting. We believe it would be helpful if parts of the material were integrated into specific sections of the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities.

For example, paragraph 2.3 of the exposure draft puts a case for expanding financial reporting in the public sector beyond GPFs. This sort of material would likely be useful in Phases 1 and 4 of the Conceptual Framework, to the extent that it could explain the circumstances in which sufficient differences between the private and public sectors exist that may necessitate concepts being applied that differ from those applicable to the private sector, or emphasize aspects that may otherwise influence the application of shared concepts in a public sector environment. In addition, the sections of the Conceptual Framework dealing with the recognition of elements in Phase 2 as well as measurement bases in Phase 3 could, for example, be enhanced by including material covering various relevant public sector specific aspects e.g., from paragraph 5.2 concerning the phenomena related to “national or local heritage”, also the discussion of programs with long-term horizons in paragraph 6.3. We suggest the IPSASB consider each aspect in its own merit in determining which such material could usefully be included within the final version of the Conceptual Framework.

On the assumption that the IPSASB will follow our suggestion to integrate some of the material into the Conceptual Framework, the (remaining information in the) paper could be included as a separate section of the Handbook of International Public Sector Accounting Pronouncements, covering general aspects to assist a wide range of users of financial reporting to appreciate why financial reporting in the public sector may need to differ in certain respects from that prevalent in the private sector.



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August 15, 2011

Ms. Stephenie Fox  
The Technical Director  
International Public Sector Accounting Standards Board  
International Federation of Accountants  
277 Wellington Street West, 6th Floor  
Toronto, Ontario M5V 3H2 CANADA

Dear Ms. Fox:

1. The International Consortium on Governmental Financial Management (ICGFM) welcomes the opportunity to respond to IPSAS ED on Key Characteristics of Public Sector. We are pleased to see the IPSASB move forward in the effort to further clarify the conceptual framework.
2. Working globally with governments, organizations, and individuals, ICGFM is dedicated to improving financial management by providing opportunities for professional development and information exchange. ICGFM conducts two major international conferences each year and publishes an international journal twice each year. Services are provided to its membership through an international network. ICGFM welcomes a broad array of financial management practitioners (accountants, auditors, comptrollers, information technology specialists, treasurers, and others) working in all levels of government (local/municipal, state/provincial, and national). Since a significant number of our members work within government and audit institutions around the world, our response to this exposure draft is one from an international perspective.
3. In response to Comment 1 (Do you agree that this document provides useful background information on the key characteristics of the public sector and identifies some potential implications of those key characteristics for financial reporting?), we do agree but would encourage the following be considered:
  - a. Define liquidity, fiscal discipline, and fiscal sustainability so that the reader clearly understands the differences between the terms. The following definitions are suggested:

- i. **Liquidity**—a measure of the ability of a government to pay its debts as and when they fall due.
    - ii. **Fiscal Discipline**--the ability of a government to operate within their legally approved budget.
    - iii. **Fiscal Sustainability**—the extent to which current patterns of government spending do not undermine the capability of the government to continue to spend and achieve its public purposes in future years.
  - b. In paragraph 2.3, add the following questions:
    - i. Are sufficient liquid assets available to meet current liabilities?
    - ii. Is the fiscal policy sustainable for future generations?
    - iii. Are revenue raising and expenditure strategies convergent with the policy goals of the entity, e.g. equity, income redistribution, social welfare, etc?
  - c. At the end of the first sentence to paragraph 3.3, add (i) financial objectives “to maintain fiscal discipline” and (ii) “to contribute to the policy goals of the entity”.
  - d. In para 4.2 rather than referring to “specialized” assets, why not say that they include infrastructure assets.
  - e. To clarify the relationship between statistical reporting systems and accounting systems, add the following to the end of paragraph 9.1: "The data for these statistical reporting systems are generally extracted from the accounting systems maintained by the public sector entities." Also this paragraph understates the significance of statistical reporting. For example, all EU member states must report in accordance with ESA95; they may or may not choose to report in compliance with IPSAS. For the EU it is ESA95 reports that determine the compliance of governments with EU requirements; hence such reports are legally fulfilling the role that a commercial entity would be provided by IFRS compliant financial statements. This is an existential challenge to IPSAS which is not adequately addressed.
4. In response to Comment 2 (Do you agree that this document should be included as part of the IPSASB’s literature?), we do agree and would like to see it included as part of the conceptual framework. Our position is based on the premise that the key characteristics form the basis for the conceptual framework.
5. We appreciate the opportunity to comment on this exposure draft and would be pleased to discuss this letter with you at your convenience. If you have questions concerning this letter, please contact Dr. Jesse Hughes, CPA, CIA, CGFM at [jhughes@odu.edu](mailto:jhughes@odu.edu) or 757.851.0525.

Sincerely,



ICGFM Accounting Standards Committee  
Jesse W. Hughes, Chair  
Masud Mazaffar  
Michael Parry

N. Tchelishvili  
Andrew Wynne

Cc: Linda Fealing  
President, ICGFM



**Michael E. Bradbury PhD, FCA, CMA**

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The Technical Director  
*International Public Sector Accounting Standards Board*  
International Federation of Accountants  
227 Wellington Street West, 6<sup>th</sup> Floor  
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CANADA

E-mail: [stephaniefox@ifac.org](mailto:stephaniefox@ifac.org).

**Exposure Draft: Key Characteristics of the Public Sector with Potential Implications for Financial Reporting**

Thank you for the opportunity to comment on this Exposure Draft. I am a New Zealand academic and in Appendix A I provide a short 'bio' of my standard setting experience.

In the following pages I answer the specific questions raised for comment in the Exposure Draft.

Yours sincerely

Michael Bradbury  
August 22, 2011

## Appendix A

**Michael Bradbury** is a professor in accounting at Massey University, New Zealand. He served on the Financial Reporting Standards Board of the Institute of Chartered Accountants of New Zealand from 2000 to 2009 and on the International Financial Reporting Interpretations Committee of the International Accounting Standards Board from 2004 to 2008. He was on the International Joint Working Group for Financial Instruments from 1998 to 2000. His research interests are in financial reporting and financial analysis.

## Specific Matters for Comment

### 1. Does this document identify key characteristics and potential implications of those key characteristics for financial reporting?

I comment under each heading in the document.

#### GBEs

A problem with the document is that it separates ‘public sector’ and ‘private sector entities’ on the basis of ‘governance’. For example, in para 1.3 a GBE is different from a private sector entity by virtue of being ‘governed by a public sector entity’. I suspect this is really ‘ownership’ rather than governance. So a necessary criterion for differentiating public sector and private sector is ownership (or governance).

I am not convinced that other characteristics in the ED are necessary to define public sector.

Furthermore, with regard to ‘ownership’ in the wider sense, the document does not appear to consider the information needs of stakeholders. Clearly this ought to have implications for financial reporting.

I think the solution is to drop GBEs out of this document. The remaining public sector entities can be described as public benefit entities. The IPSASB should put its main focus on accounting for public benefit entities. While the IPSASB has an obligation to improve for-profit accounting for GBEs, this is a second order issue. The primary producer of for-profit accounting standards is the IASB.

#### Volume and financial significance of non-exchange transactions

I do not find this criterion very satisfactory.

There are many non-exchange transactions in the private sector:

- Taxes. The ED mentions that taxation is a major public sector non-exchange transaction. However, most private sector entities pay tax – this is also a non-exchange transaction. In aggregate the sum of tax revenue equals the sum of tax paid – so it is not clear to me that the volume or significance of tax is greater for public sector. It might be argued for small private sector entities tax is more material.
- In a group situation, intra-group transactions have the potential to be non-exchange transactions because the parent has control.
- The description in 2.2: “A public sector entity must constantly assess the need to undertake activities to provide goods and services in a non-exchange environment... Such an assessment includes consideration of factors such as the governing legal framework, the cost, quantity and quality of goods and services provided and the outcomes of key programs”. This description would also be true for private sector entities that make donations, undertake sponsorships and for some exchange transactions (e.g., advertising).

Paragraph 2.3 states “the primary objective of public sector entities is to deliver goods and services and not to generate profits..”. But private sector entities also have to

consider the quality, quantity, price and timeliness of goods and services AND make a profit.

Private sector entities also need information to answer the questions in 2.3 (a) to (f). This list equally applies to private sector entities.

If the difference between private and public sector entities is based on volume or financial significance, then the issue is one of materiality. While there are transactions that might be more material for public sector than private sector, I do not see these as being solely the domain of public sector. I acknowledge that current IFRS might not provide high quality solutions for these transactions. However, the IPSASB should treat these transactions as lower order issues and try to influence IFRS. That is, the primary focus of the IPSASB should be on issues that are fundamental to the public sector (and public benefit entities in particular).

### **Taxation and other non-exchange transfers**

The power to tax is a distinguishing characteristic of a public entity. However, unless the IPSASB is seriously considering reporting this as an 'asset', then it is not clear why this is important for public sector financial reporting.

### **Provisions of goods and services in a non-market or limited-market environment**

I think this heading is misleading. Private sector firms deal in non-market and limited market transactions all the time. Most manufacturing firms or long-term construction projects have transfers between departments or subsidiaries, which are non-market transactions.

I suspect the limited-market issues is really a subset of the non-cash generating nature of public sector assets. For example, determining fair value for non-cash generating assets when there are no market transactions.

However, the public or social good nature of public sector activities is a characteristic that potentially gives rise to different accounting issues.

### **Importance of the budget**

The fact that the budget is used for setting taxation levels indicates that the *objective of financial reporting* might be different for public sector entities. For a private sector entity the setting of service and product prices is not (typically) based on the reported financial statements, but on supply and demand. This suggests the main function of reporting actual results in the public sector is the comparison with budget. Hence, the main qualitative characteristic of public sector financial statements is that they are prepared on the same basis as the budget. However, in setting the budget it is not clear that private sector qualitative characteristics or accounting standards will be the most suitable for public sector entities. This is because the main objectives of budget reporting in the public sector (stewardship) and reporting of actual results in the private sector (resource allocation) might be different.

### **Nature of property, plant and equipment**

I think the heading of this section is misleading. It does not matter if it is property plant and equipment or inventories; the issue is whether the asset generates cash

flows. I note a private sector firm may have stocks of stationary or promotional material, which do not generate cash. This is not too different from items discussed under the '*volume and financial significance*' heading.

### **Responsibility for national and local heritage**

I am not convinced this is an appropriate characteristic to make it a key issue, as it is based on 'intent'. I do not believe the reasons for holding an asset are important. The important factor is that these assets are public or social assets.

The intergenerational issue (noted in para 5.2) is a key characteristic for public sector firms. A public sector entity will (in the long-run) try and achieve break-even. At break-even the tax collected is fully distributed to the current tax payers. [There may well be issues relating to whether the costs of services will equal the value of the benefits provided. For the purposes of discussion I will ignore issues of effectiveness]. That is, at breakeven there is no intergenerational anomaly. When a loss arises it is funded from accumulated reserves or debt; which has implications for past and future taxpayers respectively. This does not happen in the private sector because the owner settles up and is compensated based on the negotiated future prospects.

### **Longevity of the public sector**

I do not think that 'longevity' is a suitable characteristic. First, a fundamental basis for financial reports is 'going concern' – hence private sector reports are based on an assumption of longevity. This is also reflected in the way assets and liabilities are classified into current and non-current. Furthermore, it is not the case that if a private sector entity goes into liquidation, the assets suddenly disappear.

### **Regulatory role of government**

Why is this characteristic any different from the ability to tax (i.e., para 2.4 to 2.7)? I acknowledge that this might be an issue in determining 'control', but the level of benefits related to this characteristic is infinite, so it would be physically impossible to draw up financial statements using this as a characteristic.

### **Ownership or control of rights**

I am not sure why this is different from regulatory role of government. The 'potential' is unlimited and therefore infinite and therefore unaccountable.

Once created then presumably there is a market and a fair value can be estimated; or there is no market and it is a likely to be a non-exchange transaction.

### **Statistical basis of accounting**

In financial reporting for the private sector the rates of depreciation for taxation purposes are ignored because they are more likely to reflect government policy than a proper basis for asset measurement under GAAP. A similar parallel here would be GFS accounting.

### **Non-financial reporting**

Given the need for non-financial measures in a not-for-profit environment, I am surprised that this was not considered a key characteristic. While private sector also has non-financial reporting issues (e.g., management commentary) I think the

development of non-financial measures is critical to the measurement and assessment of levels and maintenance of service.

The fact that non-financial measures was not highlighted in the document perhaps indicates that the ED has focused on characteristics of public sector, rather than the characteristics of users' needs in financial reporting. Clearly, both are important.

**Summary:**

I think the weakness of this document is that it has identified examples of transactions rather than fundamental properties. Hence, items like taxes appear under several headings (e.g., non-exchange transactions and regulatory role).

I summarise what I think are the main fundamental properties underlying the document:

*Primary*

**Reporting objective:** as a basis for determining revenue (*ex ante*) versus stewardship reporting (*ex post*).

**Intergenerational reporting:**

**Non-financial reporting:**

**Public good (or social) assets:**

*Secondary*

**Non-exchange transactions:**

**Non-cash generating assets:**

Secondary issues are those that also have implications for private sector entities (although the materiality may be lower). I suggest the IPSASB try to work with the IASB on these issues.

## 2. Do you think this document should be part of the IPSASB's literature?

This has been a useful document in developing thinking about financial reporting issues in the public sector. This document (if revised) would be useful in determining the work priorities of the IPSASB. That is, the IPSASB should work on those issues that are more fundamental to public sector financial reporting.

Should it be part of the conceptual framework? I do not believe the whole document should be in the *Framework*. It may be that some parts of it are suitable for framework (e.g., the objective of reporting); parts might be suitable for other frameworks (e.g., non-financial reporting); and parts might be suitable for individual accounting standards (e.g., non-cash generating assets).

The Hague, 29 August 2011

Re: comment to IPSAS Board Exposure Draft 'Key characteristics of the Public Sector with Potential Implications for Financial Reporting'

L.s.,

With respect to the above-mentioned document, I would suggest the following:

1) to include in the beginning of paragraph 4 a more general description of the responsibilities of public sector entities, as it is used in the academic field of Public Administration e.g.:

'Public administration requires politicians and civil servants to use scarce public funds to develop and implement policy with other public organisations and private parties in order to produce outcomes or carry out designated tasks in the public interest. To this end, public organisations take binding decisions and exercise administrative power within the frameworks of the democratic rule of law.'

2) to include in the document a summarized list of criteria of good governance public sector entities have to meet, e.g.:

'It is the responsibility of public sector entities to simultaneously satisfy a series of criteria of good public governance, which are presented in the table below:

<b>Criteria of good public governance</b>
1) Performance criteria: economy, efficiency and effectiveness
2) Due care criteria: responsiveness, democratic content, regularity, propriety, integrity
3) Financial criteria: financial solidity and fiscal sustainability
4) Organisational criteria: quality of internal governance, quality of cooperation with other organisations, innovative power, learning ability, sustainability to people and planet
5) Accountability and transparency criteria: transparency, quality of accountability arrangements, quality of external audits

In my opinion, both suggestions are relevant to the principles of external reporting by public sector entities, as the substance of their public accountability and external reporting should reflect the full range of responsibilities and the criteria of good public governance.

Yours sincerely,

Prof. Martin Dees  
Nyenrode University  
m.dees@nyenrode.nl



Government of Newfoundland and Labrador  
Department of Finance  
Office of the Comptroller General

August 11, 2011

Ms. Stephenie Fox, Technical Director  
International Public Sector Accounting Standards Board  
International Federation of Accountants  
277 Wellington Street West  
Toronto, Ontario  
M5V 3H2

Dear Ms. Fox:

**Re: IPSASB Exposure Draft - Key Characteristics of the Public Sector with Potential Implications for Financial Reporting**

I offer the following comments to IPSASB on the Exposure Draft (ED) - *Key Characteristics of the Public Sector with Potential Implications for Financial Reporting* on behalf of the Provincial Government of Newfoundland and Labrador.

While it is recognized that this ED has been developed as part of this project, it is our position that the topics addressed in this ED should have been issued with the Exposure Draft and Consultation Papers that were Phases I, II, and III of the IPSASB's project on the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*.

The document as a whole does not adequately develop the characteristics of constitutional structure and its importance from a conceptual perspective. It should allow consideration for financial reporting that reflects different jurisdictional attributes and constitutional structures. If a conceptual framework develops principles that do not appreciate the unique characteristics or legislative structures across different governments and its government organizations, it will not provide financial information that is useful and informative for the primary user.

In addition to these general comments noted above, I offer the following details that are of significant concern to the Province in relation to the specific proposals of this document. In particular, I specifically reference paragraphs 6.3, 6.6, 7.2 and 8.1 as these discuss concepts that have been identified in the other phases of the IPSASB's Conceptual Framework Project to which we have raised concern. It is our position that rather than posing questions, the document should provide more rationale to understand acceptable differentiation required from private sector accounting standards when considering concepts that are unique to the public sector.

Paragraph 6.3 discusses the longevity of government programs and the fact that the effects of past decisions are not known until many years into the future. Also questions whether obligations related to such programs meet the definition of an asset or liability in the financial statements. It is our position that this concept as presented does not develop rationale of understanding the uniqueness of government operations or support its implications in relation to financial reporting that should provide useful information to the users of the financial statements.

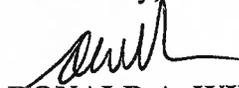
Paragraph 6.6 discusses the longevity of the public sector and that the concept of going concern is less relevant in the public sector, while at the same time, noting that it is of increasing relevance to provide information on long-term sustainability of key programs and a need of prospective financial reporting for accountability and decision-making purposes. It is our position that guidance in such areas beyond the financial statements should be left to the discretion of the individual reporting jurisdictions which may have their own legislative and/or regulatory requirements in such reporting areas.

Paragraph 7.2 discusses the regulatory role of government, the impact that this role has on the pricing structures and operating approaches of private sector entities and the impact this role has on the reporting entity and the scope of financial reporting in the public sector. Again, such an approach leads to more questioning and subjectivity in determining the extent of inclusion within the government reporting entity and avoids more appropriate discussion of constitutional arrangements that should be respected in developing the concept of a government reporting entity within the Conceptual Framework.

Finally, paragraph 8.1 discusses the rights of natural resources (mineral reserves, water, fishing grounds and forests) that allow governments to grant licenses or obtain royalties and questions whether such rights give rise to assets, and if so, whether such assets meet the criteria for recognition in financial statements. It is our position, as previously provided to the IPSASB, while there may be some perceived benefit associated with these unique rights of government, it is still questionable whether recording such items as assets would be useful or even appropriate from a financial reporting perspective.

Thank you for the opportunity to provide my comments on this issue. If you require further information, please contact myself or Carmalea Gillingham, Accounting Research Specialist, at (709) 729-4049.

Yours truly,



**RONALD A. WILLIAMS, CA**  
**Comptroller General of Finance**

cc: Terry Paddon, Deputy Minister of Finance

UNITED NATIONS SYSTEM



SYSTEME DES NATIONS UNIES

Chief Executives Board  
for Coordination

Conseil des chefs de secrétariat  
des organismes des Nations Unies  
pour la coordination

**SUBMISSION: Exposure Draft: *Key Characteristics of the Public Sector with Potential Implications for Financial Reporting***

19 August 2011

Ms Stephenie Fox  
Technical Director  
International Public Sector Accounting Standards Board  
International Federation of Accountants  
277 Wellington Street West  
Toronto Ontario Canada M5V 3H2

Dear Stephenie,

1 Thank you for the opportunity to comment on the Exposure Draft, *Key Characteristics of the Public Sector with Potential Implications for Financial Reporting*, (the Exposure Draft). The Exposure Draft has been developed by the IPSASB as part of its project on the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities (the Conceptual Framework).

**United Nations System Task Force on Accounting Standards**

2 The United Nations System Task Force on Accounting Standards (Task Force) appreciates the work that the IPSASB is carrying out in developing accounting standards for public sector entities, including international organizations such as those making up the United Nations system. The Task Force is an inter-agency group consisting of directors of accounting, chief accountants and chief financial officers from United Nations System organizations. The comments below represent the views of Members of the Task Force. The individual organizations that provided comments on this submission and concurred with its submission to the IPSASB are listed in Appendix 1. Where an individual organization disagreed with a particular recommendation but agreed to the recommendation going forward to the IPSASB, this has been noted against the individual recommendation in Appendix 2.

**General Comments**

3 We support the IPSASB efforts in developing the Conceptual Framework, which establishes parameters for financial reporting under IPSAS and clarifies concepts not previously explicitly covered by the Standards. The Exposure Draft highlights certain

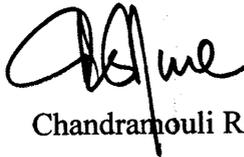
characteristics of the public sector that may have an impact on development of a conceptual framework for the public sector and, therefore, on accounting standard-setting in the public sector. We note that the Conceptual Framework focuses on preparation and presentation of the General Purpose Financial Reports (GPFs) of public sector entities, whereas the Standards deal with General Purpose Financial Statements (GPFs).

**Specific Matters for Comments and Comments on Further Issues**

4 Our detailed comments on the specific matters for comment identified in the Exposure Draft and further issues are attached as Appendix 2.

5 Should you have any queries on our comments, please contact Ms. Dinara Alieva, Financial Analyst, System-wide IPSAS Project Team at [alievad@un.org](mailto:alievad@un.org).

*Cheers,*  
Yours sincerely



Chandramouli Ramanathan

Director, Accounts Division, United Nations  
& Chair, Task Force on Accounting Standards,  
304 East 45th Street, Room FF-726  
New York, NY 10017, USA  
[ramanathanc@un.org](mailto:ramanathanc@un.org)

## APPENDIX 1: UNITED NATIONS SYSTEM TASK FORCE ON ACCOUNTING STANDARDS

Task Force Members from the following organizations reviewed this submission and concurred with its contents.

Organisation	Agree (Disagree)
1. FAO	Agree
2. IAEA	Agree
3. ICAO	Agree
4. ILO	Agree
5. IMO	Agree
6. ITU	Agree
7. PAHO	Agree
8. UN	Agree
9. UNDP	Agree
10. UNESCO	Agree
11. UNFPA	Agree
12. UNHCR	Agree
13. UNICEF	Agree
14. UNIDO	Agree
15. UNOPS	Agree
16. UNRWA	Agree
17. UPU	Agree
18. WFP	Agree
19. WHO	Agree
20. WIPO	Agree
21. WMO	Agree
22. WTO (Tourism)	Agree
23. UNWomen	Agree

**APPENDIX 2: EXPOSURE DRAFT: KEY CHARACTERISTICS OF THE PUBLIC SECTOR WITH POTENTIAL IMPLICATIONS FOR FINANCIAL REPORTING – SPECIFIC MATTERS FOR COMMENT**

**Specific Matter for Comment 1**

**Do you agree that this document provides useful background information on the key characteristics of the public sector and identifies some potential implications of those key characteristics for financial reporting? If not, please indicate how you would modify the document.**

**Response:**

1 The document provides useful background information on the key characteristics of the public sector. However, the discussion focuses mainly on specific characteristics of governments and contains limited references to other public sector organizations. The Task Force notes that the Exposure Draft contains a reference to the United Nations system, although the context of the reference needs to be clarified (please see second comment on paragraph 1.3 of the Exposure Draft).

2 The title of the Exposure Draft implies the intention of the IPSAS Board to analyse the potential implications of the key characteristics of the public sector on financial reporting of public sector entities. However the Task Force's view is that this aspect has not been profoundly addressed in the Exposure Draft. The discussion acknowledges the potential implications of each characteristic on financial reporting at the end of each section. In the Task Force's opinion further amplification of these implications would enhance value of discussion presented in the Exposure Draft.

**Specific Matter for Comment 2**

**Do you agree that this document should be included as part of the IPSASB's literature? If you agree, where do you think the material in this document should be located:**

- (a) As part of the Conceptual Framework;**
- (b) As a separate section of the Handbook of International Public Sector Accounting Pronouncements; or**
- (c) Elsewhere with some other status – please specify?**

**Response:**

3 The Task Force agrees that this document can be included as part of the IPSASB's literature. Some members of the Task Force share the view that the finalized version of the Exposure Draft belongs within the Conceptual Framework due to its overarching nature for financial reporting.

4 It is also important to consider the authority of the finalized document when determining its location in the IPSASB's literature. If it is expected that the concepts introduced by this document would be applied to GPFR, then it is reasonable to incorporate them in the finalized Conceptual Framework. Alternatively, if the Board is of the view that the concepts of the finalized Exposure Draft would be also used by preparers of GPFS, then it might be more appropriate to include them as a separate section of the Handbook to extend their authority beyond GPFRs.

### **Other specific comments**

#### ***Paragraphs 1.2 and 1.3***

5 The Task Force suggests that paragraph 1.3 be followed by paragraph 1.2 as paragraph 1.3 establishes the scope of the term "the public sector". Paragraph 1.2 discusses characteristics of governments, which is one of the groups identified by the term "the public sector" along with other groups. The Task Force believes that the discussion of characteristics of any particular group of entities comprising the public sector should not precede definition of the term and acknowledgement of all groups which it comprises.

#### ***Paragraph 1.3***

6 The following points were noted:

- a. This paragraph seems to imply that the term "the public sector" does not implicitly include public sector organizations which are not governments or local regulatory bodies. The Task Force suggests that the Board re-examines this statement to expand the scope of the term "the public sector" to public sector organizations other than governments.
- b. The paragraph also states that "in the context of this paper the term also extends to international organizations, such as the United Nations system". It is not clear what other contexts exist in the area of financial reporting in which the term "public sector" is not applicable to the United Nations system organizations. The Task Force suggests re-examining this statement and enhancing its clarity by removing a limiting reference to a particular context where United Nations system is considered as "the public sector".

#### ***Paragraphs 2.2, 2.4 and 2.7***

7 Paragraphs 2.2 and 2.4 introduce the concept and build the discussion on associating private sector with voluntary revenues and transactions and public sector with

funding received through involuntary transfers. Although the latter is applicable to governments, this association is not universal for the public sector. Many public sector organizations are funded by voluntary contributions from donors, including the United Nations System organizations. Some organizations in the United Nations System are funded fully by voluntary transfers. The Task Force suggests that corresponding parts of the Exposure Draft be re-examined regarding the association between involuntary transfers and public sector. Similarly, paragraph 2.7 acknowledges potential implications of reliance on taxation and other involuntary transfers but does not recognize implications of non-exchange voluntary transfers on financial reporting.

***Paragraph 2.3***

8 When defining needs of users of public sector entities, more dimensions might need to be considered, including, but not limited to evaluating performance towards achieving objectives set out for the period.

Frank Walker, CFE  
Walker Fraud Examiners, Inc.  
175 E Delaware Pl, #6701 Chicago, IL 60611 (312) 475-1438

August 31, 2011

The International Public Sector Accounting Standards Board (IPSASB)  
International Federation of Accountants  
[www.ifac.org](http://www.ifac.org)

Comment to Exposure Draft:

*Key Characteristics of the Public Sector with Potential Implications for Financial Reporting*

I commend IFAC on the Exposure Draft, particularly section 9, *Statistical Basis of Accounting*.

Aftermath of the financial crisis of 2008 reminds us that the power and continuity of public sector entities and governments cannot be assumed. The historically weak point is public sector debt.

I believe that the nature of public sector debt should be conceptually explored to direct measurement, accounting and statistical reporting that supports timely identification and analysis of critical issues.

For example, does it matter who owns public sector debt? Are the claims against the United States of America by China different in nature than the claims of its own Social Security and Medicare systems?

How can global public sector debt be understood without complete, timely access to comparable data?

Brief review of selected information indicates that data on public sector debt are not consistently defined, measured on the same date, available for all issuers from a single source, and downloadable for analysis. Public sector debt data for an issuer are not readily available by holder such as --

- Foreign government, foreign government agency or department, foreign central bank.
- Domestic central bank; domestic department, agency and other large domestic public entity.
- Domestic state or local government.
- Foreign private owners versus domestic private owners.
- Pension funds for private entity retirees versus public entity retirees.
- Domestic and foreign: mutual funds, insurance companies, depository institutions, oil exporters.

Consider adding a paragraph on public sector debt as a key characteristic including the identification of those categories that should be treated differently and if so how.

  
Frank Walker, CFE

Appendix

Brief review of selected information, prepared by Caroline Walker:

*Report of the International Monetary Fund on the Inter-Agency Task Force on Finance Statistics*, United Nations, Economic and Social Council, 2 December 2009. *E/CN.3/2010/24*.

### III. Availability of debt data     A. Joint External Debt Hub

8. A joint effort of BIS, IMF, the Organization for Economic Cooperation and Development (OECD) and the World Bank, the Joint External Debt Hub<sup>4</sup> website was launched in March 2006, to provide a one-stop source for comprehensive external debt statistics. Originally, the hub featured data from creditor and market sources for external debt and selected foreign assets for more than 200 economies, comprehensive national external debt data provided by the 54 subscribers to the IMF Special Data Dissemination Standard (SDDS) and information describing the data (metadata) provided. (Page 4)

### B. World Bank debtor data

13. The national/debtor data available on the hub are sourced from the World Bank's database launched in November 2004. The database includes a core set of quarterly external debt data initially provided by the IMF Special Data Dissemination Standard subscribing countries, which are based on concepts and presentation tables in the *External Debt Guide*. Participation in the database is voluntary. (Page 5)

### World Bank Quarterly External Debt Statistics

<http://web.worldbank.org/WBSITE/EXTERNAL/DATASTATISTICS/EXTDECOEDS/0,,menuPK:1805431~pagePK:64168427~piPK:64168435~theSitePK:1805415,00.html> (Downloadable)

Treasury Bulletin, June 2011, Department of the Treasury, Financial Management Service.  
[www.fms.treas.gov/bulletin/b2011\\_2.pdf](http://www.fms.treas.gov/bulletin/b2011_2.pdf)

### Introduction: *Ownership of Federal Securities*

TABLE OFS-1.—*Distribution of Federal Securities by Class of Investors and Type of Issues*

TABLE OFS-2.—*Estimated Ownership of U.S. Treasury Securities*. (Pages 39-41)

*Foreign Holdings of Federal Debt*, Justin Murray, Information Research Specialist, and Marc Labonte, Specialist in Macroeconomic Policy, Congressional Research Service, 7-5700, [www.crs.gov](http://www.crs.gov), RS22331 March 25, 2011.

Foreign holdings are estimated by the Treasury Department based on the location of the holdings, not the nationality of the holder. For certain countries, such as the Caribbean Banking Centers, many of the holdings are likely owned by third country citizens. (Footnote 5, page 2)

*Foreign Ownership of U.S. Treasury Securities: What the Data Show and Do Not Show*, Dorothy Meadow Sobol, Current Issues in Economics and Finance, Federal Reserve Bank of New York, Volume 4 Number 5, May 1998.

The Treasury Department makes available to the public considerable information about foreign holdings of its securities. Nevertheless, it is not possible to determine from the published data exactly which foreigners own U.S. Treasury debt and how much of this debt is in foreign hands. (Page 1)



Ms Stephenie Fox  
Technical Director  
International Public Sector Accounting  
Standards Board  
International Federation of Accountants  
277 Wellington Street, 4th Floor  
CANADA - Toronto, Ontario M5V 3H2

E-mail to: [EDComments@ifac.org](mailto:EDComments@ifac.org),  
[StephenieFox@ifac.org](mailto:StephenieFox@ifac.org)

9 September 2011

Ref.: PSC/PRJ/TSI/SRO

Dear Ms Fox,

**IPSASB Exposure Draft “Key Characteristics of the Public Sector with Potential Implications for Financial Reporting”**

1. FEE (Fédération des Experts-comptables Européens - Federation of European Accountants) is pleased to submit its views on this draft document.

**General Comments on the Exposure Draft**

2. We strongly support IPSASB’s programme which combines IFRS converged IPSASs, public sector specific IPSASs and conceptual work and the aim to achieve the balance between maintaining comparability and addressing sector specific issues.
3. This draft document helpfully provides scene setting for current IPSAS and the agenda which IPSASB is supporting with the public sector conceptual framework.

**Specific Matters for Comment**

4. FEE’s views are set out below on the two Specific Matters on which IPSASB would value comments.



### Specific Matter for Comment 1

Do you agree that this document provides useful background information on the key characteristics of the public sector and identifies some potential implications of those key characteristics for financial reporting? If not, please indicate how you would modify the document.

5. We agree that the document provides useful background information on key characteristics and identifies some potential implications for financial reporting.

### Specific Matter for Comment 2

Do you agree that this document should be included as part of the IPSASB's literature? If you agree, where do you think the material in this document should be located:

- (a) As part of the Conceptual Framework;
- (b) As a separate section of the Handbook of International Public Sector Accounting Pronouncements; or
- (c) Elsewhere with some other status – please specify?

6. We strongly agree that it would be useful to include a document based on the Exposure Draft in IPSASB's literature.
7. We consider that a document based on the ED be preferably placed with the Conceptual Framework material to which it provides introductory background. Alternatively it could be put into the Handbook as part of the introductory material for the IPSAS standards.
8. The Exposure Draft is well drafted and the broad direction of the material is excellent.
9. We believe that the document will be most useful if it is clear and concise and so we would suggest some improvements. In general there is some material that needs more explanation; some duplicated material and some that is relevant to the public sector but does not provide additional content from a financial reporting standpoint.
10. The ED is careful to avoid representing approaches in particular jurisdictions as being universal but there are some cases where this approach has not been applied.
11. We attach some suggested drafting comments in the Annex.



We would be pleased to discuss any aspect of this letter you may wish to raise with us.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Philip Johnson', followed by a long, horizontal flourish that extends to the right.

Philip Johnson  
President

Encl.

## ANNEX

### DRAFTING COMMENTS ON IPSASB EXPOSURE DRAFT Key Characteristics of the Public Sector with Potential Implications for Financial Reporting

#### Section 1/ General comments on structure and repeated content

1. The introductory section seems to combine an explanation of the purpose of the paper with other material introducing the public sector. It might be helpful to separate into:
 

Introduction to the paper	(1.1 and 1.5-1.6)
Types of public sector entity and activity	(1.2-1.4).
2. The first sentence of paragraph 1.1 is not clear. It might be better to delete it rather than redraft: while it explains that the characteristics of the public sector are relevant to reporting on the sector, it adds little to the second sentence which sets out to identify distinguishing characteristics.
3. The material in paragraph 1.4 on public sector longevity could perhaps be deleted as it is duplicated in section 6. The remaining material on the varying size and role of the public sector could be reduced. Para 1.4 also focuses on economic management: it might be helpful to provide brief information on the role of government as provider of social benefits and collective goods. The material on government's role as regulator in section 7 role could perhaps be made shorter and moved to this section, in line with notes at 14 below.

#### Comments on section 2

4. Paragraph 2.7 is unclear, and might be better reworded and split into two paragraphs which cover rather different subjects. For example:

*International organizations are also largely funded by non-exchange revenue transfers. Transfers from member governments or public sector bodies may be governed by treaties and conventions or be made on a purely voluntary basis.*

and

*The significance of taxation and other involuntary transfers has implications for a number of aspects of a public sector conceptual framework, such as the definition of assets and liabilities.*

As redrafted, the second paragraph makes a very general point and might be better placed elsewhere or otherwise highlighted.

5. The discussion in paragraph 2.8 of public goods uses a very specific meaning which is not used by all economists and so might be incorrectly seen as equating non-excludable or 'pure' public goods with public sector provision, without commenting on wider public goods such as breathable air. It also characterises government intervention as arising from a particular economic

view: it might be better to reflect the fact that many governments provide services. The first half of the paragraph might therefore be deleted. The remaining text might more directly address existing practice, for example:

*Many governments provide goods and services that enhance or maintain the well-being of citizens and other eligible residents. These services are often provided in a non-competitive environment, either because they are not 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.*

6. The first part of para 2.9 is wordy and could be simplified to say that government services will often be provided through non-exchange transactions.

### Comments on section 3

7. Generally this section could be more concise. In particular paragraph 3.3 states that budgetary comparison is important and relevant to financial reporting and could be drafted as follows:

*Information that helps users assess actual spending against budget estimates is important in determining how well a public sector entity has met its financial objectives. The usefulness of budget information for assessing performance and for accountability purposes therefore needs to be borne in mind when considering the needs of the users of public sector financial reports and in determining the scope of that reporting.*

It may be possible to delete some of the second sentence which mainly reinforces the importance of the first sentence.

### Comments on section 5

8. Paragraph 5.2 covers aspects of heritage assets which are important and relevant to government policy rather restricted to financial reporting. It might therefore be more appropriate to note:
  - Heritage assets may be donated or may have been in public sector control for a very long time and may have very long or indefinite lives.
  - Many heritage resources may not be sold in markets, or governments may wish to discourage sale.
  - In other cases, information on historical cost or current market value may not be available either in principle or at reasonable cost.

For these reasons, heritage resources raise a number of issues including whether particular resources should be recognised as assets. They also raise different conceptual and practical considerations to those faced in profit focussed reporting when considering how they might best be measured and disclosed in financial statements.

### Comments on Section 6

9. The overall tone of paras 6.4 and 6.5 could be read as implying that the going concern principle is less significant for government. This seems inappropriate particularly in the light of the recent economic crisis and IPSASB's work on long term fiscal sustainability. It might be useful to focus on the going concern assumption and noting that it is not often significantly challenged as governments have recourse to tax-raising powers.
10. We therefore suggest that para 6.4 could be clearer by explaining that financial reporting adopts a standardised (sic) approach to recognising and measuring assets and liabilities, consistent with a continuing entity rather than on the basis that assets or liabilities might need to be disposed of or settled at short notice under unfavourable terms.
11. Also, while the power to tax is highly relevant to going concern considerations and supporting public sector longevity, the question as to whether that power is an asset might fit better in the section on non-exchange transactions.

### Comments on Section 7

12. Paragraphs 7.1 to 7.2 seek to describe the regulatory role of government. Given the variety of different approaches internationally it is difficult to do this clearly.
13. The paragraph does not seem to explain why these distinctive characteristics are relevant to public sector financial reporting and in particular it is difficult to understand the basis for the suggestion in 7.2 that:

“The existence of such regulatory responsibilities will need to be considered in the determination of the reporting entity and the scope of financial reporting in the public sector.”

It is not clear that the regulatory aspect of government raises reporting issues which are particularly different to other government programs with difficult to measure outcomes. If the intention is to suggest that regulation adds nuances to the consideration of the extent of government control then this could be clearer.

14. We suggest that the draft either needs more explanation as to how regulatory responsibilities might give rise to entity boundary and scoping issues. Alternatively this section could be shorter and combined with section 2 (see paragraph 4 above).

### Comments on Section 9

15. Paragraphs 9.1 and 9.2 provide a discussion of the relationship between financial reporting and statistical accounting. For readers who are not already familiar with statistical/economic reporting this may not adequately explain why this discussion is important. This section would be easier to understand with some reordering and a little more background, starting with the use of statistical accounting by government. Perhaps as follows:

*9.1 Reporting under statistical bases of accounting is very important in the public sector. This reporting is used by governments and other bodies to provide aggregated information for macro-economic analysis and modeling purposes. Governments and international public sector bodies use such information for economic analysis and comparisons between jurisdictions, primarily for decision-making purposes. The System of National Accounts (SNA), issued by the United Nations, is an internationally agreed basis for such economic reporting. The European System of Accounts (ESA) provides guidelines for Member States of the European Union and is consistent with SNA. Additionally, the Government Finance Statistics Manual (GFSM), issued by the International Monetary Fund, provides a specialized macroeconomic statistical system designed to support fiscal analysis, and is consistent with SNA. The GFSM provides economic and statistical guidelines to be used in compiling statistics on the fiscal position of nations.*

*9.2 For statistical reporting purposes, the public sector is divided into the general government sector (GGS) and public corporations. The GGS includes all institutional units whose output is intended for individual and collective consumption and that are mainly financed by compulsory payments made by units belonging to other sectors, and institutional units principally engaged in the redistribution of national income and wealth. The GGS is typically sub-divided into four subsectors: central government, state government, local government and social security funds.*

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August 31, 2011

Ms. Stephanie Fox  
Technical Director  
International Public Accounting Standards Board  
International Federation of Accountants  
277 Wellington Street West  
Toronto ON M5V 3H2

Dear Ms. Fox:

Thank you for the opportunity to comment on the International Public Sector Accounting Board's Exposure Draft "Key Characteristics of the Public Sector with Potential Implications for Financial Reporting".

In June 2011, we provided our responses to other related documents integral to the development of the IPSASB's conceptual framework. Key issues raised in those responses highlight and reinforce the concerns we have identified in this response. The scope of the conceptual framework should be limited to general purpose financial statements (GPFS) and should reflect the nature of the public sector, ensuring that the needs of primary users are met. In this regard, Ontario does not support a sector neutral approach to developing accounting standards (i.e. based on private sector standards) for the public sector.

As stated in our previous responses to IPSASB's various conceptual framework documents, it is important that the conceptual framework and accounting standards for the public sector acknowledge and reflect the public's expectations for transparency and accountability reporting by the government. This is fundamentally different from what a shareholder or a lender would expect of a commercial enterprise and is why a sector neutral approach is not appropriate in the context of establishing public sector accounting standards.

Ms. Stephanie Fox  
Page 2

Public sector general purpose financial statements are viewed by the public as a key element of the accountability reporting cycle. The importance of the Budget as described in section 3 of the Exposure Draft is critical, yet appears to be virtually ignored in section 2.3 of the Exposure Draft which describes matters of interest to users of public sector financial reports. This critical point needs to be further assessed and addressed within the conceptual framework.

This Exposure Draft provides useful identification and background on key characteristics of the public sector and identifies some potential implications of those key characteristics for general purpose financial reporting. However, the fundamental objectives of public sector accountability reporting should be based on the key characteristics of the public sector which is not adequately reflected in the IPSASB's related conceptual framework documents exposed in December 2010. It is recommended that IPSASB re-expose phase 1 of the conceptual framework document to fully incorporate the impact of key characteristics of the public sector, and incorporate these additional considerations in the development of Exposure Drafts for phase 2 and 3 of the framework.

In addition, IPSASB's suggestion that public sector financial reports might provide users with information to assess value for money (per section 2.3) may create an expectation gap. Specifically, the Exposure Draft suggests that users may be relying upon financial statements to assess whether the entity has provided its services in an efficient and effective manner. However, the nature and extent of performance related information on efficiency and effectiveness of government services is not a consideration that is typically associated with government financial statement reporting. The information contained in historical financial statements is not generally considered the appropriate tool for users to assess efficiency and effectiveness of policy decisions. While some jurisdictions may provide performance related information in their annual reports, such information is not standardized and/or more likely to be provided to the public through different means.

The Province of Ontario believes that the scope for accounting standards should be focused only on supporting general purpose financial statements that meet the informational needs of the public for historical financial information. In Canada, general purpose financial statements are a cornerstone in achieving effective accountability reporting to the public on the use of taxpayer money. A single conceptual framework would not be able to effectively support all the varying objectives of general purpose financial reporting as currently suggested by the IPSASB conceptual framework documents, without compromising on the guidance for high quality general purpose financial statements.

Ms. Stephanie Fox  
Page 3

While user needs of government financial reports may go beyond the GPFS and include non-financial and prospective information, the over-riding purpose served by the GPFS in the public sector is to allow the public (and the legislature acting on their behalf) to gauge performance against the Budget. In Ontario, future-oriented financial information is provided through the government's Budget document which is generally prepared on the same basis as the government's historical financial statements to enhance transparency and accountability of reporting. However, this is not necessarily the situation in all jurisdictions. As governments are sovereign, the Exposure Draft should note that governments retain their sovereign right and decision-making authority on the budgeting and/or financial reporting basis that best meet the public's need for information. This would support broader acceptance of IPSASB by governments.

Ontario's responses on the specific matters for comment requested in the Exposure Draft are attached.

Thank you for the opportunity to comment on the Exposure Draft and we look forward to updates on IPSASB's continuing conceptual framework development efforts.

Yours sincerely,



Murray Lindo  
ADM and Provincial Controller (Acting)  
Office of the Provincial Controller Division

Attachment

c. Peter Wallace, Deputy Minister of Finance  
Greg Orencsak, Associate Deputy Minister

## APPENDIX

### Comments from Ontario on Exposure Draft: Key Characteristics of the Public Sector with Potential Implications for Financial Reporting

#### Specific Matters for Comment

- 1. Do you agree that this document provides useful background information on the key characteristics of the public sector and identifies some potential implications of those key characteristics for financial reporting? If not, please indicate how you would modify the document.**

This document provides useful background information on the key characteristics of the public sector and identifies some potential implications of those key characteristics for financial reporting. However, there is a need to emphasize the over-riding key role that general purpose financial statements play in the accountability reporting cycle in the public sector. In addition, Ontario has significant concerns relating to the proposed expansion of the scope of accounting standards beyond standards for general purpose financial statements (historical-cost based financial statements). The broad scope as suggested by the Exposure Draft would dilute the value of the conceptual framework and relevance of public sector financial reports in meeting user needs.

Ontario acknowledges that users of public sector financial reports may benefit from information beyond the historical cost based financial statements; however, given the diverse delivery of services, most users look for information from other sources than the GPFS on specific government activities such as program reporting. GPFS prepared based on standards set by authoritative accounting standard setting authorities should not be expected to meet this subgroup of users' needs.

To the extent that information on particular activities or transactions needs to be provided on an alternate basis of measurement to meet users' performance or service related information needs, such information would not typically be provided through general purpose financial statements. For example, historical cost is appropriate in GPFS as it supports the accountability measurement for use of funds in the cash flow statement and depreciation based on historical costs to allocate the consumption of the asset investment for delivery of services. However, asset management reporting may need information on replacement cost or some other basis that would not be appropriate in the audited financial statements. User needs, as it relates to program reporting, can be very specific to a jurisdiction or type of program. IPSASB should allow each jurisdiction to determine specific user needs and produce relevant non-financial, performance and forward-looking reporting in accordance with government's own accountability framework. Being sovereign, all governments would reserve the right on when and how to provide public reporting on programs that best meets public accountability reporting objectives. For example, in addition to summary financial statements, Ontario issues other key fiscal documents

including the budget, mid-year economic statement, and detailed schedule of payments to provide to the public and other users with information on government activities. Governments must weigh the cost of producing public reports with the number of users looking for particular information. This is something that can change over time and in nature based on evolving needs or specific events.

With regards to the key characteristics that may have implications to the definitions and measurement of assets, it is Ontario's view that the measurement basis should be considered together with the recognition criteria to determine whether certain unique power or right of government meets the definition of an asset, thus being included in the government financial statements. Also, the measurement basis should reflect the nature of the public sector assets. Ontario agrees that the primary reason for holding tangible capital assets is to deliver services to the public rather than to generate positive cash flow. Most assets have limited market value due to their specialized nature but are essential to government operations and the value provided to the public. Therefore, market valuation would not be appropriate measurement basis. We agree that a measurement basis other than the market value best supports transparency and accountability reporting of the public sector. Specifically, a single measurement basis of historical cost with limited application of another basis should be adopted by the IPSASB.

- 2. Do you agree that this document should be included as part of the IPSASB's literature? If you agree, where do you think the material in this document should be located:**
- (a) As part of the Conceptual Framework;**
  - (b) As a separate section of the *Handbook of International Public Sector Accounting Pronouncements*; or**
  - (c) Elsewhere with some other status – please specify?**

Ontario agrees that the concepts of this document should be included in the IPSASB's literature, and in particular, as part of the conceptual framework.

The material in this document is an important basis to develop and interpret the conceptual framework and therefore would be best integrated into the specific conceptual framework documents and the supporting Basis of Conclusion documents.



Ministry of  
Finance

Provincial Comptroller's  
Office

2350 Albert Street  
Regina, Canada  
S4P 4A6

September 8, 2011

Ms. Stephenie Fox, Technical Director  
International Public Sector Accounting Standards Board  
International Federation of Accountants  
277 Wellington Street West  
TORONTO ON M5V 3H2

Dear Ms. Fox:

*Stephenie*

**Re: Key Characteristics of the Public Sector with Potential Implications for  
Financial Reporting**

Thank you for the opportunity to comment on the Exposure Draft of the International Public Sector Accounting Standards Board (Board) entitled Key Characteristics of the Public Sector with Potential Implications for Financial Reporting. We are pleased to continue to provide comments from a Canadian perspective for the development of International Public Sector Accounting Conceptual Framework and Standards.

The Board has asked for specific comments on whether or not the document provides useful information and identifies potential implications on key characteristics of public sector financial reporting. Generally, we are in agreement with the views and positions expressed in the Exposure Draft. Overall, we feel that the document is an excellent introduction to the Conceptual Framework as it provides a basis of understanding of the unique characteristics of the Public Sector when reviewing the Conceptual Framework.

The Board has asked for specific comments on how the document should be included in the Board's various forms of literature. The various areas of discussion could be incorporated into the introduction and/or similar sections of the Conceptual Framework with some sections (i.e. Nature of Property, Plant and Equipment) being incorporated into the respective sections of the Standards if the Board so chooses. We do not believe that there is any merit in having the Exposure Draft as a stand alone document given the breath of information contained in the document and how closely it is linked to the Conceptual Framework.

.../2



We have the following additional comments on specific sections of the Exposure Draft.

Paragraph 6.3 discusses the ability to tax and control of rights to natural resources and whether or not they meet the definition of assets. While we agree this is a valid theoretical accounting discussion, it should take place only after the fundamental or "core" standards are in place.

Paragraph 6.6 indicates the need for future, prospective financial information for accountability and decision-making purposes. We continue to question the appropriateness of including prospective information references and believe the Board should limit its focus to historical-based financial information.

Thank you again for the opportunity to comment on the Exposure Draft.

Sincerely,



Terry Paton, FCA  
Provincial Comptroller

cc: Chris Bayda, Executive Director, Financial Management Branch, Provincial  
Comptroller's Office, Ministry of Finance  
Jane Borland, Manager, Financial Management Branch, Provincial  
Comptroller's Office, Ministry of Finance  
David Langen, Analyst, Financial Management Branch, Provincial  
Comptroller's Office, Ministry of Finance

September 8, 2011

Technical Director  
International Public Sector Accounting Standards Board  
International Federation of Accountants  
277 Wellington Street West  
Toronto, Ontario M5V 3H2 CANADA

**RE: PSAB STAFF COMMENTS ON EXPOSURE DRAFT: “KEY CHARACTERISTICS OF THE PUBLIC SECTOR WITH POTENTIAL IMPLICATIONS FOR FINANCIAL REPORTING”**

Thank you for the opportunity to provide input on the proposals in this Exposure Draft. We would like to express our support for the concepts set out in the Exposure Draft, although we do raise some issues for the consideration of the IPSASB below.

Responses to the Specific Matters for Comment are set out in Appendix A to this letter. In particular we draw your attention to our response to Specific Matter for Comment 2, where we advocate that these characteristics be integrated into the Conceptual Framework and their accounting and reporting implications explicitly set out, with links to existing accounting standards (guidance) and financial reporting requirements as appropriate.

As well, we wish to raise the following issues for the consideration of the IPSASB:

- (i) **Public accountability is the overriding characteristic of public sector entities and providing information to demonstrate such accountability is the primary objective of public sector reporting.**

It is crucial that the nature of public accountability as the primary driver for financial reporting in the public sector be further developed and emphasized in the IPSASB conceptual framework.

Governments are elected through a democratic process to have certain rights, powers and responsibilities that require broad accountability to the public and their elected representatives. The governing bodies of many government organizations are appointed or elected; however, these organizations are part of government. They use public resources and may have been given

delegated powers and responsibilities that also demand broad accountability to the public and their elected representatives. Broader accountability to the public and their elected representatives is expected from all public sector entities as a function of the democratic process (hereafter referred to as “public accountability”).

Public accountability requires a public sector entity to justify the raising and management of public resources and how the resources are used. Public accountability is based on the premise that the public has the “right to know” (i.e., a right to receive openly declared facts that may lead to debates by the public and its elected representatives). Financial reporting plays a major role in fulfilling a public sector entity’s duty to be publicly accountable.

The case for public accountability as an overriding objective for public sector financial reporting must be made in the framework and it must be made strongly. Accountability must be described, its importance explained and supported and its implications for public sector financial reporting set out for scrutiny. The text of the Exposure Draft does not directly do this now. Yet the inclusion of compelling text on accountability is fundamental to crafting a conceptual framework that is tailored to the needs of the users of public sector financial reports. A similar weakness downplays accountability in the current Canadian framework and it will be addressed in PSAB’s current project, *Concepts Underlying Financial Performance*.

In addition, we note that, other than the statistical basis of accounting, the key characteristics identified in the Exposure Draft all add to the case that public accountability is the overriding characteristic of the public sector.

**(ii) Some items discussed under “non-exchange transactions” require separate consideration.**

We agree that this is a key characteristic of the public sector. We also agree that the public sector focuses on service provision, a focus which is also described in the text about “non-exchange transactions”. In fact, we feel that there are at least four distinct characteristics dealt with in the category “non-exchange transactions” and that their implications should be separately identified and described.

- (a) The predominance of non-exchange transactions means that public sector standard setters must develop accounting standards for them. Do they give rise to assets, liabilities, revenues or expenses, and when?
- (b) The service provision (versus profit motive) of public sector entities has a number of potential implications for what is reported in financial statements and other financial reports - such as those set out in Exposure Draft paragraph 2.3.
- (c) There may also be a third characteristic buried in the discussion of non-exchange transactions - the re-allocation of resources. The re-allocation of resources, primarily through transfers, is another objective in the public sector and it might have both accounting and reporting implications. Transfers have accounting implications - a special standard on non-exchange revenue in IPSAS 23 deals with the recipient side of this re-allocation. The transferor side has yet to be addressed. The re-allocation of resources might also have reporting implications - for example disclosure of expenses by object of expense would highlight the extent of these re-allocations.
- (d) Fourth, the provision of goods in a non-market or limited market environment probably should be identified separately as a key characteristic. No competitive market for most government outputs means that there is no independent indication of their value. And many of the services provided by government are unlikely to be provided by anyone else, such as welfare and defense. The benefits of government services cannot be measured solely by a bottom line that shows net revenues or expenses. The implications of characteristic are likely that:
- The net cost of services and affordability of services need to be reported/disclosed, but these are not enough to show the efficiency and effectiveness of government services.
  - Performance measurement information is needed, too. There is no one measure of government performance. Non-financial performance measures are also needed.
- (e) Public sector entities also have an objective of policy development (similar to strategic planning for a business) to manage issues arising or expected to arise in the jurisdiction. Some of these policies, such as fiscal and monetary policies and foreign affairs, will transcend the service provision and/or resource reallocation orientation of most government activities.

This objective is not set out in the Exposure Draft and yet all governments will have this objective as will some government organizations.

Each of these sub-characteristics may have individual accounting and reporting implications. In our view these will be easier to interpret and understand if they are set out, described and explained separately (see response to Specific Matter for Comment 2 - suggested table).

**(iii) Powers, rights and responsibilities of governments should be separately identified.**

The rights, powers and responsibilities of governments give them the ability to directly and indirectly affect the environment (and the economy) they operate in, as well as the nature and extent of the public accountability they provide.

Governments can:

- tax;
- penalize and fine;
- issue licenses to act/use/access, etc.;
- make and enforce laws and regulations;
- set monetary policy; and
- set fiscal policy.

These rights, powers and responsibilities may vary by level of government.

In return, governments have the responsibility to (and/or the expectation that they will):

- meet their Constitutional or devolved duties;
- set policies to manage the socio-economic issues of the jurisdiction (for example, the effective functioning of the economy, foreign affairs, social welfare, economic and political sovereignty, pollution, education, health, the proclaiming and safeguarding of borders and maintaining peace, order and good government within those borders, etc.) in an efficient, effective, sustainable and transparent manner through the stewardship and application of the public resources entrusted to them;
- deliver services and reallocate resources (for example, establishing and maintaining the legal system, national defence, providing public safety, education, health and transportation

services) to meet identified policy objectives that have been subject to democratic scrutiny;

- bear risks of significant breadth and scope and thus act as residual risk holder in their jurisdiction in extraordinary circumstances (for example, natural disasters, economic intervention) and sometimes in cases where a risk to the public is otherwise unassumed or uninsured, regardless of whether the government has a contractual requirement to bear the risk.
- be accountable for the efficient, effective, sustainable and transparent management, stewardship and application of the public resources entrusted to them;
- exist and operate in perpetuity (i.e., long-term sustainability) to meet the needs of the jurisdiction; and
- be good managers of the economy and the business of government (including managing the trade surplus/deficit, the value of the dollar, government debt and other liabilities, as well as the sustainability and affordability of programs and policies).

Governments may choose to exercise these powers or meet these responsibilities directly or indirectly through various government organizations or in some cases through a reallocation of resources outside of government.

These powers, rights and responsibilities are alluded to in the section on non-exchange transactions and in the Introduction but they are not set out as a key characteristic of the public sector. In our view they should be separately highlighted - and likely split up. These are the primary reason for the requirements for public accountability. “With great power comes great responsibility” and broad accountability.

We believe that these powers, rights and responsibilities are key characteristics of governments (and government organizations to whom such powers, rights and responsibilities might be devolved). They should be given greater individual prominence in the key characteristics of the public sector part of the IPSASB’s Conceptual Framework.

**(iv) Regulatory role of government is not the whole story.**

The regulatory role of government is one of the “powers, rights and responsibilities” mentioned in (iii) above. So we are not sure why this power deserves separate mention when others do not.

**(v) Operating and financial frameworks set by legislation need to be reflected in the key characteristics.**

The Exposure Draft does not mention the pervasiveness of the legal frameworks within which government must work.

Public sector entities must operate within and illustrate their compliance with legal requirements – not merely in the sense of engaging only in legal activities but also in the sense that the specifics of their operating and financial frameworks are set out in, or flow from, legislation. Compliance with those frameworks is mandated and public accountability reporting of compliance with the letter and spirit of those frameworks is integral to the requirements. All of the activities of governments and their organizations (including the nature and level of expenses/expenditures) and the financing of those activities are established in legislation. Transparent and public accountability against the promises and policies set out in legislation is fundamental to public sector reporting.

These legal requirements and public accountability go hand in hand; they are a function of the democratic system. The legal requirements have evolved to be the checks and balances that assist a government in remaining publicly accountable.

We appreciate the opportunity to comment on this Exposure Draft. We are very supportive of your conceptual framework initiative and wish you success in integrating this piece of the framework with the other phases.

Please note that these comments are the views of PSAB staff and not those of the Public Sector Accounting Board (PSAB). PSAB has initiated a project to review the concepts underlying financial performance in that framework and may be in a position to share developments in that project with the IPSASB in the future.

Sincerely,



Martha Jones Denning, CA  
Principal  
Public Sector Accounting

**Appendix A**  
**Responses to Specific Matters for Comment**

1. Do you agree that this document provides useful background information on the key characteristics of the public sector and identifies some potential implications of those key characteristics for financial reporting? If not, please indicate how you would modify the document.

We believe that the Exposure Draft provides crucial information about key characteristics of the public sector - not just background information. The key characteristics of the public sector are a foundational piece for establishing a stand-alone conceptual framework.

The key characteristics set out the environment within which a public sector entity operates. Once identified, the key characteristics of public sector entities can be evaluated to determine which have accounting or financial reporting implications. A characteristic should only give rise to specific accounting or reporting requirements if those requirements meet users' needs for information about the public sector entity.

The nature and quality of the financial information reported in financial statements is determined by users' needs for information about the public sector entity and the attributes that make that information useful to users and support the achievement of the objectives of financial reporting.

Some key characteristics may only provide context about the environment in which a public sector entity operates and may have no specific accounting or financial statement reporting implications. Some key characteristics may have implications for reporting outside of the financial statements.

2. Do you think that this document should be included as part of the IPSASB' literature? If you agree, where do you think that the material in this document should be located:
- (a) As part of the Conceptual Framework;
  - (b) As a separate section of the *Handbook of International Public Sector Accounting Standards*; or
  - (c) Elsewhere with some other status - please specify?

We believe that the key characteristics of the public sector should be set out as an integral part of the Conceptual Framework.

They should be located at the beginning of the framework because they are the reason a framework tailored to the public sector will exist in the first place.

They should each be identified and described. Then, a table should set them out indicating whether they:

- have accounting implications.

That is, does the characteristic require that a specific public sector standard exist or be developed? Does it require that a particular treatment within a public sector standard that is comparable to a private sector standard exist or be developed? Does an asset, liability, revenue or expense exist? When/how should an item be recognized in annual results? Is the entity a going concern? The implications should be described and explained.

- have reporting implications.

That is, does the characteristic require that a particular item or indicator or comparison (e.g., actual to budget) be reported in the financial statements? Or is a new/different financial statement or a new/different financial statement format required? The implications should be described and explained. These implications may affect the indicators reported in the financial statement reporting model for public sector entities.

- are purely contextual in describing the environment within which a public sector entity operates.

As such, they should be taken into account in developing any new/amended standards or guidance.

If a characteristic has accounting or reporting implications, the table should indicate where in the framework or accounting standards or financial reporting requirements these implications

have been addressed or indicate that they will be the subject of future IPSASB deliberations.

**DIRECTION GÉNÉRALE DES FINANCES PUBLIQUES**

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Référence : 2011/08/10478

Paris, le 05 SEP 2011

Ms Stephenie FOX  
Technical director  
International Public Sector Accounting Standards Board  
International Federation of Accountants  
277 Wellington Street, 4<sup>th</sup> floor  
Toronto,  
Ontario M5V 3H2 CANADA

Re : Key Characteristics of the Public Sector with Potential Implications for Financial Reporting

Dear Ms Fox,

I am writing on behalf of the French "Direction Générale des Finances Publiques" (DGFIP) to comment on the IPSASB Exposure Draft "Key Characteristics of the Public Sector with Potential Implications for Financial Reporting" ('the ED').

We welcome the decision of the Board to issue a consultation on the elaboration of a conceptual framework for public entities.

le directeur,  
adjoint au directeur général des finances  
publiques



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Vincent MAZAURIC

<b>French original version of our response to the ED “ Key Characteristics of the Public Sector with Potential Implications for Financial Reporting ”</b>
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Nous vous prions de bien vouloir trouver ci-après la réponse de la Direction générale des Finances publiques (DGFIP) sur l'exposé sondage susmentionné.

### **Commentaire général :**

En raison du caractère spécifique et principalement non marchand des missions régaliennes et de régulateur économique et social du secteur public, certains de ses actifs et passifs présentent des caractéristiques propres sans équivalent dans le secteur privé. Ces caractéristiques emportent des conséquences sur les règles comptables applicables et notamment du point de vue des modalités d'évaluation ou de la nature des informations comptables associées.

Ainsi, le recours à la valeur de marché dans le cadre de l'évaluation des actifs et des passifs du secteur public semble inadapté dans la plupart des cas et nécessite la mise en œuvre de méthodes d'évaluation adaptées, telles que l'évaluation de certaines infrastructures au coût de remplacement. Par ailleurs, le caractère pérenne des missions du secteur public ne permet pas toujours la reconstitution de la valeur d'acquisition des actifs, notamment celle des biens historiques et culturels.

Par ailleurs, la notion de *transaction sans contrepartie* dans le secteur public ne doit s'entendre qu'au sens d'absence de contrepartie sous forme pécuniaire car il existe néanmoins une contrepartie indirecte non pécuniaire à la mise en œuvre des politiques publiques (par exemple : les domaines de l'éducation, de la santé, de la sécurité).

A ce titre, et au regard des impacts sur l'élaboration du cadre conceptuel, la DGFIP considère que ces spécificités fondamentales du secteur public pourraient être soulignées dès l'introduction de l'exposé sondage. En effet, ce rappel permettrait de mieux appréhender les spécificités de certaines règles comptables applicables aux entités du secteur public. Il semble essentiel que le cadre conceptuel du secteur public, destiné à fournir des éléments de compréhension et d'interprétation des règles et normes comptables qui lui sont applicables, présente l'importance et les spécificités de certaines opérations de l'Etat et des autres collectivités publiques.

Par ailleurs, la DGFIP considère que ce document aurait dû être discuté préalablement aux trois premiers documents de l'IPSAS Board sur le cadre conceptuel, et ce à des fins de cohérence globale de la consultation.

### **Question 1**

*Êtes-vous d'accord sur le fait que ce document comporte des informations de contexte utiles sur les caractéristiques clefs du secteur public et identifie leurs conséquences éventuelles pour l'information financière ? Si ce n'est pas le cas, indiquez de quelle manière vous modifieriez le document.*

La DGFIP considère que la publication de l'exposé sondage sur les caractéristiques clefs des entités du secteur public est essentielle pour comprendre les implications comptables tant du point de vue du cadre conceptuel que de l'élaboration des normes comptables afférentes.

Les caractéristiques essentielles du secteur public sont développées dans l'exposé sondage mais la DGFIP souhaite cependant apporter des précisions ou observations sur certains points.

### **1. Périmètre du secteur public**

Concernant le périmètre des entités appartenant au secteur public, la DGFIP souhaite y inclure les organisations supra-nationales comme l'Union européenne, qui ne sont pas explicitement visées par l'exposé sondage.

Par ailleurs, la DGFIP est d'accord pour exclure du périmètre les entités du secteur privé à but non lucratif ("private not-for-profit sector") dans la mesure où ces entités sont effectivement financées par des fonds privés issus de la générosité publique, de dons, etc.

En revanche, la DGFIP propose d'exclure du périmètre les entreprises publiques ("Government business enterprises").

Enfin, la DGFIP souligne la nécessité d'identifier plus clairement les critères de définition du périmètre du secteur public. Ainsi, la DGFIP considère que le caractère non marchand ou non concurrentiel des activités du secteur public doit être mis en exergue. L'application de ce critère n'exclut pas le fait qu'une partie du financement de certaines activités du secteur public soit assurée directement par les bénéficiaires de celles-ci sous la forme de redevances lorsqu'ils en bénéficient.

### **2. Volume et poids financier des transactions « sans contrepartie »**

Concernant les caractéristiques des activités du secteur public, la DGFIP souhaiterait que l'exposé sondage mette davantage en avant :

- la finalité de l'action des entités publiques qui porte en premier lieu sur la définition des politiques financées par contributions publiques, leur stratégie et leurs objectifs ;
- le caractère obligatoire et *souverain* des décisions prises par les entités publiques qui s'imposent aux citoyens et aux autres personnes morales. Les entités publiques s'appuient notamment sur le pouvoir souverain de l'Etat de lever l'impôt pour financer les politiques publiques. Sur ce point, le secteur public se distingue du secteur privé qui repose sur le mode contractuel fondé sur le libre consentement des parties.

Par ailleurs, concernant les besoins spécifiques en matière de reporting financier générés par la mise en œuvre des politiques publiques et l'importance des transactions sans contrepartie, la DGFIP considère que les informations de nature prospective fondées sur des estimations n'ont pas vocation à être intégrées aux états financiers (bilan, compte de résultat et notes annexes) des entités du secteur public, dans la mesure où elles ne revêtent pas un caractère comptable.

### **3. L'importance du budget**

Selon la DGFIP, le caractère contraignant du budget dans le secteur public tant au niveau de ses modalités d'adoption par une assemblée délibérante qu'au niveau du contrôle du correct respect de son exécution, constitue une différence majeure avec le secteur privé.

Par ailleurs, la DGFIP souligne l'intérêt de la réconciliation entre le résultat de nature budgétaire en comptabilité de caisse et le résultat comptable reposant sur les droits constatés.

### **4. Le patrimoine historique et culturel**

Selon la DGFIP, il devrait être évoqué dans l'exposé sondage les difficultés soulevées pour la détermination de la valeur comptable initiale des biens à caractère historique et culturel des entités publiques, qui n'ont pas toujours fait l'objet d'une acquisition et/ou la valeur ne peut être comptablement estimée sans une marge d'incertitude très grande et pour une utilité réduite.

### **5. La pérennité du secteur public**

La DGFIP considère que le caractère pérenne des missions des entités publiques, développé dans l'exposé sondage, constitue effectivement une caractéristique essentielle du secteur public, qui le distingue des entreprises du secteur privé pour lesquelles la continuité d'exploitation peut être remise en cause. Comme évoqué ci-dessus dans le commentaire général, ce cadre pérenne a des conséquences en termes d'évaluation des éléments d'actifs et de passifs.

Cependant, ainsi qu'elle l'avait exprimé dans sa réponse à l'exposé sondage Phase 1 sur le cadre conceptuel, la DGFIP considère que le cadre conceptuel doit avoir une vocation strictement comptable et ne saurait s'appliquer aux autres éléments d'information prospectifs ou de soutenabilité qui doivent, à notre sens, demeurer de la compétence normative des États.

### **6. Le rôle de régulateur du gouvernement**

La DGFIP souhaiterait que le rôle d'intervention sociale de la puissance publique soit indiqué dans l'exposé sondage.

### **7. La propriété et le contrôle des droits sur les ressources naturelles :**

La DGFIP est d'avis que cette partie aborde trop de thèmes différents, sans en tirer les conséquences sur le plan comptable.

Ainsi, l'exposé sondage semble mettre sur le même plan les droits d'exploitation des ressources naturelles (réserves minières, forêts, ...) et ceux du spectre hertzien.

Comme indiqué dans sa réponse à la consultation Phase 2 du cadre conceptuel, la DGFIP considère que le fait qu'une ressource soit « permanente » n'est pas suffisant pour définir un actif. Ainsi, le spectre hertzien qui est ressource « permanente », n'a été reconnu en tant qu'actif qu'au moment de sa révélation par un contrat qui a permis de le valoriser de façon fiable.

## **Question 2**

*Etes-vous d'accord sur le fait que ce document devrait faire partie de la littérature de l'IPSAS Board ? Si oui, où ce document devrait-il figurer :*

- (a) Dans une partie du cadre conceptuel ;*
- (b) Dans une section propre au « Handbook of International Public Sector Accounting Pronouncements »; ou*
- (c) Ailleurs, avec un statut différent à préciser ?*

La DGFIP considère qu'un lien fort et cohérent entre ce document de consultation et le cadre conceptuel est nécessaire. En effet, ce document permet de mettre en exergue l'importance et la spécificité de certaines opérations des entités du secteur public.

Cependant, la DGFIP considère que les implications comptables des spécificités du secteur public ne sont pas toujours clairement précisées. Il semble donc que ce document ne peut, dans sa forme actuelle, être intégré dans le cadre conceptuel.

Pour autant, certains éléments tels que, par exemple, la notion de souveraineté de l'État, pourraient être insérés dans le cadre conceptuel, dans la mesure où ils éclairent et justifient les spécificités de certaines règles et normes comptables applicables au secteur public.

**English version of our response to the ED “Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Elements and Recognition in Financial Statements”**

You will find below our detailed response to the Exposure Draft (“the ED”).

**General comment:**

Given the specific and essentially non-merchant characteristics of sovereign missions of the public sector and its role as a economic and social regulator, some of its assets and liabilities have specific features with no equivalent in the private sector. These features imply consequences on accounting rules, in particular concerning the measurement rules and the nature of the disclosures set out in the notes to the financial statements.

Therefore, the use of market value to evaluate assets and liabilities of the public sector seems not to be relevant in most cases and requires adapted measurement methods, by example using replacement cost approach for the measurement of some infrastructures. In addition, the longevity nature of the public sector missions makes rather difficult to collect the purchase value of assets, particularly historic and cultural assets.

The notion of non-exchange transaction in public sector should be understood as the lack of counterpart in the monetary form, since there is an indirect and non monetary counterpart at inception of public policies (for example in fields such as education, health, security).

As a consequence, and since this is key to elaborate the conceptual framework, the DGFIP considers that these fundamental characteristics should be outlined in the ED introduction. As a matter of fact, this reminder would make it easier to appreciate the fundamentally specific nature of public sector accounting rules.

The DGFIP considers that the document should have been discussed before the issue of the three IPSAS Board documents relative to the project on the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities, in order to ensure some consistency in the consultation.

**Specific Matter for Comment 1**

*Do you agree that this document provides useful background information on the key characteristics of the public sector and identifies some potential implications of those key characteristics for financial reporting? If not, please indicate how you would modify the document.*

The DGFIP considers the publication of the ED on key features of public sector is essential to understand the accounting consequences both for the conceptual framework and for the elaboration of related accounting standards.

The essential characteristics of public sector are described in the ED however the DGFIP wishes to detail some items :

**1. The public sector scope**

Concerning the scope of public sector’s entities, the DGFIP wishes to include supra-national organisations such as European Union, which are not explicitly mentioned in the ED.

The DGFIP agrees to exclude of the ED scope the private not-for-profit entities, since these entities are actually financed through private charity fund raising, donations...

However, the DGFIP proposes to exclude of the scope the Government business enterprises.

At last, the DGFIP outlines the need for identifying more clearly the criteria defining the scope of public sector. Thus, the DGFIP considers that the not-for-profit or not competitive nature of these public sector activities should be outlined. The application of this criterion does not exclude the fact that a part of some public sector activities is directly financed by the beneficiaries through royalties.

## ***2. The volume and financial significance of non-exchange transactions***

Concerning the features of public sector activities, the DGFIP wishes that the ED stresses the following topics :

- The purpose of public entity policy, which consists primarily in defining policies funded by public contributions, their strategy and their objectives.
- The compulsory and sovereign nature of decisions taken by public entities both towards citizens and other legal entities. Public entities rely on the sovereign right to raise taxes to fund public policies. The private sector differs from the public sector since it is based on a contract binding free counterparts.

Concerning the specific needs in terms of financial reporting generated by the implementation of public policies and the volume of non-exchange transactions, the DGFIP considers that prospective information based on estimations should not be integrated in financial statements (balance sheet, statement of financial performance, notes to the statements) of public sector entities, since they have no accounting ground.

## ***3. The importance of the budget***

According to DGFIP, the binding nature of budget in public sector, both in terms of voting modalities by the relevant assembly and of control of its execution, is as such a major difference with the private sector.

DGFIP outlines the need for reconciling the budget outturn based on records of receipts and payments and the surplus or deficit for the period determined by accrual accounting system.

## ***4. Responsibility for national and local heritage***

According to DGFIP, the ED should address the difficulties raised concerning the initial recognition of historical and cultural assets in public sector using the cost approach for items that have not been purchased and/or for which the cost cannot be assessed without a large margin of error and for a narrow usefulness.

## ***5. The longevity of the public sector***

DGFIP considers that the longevity of public entities, as exposed in the ED, is as such an essential feature of public sector, whereas private sector companies face a probability of failure in going concern. As mentioned above in the general comment, this characteristic of the public sector should have implications for the choice of the measurement methods of assets and liabilities.

However, as already mentioned in its answer to the ED Phase 1 relative to the conceptual framework, DGFIP considers that the conceptual framework should be strictly focused on accounting matters and should not apply prospective or sustainability financial information which should be part of sovereign competencies.

## ***6. The regulatory role of public entities***

The DGFIP would like the role of social intervention of public authorities is indicated in the ED.

## **7. Ownership or control of rights to natural resources and phenomena**

The DGFIP considers this section addresses too many different topics without drawing all implications for accounting rules from them.

Thus, the ED appears to put on the same level rights to natural resources (mineral reserves, forests...) and rights over the electromagnetic spectrum.

As already mentioned by the DGFIP in its answer to the ED Phase 2 relative to the conceptual framework, the fact that an asset is a « present » resource is not sufficient to define an asset. So, the frequency spectrum which is "permanent" resource, was recognized as asset at the date of the conclusion of the transaction that reveals the future economic benefits in order to measure it reliably.

### **Specific Matter for Comment 2**

*Do you agree that this document should be included as part of the IPSASB's literature? If you agree, where do you think the material in this document should be located:*

*(a) As part of the Conceptual Framework;*

*(b) As a separate section of the Handbook of International Public Sector Accounting Pronouncements; or*

*(c) Elsewhere with some other status – please specify?*

DGFIP considers that a strength and consistent link between this ED and the conceptual framework should be made explicit. This document enables to stress the meaningfulness and specialised nature of some activities of public sector entities.

However, DGFIP considers that accounting consequences of those characteristics are not always clearly stated. Thus, it seems that the document cannot in its present format be included in the conceptual framework.

Some elements, such as for instance the notion of state sovereignty, could be included in the conceptual framework, since they explain and justify the need of some specialised accounting rules and standards for the public sector.



**Australian Government**

**Australian Accounting  
Standards Board**

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6 September 2011

Ms Stephenie Fox  
Technical Director  
International Public Sector Accounting Standards Board  
International Federation of Accountants  
277 Wellington Street West, 6th Floor  
Toronto, Ontario M5V 3H2  
CANADA

Dear Ms Fox

***IPSASB Exposure Draft Key Characteristics of the Public Sector with Potential  
Implications for Financial Reporting***

The Australian Accounting Standards Board (AASB) is pleased to provide its comments on the above named Exposure Draft (ED).

**General Comments**

The AASB's comments are provided in the context of its fundamental view (expressed in its recent submissions on other IPSASB Conceptual Framework consultation documents) that the IPSASB and IASB Conceptual Frameworks should be complementary, where any differences are limited to those necessary to deal with different economic phenomena or with economic phenomena that are much more pervasive in one sector than the other. Therefore, it would be important to explain why any of the key characteristics warrants a difference between the Frameworks.

The AASB is concerned that the ED does not clearly explain the implications of the key characteristics for the IPSASB's draft Conceptual Framework or link those characteristics to proposals in other IPSASB Conceptual Framework consultation documents. Therefore, the ED's purpose is unclear. If the key characteristics were not fully meshed with the draft Conceptual Framework, there is a risk that some of them might become, in substance, alternative concepts used in the development of IPSASs.

The AASB also notes that a number of the key characteristics are not unique to the public sector. Examples of these characteristics are discussed in Appendices A and B to this submission.

**Specific Comments**

The AASB's responses to the specific matters for comment in the ED are set out in Appendices A and B.

Comments by AASB staff on other aspects of the ED, including editorial suggestions, are set out in Appendix C.

If you have any queries regarding matters in this submission, please contact me or Jim Paul (jpaul@aaasb.gov.au).

Yours sincerely,

A handwritten signature in black ink, appearing to read 'K M Stevenson', written in a cursive style.

Kevin M. Stevenson  
*Chairman and CEO*

## APPENDIX A

### AASB's Comments on the Specific Matters for Comment on the ED

#### **Specific Matter for Comment 1**

Do you agree that this document provides useful background information on the key characteristics of the public sector and identifies some potential implications of those key characteristics for financial reporting? If not, please indicate how you would modify the document.

#### **Unclear purpose**

The AASB agrees that the ED provides some useful background on the key characteristics of the public sector and their potential implications. However, the AASB is concerned that the ED does not clearly explain the implications of the key characteristics for the IPSASB's draft Conceptual Framework or link those characteristics to proposals in other IPSASB Conceptual Framework consultation documents. Therefore, the ED's purpose is unclear.

In respect of the concern above, the AASB notes that recent IPSASB Conceptual Framework consultation documents discuss the implications of:

- (a) the holding of property, plant and equipment primarily to provide goods and services, rather than to generate net cash inflows (referred to in paragraph 4.1 of the ED);
- (b) the longevity of public sector entities and the very long time horizons for their service delivery programs (referred to in paragraphs 6.1 – 6.6 of the ED);
- (c) the regulatory role of government (referred to in paragraphs 7.1 – 7.2 of the ED);  
and
- (d) the power of governments to grant rights to natural resources and licences to act in a certain manner (referred to in paragraph 8.1 of the ED).

However, those implications are not clearly reflected in this ED. For example, in the third sentence of paragraph 7.2, obtuse references are made to the implications of public sector entities' regulatory responsibilities for the determination of the reporting entity and the scope of financial reporting. It would be more helpful to state those implications directly. For example, it is difficult to glean why regulatory responsibilities should affect the scope of financial reporting, as some might argue that regulation is one of the services that public sector entities provide (and therefore that regulation would simply be the subject of any disclosures about service performance).

In addition, the implications of other key characteristics identified in the ED appear not to be discussed at all in the recent IPSASB Conceptual Framework consultation documents. For example, whilst the ED notes that a significant proportion of transactions of not-for-profit public sector entities are 'non-exchange', neither the ED nor the IPSASB Conceptual

Framework consultation documents explain why different accounting principles should apply to ‘exchange’ and ‘non-exchange’ transactions. For instance:

- (a) paragraph 2.6 of the ED does not explain the implications of transfers with conditions being essentially non-exchange; and
- (b) paragraph 2.7 notes that income from non-exchange transactions has implications for the definitions of assets and liabilities, without saying what those implications are.

As mentioned in its submission on the IPSASB’s Conceptual Framework Consultation Paper *Elements and Recognition in Financial Statements*, the AASB considers the issue of whether to distinguish exchange and non-exchange transactions to be a standards-level issue only, and that the terms ‘exchange’ and ‘non-exchange’ should not (and need not) be used in the IPSASB Conceptual Framework.

### **Overstated distinctions**

The AASB notes that a number of the key characteristics identified are not specific to not-for-profit public sector entities. For example:

- (a) paragraph 1.4 (third sentence) comments that, unlike with most private sector entities, the future existence of public sector entities is not dependent on the generation of profits. Paragraphs 6.1 (fourth sentence) and 6.5 (second sentence) comment that governments and sub-national entities that encounter severe financial difficulties cease to exist only very rarely or may be restructured (with some service delivery responsibilities transferred to other entities). However:
  - (i) the viability of any entity, whether in the public sector or private sector, depends on its ability to generate net cash inflows. The tipping point for ceasing to be viable will depend on the circumstances; regardless of its sector, an entity may remain viable, with a reduced capacity to provide goods and services, despite incurring losses in some periods. Public sector entities with taxing powers might be more capable than other entities to generate sufficient cash inflows, but this does not obviate the need to generate cash inflows and does not justify the statement in the first sentence of paragraph 6.5 that going concern has generally been less relevant in the public sector than in the private sector. Even taxing powers do not guarantee that sufficient taxes will be generated, as individuals and businesses may relocate or change their affairs to avoid paying those taxes, or simply be incapable of paying sufficient taxes to meet the government’s needs; and
  - (ii) given that both the IASB and IPSASB Conceptual Frameworks are being developed for financial statements prepared under the going concern assumption (while noting that this assumption may be inappropriate for some entities), the focus on the continued existence of public sector entities (vis-à-vis private sector entities) seems less appropriate than a focus on a reduced capacity to provide goods and services (e.g., whether the chosen measurement model would provide useful information for assessing that capacity). Since such reductions can occur in the public and private sectors,

it is not clear that the asserted longevity of public sector entities has financial reporting implications (specifically, for the content of the IPSASB Conceptual Framework and IPSASs);

- (b) the basis for the assertion implicit in paragraph 2.3 that information about service performance is not relevant in respect of a private sector for-profit entity is unclear, particularly because most of the information needs itemised in paragraph 2.3 of the ED are similar or equivalent to information needs of users of financial reports of for-profit entities. In particular:
- (i) only paragraph 2.3(d) has no private sector (for-profit) equivalent—and it is only a reformulation of the universal issue covered in paragraph 2.3(c); and
  - (ii) the only other identified information need particularly affecting the public sector is information about restricted-use resources [referred to in paragraph 2.3(f)], the existence of which would generally be more prevalent in the public sector than the for-profit private sector;

(An analysis of whether the information needs set out in sub-paragraphs (a) – (f) of paragraph 2.3 are public-sector-specific is set out in Appendix B.)

- (c) in relation to paragraph 4.2, various private sector businesses (such as constructors, mining companies, manufacturers and utility operators such as power companies) also have a significant proportion of assets that are specialised and traded in limited markets. The third sentence acknowledges this point, but notes these characteristics of assets are more pervasive in the public sector and have potential implications for measurement. In that regard:
- (i) the AASB does not consider these characteristics of assets to be sufficiently infrequent in the private sector to justify treating them as public-sector-specific; and
  - (ii) the AASB notes that, for statistical convergence or regulatory reasons, public sector entities in some jurisdictions are required to regularly remeasure their property, plant and equipment (unlike private sector entities). However, the AASB does not consider jurisdiction-specific regulatory and other factors should be emphasised in the IPSASB's Conceptual Framework or related documents;
- (d) the second sentence of paragraph 5.1 does not acknowledge that private sector businesses are often responsible for the protection and preservation of historical buildings they occupy;
- (e) the first sentence of paragraph 6.1 does not identify a public-sector-specific characteristic. Various private sector businesses (e.g., banks) have existed for many generations and may continue to exist for a very long time;<sup>1</sup> and
- (f) in relation to paragraph 6.2, restructurings of private sector businesses are also commonplace. The implications of public sector entities generally providing

<sup>1</sup> See also the AASB's comment regarding paragraph 6.1, on page 3 above.

different services than private sector businesses (alluded to in the second sentence) are not explained.

The AASB recommends integrating the discussion of the key characteristics (and their implications for financial reporting) with the other components of the IPSASB's draft Conceptual Framework, and removing overstatements of the public-sector-specific nature of the key characteristics identified.

**Specific Matter for Comment 2**

Do you agree that this document should be included as part of the IPSASB's literature? If you agree, where do you think the material in this document should be located:

- (a) As part of the Conceptual Framework;
- (b) As a separate section of the *Handbook of International Public Sector Accounting Pronouncements*; or
- (c) Elsewhere with some other status – please specify?

Because the ED's objective is unclear, the best location of its proposed material is difficult to assess.

As mentioned in its comments on Specific Matter for Comment 1, the AASB recommends that the IPSASB integrates its discussion of the key characteristics (and their implications for financial reporting) with the other components of its draft Conceptual Framework. If the IPSASB did this, it would not be particularly important whether, and if so where, the Key Characteristics were repeated elsewhere within IPSASB literature (e.g., as a compendium or other educational material).

## APPENDIX B

### **Analysis of Whether the Information Needs in Paragraph 2.3 are Public-Sector-Specific**

- 2.3(a) Users of financial statements of any entity are interested in whether an entity operates in an efficient and effective manner. Given that many for-profit private sector entities provide services to customers, the reference to providing services also does not indicate a sector-specific difference. Whilst public sector not-for-profit entities and private sector for-profit entities would generally have different objectives for providing services, both types of entity would aim to do so efficiently and effectively. For these reasons, paragraph 2.3(a) does not appear to identify a sector-specific issue.
- 2.3(b) Users of financial statements of any entity would be interested in how an entity financed its activities and met its cash requirements. Therefore, paragraph 2.3(b) does not identify a sector-specific issue.
- 2.3(c) Except for its reference to ‘taxation’ (which is only an example of the revenues being referred to), paragraph 2.3(c) does not identify a sector-specific issue. Users of financial statements of any entity providing services would be interested in whether current-period revenues covered the cost of providing current-period services.
- 2.3(d) Whether part of the burden of paying for current services is shifted to future-year taxpayers has no private sector (for-profit) equivalent. However, it is only a reformulation of the universal issue covered in paragraph 2.3(c). In other words, the same financial information would be provided to meet the objectives in paragraphs 2.3(c) and 2.3(d). Therefore, paragraph 2.3(d) does not identify a public-sector-specific need for different information than that reported by a private sector for-profit entity.
- 2.3(e) Whether a service provider is a public sector not-for-profit entity or a private sector for-profit entity, information about changes in its ability to provide services would be useful to users of its financial statements. The fact that providing services is a primary objective of public sector entities but arguably only a means to an end (generating net cash inflows) for private sector for-profit entities does not affect the relevance of the information in either sector. For example:
- (a) in both sectors, an entity recognises its resources (stores of service potential) and not future cash inflows (except those to which it is presently entitled); and
  - (b) if a private sector for-profit entity’s capacity to provide services diminishes, so does its capacity to generate net cash inflows.

Therefore, paragraph 2.3(e) does not identify a sector-specific issue.

- 2.3(f) Restrictions over the use of resources arise for some private-sector for-profit entities in relation to borrowing covenants, prudential oversight or heritage-listed features of occupied buildings. However, such restrictions would generally be more prevalent in the public sector than the for-profit private sector. Therefore, the issue in paragraph 2.3(f) could be viewed as a public-sector-specific issue.

## APPENDIX C

### AASB Staff's Comments on Other Aspects of the ED

#### Noteworthy Issues

Paragraphs	Comment
3.2	<p>AASB staff do not support the comment in the first sentence that, historically, the budget has been more important than the financial statements of public sector entities. Undoubtedly, the budget has been given more prominence by public sector entities and in public discourse. However, that does not mean the budget is more important. In many jurisdictions, financial statements have been prepared on a cash basis or modified accrual basis, and it is unsurprising that financial statements that do not report all of an entity's resources and obligations have been given less attention than budgets. In addition, some governments might prefer to emphasise budgets, rather than financial statements that reflect outcomes against budgets (either explicitly through budget-to-actual reporting, or implicitly). Reasons such as these do not make the budget more important than financial statements. AASB staff think the relative importance of the budget and financial statements is a value judgement that the IPSASB should not comment on in its Conceptual Framework or related documents.</p> <p>To reinforce the comments above on the first sentence, AASB staff note that the third sentence says the approved budget is the primary method by which the government's management is held financially accountable. We think a published budget cannot of itself enable users to hold an entity to account—the financial statements are also needed for this purpose. This is acknowledged in the first sentence of paragraph 3.3. Therefore, we think it is inappropriate to refer to approved budgets as having primacy over financial statements. Furthermore, we note that the budget basis adopted will affect the potential effectiveness of a budget as an accountability tool.</p>
3.3	<p>The first sentence (with its reference to assessing “actual spending against budget estimates”) seems biased toward cash budgeting. AASB staff think IPSASB documents should not be slanted against accrual budgeting in the public sector, even if unintentionally. Therefore, we suggest replacing “spending” with a more neutral word like “outcomes”.</p>

Paragraphs	Comment
6.3	<p>AASB staff think the second sentence does not logically follow on from the first. The difficulty of determining whether social benefit programs<sup>2</sup> give rise to ‘obligations’ that meet the definition of a liability does not arise from the long-term nature of those ‘obligations’ (for example, environmental restoration obligations might not be settled for many years, but that does not cause doubt about whether they are liabilities).</p> <p>AASB staff think it is an overstatement for the fourth sentence to indicate the issue of whether the power to tax is an asset <u>arises</u> from the dependence of social benefits provision on future tax flows. We think that whether the power to tax is an asset is a separate (albeit related) issue from whether social benefit ‘obligations’ are liabilities.</p>
6.6	<p>AASB staff think an important reason why prospective financial information about long-term programs of public sector entities might be particularly useful is that many entities do not recognise social benefit ‘obligations’ as liabilities and, accordingly, information about such ‘obligations’ is not provided in statements of financial position. Therefore, we think the argument in this paragraph should be made specifically in respect of social benefit programs, and not as a general comparison between the need for prospective financial information in the public and private sectors.</p>

### Editorial Comments

Paragraphs	Comment
1.3	<p>In relation to the first sentence, AASB staff suggest inserting “, entities within those governments” after “local government units”.</p>
1.4	<p>In relation to the first sentence, AASB staff suggest avoiding the publicly debated issue of whether public sector entities contribute to wealth generation, by replacing “wealth generation” with the more neutral “economic activity”.</p> <p>The relevance of the fourth sentence to the IPSASB Conceptual Framework is unclear to us. We question whether the sentence should be retained.</p>
2.1	<p>In the fourth sentence, “approximately equally value” should be “approximately equal value”.</p> <p>In the fifth sentence, last line, “approximately” should be inserted between “receiving” and “equal value in exchange”.</p>

<sup>2</sup> ‘Social benefits’ are not referred to by name in paragraphs 6.3 and 6.6, but implicitly seem to be referred to.

Paragraphs	Comment
2.2	AASB staff suggest inserting “, such as the payment of taxes” at the end of the first sentence. This would acknowledge that, whilst ‘non-exchange transactions’ are more limited in the private sector, particular non-exchange transactions of private sector entities may be significant in amount.
6.5	The second sentence seems to repeat the second sentence of paragraph 6.2.
7.1, 7.2	<p>Whereas the first sentence of paragraph 7.1 refers to governments’ “powers to regulate”, the first sentence of paragraph 7.2 refers to “regulatory responsibilities” (but not “powers”). AASB staff suggest adding a reference to “regulatory powers” in the first sentence of paragraph 7.2.</p> <p>We found confusing the reference to “protect the population from certain risks that would not be conveyed through pricing mechanisms” in the third sentence of paragraph 7.1, and suggest clarifying it.</p>

**Finance****Comptroller's Division****Provincial Comptroller**

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August 31, 2011

Technical Director  
International Public Sector Accounting Standards Board  
International Federation of Accountants  
277 Wellington Street West, 6<sup>th</sup> Floor  
Toronto, Ontario  
M5V 3H2

Dear Sir/Madam:

**Re: Exposure Draft – Key Characteristics of the Public Sector with Potential Implications for Financial Reporting**

Thank you for the opportunity to comment on the Exposure Draft (ED) – Key Characteristics of the Public Sector with Potential Implications for Financial Reporting. The Exposure draft highlights characteristics that may have implications for the development of a conceptual framework.

IPSASB has requested comments on the following specific matters:

1. Does the ED provide useful background information on the key characteristics of the public sector and identify potential implications of those key characteristics for financial reporting?
2. Should the ED be included as part of IPSASB's literature? If so, should the ED be located:
  - (a) As part of the Conceptual Framework;
  - (b) As a separate section of the *Handbook of International Public Sector Accounting Pronouncements*; or
  - (c) Elsewhere with some other status.

**Key Characteristics of the Public Sector:**

It is the view of the Province of Manitoba that the selection of the key characteristics should not only define the operating environment of public sector entities, but should also have significant accounting and financial reporting implications. A characteristic would have significant accounting and financial reporting implications if it affected the usefulness of the information to the users. Understanding what is useful to users will help standard setters develop a conceptual framework. The key characteristics should be common to the operating environment for all levels of government. Further the key characteristics should not only define the operating environment of governments but should also be applicable to other non-government entities in the public sector.

Financial statements should communicate the accountability of governments and other public sector entities to users. The Province of Manitoba views the budget as the single most significant characteristic of all governments and public sector entities. The budget is the key instrument for public accountability. Budgets are widely distributed and allow users to judge how well a public sector entity has met its financial objectives. Accountability in the public sector goes beyond simply reporting surpluses and deficits and net debt position. Financial statements should also communicate whether resources were administered by the public sector entity within its authorized limits.

The Province of Manitoba also views the nature of property, plant and equipment (PPE) and the significance and volume of non-exchange transactions as key characteristics of the public sector. PPE in the public sector is generally held to provide services to the public rather than generating cash flows. The transactions of public sector entities are primarily of a non-exchange nature. Taxes, fines, penalties, licenses and royalties are more involuntary in nature in comparison to exchange transactions in the private sector. The parties involuntarily providing the resources do not necessarily receive goods and services of approximate value.

While the ED lists a number of other key characteristics of the public sector, many of these do not have significant accounting and financial reporting implications or are not generally applicable to non-government public sector entities:

- Responsibility for national and local heritage;
- Longevity of the public sector;
- Regulatory role of government
- Ownership or control of rights to natural resources
- Statistical basis of accounting

**Relevance of the Exposure Draft:**

The key characteristics define the operating environment of public sector entities. Understanding the public sector environment, and how it is different from the private sector, is important for developing accounting and financial reporting standards that are useful to users. Therefore it is the view of the Province of Manitoba that the document on the characteristics of the public sector should be included as part of IPSASB's Conceptual Framework.

We would like to again thank you for the opportunity to comment on this issue.

Yours truly,

*"Original signed by"*

Betty-Anne Pratt, CA  
Provincial Comptroller  
Province of Manitoba



September 1, 2011

250524

via-mail: [EDComments@ifac.org](mailto:EDComments@ifac.org)  
[stepheniefox@ifac.org](mailto:stepheniefox@ifac.org)

Ms. Stephenie Fox  
 Technical Director  
 International Public Sector Accounting Standards Board  
 International Federation of Accountants  
 277 Wellington Street, 4<sup>th</sup> Floor  
 Toronto, ON M5V 3H2

Dear Stephenie Fox:

**Re: Exposure Draft – Key Characteristics of the Public Sector with Potential Implications for Financial Reporting**

Thank you for the opportunity to comment on the above IPSASB Exposure Draft. The Province appreciates the efforts of you and your staff in preparing this document.

The Summary Financial Statements of the Province of British Columbia are prepared in accordance with Canadian Public Sector Accounting Board (PSAB) standards. PSAB is currently undertaking a review of its Conceptual Framework and has indicated that its taskforce undertaking this review will refer to the IPSASB Conceptual Framework Exposure Draft 1 and the accompanying Consultation Papers. The Objectives of the Key Characteristics Exposure Draft raises a question of whether it should be part of IPSASB's Conceptual Framework, as a consequence, the Province has a particular interest in the development of this Exposure Draft.

In response to the two specific matters you have requested comment upon; the Province believes that the current Exposure Draft provides essential foundation material for the development of IPSASB's Conceptual Framework and that it should form part of the Conceptual Framework. The province has some concerns regarding the current Exposure Draft that were not subject to specific requests for comment; these concerns are set out in Appendix A to this letter. The Province believes that the Exposure Draft should only be included in IPSASB's Conceptual Framework after addressing the issues set out in Appendix A.

The Province appreciates the efforts of IPSASB to complete its Conceptual Framework as quickly as possible and therefore understands why an Exposure Draft covering phase 1 and the Consolation Papers covering phases 2 and 3 have been issued.

.../2

However, given the fundamental issues raised in regard to the current Exposure Draft it would have been better if the issues addressed in Appendix A to this letter had been resolved prior to issuing documents covering phases 1 through 3. The Province also believes that its previous submissions covering the Conceptual Framework Exposure Draft and the two Consultation Papers (phases 1 through 3 of the conceptual framework project) should be read in conjunction with this submission.

Thank you again for the opportunity to comment on the Key Characteristics of the Public Sector with Potential Implications for Financial Reporting Exposure Draft. Should you have any comments or suggestions please contact me at 250-387-6692 or by email: [stuart.newton@gov.bc.ca](mailto:stuart.newton@gov.bc.ca) or Carl Fischer Executive Director, Financial Reporting and Advisory Branch, at 250-356-9272 or by email: [carl.fischer@gov.bc.ca](mailto:carl.fischer@gov.bc.ca) .

Sincerely

Stuart Newton  
Comptroller General  
Province of British Columbia

cc: Peter Milburn, Deputy Minister  
Ministry of Finance

Sabine Feulgen, Deputy Secretary to the Treasury Board  
Ministry of Finance

Carl Fischer, Executive Director  
Financial Reporting and Advisory Services Branch  
Office of the Comptroller General

Charles Coe, Special Advisor, Accounting Policy  
Office of the Comptroller General

**Appendix A**

The Province has concerns regarding issues that have been raised in this Exposure Draft and has explained its concerns under the main headings used in the Exposure Draft. In some cases, these explanations are summarized and should be read in conjunction with more detailed comments submitted on the earlier Conceptual Framework papers covering phases 1 through 3 of the conceptual framework project.

**Introduction**

The intention of providing a broad explanation to readers of the need for public sector accounting standards in the “Key Characteristics” document is appropriate but it is important to address the subtleties correctly. Paragraph 1.1 refers to providing “a general overview of, some of the main characteristics of the public sector that distinguish it from the for-profit private sector”. There are numerous references throughout the paper to differences with or from the private sector, so much so that this takes on a sense of defensiveness and, in our view, conveys a lack of confidence that public sector accounting standards should exist on their own merits. The public sector is fundamentally different than the private sector and is therefore not comparable with the private sector.

**Characteristics of the Public Sector**

The focus should be on the characteristics of the public sector that drive their reporting requirements. The Province believes that the basic characteristics of government will convey the need for public sector accounting standards without a need for reference to the private sector and include the following:

- Government is a not for profit organization;
- Government holds all the collective assets/resources and liabilities/obligations of the nation/jurisdiction on behalf of all of the people of the nation/jurisdiction;
- Government may acquire or own specific assets and incur specific liabilities for the purpose of achieving its policy objectives;
- Government provides goods and services to the public or on behalf of the public usually without payment (non-exchange transactions) or where payment is made it usually does not equal the cost or value of the goods or services provided;
- Government “income or revenue” results primarily from taxation which is usually unrelated to specific goods or services provided by government;
- Government does not have a financial capital base and over time accumulated surplus or deficit are driven to approximate a balanced or nil position; and
- Government is accountable to all of the people/citizens within its jurisdiction.

**Reasons for Not Focusing on Comparison with Private sector**

Accounting standards in the public sector may come to the same conclusion as the private sector for the same reasons; an example might be that Cash is an asset. Conversely public sector standards may come to the same or similar conclusions but for different reasons; an example might be Tangible Capital Assets (or Property Plant and Equipment). The fact that the presentation on the respective balance sheets is the same or similar is interesting but has no meaning and is of no consequence. There is no basis or reason to compare the financial statements of government or the financial performance of government with a private sector entity; they exist for fundamentally different reasons, therefore there is no reason to make comparisons regarding individual items that might appear in the respective financial statements.

Paragraph 2.2 notes that Government engages “in many commercial transactions of an exchange nature that are the same or similar to those in the private sector” including “the delivery of goods and services from private sector suppliers, such as the construction contracts, remuneration for employees under the terms of employment contracts, and borrowing and lending on money markets.” This is an example of seeking out similarities with the private sector but results in focusing attention on the form rather than the substance of transactions. The substance of all the above transactions is to provide goods and services to the public on a non-exchange basis. Accounting standards must be based on principles that reflect the substance of the issues and should not be influenced by the form of the transaction.

A case is sometimes made that comparison with the private sector is necessary to facilitate the comparison of individual government organizations with similar private sector organizations. This logic is flawed because the only basis for which comparison with the private sector would be valid is when a government organization receives revenue from the public via “exchange based transactions”, in which case, in all probability, it would be a government business enterprise (GBE) and would be following IFRS and comparability would be achieved. All other government organizations (non-GBEs) are essentially non-exchange service provision vehicles or administrative extensions of their respective ministries. It is important to ensure that public sector accounting standards are written with the government summary (consolidated) financial statements as the primary model which will also be followed by subordinate government organizations. Public sector accounting standards should not be written from the perspective of individual government organizations and imposed upwardly on the parent government.

All public sector standard setters need to justify their standards for Government accounting from scratch without reference to the private sector. The Province is concerned that frequent reference to the private sector at a micro level may create an aura of comparability when one does not exist and may facilitate the consideration or application of a private sector approach to accounting for an item with a name common to both sectors without regard for the respective substantive reasons for owning the item or the purpose to which it is put. Therefore, an asset is an asset is not a valid perspective.

### **Government's Accountability**

Paragraph 1.2 refers to government being accountable to a legislative body (or equivalent). The Province believes that it is accountable to all of the people; taxpayer or not, bondholder or not, wealthy or homeless, male or female; all in equal measure. Our financial statements are published on our website. Our financial statements are tabled in the legislature and discussed in the Public Accounts Committee but this is in the context of the members of the legislature acting in their capacity as elected representatives of the people. The Province believes that it is accountable to the people and as part of that process government meets with a select group of their elected representatives to answer their questions.

### **Information Needs of the Public**

Paragraph 2.3 raises an important issue regarding the definition of the information needs of the public. That paragraph seeks to define what the information needs of the public are. The Province has two concerns in this regard. First, IPSASB makes no reference to any survey or communication with the primary user of public sector financial statements, which is the public, and is therefore speculating about what the public wants. In some cases a government organization will be established by legislation, in which case, the legislation may specify what accounting standards the entity will follow. In effect, this is the people through their elected representatives deciding what level of disclosure they feel is appropriate for their needs. Secondly, standard setters need to be conscious of the difference between producing a public good in the form of accounting standards and seeking to establish themselves as protectors of the public interest by presupposing what the public needs. Under Canada's Constitution only the federal Parliament, Provincial/Territorial Legislatures and the Supreme Court have authority to protect the public interest. Parliament and Legislatures can delegate authority to protect the public interest via specific legislation to entities such as the Securities Commission and other regulatory boards etc. In Canada, no such authority has been delegated to any accounting standard setting body. There are many examples demonstrating the Legislature's ability to establish disclosure standards in the public's interest including legislation and regulations that determines disclosure requirements for both publically listed corporations and for privately held companies/partnerships. The Province adheres to legislation, passed by the people's elected representatives, setting the accounting standards it will follow, subject to regulations that legislation decrees may be set by the Treasury Board.

### **Non-Exchange Transactions**

Several paragraphs in section 2, 4, 5, 6 and 8 refer to the nature of non-exchange transactions or the nature of government held or specifically acquired assets or liabilities incurred in determining accounting for these items. While the Province agrees in a generic sense with these statements, the Province draws your attention to the specific issues raised in IPSASB's Conceptual Framework papers and the Province's answers to those specific issues.

### **Importance of the Budget**

Section 3 discusses the importance of the budget in assessing the needs of users of financial reports and in determining the scope of financial reporting. Again the Province agrees with this statement in a generic sense. However the budget has extremely important relevance in the discussion about accounting standards and the conceptual framework.

The budget is both a government policy statement and an estimate of the cost of implementing the policies announced and any related taxation implications. The Province sees government financial statements primarily as an accountability vehicle relative to the budget and the government's adherence to what the government indicated it would accomplish in the budget. Accounting standards should be set in a manner that ensures that the substance of the government's policy decisions is clear and that the results of implementing these policy decisions are appropriately reflected. In other words, accounting standards should reflect the policy decisions of government, accounting standards should not drive or influence government policy decisions.

The Province believes that government does not have a capital base and that capital maintenance theory whether applied from the perspective of financial capital (with or without inflation adjustments) or from a physical capital perspective is inappropriate. Of particular concern are capital maintenance concepts supporting standard setters' suggestions of valuing a government's balance sheet using market prices at one point in time and revaluing it at a second point in time and measuring performance as the difference between the two net market values. This result essentially stands back and independently values the entity and would not be comparable with the budget document. The Province believes that accountability is the primary goal of financial accounting and that the cost basis of asset/liability valuation is the appropriate valuation basis for accountability. Other statements in the related Conceptual Framework papers state that an entity specific valuation method such as the cost method of asset valuation is unreliable because it represents the intentions or expectations of the entity or its management. The Province believes that its financial statements are intended to account for the impact of government's policy decisions on the financial position of government. They are not intended to be an independent valuation they are intended to be government's explanation of its stewardship. Considerable discussion of this topic is provided in the Province's responses to the Conceptual Framework papers which should be read in conjunction with this response.

### **Regulatory Role of Government**

In discussing the regulatory role of government (Section 7) the paper raises the possibility that government regulatory agencies might not be included in the government reporting entity. Regulatory authority, over matters within our jurisdiction, rests with government and these agencies are funded from the budget. Under PSAB standards they are included in the government reporting entity. This is a new idea or concept which is the only item in this paper that is not also addressed in the related Conceptual Framework papers. The Province would be interested in a full discussion of the logic behind this idea, without which the Province is not prepared to take a position.

### **Statistical Basis of Accounting (Section 9)**

The Province cooperates with the Canadian government in supplying information under the System of National Accounts for the International Monetary Fund (IMF). The Province supports the IMF and other international agencies and is pleased to comply with the reporting requirements associated with membership in these agencies. However the Province is not accountable to the IMF, it is accountable only to the residents of the Province.

While it is good financial management to develop accounting systems that provide information for different purposes, all reporting to the IMF or related agencies is special purpose accounting and should not in any way influence general purpose accounting standards that impact the Province's accountability reporting to the public resident in our jurisdiction.

Stephenie Fox  
Technical Director  
International Public Sector  
Accounting Standards Board  
International Federation of Accountants  
277 Wellington Street, 4<sup>th</sup> Floor  
Toronto, Ontario M5V 3H2  
CANADA

Lausanne, September 27, 2011

## **Swiss Comments to ED Key Characteristics of the Public Sector with Potential Implications for Financial Reporting**

Dear Stephenie,

With reference to the request for comments on the proposed Exposure Draft, we are pleased to present the Swiss Comments to Exposure Draft: *Key Characteristics of the Public Sector with Potential Implications for Financial Reporting*.

We thank you for giving us the opportunity to put forward our views and suggestions. You will find our comments to the Exposure Draft in the attached document.

Should you have any questions, please do not hesitate to contact us.

Yours sincerely,

SRS-CSPCP



Prof Nils Soguel, President



Sonja Ziehli, Secretary

Swiss Comments to ED Key Characteristics

## Swiss Comments to

## ED Key Characteristics of the Public Sector with Potential Implications for Financial Reporting

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## 1. Introduction

The Swiss Public Sector Financial Reporting Advisory Committee (SRS-CSPCP) has discussed ED *Key Characteristics of the Public Sector with Potential Implications for Financial Reporting* and comments as follows. The SRS-CSPSP was established in 2008 by the Swiss Federal Ministry of Finance together with the Ministers of Finance at the cantonal level. One of its aims is to provide the IPSAS Board with a consolidated statement for all the three Swiss levels of government (municipalities, cantons and Confederation).

## 2. Comments to Exposure Draft

### 2.1. Specific Matter for Comment 1

SRS-CSPCP strongly agrees that there is a need to identify where the public sector presents characteristics that are different from those of the private sector and that necessitate a different financial reporting than that used in the private sector.

For persons, who do not have wide knowledge of the public sector, this introduction is certainly helpful.

The focal matters listed in the draft are all characteristic for the public sector. How far the list/description should go is a question of the level of detail. However, the following topics seem to have been given too little attention. All of them can have a significant impact on financial reporting in the public sector.

As this consultation is likely to be key for the further development of the IPSAS, the SRS-CSPCP has attempted to make detailed comments.

In general it is to be commented that the paper could be better organised. In the present version the individual elements follow one another without evidence of an underlying logic. The beginning should – as is already the case – be the **Introduction** with the statement that the chief objective in the public sector is not the generation of profits (by maximising income or minimising costs) (Headings 1 and 2). The next section would deal with the **purpose of the state**. One possibility would be to select a wide and familiar classification of state purposes. A traditional classification is for example that of Musgrave & Musgrave (1989)<sup>1</sup>. The authors distinguish three types of purposes: correction of the allocation of resources, redistribution of income and wealth, and stabilisation of the economy (macro-economic). These purposes appear in the Key Characteristics, but without any logic, and are widely scattered. Elements for the redistribution of income and wealth can be found already under Heading 1.4. Other elements concerning the allocation of resources are found under Headings 2.8 and 2.9 and 5. After the functions the state's various **intervention possibilities** should be discussed, which are controlled for the most part through the budget<sup>2</sup>: (a) by the expenditures and revenues (including taxes, which are treated under Headings 2.4 to 2.7); (b) by ownership (Heading 8); (c) by regulation (Heading 7). Then should follow the **control of public action** with (a) the going concern principle; (b) the importance of the budget-process (Heading 3) and (c) the importance of statistics (Heading 9).

It should be made clear in every item how it impacts financial reporting.

<sup>1</sup> MUSGRAVE R.A., MUSGRAVE P.B. (1989), *Public Finance in Theory and Practice*, McGraw-Hill, New York, 5th ed.

<sup>2</sup> It is important to emphasise that expenditures and revenues (including capital expenditures and revenues) serve as instruments for implementing public policies. The same applies for elements in the balance sheet (administrative assets and debt).

This is reflected in the following comments on the individual headings. On the left the additions suggested by the SRS-CSPCP are listed. On the right is quoted the corresponding Heading in the ED. In addition a reference is given to the above comments on the general structure of the paper.

Additions	Heading / Comment
<p><b>The diversity in the public sector</b></p> <p>The expression <i>Public Sector</i> covers a great diversity that is not brought out in the ED:</p> <ul style="list-style-type: none"> <li>• Different sizes of the governments from a few dozen inhabitants up to several ten or hundreds of thousands;</li> <li>• Different economic and social development;</li> <li>• Different financial and asset position (<i>financial significance</i>);</li> <li>• Different types of units (governments, other entities);</li> <li>• Different financing sources (taxes, fees, sales, transfers, financial income);</li> <li>• Different co-determination possibilities of the citizens (e.g. direct democracy).</li> </ul>	<p>Heading 1 (Introduction)</p>
<p><b>Tasks of the public sector</b></p> <p>In many cases the public sector is entrusted with tasks imposed by the legislative. For such tasks frequently no private providers can be found or they are not willing or in a position to provide the services demanded for the public in an adequate manner and at sensible prices. Typically these services may include (not exhaustive, see also COFOG):</p> <ul style="list-style-type: none"> <li>• Welfare (old age care, health, poverty)</li> <li>• Transport (rail and road infrastructure)</li> <li>• Education, research (educational level, research location)</li> <li>• Internal and external security</li> <li>• Foreign relations</li> </ul>	<p>Separate headings or Heading 1; relevant for segment reporting</p>
<p><b>Non-commercial transactions</b></p> <p>Non-commercial transactions are a peculiarity of the public sector. This should be reflected in the reporting in a suitable form. The criteria for distinguishing between commercial and non-commercial transactions should be laid down in an IPSAS. What interests the reader is the measurement of the efficiency and effectiveness of the services provided, that is the cost and the quality of the goods and services provided by the polity.</p> <p>Because there is frequently no market, earnings and market values are seldom the correct valuation methods. Therefore as a rule historic cost valuation is applied.</p>	<p>Heading 2.1</p>

Additions	Heading / Comment
<p><b>Performance measurement</b></p> <p>In the public sector the comparison between governments is very important, because usually on the basis of the costs (or the expense) it represents the only possibility of measuring performance approximately. As there is no competitive market, the result does not reflect the performance. The result shows only whether in the short term the revenues (mainly taxes) are sufficient to cover expenditure. It contains no information about the quality of the performance (benefit in the sense of utility) provided by the government.</p> <p>In the private sector the financial reporting is therefore sufficient to assess the entity's financial performance, which is given by the ratio of costs and benefits, and to compare it with others. But not in the public sector. Because the reporting cannot show the benefits, it should as a minimum include the information that permits the measurement and comparison of the costs (or expense).</p>	<p>Heading 2.4</p>
<p><b>Goods</b></p> <p>The difference between (pure) public goods, goods for the provision of public services and market goods should be explained more prominently, because it is a key characteristic between the public and the private sector. The differentiation should therefore emphasise the non-market situation rather than the market situation. The reference to exchange and non-exchange transactions is also not helpful in every case.</p>	<p>Heading 2.8  Heading 2.9  Heading 4  Possibly own headings (to be added)</p>
<p><b>The role of the budget</b></p> <p>The title of Heading 3 should be changed: "role" instead of "importance".</p> <p>Publicity</p> <p>In contrast to the private sector, in the public sector the budget is public. It also serves the lawful implementation of financial management, namely through the credit law (basis for raising taxes, expenditure authority, commitment credits, payment appropriations) and the exercise of democratic rights (for example financial referendum).</p> <p>Financial control</p> <p>In the public sector the income statement plays a special role, because a government must cover its expenditures (mainly wages and subventions) by its revenues (mainly taxes), this also under the pressure of tax competition or measures to support the economy. The income statement also serves budget comparison purposes and in this connection the reader of financial reports accords it special attention.</p> <p>On the other hand the balance sheet does not have the same importance as in the private sector, where the total assets and the amount of equity permit calculation of profit ratios (return on equity). In the public sector the equity plays a secondary role, because the risk of insolvency is low and there are no shareholders.</p>	<p>Heading 3</p>

Additions	Heading / Comment
<p><b>The importance of the budget (continued)</b></p> <p>Nevertheless, the significance of the balance sheet must not be underestimated. After all, the budget impacts the level of debt.</p> <p>Budget constraints</p> <p>Governments are by law confronted ever more with fiscal or budget constraints. It must be possible with the financial reporting to demonstrate observance of these constraints at the time of budgeting, when closing the accounts and also in the context of the medium- and long-term financial planning.</p>	Heading 3
<p><b>Going concern principle and division of the assets</b></p> <p>From the financial reporting aspect the going concern principle requires the distinction between Administrative Assets and Non-Administrative Assets. Administrative Assets are defined as all assets that are earmarked for the fulfilment of public-sector duties. Administrative Assets are thus characterized by a permanent dedication to a purpose established by the public sector. Administrative Assets are all those assets that relate to the provision of public services and that have a useful life extending over several fiscal years. In contrast, assets can be considered realizable (Non Administrative Assets) if they can be liquidated without violating specific legal (public-law) obligations.</p>	Heading 6
<p><b>Going concern principle and balance sheet amounts</b></p> <p>Because many government transactions are not for profit, the carrying amounts of assets are not defined by their capacity to generate cash or their market value. It does not make sense to value an asset on an earnings basis, when its purpose is not to earn a yield but to provide goods and services at as low a cost as possible. The same applies to the market valuation of an asset, which in no event is to be sold. Therefore a true and fair presentation depends on their purpose.</p> <p>For example the grant of a concessionary loan by a government that has transferred some of its obligations to another entity has only the objective of financing the outsourced services. The government has no reason and does not intend to sell the loan to a third party.</p> <p>For this reason a valuation approach should be selected, which discloses the total costs of the government (recording of a non-monetary service in the amount of the non-invoiced interest) in accordance with IPSAS 23 instead of an earnings based valuation (for the carrying amount of the concessionary loan). The reader of the balance sheet is not interested in the amount, at which a loan, which is never going to be sold, can be sold. He is more interested in the costs for the government and of the services financed by the loan.</p>	Heading 6

Additions	Heading / Comment
<p><b>Intergenerational aspects</b></p> <p>The financial reporting should also permit a statement as to whether or not expenditures are fairly allocated to the generations. This requires that they (a) provide information about the temporal allocation of the financing of administrative assets; (b) permit the analysis and calculation of a possible structural (business cycle adjusted) surplus or deficit. They should thus show whether the equivalence principle<sup>3</sup> is being observed. This also applies for goods and services in the public sector that are geared more to the private sector, and are financed by charges. In this way it also becomes clear that the financial performance statement is more important than the financial position statement.</p>	<p>Heading 5.2</p>
<p><b>Control of cooperation with other governments</b></p> <p>A peculiarity of the public sector is also the many relationships between governments, whether horizontally or vertically. This, in particular in connection with transfers (for example fiscal equalisation) or the allocation of tasks between regional jurisdictions (for example in questions of asylum). The financial reporting should therefore enable control of these relationships.</p>	<p>New heading in conjunction with the intervention possibilities</p>
<p><b>Equity of controlled entities</b></p> <p>The financial means provided by governments to an entity that performs an outsourced state function without seeking to make a profit are not as a rule equivalent to risk capital. Frequently they are only funds to finance a service through another entity. For this reason, in these cases, the information in the financial reporting should reflect only the financing costs.</p>	<p>New heading in conjunction with the intervention possibilities</p>
<p><b>Scope of consolidation – control principle</b></p> <p>In determining the scope of consolidation at present no differences are made between the public and the private sectors. A government can control significant public corporations (GBEs), which operate in areas, which differ substantially from the tasks of government. Examples are bank groups with commercial operations, telecom suppliers, logistics groups.</p> <p>In many cases the inclusion of these corporations in the consolidated accounts makes a statement that is useless for control of the budget. The Swiss Governments (e.g. the Swiss Confederation) frequently refrain voluntarily from control over such investments to avoid intervening in the private sector.</p>	<p>New heading in conjunction with the intervention possibilities</p>

<sup>3</sup> Olson Mancur (1969), The Principle of "Fiscal Equivalence": The Division of Responsibilities among Different Levels of Government, American Economic Review, 59(2), pp. 479-87

Additions	Heading / Comment
<p><b>Scope of consolidation – control principle (continued)</b></p> <p>The present consolidation standards (IPSAS 6-8) derive from the convergence programme. Scarcely any exceptions were made to IAS 27, IAS 28 and IAS 32. After the new consolidation standards have been put into force by the IASB (they are now being revised), the IPSASB should consider removing these standards from the convergence programme and developing its own consolidation standards or using them as a basis, but making more extensive variations from the new IFRS. In contrast to the private sector, in the public sector consolidated accounts do not have the same importance.</p>	<p>New heading in conjunction with the intervention possibilities</p>

## 2.2. Specific Matter for Comment 2

The *Key Characteristics* should be part of the *Conceptual Framework*. Otherwise they lose importance. With their integration into the *Conceptual Framework* the variations from IAS/IFRS because of peculiarities in the public sector would rest on a stronger foundation, which would be looked at positively.

The individual parts of the *Conceptual Framework* should be supplemented with an introduction that seemingly remains to be written. The introduction should explain the aim and purpose of the *Framework* and its general structure. After this introduction the *Key Characteristics* would emphasise, as a first chapter, the peculiarities of the public sector and the differences compared with the private sector. Only then should follow the actual four phases of the *Conceptual Framework*.

Lausanne, September 27, 2011



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## Department of Treasury and Finance

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Ms Stephenie Fox  
The Technical Director  
International Public Sector Accounting Standards Board  
International Federation of Accountants  
277 Wellington Street West, 6<sup>th</sup> Floor  
Toronto, Ontario M5V 3H2 CANADA

Dear Ms Fox

***Exposure Draft: Key Characteristics of the Public Sector with Potential Implications for Financial Reporting***

The Australian Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC) welcomes the opportunity to provide comments to the International Public Sector Accounting Standards Board (IPSASB) on the Exposure Draft: *Key Characteristics of the Public Sector with Potential Implications for Financial Reporting* (the ED).

HoTARAC is an intergovernmental committee that advises Australian Heads of Treasuries on accounting and reporting issues. The Committee is comprised of the senior accounting policy representatives from all Australian States, Territories and the Australian Government.

HoTARAC commends the IPSASB's efforts in providing background and justification for the development of a public sector conceptual framework (the Conceptual Framework). HoTARAC supports the development of this ED, but recommends the following points merit further consideration by the IPSASB:

- Amplifying the discussion of the public sector key characteristics by explicitly examining the implications on financial reporting and the link to the Conceptual Framework.
- Adding discussion on the broader role of General Purpose Financial Reports in the public sector, the role of risk sharing in government and the government's regulatory role.
- Public Sector 'significance' as an additional criterion that may justify a different reporting approach to the private sector.
- Clarifying the inclusion of the Government Business Enterprises (GBEs) within the scope of the ED.

Consistent with HoTARAC's previous comments on the draft IPSASB Conceptual Framework documents, HoTARAC believes that the IPSASB and IASB Conceptual Frameworks should be consistent, except to the extent that differences exist between the public and private sector which impact on transactions and user information needs.



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Ms Stefania For  
The Technical Director  
International Public Sector Accounting Standards Board  
International Federation of Accountants  
111 Wellington Street West 8<sup>th</sup> Floor  
Toronto, Ontario M5X 1C6 CANADA

Dear Ms For

Reference is made to the letter from the International Federation of Accountants (IFAC) dated 10/09/2015.

The Australian Board of Financial Accounting and Reporting (ABFAR) is pleased to provide comments to the International Public Sector Accounting Standards Board (IPSASB) on the Exposure Draft Key Characteristics of the Public Sector and Financial Statements of Financial Reporting (the ED).

ABFAR is an independent, not-for-profit, Australian Board of Financial Accounting and Reporting. The Committee is comprised of the senior accounting body representatives from all Australian States, Territories and the Australian Government.

ABFAR commends the IPSASB's efforts in providing background and justification for the development of a public sector conceptual framework (the Conceptual Framework). ABFAR supports the development of the ED, but recommends the following points that further strengthen the ED.

- Clarify the definition of the public sector, characterised by explicitly excluding the provision of financial reporting and the link to the Conceptual Framework.
- Adding discussion on the broader role of financial reporting in the public sector, beyond its role in providing information to the government's stakeholders.
- Public sector "significance" as an additional criterion that may justify a different reporting approach to the private sector.
- Clarifying the inclusion of the Government Financial Statements (GFS) within the scope of the ED.

Consistent with ABFAR's previous comments on the draft IPSASB Conceptual Framework document, ABFAR believes that the IPSASB and IASB Conceptual Frameworks should be consistent, except to the extent that differences exist between the public and private sector which impact on transactions and their recognition needs.



In this regard, in addition to public sector specific issues, the IPSASB's focus should be to provide accounting pronouncement/guidance on transactions, similar to private sector, but that are more significant or prevalent in the public sector in order to meet users need.

The majority of HoTARAC members strongly agree for the inclusion of the final document in the Conceptual Framework if it assists in developing the key concepts underlying public sector financial reporting. To this extent, HoTARAC recommends that the final document include for each public sector's key characteristic identified, the associated implications for public sector reporting and the link to the IPSASB's Conceptual Framework.

Alternatively, a minority of HoTARAC members proposes that the final document be used to supplement or enhance the IPSASB *Process for Reviewing and Modifying IASB documents* guidance.

Comments by HoTARAC on the Specific Matters for Comment in the exposure draft are attached.

If you have any queries regarding HoTARAC's comments, please contact Peter Gibson from the Australian Department of Finance and Deregulation on 612 6215 3551.

Yours sincerely



Grant Hehir

**CHAIR**

**HEADS OF TREASURIES ACCOUNTING AND REPORTING ADVISORY COMMITTEE**

70 August 2011

In this regard, the Committee is pleased to report that the IASB's work on the proposed amendments to the IASB's standards for the recognition and measurement of intangible assets is well advanced. The Committee is pleased to report that the IASB's work on the proposed amendments to the IASB's standards for the recognition and measurement of intangible assets is well advanced.

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Very truly yours,



Chair

BOARD OF TREASURERS ACCOUNTING AND REPORTING ADVISORY COMMITTEE

Page 3 of 3

**HoTARAC RESPONSE TO IPSASB  
EXPOSURE DRAFT *KEY CHARACTERISTICS OF THE PUBLIC SECTOR WITH  
POTENTIAL IMPLICATIONS FOR FINANCIAL REPORTING***

**General Comments**

***Purpose of Document***

The objective of the Exposure Draft (ED) is stated as:

“This Exposure Draft (ED), *Key Characteristics of the Public Sector with Potential Implications for Financial Reporting*, has been developed by the IPSASB as part of its project on the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (the Conceptual Framework). The ED highlights certain characteristics of the public sector that may have implications for the development of a conceptual framework for the public sector and therefore on accounting standard setting in the public sector.”

However, HoTARAC is concerned that the purpose and context for the ED and the relationship with the Conceptual Framework is unclear. That is, the link between the characteristics outlined in this document and the exposure draft and consultation papers issued by the IPSASB as part of the Conceptual Framework project is not sufficiently explained in the document.

In HoTARAC’s view, a list of key characteristics of the public sector, while of general interest, is of no real value unless the consequences of the characteristics on financial reporting and the Conceptual Framework are addressed. This should include examining the implications of the key characteristics on transactions and user information needs. HoTARAC does not believe that this has been done sufficiently.

***Financial Reporting Implications***

As mentioned above, HoTARAC recommends the document amplifies discussion of the financial reporting implications of the key characteristics and provides a rigorous reasoning regarding the potential impact on the development of a public sector accounting conceptual framework. Relevant links to the Conceptual Framework would be very useful and informative about the rationale for particular elements being dealt with differently in the framework. This should include a discussion of how, and in what circumstances the accounting/reporting arrangements should differ from the corresponding arrangements applicable in the private sector and the rationale for them being included in the public sector framework.

HoTARAC suggests that at the end of each key characteristic a section titled ‘Financial Reporting Implication’ be included to clearly state the impact on the Conceptual Framework, with a link to the relevant section(s) in the framework documents.

### <sup>037</sup>“Significance” as an IPSASB criterion

The ED indicates that at times public sector transactions are similar to the private sector, and that the concepts are probably the same, although the characteristics of the public sector may give rise to conceptual differences (paragraph 1.5). In HoTARAC’s view this needs to be more clearly explained, as many of the characteristics identified in the ED are not unique to the public sector, but are still relevant because they are more significant or prevalent in the public sector (for example, non-exchange transactions).

In HoTARAC’s view, significance or prevalence may give rise to different treatments compared to the private sector, but only where it can be demonstrated that it is necessary to ensure that user needs are met, while considering the balance between costs and benefits. This underlies the Australian Accounting Standards Board/ Financial Reporting Standard Board of the New Zealand Institute of Chartered Accountants *Process for Modifying IFRSs for PBE/NFP*.

HoTARAC recommends the IPSASB clearly indicates that, due to the public sector characteristics, certain accounting issues, even if these are also encountered for private sector reporting, create special challenges for public sector entities reporting and would require additional or different guidance for the public sector to ensure that faithful representation, understandability and comparability qualitative characteristics are met.

In addition to public sector specific issues, the IPSASB’s focus should be to provide accounting pronouncement/guidance on transactions that are more significant or prevalent to the public sector where this provides more important information for public sector reporting users than for private sector and hence would meet public sector users need. For example, private sector transactions also includes non-exchange transactions, such as charity donations, but not to the scale that public sector entities do. Non-exchange revenue in a government’s report is material and provides critical information to the users as to whether the government will be able to achieve its objective. Given this importance it is appropriate that, as it currently does, IPSASB provides guidance on non exchange transactions.

Subject to balancing costs and benefits, specifically targeting these types of transaction will ensure consistency of accounting treatment to assist accountability/decision making and comparability. Below are some examples of such matters:

- Funding sources – taxation and other non-exchange transfers;
- The importance of Government budgets;
- Specialised Assets;
- The lack of markets;
- Longevity of public sector entities and programs (i.e. going concern less significant for the public sector, whereas long term sustainability report more critical);
- Government subsidies;
- Government regulatory power. and
- Statistical accounting

A minority of HoTARAC members considered that statistical accounting was not a public sector key characteristic, further details on this matter are outlined in 'Other Comments' below.

### Response to Specific Matters for Comments

#### Specific Matter for Comment 1

Do you agree that this document provides useful background information on the key characteristics of the public sector and identifies some potential implications of those key characteristics for financial reporting? If not, please indicate how you would modify the document.

HoTARAC agrees the document provides useful background information on the key characteristics of the public sector.

However, as discussed in the 'general comments' above:

- HoTARAC believes that the consequences of the characteristics on financial reporting and the Conceptual Framework need to be addressed. This includes examining the implications of the key characteristics on transactions and user information needs.
- A number of the characteristics identified are not necessarily unique to the public sector, but rather they may relate to transactions that are more prevalent or significant. This may justify modifications to private sector requirements, where it is necessary to ensure that public sector user needs are met. This needs to be more clearly acknowledged in the ED.

HoTARAC recommends the following issues relating to the key characteristics be included in the document, either as standalone topics, or as additional commentary on the topics included in the ED:

#### 1. Broader Role of General Purpose Financial Reports in the Public Sector

It would be useful for the ED to distinguish the public sector environment from the private sector in relation to the significant fiduciary and accountability responsibilities in managing and distributing public resources. This characteristic in particular relates to considerations of a meaningful General Purpose Financial Reports (GPFs) for users.

Unlike the private sector, evaluation of this primary responsibility of the public sector may require a different or broader scope of financial reporting as the traditional accounting measure of profitability and net assets may not necessarily be the most appropriate metric for measuring the performance of public sector against these responsibilities. Separate, complementary non-financial performance reports may need to be prepared by the public sector especially when also considering the ED Item 3 on "The Importance of Budgets". The presentation formats of traditional financial statements generally do not align with the typical presentation formats of budget program announcements. In some Australian jurisdictions the primary document used to present and assess the performance of the government/Ministers against the budget is presented in the Budget Paper on Service Delivery, rather than the

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Budget Paper containing the estimated financial statements. The service delivery presentation in one Australian jurisdiction includes four measures, three non-financial and one related to cost. Information regarding estimated key fiscal aggregates such as net debt is however sourced from the financial statements.

As the ED acknowledges in paragraph 2.3 that "...users of financial reports of public sector entities, may have broader information needs than users of financial reports of private sector entities." including "(a) has the entity provided its services in an efficient and effective manner?" A GPFR without consideration of other non-financial metrics is unlikely to provide public sector report users with this information.

Environmental considerations are increasingly important aspect of the measurement of organisational achievement. This is reflected in the reporting of the 'triple bottom line' (economic, social, environmental) and its potential inclusion in a broader IPSASB GPFR notion. Environmental accounting is particularly relevant to the public sector, where organisational goals are often perceived as acting in the public good, rather than profit maximisation.

### ***Financial Reporting Implications***

HoTARAC considers the breadth of information provided in public sector GPFRs a key characteristic of the public sector. Inclusion of this characteristic in the ED will provide an important nexus between this document and IPSASB's Conceptual Framework project. This supports the IPSASB's conclusion in the exposure draft *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Role, Authority and Scope; Objectives and Users; Qualitative Characteristics; and Reporting Entity* that public sector GPFRs are more comprehensive than just financial statements and include a broad range of financial and non-financial quantitative and qualitative information.

## **2. Risk sharing of Government**

Governments are usually able to access capital markets at lower interest rates than entities in the private sector. In turn, the government often leverage their borrowing power to provide guarantees to entities in the private sector and may enter into arrangements with the private sector to provide infrastructure through service concessional arrangements.

In addition, governments often act in the capacity as insurers of last resort. In these instances, governments are often unable to transfer risk to the private sector through reinsurance, as a private insurer may be unwilling to provide insurance or may demand an excessive premium.

### ***Financial Reporting Implications:***

As noted in the ED, the absence of markets and the specialisation of assets may have implication for the measurement of assets (4.2). Specifically, in assessing the present value of service concession arrangements and other infrastructure projects valuation may differ between private and public sector entity depending on who controls the assets due to the use of income valuation techniques where entities are using different discount rates. Assets created under these arrangements are usually highly specialised with no active markets;

consequently, determination of fair value will usually be achieved by using the income or depreciated replacement cost valuation method as a proxy to market value.

The impact of different public and private sector asset valuations may be justified if an operating capacity concept of capital (as discussed in the Consultation Paper *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Measurement of Assets and Liabilities*) is employed so public sector valuations are more linked to entry prices and entity specific valuation inputs.

The lack of a secondary market for the government insurance and government guarantees may complicate the valuation of such obligations. Disclosure in these circumstances may default to the contingencies' schedule, making this schedule a critical component of the financial statements.

### **3. Government as regulator**

Governments usually have extensive regulatory powers and may use these to control price and service delivery.

A government may control the market for a service by being a monopoly producer and using its regulatory power to exclude others from the market (for example, by operating a postal service). This is particularly the case in less developed countries, where governments may also be the sole provider of public transport, telecommunications, banking, water, gas, and electricity services. A government may also influence market behaviour by regulating prices and standards of service delivery or by subsidising certain industries.

#### ***Financial Reporting Implications:***

The exercise of a government's regulatory power over assets operated by other entities may result in confusion in determining who has control of the asset, particularly where a rights-based criteria is applied. Generally, governments have regulatory power over many areas of a country's economy. This should not result in the government controlling assets of entities within the various economic sectors.

HoTARAC reiterates its comments from the submission on the consultation paper *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Elements and Recognition in Financial Statements* on the importance of distinguishing between a government's right to benefit from the economic benefits embodied in an asset (control of an asset) and the rights the government obtains through its regulatory role.

#### **Other comments**

In addition, HoTARAC recommends that the ED be amended to take into account decisions made in finalising IPSASB's Conceptual Framework.

For example, paragraph 8.1 states that it is unclear whether rights to natural resources give rise to assets. HoTARAC notes this issue also relates to Specific Matter for Comment 4 in the Phase 2 consultation paper *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Elements and Recognition in Financial Statements* on the

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classification of public sector entity rights and powers as assets. Responses to that question in the Phase 2 consultation paper, and resulting deliberations by the IPSASB on this matter may provide the basis for a more definitive view.

### ***Inclusion of GBEs in scope***

HoTARAC notes that, contrary to the scope of existing IPSASs and the IPSASB's proposed Conceptual Framework, the scope of this exposure draft appears to include Government Business Enterprises (GBEs) – refer to paragraph 1.3 in the exposure draft. Given the characteristics of GBEs are more consistent with private sector for-profit entities, HoTARAC strongly recommends that the IPSASB clarify its intentions about dealing with GBEs, and be consistent throughout all its pronouncements. In this regard, HoTARAC does not support GBEs adopting accounting treatments that differ from the private sector International Accounting Standards Board's pronouncements.

### ***Statistical Bases of Accounting***

As mentioned above, a minority of HoTARAC members disagreed that statistical accounting is a key characteristic of the public sector. These HoTARAC members argue statistical information is also collected in relation to private sector entities. Further, these HoTARAC members believe that, in particular, at an individual public sector entity level, the statistical bases of accounting is irrelevant, given that its purpose relates only to macro economic analysis at a general government sector or whole of government level. In contrast, such HoTARAC members believe that the statistical bases of accounting should only be considered once it has been determined that a different disclosure, presentation, recognition or measurement requirement is appropriate for the public sector. This is consistent with the approach adopted in Australia in the document *Process for modifying IFRSs for PBE/NFP*: [http://www.aasb.gov.au/admin/file/content102/c3/Mar\\_2010\\_Agenda\\_paper\\_B7.6\\_Process\\_for\\_modifying\\_IFRSs\\_for\\_PBE\\_NFP.pdf](http://www.aasb.gov.au/admin/file/content102/c3/Mar_2010_Agenda_paper_B7.6_Process_for_modifying_IFRSs_for_PBE_NFP.pdf)

### ***Editorial***

HoTARAC recommends that section 5, 'Responsibility for National and Local Heritage' includes some acknowledgement that, in some jurisdictions, state governments and other sub national units have responsibility for heritage assets. HoTARAC suggests the heading be modified to 'Responsibility for Heritage', without specifying a level of government.

#### **Specific Matter for Comment 2**

Do you agree that this document should be included as part of the IPSASB's literature? If you agree, where do you think the material in this document should be located:

- (a) As part of the Conceptual Framework;
- (b) As a separate section of the *Handbook of International Public Sector Accounting Pronouncements*; or
- (c) Elsewhere with some other status – please specify?

HoTARAC members agreed that the ED should examine the implications of the public sector key characteristics on financial reporting and IPSASB's Conceptual Framework. Once these implications are considered, HoTARAC strongly supports the inclusion of this document in IPSASB's Conceptual Framework.

***Reasons for the document to be included in the Conceptual Framework (Majority HoTARAC view)***

A majority of HoTARAC members strongly agree with the view that the document should be part of the Conceptual Framework if it assists in developing the key concepts underlying financial reporting and differentiates between public and private sector financial reporting. As noted above, if the document is to be included as part of the Conceptual Framework, HoTARAC recommends there be a clear correlation between the financial reporting implications raised in the ED and the matters covered in IPSASB's Conceptual Framework.

***Reasons for the document not to be included in the Conceptual Framework (Minority HoTARAC view)***

A minority of HoTARAC members suggested that a more appropriate location for this would be as a supplement to the IPSASB document *Process for Reviewing and Modifying IASB documents*. These HoTARAC members believe that while the document may be an input into the Conceptual Framework (i.e. in guiding its development), it should not form part of the Conceptual Framework otherwise it could be deemed to be authoritative guidance. Rather, the Conceptual Framework is, in part, an output of considering the key characteristics document, rather than the document forming part of the framework itself.

Instead, the document could form part of or be used to supplement or enhance the IPSASB document *Process for Reviewing and Modifying IASB documents*. That is, the document may be relevant in identifying key characteristics of the public sector, which impact on transactions and user needs, and which may justify departures from the private sector IASB's Framework and Accounting Standards.

For example, the Australian Accounting Standards Board (AASB) document *Process for modifying IFRSs for PBE/NFP* identifies the following factors as being relevant when considering user needs and assessing whether a departure from International Financial Reporting Standards (IFRS) may be warranted:

- Nature of transactions, events and circumstances and their impact on Public Benefit Entities (PBE)/Not For Profit entities (NFPs);
- Benefits to users of complying with IFRS; and
- Costs of complying with IFRS.

Consistent with HoTARAC's comments on the draft IPSASB Conceptual Framework documents, HoTARAC believes that the IPSASB and IASB Conceptual Frameworks should be consistent, except to the extent that differences exist between the public and private sector which impact on transactions and user information needs. Therefore, on this basis, a minority of HoTARAC members believe that the most appropriate role for the ED is to assist in the process for identifying where such departures may be appropriate.

HotARAC members agreed that the ED should examine the implications of the public sector key character on financial reporting and IASB's Conceptual Framework. Once these implications are considered, HotARAC strongly supports the inclusion of this document in IASB's Conceptual Framework.

Reasons for the document not to be included in the Conceptual Framework (Minority View):

A majority of HotARAC members strongly agree with the view that the document should be part of the Conceptual Framework if it assists in developing the key concepts underlying financial reporting and distinguishes between public and private sector financial reporting. As noted above, if the document is to be included as part of the Conceptual Framework, HotARAC members believe that a clear connection between the financial reporting implications raised in the ED and the matters covered in IASB's Conceptual Framework.

Reasons for the document not to be included in the Conceptual Framework (Minority View):

A majority of HotARAC members suggested that a more appropriate location for this work would be as an appendix to the IASB document. Reasons for this view are that the document is a discussion paper and should not be an input into the Conceptual Framework. It should not be part of the Conceptual Framework unless it could be deemed to be authoritative guidance. However, the Conceptual Framework is in part an output of considering the key characteristics of financial reporting, rather than the document forming part of the framework itself.

Instead, the document could form part of or be used to supplement or enhance the IASB document. IASB's document is a discussion paper. It is the document that is relevant in identifying key characteristics of the public sector which impact on financial reporting and user needs, and which may justify departures from the private sector IASB's Framework and Accounting Standards.

For example, the Australian Accounting Standards Board (AASB) document focuses on whether IASB's IASB's identifies the following factors as being relevant when considering user needs and assessing whether a departure from International Financial Reporting Standards (IFRS) may be warranted:

- \* Nature of transactions, events and circumstances and their impact on public benefit
- \* Public Interest for Profit entities (PIPE)
- \* Benefits to users of comparing with IFRS and
- \* Costs of complying with IFRS.

Consistent with HotARAC's comments on the IASB Conceptual Framework document, HotARAC believes that the IASB and IASB Conceptual Frameworks should be consistent except to the extent that differences exist between the public and private sector which impact on transactions and user information needs. Therefore, on this basis, a minority of HotARAC members believe that the most appropriate role for the ED is to assist in the process of identifying where such departures may be appropriate.

August 21, 2011

Ms. Stephanie Fox  
Technical Director  
International Public Sector Accounting Standards Board  
International Federation of Accountants  
277 Wellington Street West, 6<sup>th</sup> Floor  
Toronto, Ontario M5V 3H2 CANADA

Dear Ms. Fox:

On behalf of the Association of Government Accountants (AGA), the Financial Management Standards Board (FMSB) appreciates the opportunity to provide comments to the International Public Sector Accounting Standards Board (IPSASB) on its April 29, 2011 exposure draft entitled *Key Characteristics of the Public Sector with Potential Implications for Financial Reporting*. This exposure draft highlights certain characteristics of the public sector that may have implications for the development of a conceptual framework and accounting standard setting.

The FMSB is comprised of 25 members (list attached) with accounting and auditing backgrounds in federal, state and local government, as well as academia and public accounting. The FMSB reviews and responds to proposed standards and regulations of interest to AGA members. Local AGA chapters and individual members are also encouraged to comment separately.

The FMSB support the concepts and positions stated by the IPSASB in this exposure draft and we support the inclusion of this document in the Conceptual Framework. Our answers to the two matters posed by the IPSASB for specific comment follow. We also have two suggestions for your document that should help to clarify certain matters.

Specific Matter for Comment 1 - Do you agree that this document provides useful background information on the key characteristics of the public sector and identifies some potential implications of those key characteristics for financial reporting? If not, please indicate how you would modify the document.

We agree that the document provides useful background information on the key characteristics of the public sector and that the document provides useful information that will assist in the financial standard setting process.

Specific Matter for Comment 2 - Do you agree that this document should be included as part of the IPSASB's literature? If you agree, where do you think the material in this document should be located:

- (a) As part of the Conceptual Framework;
- (b) As a separate section of the *Handbook of International Public Sector Accounting Pronouncements*; or
- (c) Elsewhere with some other status – please specify?

We agree that this document should be included as part of the IPSASB's literature and we believe that it should be included in the Conceptual Framework. To clarify two portions of the document, we have suggested additions to the wording of the document. These are as follows:

Paragraph 7.1, pg. 10

“Regulatory intervention also occurs where there are market imperfections or market failure for particular goods or services, and where the total costs of particular transactions and activities are not transmitted through pricing and may therefore be borne by those other than producers or consumers (that is, externalities occur, often resulting in costs borne by the society as a whole (“social costs”), not just by parties to particular transactions. Examples include taxation of toxic/hazardous waste byproducts, environmental pollution/degradation, and unwholesome or unsafe products - such as nicotine and alcohol, etc. - which cause illnesses, injuries, and remediation costs to both transactors and to third parties).”

Paragraph 8.1, pg. 11

“ .... They also have rights over phenomena such as the electromagnetic spectrum. The electromagnetic spectrum extends from low frequencies used for modern radio to gamma radiation at the short-wavelength end. Governments frequently regulate the use of wavelengths within their territory and lease the rights to use specific frequencies in specific locations, both to protect those that have a legitimate social purpose in the use of a particular wavelength and to prevent unauthorized use of restricted public-purpose wavelengths that could result in risk to public health and safety

We appreciate the opportunity to comment on this document and would be pleased to discuss this letter with you at your convenience. No member of the FMSB objected to the issuance of this letter. If there are any questions regarding the comments in this letter, please contact Steven E. Sossei, CPA, and AGA's staff liaison for the FMSB, at [ssossei@agacgfm.org](mailto:ssossei@agacgfm.org) or at 703-684-6931, extension 307.

Sincerely,

A handwritten signature in black ink, appearing to read 'Eric S. Berman', with a long horizontal flourish extending to the right.

Eric S. Berman, CPA, Chair  
AGA Financial Management Standards Board

cc: Richard O. Bunce, Jr., CGFM, CPA  
AGA National President

**Association of Government Accountants  
Financial Management Standards Board**

**July 2011 – June 2012**

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