

**Review by:** International Public Sector  
Accounting Standards Board

**Location:** New York, USA

**Meeting Date:** December 3-6, 2012

**Agenda  
Item  
2A**

For:  
 **Approval**  
 **Discussion**  
 Information

**Conceptual Framework— Introduction, Preface, Chapters 1, 2, 3, and 4**

**Objectives of Agenda Item**

1. To review and approve for issue the first Phase of The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities.

**Material(s) Presented**

- Agenda Item –2A.1      Covering Memorandum
- Agenda Item –2A.2      Collation of Responses to the out-of-session review
- Agenda Item –2A.3      Marked up copy of: *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*
- Agenda Item –2A.4      Clean copy of: *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*
- Agenda Item –2A.5      Copy of all responses to the out-of-session review
- Agenda Item –2A.6      Extract of the minutes of March 2012 IPSASB meeting

**Action(s) Requested**

2. The IPSASB is requested to review and approve for issue this Phase of *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*.

## **Covering Memorandum**

### **Background**

1. The IPSASB reviewed a draft of each of the four chapters of Phase 1 of *“The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities”* (the Conceptual Framework) at its meeting in Dusseldorf in March 2012. The IPSASB agreed the structure and contents of those chapters, subject to processing and approval of the final editorial and other amendments identified at that meeting. The IPSASB also agreed that the Conceptual Framework should include a Preface based on the Exposure Draft *“Key Characteristics of the Public Sector with Potential Implications for Financial Reporting”*, amended as directed by the IPSASB at this meeting
2. At its meeting in Norwalk in September 2012, the IPSASB agreed that the first four chapters of the Framework together with an Introduction and Preface should be issued in advance of other chapters of the Framework. The IPSASB also agreed that, to facilitate their approval at the December 2012 meeting, the four chapters should be updated as directed and circulated to Members following this (September 2012) meeting for an out-of-session review —to confirm that the amendments processed by staff reflected those agreed by the Board at its March 2012 meeting.
3. Clean and marked up drafts of Chapters 1, 2, 3 and 4 of the Conceptual Framework amended as directed at the March 2012 meeting, together with a draft Introduction to the Framework and staff views on some likely additional consequential amendments, were distributed for Members’ review and comment in October 2012.
4. A Preface based on the Key Characteristics ED was not included in the material distributed for out-of-session review. However, the Preface has now been prepared and is included in the attached material. As directed by the IPSASB at its March 2010, the Key Characteristics ED has been amended to reflect its positioning as a Preface in the Framework, to sharpen the focus of the narrative and to better articulate with the body of the text of the Conceptual Framework. These amendments have been quite extensive and a marked-up draft is difficult to work with. Consequently, only a clean copy of the Preface is included in the attached materials. (However, a marked up copy of the Key Characteristics ED identifying the changes made is available from staff on request.)
5. An extract of the approved minutes of the March 2012 meeting which identifies the amendments to Chapters 1–4 and the Key Characteristics ED (now the Preface) agreed by the IPSASB is attached as Agenda item 2A.6.

### **Responses to material distributed for out-of-session Review**

6. At the time of finalisation of this memorandum and accompanying material, comments from seven Members had been received. A collation of these responses and Staff comments thereon is included at Agenda item 2A.2. All responses are attached as Agenda item 2A.5.
7. The Introduction and Chapters 1–4 of the Conceptual Framework included at Agenda items 2A.3 and 2A.4 have been updated on the basis that, except where Members raised a concern or identified a contrary view, Members were satisfied that:

- The amendments to Chapters 1–4 included in materials distributed for review out of session reflect the directions and intentions of the IPSASB as agreed at the March 2012 meeting; and
- Staff proposals regarding such matters as the nature and content of the Introduction and the positioning of the Contents pages were appropriate.

Consequently, marked up text in the attached draft Conceptual Framework identifies only additional amendments proposed by Members to correct errors and enhance consistency of application of terminology and, in some cases, additional consequential amendments identified by staff.

8. In some cases, Members proposed amendments to text which the IPSASB reviewed at its March 2010 meeting without proposing any change. Staff has processed all amendments to text that correct flaws in the narrative, grammatical errors or inconsistency in use of terminology. However, staff is very conscious of text that was included in the Exposure Draft and subsequent drafts without proposals for amendment by the IPSASB, and has attempted to protect against unintended consequences of amendments to such text at this stage of the process. Staff comments on all amendments proposed in the out-of-session review are included in the “*Collation of Responses*” at Agenda item 2A.2. Marked up text at Agenda item 2A.3 identifies the amendments that have been made. Boxed text in each of the chapters of the framework identifies those paragraphs where additional amendments have been proposed by Members but not yet processed.

## Outstanding Issues

9. The following paragraphs identify issues raised by Members for which staff seek further guidance. A number of pervasive drafting and other issues are also identified.

## The Introduction

10. The Introduction to the Conceptual Framework is based on the introductory sections of the Phase 1 Exposure Draft (CF–ED1) to the extent appropriate. Members generally did not raise objections to the form and general contents of the Introduction, but proposed refinements to certain of the text. Those refinements have been processed (see mark-up at Agenda item 2A.3). However:
  - One response (#3) proposed that the section “*The Conceptual Framework: Chapters 1-4*” be deleted – questioning whether it had a role in the text of a final Framework. At this stage this section has been retained. Staff is of the view that it is useful to explain to readers that the Conceptual Framework is a work in progress and supports retention and updating of this section until the Conceptual Framework is complete; and
  - One respondent (#2) proposed that the section “*The Conceptual Framework: Chapters 1-4*” be further developed to reflect that this version of the Framework includes 4 chapters and as other phases are completed they will be added and ultimately there will be a single complete Framework. Staff has processed amendments to reflect that the Framework is under development but is uncomfortable about wording that may be read as committing the IPSASB to issue chapters as each Phase is completed.

## Chapter Titles and Contents Page(s)

11. Staff did not receive any objections to proposals regarding shortening of chapter titles except that one respondent (#2) proposed a further shortening of the title of Chapter 3 to simply: *The Qualitative Characteristics*". Staff supports this shorter title and has marked up the draft accordingly. However, it should be noted that two respondents (#3 and #6) observed that the title of Chapter 3 did not include a reference to "the constraints" on inclusion of information in GPFRs.
12. Staff did not receive any objections to proposals for the inclusion of an initial broad contents page to identify all the chapters of the Framework, and then more detailed contents pages immediately before each chapter. Accordingly, this approach has been adopted in the attached proposed Conceptual Framework.
13. One respondent (#3) expressed concern about including in the contents page reference to chapters that were not yet completed, because the Board may change intended titles or group phases together. Staff appreciates this concern but, on balance, felt it useful to convey a sense of the composition of the complete Conceptual Framework to readers, and to establish a link to Exposure Drafts and Consultation Papers of the other phases currently on issue. Consequently these have been retained at this stage.
14. As noted above, the Preface is based on the Key Characteristics ED amended as directed by the IPSASB at its meeting in March 2012, and further revised to reflect its placement in the final Framework and ensure consistency with phase 1 chapters – including explanation of GBE's and references to *non-authoritative guidance* (which are subject to revision pending IPSASB's discussion of matters of terminology and references to GBE's, as outlined in a number of places below).
15. Staff notes the importance that Members have attached to the Key Characteristics ED. However, on reflection, staff is not convinced that the inclusion of a Preface as well as an Introduction is necessary in the Conceptual Framework. Staff is concerned that the insertion of the Preface works to deflect attention from the Conceptual Framework itself. Staff is of the view that what is now the Preface would work better if retained as a companion piece to the Framework to place the concepts and approach in context. That of course was the purpose for which the Key Characteristics document was originally developed to play – and was most effective in that role.

### Action Required

Members are asked to confirm the form and contents of the Introduction and related material. Members are also requested to provide directions on whether the Preface is to be retained as a component of the Conceptual Framework and, if so, to confirm its contents and/or provide directions for its further development.

## Consistent Terminology

16. Staff did not receive any objections to its proposals to conform usage of *Public Sector Entities*, *Governments and Other Public Sector Entities*, and *Resources and Economic Resources*. Consequently, these amendments have been adopted in the attached proposed Framework.

17. Staff has also revised the draft Conceptual Framework to ensure consistent usage of other terminology as identified by Members, including replacement of the term *CF-ED1* with *exposure draft* to reflect common usage in final documents.
18. However, there is one matter of terminology on which staff seeks the direction of the IPSASB. The Introduction referred to *IPSASs and other documents* (first paragraph) and in some places the text referred to *IPSASs and other pronouncements* (paragraphs 3.5 and BC3.2). Staff has revised the Introduction and text to refer to *IPSASs and non-authoritative guidance*, which is the term generally used throughout Chapters 1–4. However, one respondent (#3) proposes that the Framework refer to *IPSASs and other pronouncements* – to future proof the document against the possibility that pronouncements other than IPSASs are developed to include authoritative and non-authoritative guidance on reporting outside the financial statements. The respondent noted that this had been discussed at the September 2012 meeting and at other meetings
19. Staff is uncomfortable with making this change in terminology at this stage, given that the phrase *IPSASs and non-authoritative guidance* was used in the ED and, as ever, staff is concerned about unintended consequences of changes in terminology at this stage. Staff is also concerned that changes in this terminology may give rise to more complex changes in text (for example, in paragraphs 1.2 and paragraphs BC1.1 and BC2.24 which explain that IPSASs specify authoritative requirements).
20. The IPSASB's use of the phrase *IPSASs and non-authoritative guidance* was intended to reinforce that it has the capacity to issue both authoritative and non-authoritative guidance – this was perceived to be important in respect of the discussion of the broader scope of financial reporting encompassed by the Framework. If a decision is made to change this terminology along the lines proposed by this respondent, staff is of the view that the term should refer to IPSASs or other authoritative or non-authoritative pronouncements.

### Action Required

Members are asked to confirm that staff approach to conforming terminology is appropriate, and to confirm whether the term "*IPSASs and non-authoritative guidance*" or "*IPSASs and other pronouncements*" is to be used as standard terminology in the Conceptual Framework.

## Chapter 1: The Role and Authority of the Framework

21. Members did not raise concerns about the majority of revisions to Chapter 1 proposed by staff and consequently those amendments have been processed and are not identified by mark-up. The exceptions and major sources of concern identified by respondents are whether:
  - Paragraph 1.2 should clarify that the Conceptual Framework does not override other pronouncements issued by the IPSASB; and
  - Explanation of the relationship of the Framework to the general purpose financial reports (GPFRs) of government business enterprises (GBE's) as reflected in paragraph BC1.3 is appropriate.

*Amendments to Paragraph 1.2*

22. One respondent (#3) proposed that the end of the first sentence of paragraph 1.2 should be extended to refer to “*nor does it override the requirements of IPSASs or other pronouncements*”. Staff has amended paragraph 1.2 as proposed except that, at this stage the term *non-authoritative guidance* rather than *other pronouncements* has been used – pending IPSASB direction on terminology to be adopted. Staff is of the view that the relationship between the Framework and non-authoritative guidance issued by the IPSASB could usefully be clarified, but notes:

- This goes to the IPSASB’s intended focus for this section – that is, on only requirements as included in IPSASs or also on other non-authoritative guidance. The IPSASB has previously not included an explicit statement of the relative authority of the Conceptual Framework and other non-authoritative guidance. However, staff is of the view that the IPSASB’s view of their relative authority is implicit in the observation in paragraph 1.3 that the Conceptual Framework “...*can provide guidance in dealing with financial reporting issues not dealt with by IPSASs or non-authoritative guidance*”;
- A change here is likely to prompt, or give rise to discussion of the need for, consequential amendments to, for example, paragraphs 1.3, BC1.1 and BC1.2. These amendments may include confirmation of the due process adopted for developing non-authoritative guidance<sup>1</sup> and an extension the IPSASB’s commitment to review non-authoritative guidance in the light of the Framework. On the basis that it is useful to see a draft of the potential changes to fully assess their implications, staff has marked up these likely consequential amendments for Members’ review; and
- The wording of these paragraphs reflects wording used in CF–ED1.

23. Staff is reluctant to change wording that was used in CF–ED1 because of potential unintended consequences. However, staff supports this amendment and its consequences as simply a clarification of matters already implicit in the text of CF–ED1 and, in respect of BC1.1 and BC1.2, an explanation of the due process adopted by the IPSAS.

*Explanation of the Relationship of the Framework to the GPFRS of GBE’s in paragraph BC1.3*

24. Three respondents (#2, #3, and # 4) expressed concern with some aspects of paragraph BC1.3. Staff has proposed some revisions intended to overcome possible misinterpretation of the intention of the paragraph and focus more sharply on the message intended by the IPSASB – that is, if GPFRs of GBEs, or information about GBEs, are prepared in accordance with IPSASs, the Conceptual Framework will be relevant.

25. Of course the key issue here is whether the Basis for Conclusions should acknowledge that in some jurisdictions GBEs may apply IPSASs given that the Preface to IPSASs states that GBEs apply IFRSs. Staff is mindful of the difficulty the IPSASB has had in agreeing whether, and how, GBEs should be referred to in the Framework. This paragraph was not included in the CF–ED1, which included a blanket statement that GBEs did not apply IPSASs—it has been developed by

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<sup>1</sup> The IPSASB Handbook explains that Recommended Practice Guidance (RPG) is subject to a due process which includes issue of an exposure draft of the encouraged guidance.

the IPSASB over a number of meetings and lengthy discussion. Staff is of the view that the sentiments of the paragraph are appropriate given:

- It refers only to practices that may be adopted in some jurisdictions; and
- Does not pre-empt the outcome of the GBE project currently being progressed by the IPSASB.

### Action Required

Members are asked to provide directions regarding amendments to paragraph 1.2 and consequential amendments to paragraphs 1.3 and BC 1.1 and 1.2 and confirm or otherwise the amendments proposed by staff in respect of paragraph BC1.3.

## Chapter 2: The Objectives of Financial Reporting

26. Members did not raise concerns about the majority of revisions to Chapter 2 proposed by staff and consequently those amendments have been processed and are not identified by mark-up. The exceptions and major sources of concern identified by respondents relate to staff proposals for amendment to paragraph 2.31 and the sequencing of paragraphs BC2.7 through BC2.11.

### *Staff proposals for amendment to paragraph 2.31*

27. Staff expressed concern that the explanation in this paragraph that GPFRs “*will not provide all the information users need...*” is too exhaustive for a concepts statement and proposed that the text be amended to allow for the possibility that, in some cases and for some users, GPFRs may provide all the information they need. To that end staff proposed that wording be “softened” to reflect that “*...it is unlikely that GPFRs will provide all the information users need...*”.
28. One respondent (#5) expressed some reservations about this wording and flagged an intention to discuss the extent to which GPFRs satisfy user needs. The staff view is that GPFRs are constructed to respond to user information needs but some users may require additional information that is provided outside GPFRs.

### *Sequence of paragraphs BC2.7, BC2.8, BC2.9, BC2.10 and BC2.11*

29. One respondent (#3) questioned whether paragraph BC2.8 should be placed before BC2.7 so that resource providers were discussed before citizens and then the legislature, both of which have an interest in both the resources and services provided. One respondent (#7) proposed that BC2.10 and BC2.11 be moved ahead of BC2.8 and BC2.9 to reflect the sequence in which potential users are identified in paragraph BC2.3.
30. Staff is not convinced that a change in sequence is necessary and is reluctant to make such changes given the differing views of these respondents. Staff notes that in compiling this Basis for Conclusions, the IPSASB’s rationale for the current structure was to initially deal with *citizens* because they include both service recipients and resource providers, then the narrower resource provider group and finally the legislature as body.

### Action Required

Members are asked to confirm or otherwise staff proposal for amendments to paragraph 2.31 and retention of the current sequencing of paragraphs BC2.7 through BC2.11.

## Chapter 3: The Qualitative Characteristics

31. Members did not raise concerns about the revisions proposed by staff and consequently those amendments have been processed and are not identified by mark-up. The major outstanding issues identified by respondents relate to:

- *Removal of Appendix A of IPSAS 1 “Presentation of Financial Statements”.* One respondent (#5) noted that it would be useful to discuss at the December meeting removal of Appendix A to clarify the IPSASB’s views on the authority of the QCs. Issues related to the timing and process for removal of Appendix A of IPSAS 1 and other consequential amendments that may be made to IPSASs following issue of these chapters of the Conceptual Framework are addressed in the Coordinators Report; and
- *Relationship of verifiability and faithful representation.* One respondent (#7) expressed concern that the explanation in paragraphs 3.39 and 3.31 and supporting paragraphs BC3.30 and BC3.31 (now BC3.25 and BC3.26) that “*the more verifiable is the information included in GPFs, the more it will assure users that the information faithfully represents the phenomena that it purports to represent*” may be read that the IPSASB intended *verifiability* to be a component of *faithful representation*. This text was included in CF–ED1 and subsequent drafts. Rather than change the text of the chapter itself, staff have included explanation in the Basis for Conclusions (BC3.24) intended to clarify the IPSASB’s intent.

32. Staff also requested Members’ views on whether the following paragraphs in the Basis for Conclusions should be retained:

- Paragraph BC3.9 (now BC3.9) which is a further explanation of how a faithful representation may be achieved and, to some extent, covers similar ground to para 3.12. Staff is of the view that there is a case for deletion of this paragraph, but notes that this paragraph was included in CF–ED1; and
- Paragraph BC3.41 (now BC3.35) which explains how the IPSASB may apply the cost-benefit test in particular circumstances. Staff is not convinced that this paragraph sits well as an explanation of the basis on which the IPSASB reached its conclusions about the cost-benefit constraint. However, staff notes that this paragraph was also included in CF–ED1.

33. Respondents to the out-of-session review did not provide specific comments on whether retention or deletion of these paragraphs was supported. Given that the paragraphs were included in CF–ED1, staff is reluctant to delete them and has retained them in this draft for IPSASB review.

### **Action Required**

Members are asked to confirm or otherwise the approach proposed by staff to clarify the relationship between verifiability and faithful representation. Members are also requested to provide guidance on whether Basis for Conclusion paragraphs BC3.9 and BC3.35 are to be retained.

#### **Chapter 4: Reporting Entity**

34. Members did not raise concerns about the revisions to this chapter proposed by staff and consequently they have been processed and are not identified by mark-up. The major outstanding issues identified by respondents are whether certain Basis for Conclusion paragraphs should be retained. One respondent (#2) questions whether the following paragraphs should be included in the Basis for Conclusions:
- BC4.3 and BC4.4 because they cover ground dealt with in the body of the text; and
  - BC4.7 which explains that it may be necessary to exercise professional judgment in determining whether public sector entities should be identified as a reporting entity and outlines some factors to be considered in exercising that judgment.
35. Staff agrees there is a case for the removal of these paragraphs on the grounds identified by this respondent. However, staff notes these paragraphs were included in CF–ED1 to draw together and explain matters included in the text and is reluctant to delete them at this stage.

### **Action Required**

Members are requested to provide guidance on whether Basis for Conclusion paragraphs BC4.3, BC4.4 and BC4.7 are to be retained.

**COLLATION OF RESPONSES**

**OUT OF SESSION REVIEW OF CONCEPTUAL FRAMEWORK INTRODUCTION AND Chapters 1-4**

**List of Respondents:**

<b>Response #</b>	<b>Respondent Name</b>
001	A. Bergmann
002	K. Warren
003	J. Poggiolini
004	S. Fraser
005	T. Müller-Marqués Berger
006	A. Tiron Tudor
007	K. Izawa
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Response #	GENERAL COMMENTS & OVERALL VIEW	STAFF COMMENT
001	<p>Only one very minor remark from my side: Use of the acronym CF-ED 1 in the BC. I thought the Board had cautioned the use of this kind of acronym, which is fine with us internally, but troublesome once we issue the Framework. Why don't we just refer to the Exposure Draft? We do so in every standard and mean the ED for this very standard (and not any other ED, unless we explicitly say so) – so why not here? Please (re)consider.</p>	Staff has revised draft.
002	<p>Please find comments attached. My grateful thanks also to Joanne for doing most of the work here. I support most of your proposals and the wording of the Introduction. Some suggestions, for your consideration, of changes to the Introduction.</p> <p><i>(Refer to Introduction and relevant chapters for detailed comments)</i></p>	Staff views on the proposed amendments are included in the attached.
003	<p>I have been through the memo and the proposed changes and have a few comments which are in the table below (some are only minor editorial amendments). I agree with most of your changes, and believe you have done a good job in reflecting the last discussions we had. I especially agree with your analysis of section 3 and the references to IPSAS 1 and how this should be addressed.</p> <p><i>(Refer to Introduction and relevant chapters for detailed comments)</i></p>	Staff views on the proposed amendments are included in the attached.
004	<p>As we've been through these papers many times, I focused my review on the changes you made and your specific questions. I agree with the proposals you have made regarding the form and content of the Introductory material, Contents page, BC to Chapter 3, etc. They will make the paper much simpler and easier for readers. I also agree with the terminology changes and all but one of the edits.</p> <p><i>(Refer to Introduction and relevant chapters for detailed comments)</i></p>	Staff views on the proposed amendments are included in the attached.
005	<p>Thank you for your work and giving the opportunity to comment on the Conceptual Framework - Phase 1 at this stage as an out of session review. I discussed it with Gill Waldbauer, my TA, as well as with supporting colleagues of my team at Ernst &amp; Young. On that basis we have the following inputs:</p> <p><i>(Refer to Introduction and relevant chapters for detailed comments)</i></p>	Staff views on the proposed amendments are included in the attached.
006	<p>In my view, the amendments processed by staff reflect those agreed at March 2012 IPSASB meeting, without any additional consequential amendments not previously discussed.</p>	Noted
007	<p>My comments are as follows. It is my great pleasure if my comments are valuable for your revising your draft paper and don't hesitate to comment me if you have any question on my comments.</p>	Staff views on the proposed amendments are included in the attached.

## THE INTRODUCTION

The Introduction reflects some components of the Exposure Draft but has been developed and refined to reflect that it is a component of a final document. The Introduction was developed following the March 2012 meeting.

Page (para)	Respondent	COMMENTS	STAFF COMMENT
002 (First Para)	2	First Para: The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities (the Conceptual Framework) <del>will</del> establishes and makes explicit	Staff agree – amendment necessary to reflect that this is a final document rather than an ED
002 (First Para)	3	1st paragraph. We use the term IPSASs and other “documents” that provide guidance on information... We use the term “publication” broadly in the Preface. Although this is a fairly minor point, I think it more closely reflects the Board’s outputs.	Staff agrees the term “documents” is inappropriate here, and is of the view that a narrower focus than <i>documents or publications</i> is intended in this context. The term currently used in Chapters 1-4 of the Framework is: <i>IPSASs and (or) non authoritative guidance</i> . This Introduction has been amended to also use that term. However, staff notes that the respondent raises a broader issue about use of this terminology at paragraph 1.1 which may prompt revisiting and further amending the text here and elsewhere.
		<b>Section headed: <i>The Conceptual Framework: Chapters 1-4</i></b>	
Pages 2&3	2	<p><u>The IPSASB is currently in the process of developing a Conceptual Framework.</u> Although all the components of the Conceptual Framework are interconnected, the Conceptual Framework project is being developed in phases.</p> <p><u>This version of the Conceptual Framework includes the first four chapters the IPSASB published as a result of its first phase of the Conceptual Framework project.</u> Phase 1 <del>has now been completed. It comprises Chapters 1 – 4 of the Conceptual Framework. These chapters deal with:</del></p> <ul style="list-style-type: none"> <li>Chapter 1: The Role and Authority of the Framework</li> </ul>	<p>Staff has processed amendments to 1<sup>st</sup> &amp; 3<sup>rd</sup> paras but is concerned that:</p> <ul style="list-style-type: none"> <li>- the 2nd para. may be read as implying there may be more than one version of the Framework.</li> <li>- the 4<sup>th</sup> para 1st sentence may be read as committing IPSASB to</li> </ul>

Page (para)	Respondent	COMMENTS	STAFF COMMENT
		<ul style="list-style-type: none"> <li>• Chapter 2: The Objectives of General Purpose Financial Reporting</li> <li>• Chapter 3: The Qualitative Characteristics <del>of Information Included in General Purpose Financial Reports</del></li> <li>• Chapter 4: The Reporting Entity.</li> </ul> <p>The other Phases of the Framework <del>being developed</del> <u>are at various stages of development</u>. They deal with:</p> <ul style="list-style-type: none"> <li>• Phase 2—The definition and recognition of the elements of financial statements;</li> <li>• Phase 3—The measurement of the elements that are recognized in the financial statements; and</li> <li>• Phase 4—The presentation of information in GFRs.</li> </ul> <p><u>As these phases are finalised by the IPSASB, the relevant chapters will be inserted in this Framework. When the Conceptual Framework project is completed, the IPSASB will have a complete, comprehensive and single document called the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities.</u></p> <p>[Reason: To spell out that this version includes Phase 1 material and material from the other chapters will be added over time.]</p>	<p>issue chapters as completed. Staff understands that IPSASB wishes to reserve right to issue other chapters together even if some were completed before others; and</p>
Pages 2&3	3	<p>I wondered whether we need this at all, especially the text about the framework being developed in four phases, all at different stages of completion. While I can understand this is important for a consultation document, I am not sure we need this in the final text of the Phase I chapters. If retained, it will invariably require revision in future.</p>	<p>Staff is of view that the section should be retained to (a) make clear to constituents that, at this stage, the Framework is not yet complete; and (b) ensure that this message is included in the Framework.</p>
		<p><b><i>Chapter Titles and Contents Page(s)</i></b></p>	
	2	<p>I support your proposals to shorten chapter titles and would make the Chapter 3 title even shorter...</p> <p>Chapter 3. The Qualitative Characteristics <del>of Information Included in General Purpose Financial Reports</del></p>	<p>Staff agrees, but notes other respondents may have different views – has amended but will revisit at meeting.</p>
	2	<p>I support your proposal that:</p> <p>(a) The initial Contents page identifies only the Chapter titles.</p> <p>(b) A detailed contents be presented at the start of each Chapter</p>	<p>Noted.</p>

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Page (para)	Respondent	COMMENTS	STAFF COMMENT
	3	I am fine with the revised chapter heading for 1-4. I am not sure if the reference to “constraints” in the chapter 3 title was purposefully left out or not (to shorten the title). I am not sure that we should include the other chapter titles (5-7) as this may be a bit premature. Just as an example, at the last board meeting we debated whether recognition should accompany the elements or the measurement sections. On this basis, I think making a decision about the titles of these chapter titles may be premature.	As indicated by respondent, “constraints” was not included in Chapter 3 to shorten title. Staff acknowledges that Contents page will need to be updated as other chapters are completed, but is of view it is useful to provide an overview of Framework and linkage to title of EDs/CPs is an useful mechanism to do so.
	5	Typos: (pages refer to clean version) Pg 2 and 5 - Title of Chapter 3 is inconsistent with rest of the document. Pg 5 - Contents - 'Conceptual' is missing from the title of Chapter 1 Pg 6 - Contents - Chapter 1 should start with 'The' Pg 7 - Contents - Title of chapter 3 inconsistent with pg 2.	Staff agree. Staff has amended for consistency with the “shorter form” titles.
	7	Chapter 5: The Elements of Financial Statements → I suggest that the title of the chapter should be replaced with "Chapter 5: The Definition and Recognition of the Elements of Financial Statements". Chapter 2: The Objectives of Financial Reporting, Users, Information Needs and General Purpose Financial Reports	At this stage the shorter form titles as proposed by staff have been retained - but the different views on the titles will be noted and discussed at the IPSASB meeting.
		<b>Conforming Terminology</b>	
	2	Agrees in principle with staff proposals re use of: “Public Sector Entities” and “Governments and Other Public Sector Entities” “Resources” and “Economic Resources”	Noted.

## Chapter 1: The Role and Authority of the Framework

Some comments relate to text:

- Which was changed to reflect IPSASB directions and consequential amendments proposed by staff (paragraph BC1.3); and
- For which the IPSASB did not propose changes at its meeting in March 2012 (paragraphs 1.1, 1.2, 1.3, BC1.2)

Para #	Respondent	COMMENT	STAFF COMMENT
1.1	3	<p>I know you have flagged this as a change in your memo, but I feel a little uncomfortable referring to “IPSAS and non-authoritative pronouncements”.</p> <p>We had a fairly lengthy debate at the last (and previous meetings) about the possible need for another suite of pronouncements that deal with reporting outside the financial statements, which could be authoritative or not. By stating that we only have IPSAS and other non-authoritative guidance, is quite limiting. I would feel more comfortable if we referred to IPSAS and other publication or other guidance broadly without indicating whether it is authoritative or non-authoritative if it isn’t an IPSAS. This is obviously pervasive throughout the document.</p> <p>We use “IPSASs and other pronouncements” in the last sentence of 3.5 – I would be comfortable with this wording if used throughout.</p>	<p>The phrase IPSASs and non-authoritative guidance is used pervasively throughout the document (para 3.5 and BC3.2 were the exceptions but have been amended to conform.)</p> <p>However, staff was not present at the last IPSASB meeting and is unaware of the details of that discussion. Staff will seek confirmation and direction on terminology at the meeting, and revise accordingly.</p>
1.2	3	<p>End of first sentence: I think this should refer... “nor does it override the requirements of IPSASs or other pronouncements..”?</p> <p>The next sentence of this paragraph also only seems to acknowledge that there are authoritative requirements for financial statements (by reference to recognition, measurement, presentation and disclosure).</p>	<p>Staff agrees that there is a case to make explicit the relationship of the Framework to other non-authoritative guidance. Such an amendment goes to IPSASB’s intended focus for this section, as well as terminology. It will likely also prompt consequential amendments to paragraphs 1.3 and BC1.1 and 1.2. Staff has highlighted these by mark-up and proposes further discussion at the meeting. This matter is discussed in covering memo.</p>
1.3	2	<p>Although the <a href="#">The</a> Conceptual Framework <del>has lesser authority than an IPSAS, it can...</del></p>	<p>Staff does not object to</p>

Para #	Respondent	COMMENT	STAFF COMMENT
		<p>[Reason: I don't like the words "lesser authority". It is partly true in the sense that it does not override IPSASs, but in some ways the Framework has more authority because it has the overarching concepts. As a comparison, the IASB Framework wording is as follows:</p> <p>The IASB's <i>Conceptual Framework</i> is not an IFRS and hence does not define standards for any particular measurement or disclosure issue. Nothing in the IASB's <i>Conceptual Framework</i> overrides any specific IFRS.]</p>	<p>this change but is not convinced it corrects a flaw, and is reluctant to redraft text given IPSASB directed it be elevated from a BC paragraph in the ED to text.</p>
BC 1.2	2	<p>BC1.2 <u>The issuance of this Framework may lead to a need to examine the requirements in certain IPSASs.</u> The IPSASB is of the view that existing authoritative requirements should not be amended</p> <p>[Reason: I think there needs to be a linking sentence.]</p>	<p>Staff is concerned that reference to "<u>may lead to the need to examine</u>" can be interpreted as differing from the last sentence of the para which states the IPSASB's intention that it <u>will review extent IPSASs</u></p>
		<p><b>Paragraph BC1.3 was amended for changes agreed by the IPSASB in March 2012, and consequential amendments proposed by staff</b></p>	
BC 1.3	2	<p>The Conceptual Framework underpins the development of IPSASs. Therefore, it has relevance for all entities that apply IPSASs. In some jurisdictions, GBE's (also referred to as State Owned Enterprises, Crown Corporations or by similar terms) may apply IPSASs. <u>Consolidated GPFRs prepared at the whole-of-government financial statements prepared level</u>—in accordance with IPSASs <u>include all controlled entities</u><del>may consolidate all governmental entities</del>, including <u>controlled</u> GBE's. In these circumstances, GPFRs prepared at the whole of government level will include information about GBEs.</p>	<p>The IPSASB has previously agreed that the Framework would not use terms such as consolidation of "controlled" entities. Staff is reluctant to amend at this stage.</p>
BC 1.3	3	<p>I worry about the second sentence of this paragraph where we say that in some jurisdictions GBEs apply IPSAS when we specifically state in the Preface that the IPSASB does not develop Standards for GBEs and this is made clear in each IPSAS. I don't think we lose anything if we delete that sentence? Unless of course the point we want to make is that even though different reporting frameworks may be applied by GBEs they are still included in whole-of-government accounts using IPSASs.</p> <p>Just note, that in our jurisdiction, it is not only at a whole of government level that there are issues with the consolidation of GBEs. It also happens at our provincial and local government levels.</p>	<p>Reaching agreement on the appropriate explanation of the relationship of IPSASs to GBE's has proved to be difficult. Staff has proposed some revision to the text and further discussion is included in the covering memo. The term whole of government is intended to be applicable at each level of government in any jurisdiction, whether federal, state,</p>

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Para #	Respondent	COMMENT	STAFF COMMENT
			provincial, or local government.
BC 1.3	4	<p>BC 1.3- I have difficulty trying to understand what the point of this paragraph is. Is it that GBEs might apply IPSASs or that GPFRs will include information on GBEs? If the latter, wouldn't this be more relevant in Chapter 4.</p> <p>As well, I find that the third sentence (some GBEs adopt IPSAS) could lead a reader to conclude that this is a condition for including information on GBEs in GPFRs, because of the beginning of the last sentence (In these circumstances).</p>	<p>The intent was that GBE's may apply IPSASs in their separate GPFRs and consolidated whole of government accounts may include info about GBEs, therefore the Framework will have relevance.</p> <p>Staff propose edits to deal with unintended interpretations and to clarify the IPSASB's intent.</p>

## Chapter 2: The Objectives of Financial Reporting

Some comments relate to text:

- Which was changed to reflect the IPSASB directions and consequential amendments proposed by staff (paragraphs 2.5, 2.31, BC2.10, BC 2.17); and
- For which the IPSASB did not propose changes at its meeting in March 2012 (paragraphs, 2.8, 2.9, 2.12, 2.14, 2.15, 2.19, 2.20, 2.29, BC2.1, BC2.7, BC2.8, and BC2.11).

Para #	Respondent	COMMENTS	STAFF COMMENT
		<b>This text in Paragraph 2.5 was amended for changes proposed by the IPSASB in March 2012, or by staff as part of the out of session review</b>	
2.5	2	In most cases, governments, <del>as representatives of taxpayers</del> , that provide resources to international governmental organizations are dependent on GPFs of those organizations for information for accountability and decision-making purposes. [Reason: this subclause interrupted the flow of the sentence and I couldn't see why it was required.]	Staff agrees with this proposed edit. But notes it was included at the direction of the IPSASB at the Dusseldorf meeting in March 2012.
2.8	2	The discharge of accountability obligations requires the provision of information about the <del>reporting</del> entity's management of the resources entrusted. [Reason: this is the first use of "reporting entity" in the Framework. Suggest "entity" is sufficient. Leave reporting entity till Chapter 4]	Staff agrees and has made similar change to use of reporting entity in paragraphs 2.8, 2.12, BC2.16, BC2.26, BC3.23, BC3.30
2.8	3	Second sentence: we use the term "reporting entity" here. Should it just refer to an entity? We have used reporting in a few other paragraphs, but we have most used government or other PSE, or PSE.	Noted. Will change this and similar references to reporting entity before Chapter 4 (see above).
2.9	2	Lenders, creditors, donors and others that provide resources on a voluntary basis, including in an exchange transaction, make decisions about whether to provide resources to support the current and future activities of the government or other public sector entity. In some circumstances, members of the legislature or similar representative body who depend on GPFs for <del>the information they need</del> , can make or influence decisions about the service delivery objectives of government departments, agencies or programs and the resources allocated to support their achievement; and [Reason: clear from context]	Staff has no objection to the amendment proposed as such, but is reluctant to change at this stage given this phrase is used in other paragraphs in the Framework.
2.11	7	7th line: I am concerned of the difference between "resources" and "public monies". Please check whether the term "public monies" can be replaced with the term	Staff agrees that <i>public monies</i> be

Para #	Respondent	COMMENTS	STAFF COMMENT
		<p>"resource" or explain what public monies are.</p> <p>8th line: It is more understandable for readers if you provide the explanation on "liquidity" and "solvency".</p>	<p>replaced by resources in this paragraph to maintain consistency in explanation. (This paragraph was not included in the ED.)</p> <p><i>(Public monies</i> is used in other paragraphs. The respondent does not propose its replacement in those paragraphs. Staff agrees its use is in context and appropriate.)</p> <p>Staff appreciates there may be jurisdictional differences in explanation of liquidity and solvency but has included an explanation for review and to "test the waters".</p>
2.12	2	The information service recipients and resource providers need for these purposes <del>are</del> <u>is</u> likely to overlap in many respects.	Staff agrees and has amended.
2.14	2	<p>Information about the financial position of a government or other public sector entity will enable users to identify the resources of the entity and claims to those resources at the reporting date. This will provide information useful as input to assessments of such matters as:</p> <ul style="list-style-type: none"> <li>• The extent to which management has discharged its responsibilities for safekeeping and managing the resources of the entity;</li> <li>• <u>The extent to which resources are available to support future service delivery activities, and</u></li> <li>• changes <u>Changes</u> during the reporting period in the amount and composition of <del>these</del> resources and claims to <u>resourcesthem</u>; and</li> <li>• The amounts and timing of future cash flows necessary to service and repay existing claims to the entity's resources.</li> </ul> <p>[Reason: Relooking at this I thought that the second bullet comprised two ideas.]</p>	Staff has no objection to the change in structure but is not convinced of the need to make the change.
2.14	7	1st line: minor point. a government or other public sector entity → a government and other public sector entity	Staff is of the view that "or" is appropriate in this case, and is consistent usage of terminology.
2.19	2	Some resources to support the activities of public sector entities may be received from donors, lenders or as a result of exchange transactions. However, resources to support the activities of public sector entities are predominantly provided in non-exchange	Staff is reluctant to remove the phrase at this stage since the IPSASB directed it be included to

Para #	Respondent	COMMENTS	STAFF COMMENT
		<p>transactions by taxpayers and others, consistent with the expectations reflected in an approved budget.</p> <p>Reason: Not sure what this last phrase “consistent with the expectations reflected in an approved budget” means and suspect it is not necessary in the context of what you are saying.</p>	<p>reflect that resources from non-exchange transactions are raised consistent with the budget.</p>
2.20	7	<p>1st line: I am concerned of the term "the financial results". Please explain what "the financial results" are.</p>	<p>Point taken. The term financial results is used in other paragraphs in these chapters and was used in the ED. However, in the ED the explanation in para 2.22 appeared earlier in the draft. Staff agree that the clarification in para 2.22 be moved to this paragraph.</p>
2.29	2	<p>The scope of financial reporting establishes the boundary around the transactions, other events and activities that may be reported in GPFRs. To respond to the information needs of users, the <a href="#">scope of financial reporting addressed by/considered by this Conceptual Framework</a> <del>reflects a scope for financial reporting that</del> is more comprehensive than that encompassed by financial statements. It provides for the presentation within GPFRs of additional information that enhances, complements and supplements those statements</p> <p>[Reason: I had to think twice about what the words “reflects a scope” mean]</p>	<p>Staff has no objection to the change in structure - but is not sure it is necessary or that use of the phrase “addressed by/considered by” is appropriate. (This paragraph was included in the ED.)</p>
		<p><b>Staff proposed additional changes to paragraph 2.31 in the out of session review</b></p>	
2.31	5	<p>Para 2.31 - We appreciate the thought behind your proposed change to para. 2.31, but are not sure that we agree with your wording (for some users this may be all the financial information to which they will have access), however, in our view, the change you are proposing to para. 2.31 relates to the highly significant issue of whether GPFS/GPFR fulfils needs and if so to what extent, which deserves discussion at the upcoming IPSASB meeting.</p> <p>(Staff comment: Staff expressed concerned that the explanation in the second sentence that GPFRs “will not provide all the information users need...” was too exhaustive for a concepts statement and proposed that wording be “softened” to reflect that it “...is unlikely that GPFRs will provide all the information users need...”</p>	<p>Staff view is that GPFRs respond to users information needs but is unlikely to provide all information users need for accountability and decision making purposes. Consequently, some users are likely to require more information than can be presented in GPFRs. Will note for discussion in the covering memorandum.</p>
BC 2.1	3	<p>The last sentence of this paragraph indicates that the board was persuaded by these arguments. We haven't really outlined the arguments in the previous sentences about</p>	<p>Noted – the arguments/views of respondents to the Consultative</p>

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Para #	Respondent	COMMENTS	STAFF COMMENT
		why a primary user group should be established.	Paper (CP1) were identified in the ED. They are largely embedded in the explanation of the views of respondents as explained in subsequent subsections of the BC. To avoid repetition of some explanation, staff has rephrased BC2.1 to reflect respondents to the CP <i>expressed the view</i> and the IPSASB found <i>the view</i> persuasive.
BC 2.7, 2.8	3	I wondered if the format might work better if these two paragraphs were swapped around. At the moment, we discuss citizens, then resource providers, then legislatures, when in fact both citizens and legislatures might have an interest in both the resources and services provided. It might work better to discuss resource provider first, and then follow with the discussion on the users that might have an interest in the resources as well as services provided.	Staff is not convinced that a change in sequence is necessary, or that BC2.7 and BC2.8 could be switched without consequential changes to BC2.9. The IPSASB's rationale for the current structure was to initially deal with citizens who include both service recipients and resource providers, and then the narrower resource provider group. See also comment below
BC 2.8-2.11	7	The location issue. The draft explains "Resource Providers" firstly, and "The Legislature" secondly. but in para BC 2.3 the draft explains "The Legislature" firstly, and "Resource Providers" secondly. So I recommend that BC 2.10 and BC 2.11 are moved ahead of BC 2.8 and BC 2.9.	Noted. However, staff is reluctant to make this change at this stage given that other members may have different views and the IPSASB's rationale for this structure is noted above. Staff is also of the view that changing the sequence in para BC 2.3 could be complex.
		<b>Paragraph BC2.10. Material distributed for the out of session review included proposed amendments intended to clarify the intent of the paragraph.</b>	
BC 2.10	4	I would keep as presented. It parallels the discussion about resource providers.	Noted.

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Para #	Respon- dent	COMMENTS	STAFF COMMENT
		<b>Paragraph BC2.17 was amended for changes proposed by the IPSASB in March 2012 and staff as part of the out of session review</b>	
BC 2.17	2	Some respondents to CF–ED1 also expressed concern that the scope was too sharply focused on the financial statements, and that additional guidance on non-financial information and sustainability reporting <u>should</u> be included in the Framework.	Staff agrees and has amended to correct grammatical error.
BC 2.17	3	First bullet refers to the fact that the Terms of Reference have been updated to overcome this challenge. Would it possibly be more appropriate to just refer to the Terms of Reference that were in effect at that time?	Staff agrees text should be amended to reflect that the concerns related to the Terms of Reference (TOR) <i>that were in effect at that time</i> . However, staff is of the view that it is also useful to acknowledge in the BC that the TOR no longer represent an impediment to the scope of the Framework – and proposes retention of text that reflects that.

### Chapter 3: The Qualitative Characteristics

Some comments relate to text:

- Which were changed to reflect the IPSASB directions and consequential amendments proposed by staff (paragraphs, 3.15, 3.16, 3.25, 3.40, BC3.11); and
- For which the IPSASB did not propose changes at its meeting in March 2012 (paragraphs, 3.3, 3.5, 3.7, 3.9, 3.26, 3.29, 3.31, 3.33, 3.34, 3.38, 3.40, BC3.1, BC3.3, BC3.5, BC3.11, BC3.29, BC3.30, BC3.31, and BC3.35).

Para #	Respondent	COMMENT	STAFF COMMENT
3.3	5	The wording is cumbersome. Can we rephrase it as: The following are pervasive constraints on information included in GPFRS: <ul style="list-style-type: none"> <li>• materiality;</li> <li>• cost versus benefit and</li> <li>• achieving an appropriate balance between the QCs.</li> </ul>	Staff is reluctant to recast this paragraph as dot points at this stage. Paragraph could be restructured along the lines of para 3.2. An example is included in boxed text in draft Framework.
3.5	7	2nd line: minor point. I recommend that the term "explanatory material" is replaced with the term "explanatory information". See para 2.28	Staff agrees and has revised for consistent usage. Staff has also amended para 3.12 along these lines.
3.7-3.9	5	Instead of 'confirmatory', would 'corroborative' convey the message better?	Staff is of the view <i>confirmatory value</i> should not be changed at this stage, given it was the term used in the ED.
3.9	2	The confirmatory and predictive roles of information are interrelated—for example, information about the current level and structure of an entity's resources and claims to <del>them</del> <u>those resources</u> helps users to confirm the outcome of resource management strategies during the period, and to predict an entity's ability to respond to changing circumstances and anticipated future service delivery needs. The same information helps to confirm or correct users' past expectations and predictions about the entity's ability to respond to such changes. It also helps to confirm or correct prospective financial information included in previous GPFRs.	Staff agrees and has amended for consistent usage throughout the text.

Para #	Respondent	COMMENT	STAFF COMMENT
		<b>Paragraph 3.15 was amended for changes proposed by the IPSASB in March 2012.</b>	
3.15	5	The paragraph seems incomplete. It begs the question, so what do preparers do in these uncertain situations where meaningful measurement is impossible?	Staff agrees that the final sentence of the paragraph can give rise to this concern – staff proposed its deletion and relocation to Phase 3 which deals with the relationship of the QCs to measurement. Staff notes that role of this chapter is to outline the QCs that information is to possess for inclusion in GPFs, and agrees it does not (and was not intended to) identify what preparers should do in this event or if recognition criteria for elements or other QCs are not satisfied – other than note the item does not satisfy QCs for inclusion in GPFs.
		<b>Staff proposed a consequential amendment to Paragraph 3.16 as part of the out of the out of session review.</b>	
3.16	5	In regard to 3.16 and the word cost and the proposal in your email – there may be situations where the original cost has to be used, but is not known and therefore has to be estimated – I therefore suggest leaving this in.  ( <b>Staff comment:</b> Staff had proposed that either cost be deleted in the second last sentence or that it refer to: <i>cost of an item for which observable prices do not exist</i> - or similar phrase.	Point taken. Staff agrees cost should be retained.
		<b>Paragraph 3.25 was amended for changes proposed by the IPSASB in March 2012.</b>	
3.25	3	We refer to <u>accounting principles or policies</u> when we refer to “prospective financial and non-financial information” – this might need to be amended to something along with lines of the wording in paragraph 3.22 where we refer to “basis of preparation” or a methodology or something along those lines. Accounting principles and policies seem GPFs focused.	Staff has amended these paragraphs as proposed for consistency.

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Para #	Respondent	COMMENT	STAFF COMMENT
		There are one or two other paragraphs where a similar change might be appropriate, e.g. para 3.34 second sentence, BC3.28, last sentence, BC3.36, second last sentence.	
3.26	3	I have noted in this paragraph and one or two others (3.29, 3.31) that we refer to “phenomena” where in other places we have referred to “economic of other phenomena”. Perhaps we might need change these references so that they are consistent.	Staff agrees and has amended for consistent usage throughout, with some variation in 3.21 and BC3.7 to keep in context.
3.29 & 3.31	7	3.29, 3rd line: However, the more verifiable is the information included in GPFRs, the more it will assure users that the information faithfully represents the phenomena that it purports to represent. →Reading this sentence, I wonder that "Verifiability" is the component of "Faithful Representation". Please check.  3.31, 1st line: The same concern as that of para 3.29. Please check.	Staff is reluctant to propose change to the text at this stage given these paragraphs were included in the ED and subsequent drafts without proposals for amendment, but has included new paragraph BC3.24 to explain IPSASB view.
3.31	2	To help assure users that prospective financial and non-financial quantitative information and explanations included in GPFRs faithfully represents the phenomena that they purport to represent, the assumptions that underlie the information disclosed, the methodologies adopted in compiling <a href="#">that information</a> , and the factors and circumstances that support any opinions expressed or disclosures made should be transparent. This will enable users to form judgements about the appropriateness of those assumptions and the method of compilation, measurement, representation and interpretation of the information.	Staff has changed the text as proposed to improve clarity.
3.33	2	Assessments of materiality will be made in the context of the legislative, institutional and operating environment within which the entity operates and, in respect of prospective financial and non-financial information, the preparer’s knowledge and expectations about the future. Disclosure of information about compliance or non-compliance with legislation, regulation or other authority may be material because of its nature—irrespective of the magnitude of any amounts involved. In determining whether an item is material in these circumstances, consideration will be given to such matters as the nature, legality, sensitivity and consequences of past or anticipated transactions and events, the parties involved in any such transactions and the circumstances giving rise to them.  [Comment: I’m not sure what “consequences of past or anticipated transactions and events” means here.]	Staff is of view IPSASB intended to acknowledge that materiality may involve consideration of transactions or events that have not yet occurred but may be in train – particularly so in respect of prospective information. Staff is reluctant to change at this stage given this text was included in the ED and subsequent drafts.
3.34	2	This Conceptual Framework classifies materiality <del>is classified</del> as a constraint on information included in GPFRs <del>in this Conceptual Framework</del> . <a href="#">In developing IPSASs and non-authoritative guidance the IPSASB will consider</a> the materiality of the consequences of application of a particular accounting policy or disclosure of a particular item or type of	Staff has no objections to this rewrite but is not convinced it is necessary and is concerned about unintended consequences

Para #	Respondent	COMMENT	STAFF COMMENT
		<p>information <del>is considered by the IPSASB in developing IPSASs and non-authoritative guidance. However,</del> Subject to the requirements of any IPSAS <del>to the contrary, entities preparing GPFs will also consider</del> the materiality of the separate disclosure of particular items of information <del>will also be considered by individual entities in preparing GPFs.</del></p> <p>[Reason: To simplify sentences by bringing objects to the beginning.]</p>	of changes to the text at this stage.
3.34	3	The last sentence of this paragraph seems to imply that materiality only applies to separate disclosure of an item in the GPFs. Materiality goes beyond just that, and would also inform the accounting policy or basis of preparation. We do seem to acknowledge this in BC3.28. I would delete the following words: "the materiality of the separate disclosure of particular item...." An adjustment would also be needed to BC3.35 in the last sentence.	Staff agrees and has revised the paragraph to ensure the focus is not overly narrow.
3.34	7	On the top line of Page 40: the materiality of the separate disclosure of particular items of information will also be considered by individual entities in preparing GPFs. How about "application of particular accounting policy" ? Please check	Staff agrees amendment is necessary. See also comment above.
3.38	2	<p><del>The objective of financial reporting is to meet the information needs of users, as identified in this Conceptual Framework. Users reap the majority of benefits from the information provided by GPFs.</del> However, information prepared for GPFs may also be used internally by management and result in better decision-making by management. The disclosure of information in GPFs consistent with the concepts identified in the Conceptual Framework and IPSASs derived from them, will enhance and reinforce perceptions of the transparency of financial reporting by governments and other public sector entities and contribute to the more accurate pricing of public sector debt. Therefore, public sector entities may also benefit in a number of ways from the information provided by GPFs.</p> <p>[Comment: This suggestion might be contentious. However, I'm not sure that we have any evidence to assert this. I would therefore rather rephrase the statement.]</p>	Staff has no objection to the rewrite, but is not convinced of the need and rationale to make this change at this stage. This sentence was in the ED and subsequent drafts– the IPSASB's intention was to reflect that the objectives of financial reporting are to respond to users' needs and consequently users will reap the majority of benefits.
3.38	3	The second sentence refers to the "conceptual framework and IPSASs derived from them...". I think this should include a reference to "other pronouncement" (or whatever wording we use). I have a similar comment on para BC3.6 (second sentence), BC3.35 (second sentence), BC3.41 (first and second sentence).	Staff has amended these paragraphs except BC3.35 (now BC3.30) and 2nd sentence of BC3.41 (BC3,35) which are focused sharply on the impact of authoritative requirements - wording has attempted to ensure text does not state "requirements" are included in non-authoritative

Para #	Respondent	COMMENT	STAFF COMMENT
			guidance. Staff will revisit consequent to the IPSASB's decision regarding terminology.
		<b>Staff proposed amendment to Paragraph 3.40 as part of the out of session review.</b>	
3.40	2	[I support your proposed change.]	Noted
3.40	7	I am supportive of the staff's proposal to reword the final sentence.	Noted
3.41	2	The qualitative characteristics work together <del>in different ways</del> to contribute to the usefulness of information. For example, neither a depiction that faithfully represents an irrelevant phenomenon, nor a depiction that unfaithfully represents a relevant phenomenon, results in useful information. Similarly, to be relevant, information must be timely and understandable.	Point taken - Para 3.4 refers to the each QC working with other QCs and does not use the phrase "in different ways". Staff has amended for consistency.
BC		<p style="text-align: center;"><b>BASIS FOR CONCLUSION</b></p> <p style="text-align: center;"><b>GENERAL ISSUE: CROSS REFERENCING TO IPSAS1 APPENDIX A</b></p> <p><b>Staff proposed that explanation of the differences of the QCs in Appendix A of IPSAS 1 should be deleted from the BC to Chapter 3 unless they responded to concerns raised by respondents to CF-ED1.</b></p> <p><b>The paragraphs identified for deletion by staff were: BC3.7, BC3.8, BC 3.23, BC3.24, BC3.25, BC 3.26, BC3.34, and BC3.8.</b></p>	
	2	<p>I support your proposals that:</p> <p>(a) the paragraphs of the BC to Chapter 3 which outline changes from the QCs identified by Appendix A of IPSAS 1 should be deleted, unless they respond to a concern identified by respondents to CF-ED1; and</p> <p>(b) a new document comparing the QCs in the Framework vs the QCs in IPSAS 1 QC be developed and put on the website.</p> <p>However, I'm not sure exactly which paras you would propose to delete. My thoughts (for you to see if you agree) are:</p> <p><b>BC6-BC8</b> summarise into one para (relevance), <b>BC3.19</b> delete (prudence) but keep remainder of section, <b>BC3.23</b> delete (understandability) but keep remainder of section, <b>BC3.24</b> delete (timeliness), <b>BC3.25</b> rewrite (timeliness), <b>BC3.26</b> delete (comparability), but keep remainder of section, <b>BC3.34</b> delete (materiality) but keep remainder of section</p>	Staff agrees, but has retained Para BC3.6 without revision. Staff has reviewed responses to the ED and notes that respondents did question whether materiality was a component of relevance or identify it as such. Consequently, staff has retained BC3.34 as a lead in to BC 3.35.

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Para #	Respondent	COMMENT	STAFF COMMENT
		<b>BC3.38</b> delete (cost:benefit) but keep remainder of section	
	5	We appreciate that it was mentioned that there is a case for deleting Appendix A of IPSAS 1 once the CF has been published. We think the IPSASB ought to discuss this point again, purely from the viewpoint of the different authorities / binding effects attached to the CF and an IPSAS. Indeed, Appendix A currently states that it is an integral part of IPSAS 1. We need to be clear as to the desired authority.	Noted. Staff will identify the matter for discussion in agenda materials for the forthcoming meeting.
		<b>Paragraph BC3.11 was added as proposed by the IPSASB in March 2012.</b>	
BC 3.11	3	I don't disagree with the content of this paragraph, but wonder about its placement under faithful representation. We discuss appropriate systems being necessary to ensure good quality information is generated. Either this paragraph should be on its own and not linked to a specific QC, or we need to make a stronger link between the quality of information and its faithful representation.	Staff agrees. This paragraph was added by the IPSASB at the March 2012 meeting to link to faithful representation. Staff proposes it be amended to that end – see next comment.
BC 3.11	7	4th line : I suggest the term "the quality" should be replaced with the term "a faithful representation".	Staff agrees. This will establish the link to faithful representation.
BC 3.29	7	2nd line : I wonder whether the term "service achievements" is appropriate to insert in this sentence regarding accounting principles or policies. Please check	Staff agrees the term "service delivery achievements" used elsewhere in the Framework should also be used here. Staff has also referred to financial position.
BC 3.30 BC 3.31	7	BC3.30 the last sentence : This sentence leads the readers to misunderstand that the verifiability is the component of the faithful representation. Please check the wording.  BC3.30 the last sentence: The same concern as that of BC 3.30	See comments on this point above. Staff has proposed inclusion of additional wording in BC to clarify verifiability is not a component of faithful representation.
BC 3.35	3	(Staff comment: Respondent notes consequential amendments necessary to this paragraph to reflect changes proposed to Paragraph 3.34.)	Staff agree – see below.
BC 3.35	7	4th line : "materiality will be considered by preparers in determining whether an item of information should be separately disclosed in the financial statements of the reporting entity" the same concern as that of Para 3.34 (see above).	Staff agrees and has amended to ensure the focus is not too narrow.

**Chapter 4: Reporting Entity**

**Comments on this Chapter relate to text for which the IPSASB did not propose changes at its meeting in March 2012**

Para #	Respondent	COMMENT	STAFF COMMENT
4.4	2	<p>A government may establish and/or operate through administrative units such as ministries or departments. It may also operate through trusts, statutory authorities, government corporations and other entities with a separate legal identity or operational autonomy to undertake or otherwise support the provision of services to constituents. Other public sector organizations, including international public sector organizations and municipal authorities, may also undertake certain activities through, and may benefit from and be exposed to a financial burden or loss as a result of, the activities of entities with a separate legal identity or operational autonomy.</p> <p>[Comment: What is this last sentence saying? I don't get it. I also can't see how it links with the next para.]</p>	<p>Staff is reluctant to propose change at this stage. This text was included by the IPSASB as it refined the material in the ED dealing with the group reporting entity to acknowledge the range of operating structures and arrangements that may be adopted.</p>
4.7	2	<p>The factors that are likely to signal the existence of users of GPFs of a public sector entity or group of entities include <u>an entity having</u> the responsibility or capacity to raise or deploy public monies, acquire or manage public assets, incur liabilities, or undertake activities to achieve service delivery objectives. The greater the resources that a public sector entity raises, manages and/or has the capacity to deploy, the greater the liabilities it incurs and the greater the economic or social impact of its activities, the more likely it is that there will exist service recipients or resource providers who ...</p>	<p>Staff agrees this clarifies the intent of the paragraph and has revised as proposed.</p>
4.9	2	<p>In many cases, it will be clear whether or not there exist service recipients or resource providers that are dependent on GPFs of a public sector entity for information for accountability and decision-making purposes. For example, such users are likely to exist for GPFs of a government at the national, state or local government level and for international public sector organizations. <del>—because t</del>These governments and organizations generally have the capacity to raise substantial resources from, and/or deploy substantial resources on behalf of, their constituents, to incur liabilities and to impact the economic and/or social well being of the communities that depend on them for the provision of goods and services.</p>	<p>Staff agrees the change in structure of the sentence enhances readability, but proposes the new sentence should commence: <i>“This is because these governments.....</i></p>
4.11	5	<p>The heading seems to emphasize the importance of having a separate legal entity, would it be better to amend the title that the consideration of the reporting entity concept is substance over form,</p>	<p>Point taken. Staff is of the view that the heading could be changed to refer to <i>Legal and other Entities</i>, or simply deleted.</p>

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Para #	Respondent	COMMENT	STAFF COMMENT
BC4.1, BC4.2, BC4.7	2	<p>I don't think these paras are BC paras. In my view they repeat what is in the body of the text. Agree that BC4.3 and 4.4 are BC paras but I don't think they need BC4.1 and BC4.2 to make sense.</p> <p>BC4.7 Again, is this a BC para?</p>	<p>Staff agrees BC4.3 and 4.4 cover ground dealt with in the body of the text and there is a case for their deletion. Similarly, there is a case for relocation of BC4.7 to text or its deletion. However, the paragraphs were included in CF–ED1 by the IPSASB to draw together and emphasize or further expand on matters included in the text and on factors that influence their operation. Staff will is reluctant to remove at this stage without further discussion by the IPSASB.</p>

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**Chapter 4: The Reporting Entity**

**Chapter 5: ~~The Elements~~ and Recognition inef Financial Statements *To be added***

**Chapter 6: Measurement of Assets and Liabilities in Financial Statements *To be added***

**Chapter 7: Presentation in General Purpose Financial Reports *To be added***

**STAFF COMMENT:** Respondents supported inclusion of an overall contents page and use of shorter Chapter titles, but had different views on what those titles should be and whether Chapters still in development should be included at this stage.

# THE CONCEPTUAL FRAMEWORK FOR GENERAL PURPOSE FINANCIAL REPORTING BY PUBLIC SECTOR ENTITIES

## INTRODUCTION

The *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (the Conceptual Framework) ~~will~~establis~~es~~ and make~~s~~ explicit the concepts that are to be applied in developing International Public Sector Accounting Standards (IPSASs) and non-authoritative other documents that provide guidance applicable to the preparation and presentation of on information included in general purpose financial reports (GPFRs) of public sector entities.

**Staff comment:** One respondent noted that the Preface to IPSASs currently refers to IPSASs and other *publications*, rather than *documents* as included in this paragraph. Staff has revised text to refer to non-authoritative guidance which is currently used in Chapters 1–4. However this is a pervasive issue and this text may need to be revisited.

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.

### The Accrual Basis of Accounting

The Conceptual Framework deals with concepts that apply to general purpose financial reporting (~~hereafter referred to as~~ financial reporting) under the accrual basis of accounting.

Under the accrual basis of accounting, transactions and other events are recognized in financial statements when they occur (and not only when cash or its equivalent is received or paid). Therefore, the transactions and events are recorded in the accounting records and recognized in the financial statements of the periods to which they relate.

Financial statements prepared under the accrual basis of accounting inform users of those statements of past transactions involving the payment and receipt of cash during the reporting period, obligations to pay cash or sacrifice other resources of the entity in the future, the resources of the entity at the reporting date and changes in those obligations and resources during the reporting period. Therefore, they provide information about past transactions and other events that is more useful to users for accountability purposes and as input for decision-making than is information provided by the cash basis or other bases of accounting or financial reporting.

### The Conceptual Framework: Chapters 1–4

The IPSASB is currently in the process of developing the Conceptual Framework. Although all the components of the Conceptual Framework are interconnected, the Conceptual Framework project is being developed in phases. Phase 1 has now been completed. It comprises Chapters 1–4 of the Conceptual Framework. These chapters deal with:

- Chapter 1: The Role and Authority of the Conceptual Framework

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- Chapter 2: The Objectives of ~~General Purpose~~-Financial Reporting
- Chapter 3: The Qualitative Characteristics ~~of Information Included in General Purpose Financial Reports~~
- Chapter 4: The Reporting Entity.

The other Phases of the Framework ~~being developed are at various stages of development. They deal with:~~

- Phase 2—The definition and recognition of the elements of financial statements;
- Phase 3—The measurement of the elements that are recognized in the financial statements; and
- Phase 4—The presentation of information in General Purpose Financial Reports~~GPERs~~.

**STAFF COMMENT:** A respondent questioned the need for this section, particularly the reference to development of the Framework in phases.

One respondent proposed additional amendments to acknowledge that additional chapters would be added as each of phase is completed.

**STAFF NOTE:** The Preface was not included in the material sent for out of session review. It is based on the Key Characteristics ED (2011) updated as directed at the IPSASB meeting (March 2012). A clean copy is included in this draft because amendments of text and format have been extensive and a marked-up copy is difficult to use. However, a marked up copy is available on request from staff.

## PREFACE

### Introduction

1. Governments are characterized by the breadth of their powers in comparison with the private sector. Such powers involve the ability to establish and enforce legal requirements. Globally the public sector varies considerably in both its constitutional arrangements and its methods of operation. However, the governance of governments and other public sector entities generally involves the holding to account of the executive by a legislative body (or equivalent).
2. Governments 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. The size of the public sector and the services that it provides are dependent upon factors such as political ideology and the size of the economy.
3. The nature of governments and other public sector entities and the environment in which they operate has implications for the concepts that underpin IPSASs and non-authoritative guidance issued by the IPSASB. This Preface outlines the main characteristics of the public sector that distinguish it from the for-profit private sector (hereafter referred to as the private sector, unless stated otherwise). These characteristics are reflected in the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities. This Preface does not provide an exhaustive listing of all the areas in which the public sector can be distinguished from the private sector, but focuses on those with particular implications for general purpose financial reporting.
4. Governments and public sector entities have a major role in providing public goods. In economics, a public good is a good from which (a) individuals cannot be effectively excluded from consumption, and (b) where use by one individual does not reduce availability to others. Examples of public goods include parks, street lighting and fresh air. Governments also provide social goods in order to enhance or maintain the well-being of citizens and other eligible constituents. Examples of social goods are welfare programs, policing and defense. Many social goods are provided by governments, because they are unlikely to be provided by private sector entities. This is because it is not possible, or considered appropriate on public policy grounds, to provide them through competitive market mechanisms.

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5. Public sector entities include national governments, regional (e.g., state, provincial, territorial) governments, and local (e.g., city, town) governments. They also include:
- Government ministries, departments, programs, boards, commissions, and agencies;
  - Public sector social security funds, trusts, and statutory authorities, and
  - International governmental organizations, such as the United Nations system.

The public sector does not include private not-for-profit entities, although such entities share many of the characteristics of public sector entities.

6. Government Business Enterprises (GBEs), which are also referred to as State Owned Enterprises, Crown Corporations and are known as public corporations in statistical accounting guidelines are also public sector entities. GBEs have similar characteristics to private sector entities, but are governed by a public sector entity which benefits from the GBE's activities. GBEs may be profit seeking or have a financial objective to break even. In some jurisdictions, GBE's may apply international or domestic private sector standards, and in other jurisdictions they may apply IPSASs. Where GBEs apply IPSASs, this Framework applies.
7. There are numerous areas where the transactions, events and other economic phenomena that occur in the public sector are the same as those in the private sector. However, unlike most private sector entities, the future existence of public sector entities is not dependent upon the generation of profits.
8. This Preface discusses the following public sector characteristics that differentiate it from the private sector and influence the concepts identified in this Framework:
- The volume and financial significance of non-exchange transactions and involuntary transfers (paragraphs 9–16);
  - The importance of the approved budget (paragraphs 17–19);
  - The nature and purpose of assets in the public sector (paragraphs 20–23 );
  - The longevity of the public sector (paragraphs 24–28);
  - The regulatory role of government (paragraphs 29–30);
  - Ownership or control of rights to natural resources and phenomena (paragraph 31); and
  - The importance of statistical bases of accounting (paragraphs 32–36).

### **The Volume and Financial Significance of Non-Exchange Transactions and Involuntary Transfers**

9. The primary objective of public sector entities is to deliver services to the public and eligible beneficiaries, rather than to make profits and generate a financial return to owners. Services are normally delivered in non-exchange transactions rather than exchange transactions. Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equally value to another entity in

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exchange. Conversely, in a non-exchange transaction, an entity receives value from another entity without directly giving approximately equal value in exchange.

10. For public sector entities the provision of goods and services is largely financed by involuntary transfers, principally taxation, or transfers from other tiers of government, which are initially financed through taxation. A public sector entity must regularly assess the need of its constituents for services and its capacity to undertake the activities necessary to provide those services. Such an assessment includes consideration of factors such as the legal framework that governs the operation of the entity, the cost, quantity and quality of the services to be provided, and the intended outcomes of key programs. The entity must also consider the availability of the assets needed to provide those services, its capacity to continue to service debt and its ability to raise revenue and/or borrow funds.
11. The level and quality of publicly provided goods and services received by an individual, or group of individuals is not normally related to the amount that an individual contributes through taxation. Depending on the provisions of the program, an individual may have to pay a charge or fee and/or may have had to make specified contributions to access certain services. Notwithstanding this, such transactions are, for the most part, of a non-exchange nature because the amount that an individual or group of individuals obtains in benefits will not be approximately equal to the amount of any fees paid or contributions made by the individual or group.
12. Because the primary objective of public sector entities is to provide services to constituents rather than to generate profits, their performance can be only partially evaluated by examination of their financial position at the reporting date and financial performance during the reporting period. This means that in addition to information about such matters as financial position, financial performance and cash flow, users of general purpose financial reports of public sector entities will need information to support assessments of such matters as:
  - Whether the entity provided its services to citizens in an efficient and effective manner;
  - To what extent the burden of paying for current services was shifted to future-year taxpayers;
  - Whether the entity's ability to provide services improved or deteriorated compared with the previous year; and
  - What resources are currently available for future expenditures, and to what extent are resources reserved or restricted for specified uses?
13. As indicated in paragraph 10, the principal source of revenue for governments and many other public sector entities is taxation, the collection of which is a legally mandated involuntary transaction between individuals or business entities and the government. Conversely, private sector entities rely for the large majority of their revenue on exchange transactions that are entered into voluntarily.
14. Tax raising powers can vary considerably. In centralized jurisdictions it is likely that most tax raising powers will lie with central government, with sub-national governments and other

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public sector entities having circumscribed rights to a share of specified taxes and a limited ability to create new tax sources. In decentralized jurisdictions sub-national governments and other public sector entities may have more extensive rights to the resources raised from taxation, access to broader sources of taxation and more discretion over the creation of new sources of taxation and the levels at which taxes are levied.

15. Where entities have limited access to direct taxation inflows they are likely to be dependent upon appropriations or transfers from other levels of government. While some of these transfers may have conditions attached to them, and, arguably, are quasi-contractual in nature, they are non-exchange in essential character.
16. International organizations are largely funded by transfers from national or regional governments. These may be governed by treaties and conventions or be made on a purely voluntary basis.

### **The Importance of the Approved Budget**

17. Most governments and other public sector entities prepare annual financial budgets covering areas such as the revenue to be raised and capital and other spending. Entities may also develop budgets covering longer time scales. The budget documents are often widely distributed and published. In the private sector, budgets are prepared as a management tool. Commercial confidentiality means that they will very rarely be made publicly available.
18. In many jurisdictions there is a constitutional requirement to prepare and make publicly available a budget. Historically, the budget has been prominent in communicating with citizens. A government's overall budget is usually the basis for setting taxation levels, is part of the process for obtaining legislative approval for spending and the mechanism for demonstrating compliance with legal requirements relating to the raising and use of public finances. Globally, the approved budget is the primary method by which the legislature exercises oversight and citizens and their elected representatives hold the entity's management financially accountable.
19. Because of the budget's significance, information that helps users assess actual spending against budget estimates and the resulting budgetary surplus or deficit for the reporting period, compared with that budgeted, is important in determining how well a public sector entity has met its financial objectives. Comparison of actual results to the budget therefore provides information about one aspect of financial performance and is important information for accountability purposes.

### **The Nature and Purpose of Assets in the Public Sector**

20. For private sector entities, the primary reason for holding property, plant, and equipment and other assets is to generate positive cash flows that contribute to the profits of the entity, either directly or in combination with other assets. 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, rather than to generate positive cash flows. Certain assets held by public sector entities do generate cash inflows but, in most cases,

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cash inflow generation will not be the primary objective of holding them. For example, most tenants of social housing units held by a public sector entity will pay rents. However, while rental income may be an important cash 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.

21. Because of the nature of the services they provide, a significant proportion of assets deployed by public sector entities are specialized in nature, for example roads and military assets. There may be a very limited market for such assets and, even then, they may need considerable adaptation in order to be used by other operators. This characteristic is not unique to the public sector, but is more pervasive.
22. Governments and other public sector entities may have extensive responsibilities for matters relating to national and local heritage. Such responsibilities include the protection or preservation of national art treasures, historical buildings, and other artifacts that contribute to the historical and cultural character of the nation or region. Governments generally also have responsibilities for the preservation of national parks and other areas of natural significance and native flora and fauna.
23. There is a strong intergenerational aspect to these responsibilities. Such buildings, art works and areas of natural significance are part of a nation's endowment. Many consider that they need to be maintained for future generations.

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

24. The nature and extent of activities undertaken by a public sector entity and the legal formation of such entities generally means that these entities may continue to exist for a very long time. Although political power may change regularly, national governments usually remain in existence. Recent global experience has demonstrated that governments may encounter severe financial difficulties, but will cease to exist only very rarely.
25. At sub-national levels, governments and other public sector entities may be amalgamated. However, it is likely that basic public services will continue to be provided by successor or amalgamated entities.
26. Governments may operate a number of programs with very long-term horizons where the effects of past decisions may only become clear many years, even decades, into the future. It can be unclear whether obligations related to such programs meet the definition of a liability in the financial statements. The ability to meet such obligations depends upon future tax flows.
27. The going concern principle is fundamental in compiling the financial statements of private sector entities, but has often been considered less relevant in the public sector because of the general longevity of governments, the long-term character of many public sector programs, and the tax-raising powers of governments. Sub-national governments and other public sector entities may, on occasion, be amalgamated for political and efficiency reasons and to respond to changing demographics. However, public sector entities often continue to

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exist by restructuring their operations when they are unable to meet their liabilities as they come due. In addition, if sub-national entities get into financial difficulties, their main service delivery commitments may continue to be funded by a senior level of government. There are also a number of examples of national governments defaulting on sovereign debt obligations without ceasing to exist.

28. In the public sector, the long-term sustainability of key programs is of increasing relevance. Because the financial consequences of many decisions will only become clear years or even decades into the future, prospective financial information covering lengthy time horizons may be necessary for accountability and decision-making purposes.

### **The Regulatory Role of Public Sector Entities**

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

### **Ownership or Control of Rights to Natural Resources and Phenomena**

31. Governments often have the rights to natural resources such as mineral reserves, water, fishing grounds and forests, which allow them to grant licenses or obtain royalties and taxes. They also have rights over phenomena such as the electromagnetic spectrum.

### **The Importance of Statistical Bases of Accounting**

32. Statistical bases of accounting compile and present aggregated information for macro-economic analysis and modeling purposes. GPFs prepared in accordance with IPSASs present information about the reporting entity useful for accountability and decision-making purposes.
33. IPSAS and statistical bases of reporting financial information have different objectives, focus on different reporting entities and treat some transactions and events differently. However, they also have many similarities in treatment, deal with similar transactions and events and, in some cases, have a similar type of report structure.
34. In the public sector the Government Finance Statistics Manual (GFSM), issued by the International Monetary Fund, provides the specialized macroeconomic statistical system

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designed to support fiscal analysis. This system is consistent with the System of National Accounts. The GFSM provides the economic and statistical guidelines to be used in compiling statistics on the fiscal position of nations. The European System of Accounts (ESA) provides the guidelines for nations that are member states of the European Union.

35. 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 all 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. The boundary of the GGS is not dependent upon the relationship between central and sub-national government units.
36. In developing its Conceptual Framework the IPSASB has considered the objectives and requirements of statistical accounting models and the concepts that underpin them.

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**Staff comment:** The detailed Contents page for all chapters of the Framework has been restructured on a chapter by chapter basis and relocated to precede each chapter. The repositioning has not been shown in mark-up.

## Chapter 1: The Role and Authority of the Conceptual Framework

### Role of the Conceptual Framework

- 1.1 The *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (the Conceptual Framework) establishes the concepts that underpin general purpose financial reporting (financial reporting) by public sector entities that adopt the accrual basis of accounting. The International Public Sector Accounting Standards Board (IPSASB) will apply these concepts in developing International Public Sector Accounting Standards (IPSASs) and non-authoritative guidance applicable to the preparation and presentation of general purpose financial reports (GPFs) of public sector entities.

**Staff comment:** One respondent proposed that reference to *non-authoritative guidance* be replaced with *other pronouncements* and this wording be used throughout these chapters.

### Authority of the Conceptual Framework

- 1.2 The Conceptual Framework does not establish authoritative requirements for financial reporting by public sector entities that adopt IPSASs, nor does it override the requirements of IPSASs or non-authoritative guidance issued by the IPSASB (non-authoritative guidance). Authoritative requirements relating to the recognition, measurement, presentation and disclosure of transactions and other events and activities that are reported in GPFs are specified in IPSASs.

**Staff comment:** One respondent proposed that the first sentence should end with the addition of: "...nor does it override the requirements of IPSASs or other pronouncements."

Staff has amended as proposed but referred to *non-authoritative guidance*, rather than *other pronouncements*, pending IPSASB decision on terminology. Staff also notes this amendment is likely to prompt consequential amendments (or discussion of the need for such) to paragraphs 1.3 and BC1.1 and BC1.2, and has identified these by mark-up below for IPSASB consideration.

- 1.3 Although the Conceptual Framework has lesser authority than an IPSAS and non-authoritative guidance, it can provide guidance in dealing with financial reporting issues not dealt with by IPSASs or non-authoritative guidance ~~issued by the IPSASB~~. In these circumstances, preparers and others can refer to and consider the applicability of the definitions, recognition criteria, measurement principles, and other concepts identified in the Conceptual Framework.

**Staff comment:** One respondent proposed that the first sentence be amended as follows:

~~Although the~~ The Conceptual Framework ~~has lesser authority than an IPSAS,~~ it can provide....

### General Purpose Financial Reports

- 1.4 GPFs are a central component of, and support and enhance, transparent financial reporting by governments and other public sector entities. GPFs are financial reports intended to meet the information needs of users who are unable to require the preparation of financial reports tailored to meet their specific information needs.

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- 1.5 Some users of financial information may have the authority to require the preparation of reports tailored to meet their specific information needs. While such parties may find the information provided by GPFs useful for their purposes, GPFs are not developed to specifically respond to their particular information needs.
- 1.6 GPFs encompass financial statements including their notes (hereafter referred to as financial statements, unless specified otherwise), and the presentation of information that enhances, complements and supplements the financial statements. GPFs are likely to comprise multiple reports, each responding more directly to certain aspects of the objectives of financial reporting and matters included within the scope of financial reporting.
- 1.7 The scope of financial reporting establishes the boundary around the transactions, other events and activities that may be reported in GPFs. The scope of financial reporting is determined by the information needs of the primary users of GPFs and the objectives of financial reporting. The factors that determine what may be encompassed within the scope of financial reporting are outlined in the following Chapter of the Conceptual Framework. (See Chapter 2: *The Objectives ~~of and Scope of Financial Reporting and Users of General Purpose Financial Reports~~*).

#### **Applicability of the Conceptual Framework**

- 1.8 The Conceptual Framework applies to financial reporting by public sector entities that apply IPSASs. Therefore, it applies to GPFs of national, state/provincial and local governments. It also applies to a wide range of other public sector entities including:
  - Government ministries, departments, programs, boards, commissions, agencies;
  - Public sector social security funds, trusts, and statutory authorities; and
  - International governmental organizations.

## Chapter 1: Basis for Conclusions

*This Basis for Conclusions accompanies, but is not part of, the Conceptual Framework.*

### Role and Authority of the Conceptual Framework

BC1.1 The Conceptual Framework identifies the concepts that the IPSASB will apply in developing IPSASs and non-authoritative guidance intended to assist preparers and others in dealing with financial reporting issues. IPSASs specify authoritative requirements. IPSASs and non-authoritative guidance are developed after application of a due process which provides the opportunity for interested parties to provide input on the specific requirements proposed, including their compatibility with current practices in different jurisdictions.

BC1.2 The IPSASB is of the view that existing authoritative requirements and non-authoritative guidance should not be amended without the application of due process. After the Conceptual Framework is issued, the IPSASB will review extant IPSASs and non-authoritative guidance and identify and, through application of the due process, address any circumstances where there is substantial conflict between an IPSAS and the Conceptual Framework.

**Staff comment:** Staff has identified in mark up the likely consequences of amendments to paragraph 1.2.

### Government Business Enterprises

BC1.3 The Conceptual Framework underpins the development of IPSASs. Therefore, it has relevance for all entities that apply IPSASs. In some jurisdictions, GBE's (also referred to as State Owned Enterprises, Crown Corporations, public corporations or by similar terms) may apply IPSASs. GPFRs prepared at the whole-of-government level in accordance with IPSASs may consolidate all governmental entities, including GBE's. In these circumstances, GPFRs prepared at the whole of government level will include information about GBEs.

**Staff comment:** Comments from respondents included proposals to: (a) delete the second sentence and (b) revise the third sentence to refer to the consolidation of controlled entities, including controlled GBE's. One respondent also noted that insertion of the phrase "... *in accordance with IPSASs...*" may give rise to unintended consequences.

Staff is of the view that the final two sentences should be revised so the paragraph reads:

*The Conceptual Framework underpins the development of IPSASs. Therefore, it has relevance for all entities that apply IPSASs. In some jurisdictions, GBE's (also referred to as State Owned Enterprises, Crown Corporations, public corporations or by similar terms) may apply IPSASs. GPFRs prepared at the whole-of-government level in accordance with IPSASs may also consolidate all governmental entities, including GBE's. In these circumstances, the Conceptual Framework will have relevance for the GPFRs of, prepared at the whole of government level will include or the presentation of information about, GBE's.*

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### Special Purpose Financial Reports

BC1.4 Standard setters often describe as “special purpose financial reports” those financial reports prepared to respond to the requirements of users that have the authority to require the preparation of financial reports that disclose the information they need for their particular purposes. The IPSASB is aware that the requirements of IPSASs have been (and may continue to be) applied effectively and usefully in the preparation of some special purpose financial reports.

### General Purpose Financial Reports

BC1.5 The Conceptual Framework acknowledges that, to respond to user’s information needs, GPFRs may include information that enhances, complements and supplements the financial statements. Therefore, the Conceptual Framework reflects a scope for financial reporting that is more comprehensive than that encompassed by financial statements. The following Chapter of this Framework (Chapter 2: *The Objectives of Financial Reporting—~~Users, Information Needs and General Purpose Financial Reports~~*) identifies the objectives of financial reporting and the primary users of GPFRs. It also outlines the consequences of the primary users’ likely information needs for what may be encompassed within the scope of financial reporting.

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## Chapter 2: The Objectives of Financial Reporting, ~~Users, Information Needs and General Purpose Financial Reports~~

### Objectives of Financial Reporting

- 2.1 The objectives of financial reporting by public sector entities are to provide information about the entity that is useful to users of GPFRs for accountability purposes and for decision-making purposes (hereafter referred to as “useful for accountability and decision-making purposes”).
- 2.2 Financial reporting is not an end in itself. Its purpose is to provide information useful to users of GPFRs. The objectives of financial reporting are therefore determined by reference to the users of GPFRs, and their information needs.

### Users of General Purpose Financial Reports

- 2.3 Governments and other public sector entities raise resources from taxpayers, donors, lenders and other resource providers for use in the provision of services to citizens and other service recipients. These entities are accountable for their management and use of resources to those that provide them with resources, and to those that depend on them to use those resources to deliver necessary services. Those that provide the resources and receive, or expect to receive, the services also require information as input for decision-making purposes.
- 2.4 Consequently, GPFRs of public sector entities are developed primarily to respond to the information needs of service recipients and resource providers who do not possess the authority to require a public sector entity to disclose the information they need for accountability and decision-making purposes. The legislature (or similar body) and members of parliament (or a similar representative body) are also primary users of GPFRs, and make extensive and ongoing use of GPFRs when acting in their capacity as representatives of the interests of service recipients and resource providers. Therefore, for the purposes of the Conceptual Framework, the primary users of GPFRs are service recipients and their representatives and resource providers and their representatives (hereafter referred to as service recipients and resource providers, unless identified otherwise).
- 2.5 Citizens receive services from, and provide resources to, the government and other public sector entities. Therefore, citizens are primary users of GPFRs. Some service recipients and some resource providers that rely on GPFRs for the information they need for accountability and decision-making purposes may not be citizens—for example, residents who pay taxes and/or receive benefits but are not citizens; multilateral or bilateral donor agencies and many lenders and corporations that provide resources to, and transact with, a government; and those that fund, and/or benefit from, the services provided by international governmental organizations. In most cases, governments, ~~as representatives of taxpayers~~, that provide resources to international governmental organizations are dependent on GPFRs of those organizations for information for accountability and decision-making purposes.

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**Staff comment:** One respondent proposes deletion of phrase "...as representatives of taxpayers..." in 8th line as unnecessary and to enhance "flow". This phrase was added at the March 2012 meeting.

- 2.6 GPFRs prepared to respond to the information needs of service recipients and resource providers for accountability and decision-making purposes may also provide information useful to other parties and for other purposes. For example, government statisticians, analysts, the media, financial advisors, public interest and lobby groups and others may find the information provided by GPFRs useful for their own purposes. Organizations that have the authority to require the preparation of financial reports tailored to meet their own specific information needs may also use the information provided by GPFRs for their own purposes—for example, regulatory and oversight bodies, audit institutions, subcommittees of the legislature or other governing body, central agencies and budget controllers, entity management, rating agencies and, in some cases, lending institutions and providers of development and other assistance. While these other parties may find the information provided by GPFRs useful, they are not the primary users of GPFRs. Therefore, GPFRs are not developed to specifically respond to their particular information needs.

### Accountability and Decision-Making

- 2.7 The primary function of governments and other public sector entities is to provide services that enhance or maintain the well-being of citizens and other eligible residents. Those services include, for example, welfare programs and policing, public education, national security and defense services. In most cases, these services are provided as a result of a non-exchange transaction and in a non-competitive environment.
- 2.8 Governments and other public sector entities are accountable to those that provide them with resources, and to those that depend on them to use those resources to deliver services during the reporting period and over the longer term. The discharge of accountability obligations requires the provision of information about the **reporting** entity's management of the resources entrusted to it for the delivery of services to constituents and others, and its compliance with legislation, regulation, or other authority that governs its service delivery and other operations. Given the way in which the services provided by public sector entities are funded (primarily by taxation revenues or other non-exchange transactions) and the dependency of service recipients on the provision of those services over the long term, the discharge of accountability obligations will also require the provision of information about such matters as the entity's service delivery achievements during the reporting period, and its capacity to continue to provide services in future periods.
- 2.9 Service recipients and resource providers will also require information as input for making decisions. For example:
- Lenders, creditors, donors and others that provide resources on a voluntary basis, including in an exchange transaction, make decisions about whether to provide resources to support the current and future activities of the government or other public sector entity. In some circumstances, members of the legislature or similar representative body who depend on GPFRs for the information they need, can make or influence decisions about the service

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delivery objectives of government departments, agencies or programs and the resources allocated to support their achievement; and

- Taxpayers do not usually provide funds to the government or other public sector entity on a voluntary basis or as a result of an exchange transaction. In addition, in many cases, they do not have the discretion to choose whether or not to accept the ~~goods and~~ services provided by a public sector entity or to choose an alternative service provider. Consequently, they have little direct or immediate capacity to make decisions about whether to provide resources to the government, the resources to be allocated for the provision of services by a particular public sector entity or whether to purchase or consume the services provided. However, service recipients and resource providers can make decisions about their voting preferences, and representations they make to elected officials or other representative bodies—these decisions may have resource allocation consequences for certain public sector entities.

2.10 Information provided in GPFs for accountability purposes will contribute to, and inform, decision-making. For example, information about the costs, efficiency and effectiveness of past service delivery activities, the amount and sources of cost recovery, and the resources available to support future activities will be necessary for the discharge of accountability. This information will also be useful for decision-making by users of GPFs, including decisions that donors and other financial supporters make about providing resources to the entity.

### Information Needs of Service Recipients and Resource Providers

2.11 For accountability and decision-making purposes, service recipients and resource providers will need information that supports the assessments of such matters as:

- The performance of the entity during the reporting period in, for example:
  - Meeting its service delivery and other operating and financial objectives;
  - Managing the resources it is responsible for; and
  - Complying with relevant budgetary, legislative, and other authority regulating the raising and use of ~~resources~~public monies;
- The liquidity (for example, ability to meet current obligations) and solvency (for example, ability to meet obligations over the long term) of the entity;
- The sustainability of the entity's service delivery and other operations over the long term, and changes therein as a result of the activities of the entity during the reporting period including, for example:
  - The capacity of the entity to continue to fund its activities and to meet its operational objectives in the future (its financial capacity), including the likely sources of funding and the extent to which the entity is dependent on, and therefore vulnerable to, funding or demand pressures outside its control; and
  - The physical and other resources currently available to support the provision of services in future periods (its operational capacity); and

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- The capacity of the entity to adapt to changing circumstances, whether changes in demographics or changes in domestic or global economic conditions which are likely to impact the nature or compositions of the activities it undertakes and the services it provides.

2.12 The information service recipients and resource providers need for these purposes ~~is~~ likely to overlap in many respects. For example, service recipients will require information as input to assessments of such matters as whether:

- The entity is using resources economically, efficiently, effectively and as intended, and whether such use is in their interest;
- The range, volume and cost of services provided during the reporting period are appropriate, and the amounts and sources of their cost recoveries; and
- Current levels of taxes or other charges are sufficient to maintain the volume and quality of services currently provided.

Service recipients will also require information about the consequences of decisions made, and activities undertaken, by the ~~reporting~~ entity during the reporting period on the resources available to support the provision of services in future periods, the entity's anticipated future service delivery activities and objectives, and the amounts and sources of cost recoveries necessary to support those activities.

2.13 Resource providers will require information as input to assessments of such matters as whether the entity:

- Is achieving the objectives established as the justification for the resources raised during the reporting period;
- Funded current operations from funds raised in the current period from taxpayers or from borrowings or other sources; and
- Is likely to need additional (or less) resources in the future, and the likely sources of those resources.

Lenders and creditors will require information as input to assessments of the liquidity of the entity and, therefore, whether the amount and timing of repayment will be as agreed. Donors will require information to support assessments of whether the entity is using resources economically, efficiently, effectively and as intended. They will also require information about the entity's anticipated future service delivery activities and resource needs.

## Information Provided by General Purpose Financial Reports

### *Financial Position, Financial Performance and Cash Flows*

2.14 Information about the financial position of a government or other public sector entity will enable users to identify the resources of the entity and claims to those resources at the reporting date. This will provide information useful as input to assessments of such matters as:

- The extent to which management has discharged its responsibilities for safekeeping and managing the resources of the entity;

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- The extent to which resources are available to support future service delivery activities, and changes during the reporting period in the amount and composition of those resources and claims to ~~those~~ resources; and
- The amounts and timing of future cash flows necessary to service and repay existing claims to the entity's resources.

**Staff comment:** One respondent proposed that the second dot point to split into two.

- 2.15 Information about the financial performance of a government or other public sector entity will inform assessments of matters such as whether the entity has acquired resources economically, and used them efficiently and effectively to achieve its service delivery objectives. Information about the costs of service delivery and the amounts and sources of cost recovery during the reporting period will enable users to determine whether operating costs were recovered from, for example, taxes, user charges, contributions and transfers, or were financed by increasing the level of indebtedness of the entity.
- 2.16 Information about the cash flows of a government or other public sector entity contributes to assessments of financial performance and the entity's liquidity and solvency. It indicates how the entity raised and used cash during the period, including its borrowing and repayment of borrowing and its acquisition and sale of, for example, property, plant, and equipment. It also identifies the cash received from, for example, taxes and investments and the cash transfers made to, and received from, other governments, government agencies or international organizations. Information about cash flows can also support assessments of the entity's compliance with spending mandates expressed in cash flow terms, and inform assessments of the likely amounts and sources of cash inflows needed in future periods to support service delivery objectives.
- 2.17 Information about financial position, financial performance and cash flows are typically presented in financial statements. To assist users to better understand, interpret and place in context the information presented in the financial statements, GPFRs may also provide financial and non-financial information that enhances, complements and supplements the financial statements, including information about such matters as the government's or other public sector entity's:
- Compliance with approved budgets and other authority governing its operations;
  - Service delivery activities and achievements during the reporting period; and
  - Expectations regarding service delivery and other activities in future periods, and the long term consequences of decisions made and activities undertaken during the reporting period, including those that may impact expectations about the future.

This information may be presented in the notes to the financial statements or in separate reports included in GPFRs.

*Budget Information and Compliance with Legislation or Other Authority Governing the Raising and Use of Public Monies*

- 2.18 Typically, a government or other public sector entity prepares, approves and makes publicly available an annual budget. The approved budget provides interested parties with financial

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information about the entity's operational plans for the forthcoming period, its capital needs and, often, its service delivery objectives and expectations. It is used to justify the raising of monies from taxpayers and other resource providers, and establishes the authority for expenditure of public monies.

- 2.19 Some resources to support the activities of public sector entities may be received from donors, lenders or as a result of exchange transactions. However, resources to support the activities of public sector entities are predominantly provided in non-exchange transactions by taxpayers and others, consistent with the expectations reflected in an approved budget.
- 2.20 GPFs provide information about the financial results (whether described as "surplus or deficit," "profit or loss," or by other terms), performance and cash flows of the entity during the reporting period, its assets and liabilities at the reporting date and the change therein during the reporting period, and its service delivery achievements.
- 2.21 The inclusion within GPFs of information that assists users in assessing the extent to which revenues, expenses, cash flows and financial results of the entity comply with the estimates reflected in approved budgets, and the entity's adherence to relevant legislation or other authority governing the raising and use of public monies, is important in determining how well a public sector entity has met its financial objectives. Such information is necessary for the discharge of a government's or other public sector entity's accountability to its constituents, enhances the assessment of the financial performance of the entity and will inform decision-making.

*Service Delivery Achievements*

- 2.22 The primary objective of governments and most public sector entities is to provide needed services to constituents. Consequently, the financial performance of governments and most public sector entities will not be fully or adequately reflected in any measure of financial result—~~(whether described as "surplus or deficit," "profit or loss," or by other terms)~~. Therefore, their financial results will need to be assessed in the context of the achievement of service delivery objectives.
- 2.23 In some cases, quantitative measures of the outputs and outcomes of the entity's service delivery activities during the reporting period will provide relevant information about the achievement of service delivery objectives—for example, information about the cost, volume, and frequency of service delivery, and the relationship of services provided to the resource base of the entity. In other cases, the achievement of service delivery objectives may need to be communicated by an explanation of the quality of particular services provided or the outcome of certain programs.
- 2.24 Reporting non-financial as well as financial information about service delivery activities, achievements and/or outcomes during the reporting period will provide input to assessments of the economy, efficiency, and effectiveness of the entity's operations. Reporting such information is necessary for a government or other public sector entity to discharge its obligation to be accountable—that is, to account for, and justify the use of, the resources raised from, or on behalf of, constituents. Decisions that donors make about the allocation of resources to particular entities and programs are also made, at least in part, in response to information about service delivery achievements during the reporting period, and future service delivery objectives.

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*Prospective Financial and Non-financial Information*

- 2.25 Given the longevity of governments and many government programs, the financial consequences of many decisions made in the reporting period may only become clear many years into the future. Financial statements which present information about financial position at a point in time and financial performance and cash flows over the reporting period will then need to be assessed in the context of the long term.
- 2.26 Decisions made by a government or other public sector entity in a particular period about programs for delivering and funding services in the future can have significant consequences for:
- Constituents who will be dependent on those services in the future; and
  - Current and future generations of taxpayers and other involuntary resource providers who will provide the taxes and levies to fund the planned service delivery activities and related financial commitments.
- 2.27 Information about the entity's anticipated future service delivery activities and objectives, their likely impact on the future resource needs of the entity, and the likely sources of funding for such resources, will be necessary as input to any assessment of the ability of the government or other public sector entity to meet its service delivery and financial commitments in the future. The disclosure of such information in GPFRs will support assessments of the sustainability of service delivery by a government or other public sector entity, enhance the accountability of the entity and provide additional information useful for decision-making purposes.

*Explanatory Information*

- 2.28 Information about the major factors underlying the financial and service delivery performance of the entity during the reporting period and the assumptions that underpin expectations about, and factors that are likely to influence, the entity's future performance may be presented in GPFRs in notes to the financial statements or in separate reports. Such information will assist users to better understand and place in context the financial and non-financial information included in GPFRs, and enhance the role of GPFRs in providing information useful for accountability and decision-making purposes.

**Financial Statements and Information that Enhances, Complements and Supplements the Financial Statements**

- 2.29 The scope of financial reporting establishes the boundary around the transactions, other events and activities that may be reported in GPFRs. To respond to the information needs of users, the Conceptual Framework reflects a scope for financial reporting that is more comprehensive than that encompassed by financial statements. It provides for the presentation within GPFRs of additional information that enhances, complements and supplements those statements.
- 2.30 While the Conceptual Framework reflects a scope of financial reporting that is more comprehensive than that encompassed by financial statements, information presented in financial statements remains at the core of financial reporting. How the elements of financial statements are defined, recognized and measured, and forms of presentation and communication that might be adopted for

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information included within GPFRs, is considered in other components of the Conceptual Framework and in the development of individual IPSASs or non-authoritative guidance, as appropriate.

### Other Sources of Information

2.31 GPFRs play a significant role in communicating information necessary to support the discharge of a government's or other public sector entity's obligation to be accountable, as well as providing information useful as input for decision-making purposes. However, GPFRs will not provide all the information users need for accountability and decision-making purposes. For example, while comparison of actual with budget information for the reporting period may be included in GPFRs, the budgets and financial forecasts issued by governments provide more detailed financial and non-financial information about the financial characteristics of the plans of governments and other public sector entities over the short and medium terms. Governments and independent agencies also issue reports on the need for, and sustainability of, existing service delivery initiatives, and anticipated economic conditions and changes in the jurisdiction's demographics over the medium and longer term that will influence budgets and service delivery needs in the future. Consequently, service recipients and resource providers may also need to consider information from other sources, including reports on current and anticipated economic conditions, government budgets and forecasts, and information about government policy initiatives not reported in GPFRs.

**Staff comment:** Staff proposed that the explanation in the second sentence that *GPFRs "will not provide all the information users need..."* is too exhaustive and be "softened" to reflect that it *"...is unlikely that GPFRs will provide all the information users need..."*

One respondent expressed some reservations about the proposed wording and proposed that the extent to which GPFRs satisfy needs be further discussed.

## Chapter 2: Basis for Conclusions

*This Basis for Conclusions accompanies, but is not part of, the Conceptual Framework.*

### Primary User Groups

BC2.1 In developing the Conceptual Framework, the IPSASB sought views on whether the Conceptual Framework should identify the primary users of GPFs. Many respondents to the initial Consultation Paper<sup>1</sup> argued expressed the view that the Framework should identify the primary users of GPFs, and the IPSASB should focus on the information needs of those primary users in developing IPSASs. The IPSASB was persuaded by these views-arguments.

### Identifying the Primary User Groups

BC2.2 Conceptual Framework Exposure Draft 1, “*Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Role, Authority and Scope; Objectives and Users; Qualitative Characteristics; and Reporting Entity*” (the Exposure Draft~~CF-ED4~~) identified service recipients and their representatives, and resource providers and their representatives as the primary users of GPFs. It explained that, while the IPSASB will develop IPSASs and non-~~authoritative~~ guidance on the contents of GPFs to respond primarily to the information needs of these primary users, GPFs may still be used by others with an interest in financial reporting, and may provide information of use to those other users.

BC2.3 Many respondents to ~~CF-ED4~~the Exposure Draft expressed support for the identification of service recipients and their representatives and resource providers and their representatives as the primary users of GPFs. However, others were of the view that the public, citizens or legislature should be identified as the primary or most important users of GPFs of public sector entities. They explained that this is because governments are primarily accountable to the citizens or their representatives and, in many jurisdictions, the legislature and individual members of parliament (or similar representative body) acting on behalf of citizens are the main users of GPFs. Some respondents also expressed the view that resource providers and their representatives should be identified as the primary users of GPFs of public sector entities. They explained that it is unlikely that GPFs would be able to respond to the information needs of all users, and resource providers are likely to have the greatest interest in GPFs. Therefore, identifying resource providers as the primary user group will allow the IPSASB to focus more sharply on the information needs of a single user group. They also noted that GPFs prepared to respond to the information needs of resource providers are likely to also provide information useful to other potential users.

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<sup>1</sup> Consultation Paper: *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: The Objectives of Financial Reporting; The Scope of Financial Reporting; The Qualitative Characteristics of Information Included in General Purpose Financial Reports; The Reporting Entity*.

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BC2.4 The IPSASB acknowledges that there is merit in many of the proposals made by respondents regarding the identity of the primary users of GPFRs of public sector entities, particularly as they apply to governments in many jurisdictions. However, given the objectives of financial reporting by public sector entities, the IPSASB remains of the view that the primary users of GPFRs of public sector entities should be identified as service recipients and their representatives and resource providers and their representatives. This is because:

- governments and other public sector entities are accountable to those that depend on them to use resources to deliver necessary services, as well as to those that provide them with the resources that enable the delivery of those services; and
- GPFRs have a significant role in the discharge of that accountability and the provision of information useful to those users for decision-making purposes.

As such, GPFRs should be developed to respond to the information needs of service recipients and their representatives and resource providers and their representatives as the primary users. In addition, the Conceptual Framework will apply to governments and a potentially wide range of other public sector entities in many different jurisdictions, and to international governmental organizations. Consequently, it is not clear that identification of other user groups as the primary users of GPFRs will be relevant, and operate effectively, for all public sector entities across all jurisdictions.

BC2.5 The IPSASB accepts that some information in GPFRs may be of more interest and greater use to some users than others. The IPSASB also accepts that, in developing IPSASs and non-authoritative guidance, it will need to consider and, in some cases, balance the needs of different groups of primary users. However, the IPSASB does not believe that such matters invalidate the identification of both service recipients and their representatives and resource providers and their representatives as the primary users of GPFRs.

BC2.6 The IPSASB's views on the relationship between the primary user groups identified by respondents, and service recipients and resource providers are further elaborated below.

*Citizens*

BC2.7 The IPSASB acknowledges the importance of citizens, the public and their representatives as users of GPFRs, but is of the view that classifying citizens as service recipients and resource providers provides a basis for assessing their potential information needs. This is because citizens encompass many individuals with a potentially wide range of diverse information needs – focusing on the information needs of citizens as service recipients and resource providers enables the IPSASB to draw together those diverse interests and explore what information needs GPFRs should attempt to respond to. The IPSASB is also of the view that, in developing IPSASs, it is appropriate that it has the capacity to consider the information needs of a range of service recipients and resource providers who may not be citizens (including donors and lenders) and use but do not possess the authority to require a public sector entity to disclose the information they need for accountability and decision-making purposes.

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*Resource Providers*

BC2.8 The IPSASB agrees that GPFRs directed at the provision of information to satisfy the information needs of resource providers will also provide information useful to other potential users of GPFRs. However, the IPSASB is of the view that the Conceptual Framework should make clear its expectation that governments and other public sector entities should be accountable to both those that provide them with resources and those that depend on them to use those resources to deliver necessary and/or promised services. In addition, it has been noted that in some jurisdictions, resource providers are primarily donors or lenders that may have the authority to require the preparation of special purpose financial reports to provide the information they need.

**Staff comment:** One respondent proposed that the sequence of paragraphs BC2.7 and BC2.8 be reversed to improve the flow.

BC2.9 As noted at paragraph 2.5, the IPSASB has formed a view that both service recipients and resource providers and their representatives are primary users of GPFRs. The IPSASB is of the view that the Conceptual Framework should not exclude citizens who may be interested in GPFRs in their capacity as service recipients from the potential users of GPFRs, or identify their information needs as less important than those of resource providers. The IPSASB is also of the view that it is not appropriate that donors, lenders, and others that provide resources on a voluntary or involuntary basis to governments and other public sector entities be excluded as potential users of GPFRs, or that their information needs be identified as less important than those of service recipients.

*The Legislature*

BC2.10 The IPSASB is of the view that the legislature or similar governing body is a primary user of GPFRs in its capacity as a representative of service recipients and resource providers. The legislature, parliaments, councils and similar bodies will also require information for their own specific accountability and decision-making purposes, and usually have the authority to require the preparation of detailed special purpose financial and other reports to provide that information. However, they may also use the information provided by GPFRs as well as information provided by special purpose financial reports for input to assessments of whether resources were used efficiently and as intended and in making decisions about allocating resources to particular government entities, programs or activities.

BC2.11 Individual members of the legislature or other governing body, whether members of the government or opposition, can usually require the disclosure of the information they need for the discharge of their official duties as directed by the legislature or governing body. However, they may not have the authority to require the preparation of financial reports that provide the information they require for other purposes, or in other circumstances. Consequently, they are users of GPFRs, whether in their capacity as representatives of service recipients and resource providers in their electorate or constituency, or in their personal capacity as citizens and members of the community.

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**Staff comment:** One respondent proposed that BC2.10 and BC2.11 be moved before BC2.7 and BC2.8 to reflect the sequence in which they are identified in paragraph BC2.3.

*Other User Groups*

- BC2.12 In developing the Conceptual Framework, the IPSASB considered a wide range of other potential users of GPFs, including whether special interest groups and their representatives, or those transacting with public sector entities on a commercial or non-commercial basis or on a voluntary or involuntary basis (such as public sector and private sector resource providers) should be identified as separate user groups. The IPSASB is of the view that identifying service recipients and their representatives and resource providers and their representatives as the primary users of GPFs will respond appropriately to the information needs of subgroups of service recipients and resource providers.
- BC2.13 The information provided by GPFs may be useful for compiling national accounts, as input to statistical financial reporting models, for assessments of the impact of government policies on economic activity and for other economic analytical purposes. However, GPFs are not developed specifically to respond to the needs of those who require information for these purposes. Similarly, while those that act as advisors to service recipients or to resource providers (such as citizen advocacy groups, bond rating agencies, credit analysts and public interest groups) are likely to find the information reported in GPFs useful for their purposes, GPFs are not prepared specifically to respond to their particular information needs.

**The Objectives of Financial Reporting**

- BC2.14 Many respondents to ~~CF-ED4~~the Exposure Draft agreed that the provision of information useful for both accountability and decision-making purposes should be identified as the objectives of financial reporting by public sector entities. Some respondents advocated that only accountability be identified as the single or dominant objective of financial reporting by public sector entities, other respondents advocated that decision-making should be identified as the single objective. However, the IPSASB remains of the view that users of GPFs of public sector entities will require information for both accountability and decision-making purposes.
- BC2.15 Some respondents to ~~CF-ED4~~the Exposure Draft advocated that the link between accountability and decision-making be more clearly articulated and the public sector characteristics that underpinned the IPSASB's views on the objectives of financial reporting by public sector entities be identified. The IPSASB has responded positively to these proposals. The Framework has been restructured and clarifications added. In addition, the Framework includes a Preface which outlines the key characteristics of the public sector.
- BC2.16 The explanation of accountability and its relationship to decision-making and GPFs has been strengthened. In this context, the IPSASB acknowledges that the notion of accountability reflected in this Framework is broad. It encompasses the provision of information about the ~~reporting~~ entity's management of the resources entrusted to it, and information useful to users in assessing the sustainability of the activities of the entity and the continuity of the provision

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of services over the long term. The IPSASB is of the view that this broad notion of accountability is appropriate because citizens and other constituents provide resources to governments and other public sector entities on an involuntary basis and, for the most part, depend on governments and other public sector entities to provide needed services over the long term. However, the IPSASB also recognizes that it is unlikely that GPFRs will provide all the information that service recipients and resource providers need for accountability and decision-making purposes.

**The Scope of Financial Reporting – Financial Statements and Information that Enhances, Complements and Supplements the Financial Statements**

BC2.17 Many respondents to ~~CF-ED4~~the Exposure Draft expressed support for the scope of financial reporting and its explanation as proposed by the IPSASB ~~in CF-ED4~~, with some identifying matters for clarification and others noting that projects dealing with the broader scope issues would need to provide guidance on application of the qualitative characteristics (QCs) such as verifiability and comparability. Other respondents ~~to CF-ED4~~ did not support the scope of financial reporting being broader than financial statements, expressing concern that:

- The proposed broad scope dealt with matters which were outside the Terms of Reference of the IPSASB that were in effect at that time (the IPSASB's Terms of Reference has been updated to overcome this concern); and

**Staff comment:** One respondent questioned inclusion of the observation that the IPSASB's Terms of Reference has been updated.

- Guidance on matters outside the financial statements, such as non-financial and prospective information, ~~are~~is appropriately a matter for individual governments, or governing bodies or other authority.

Some respondents to ~~CF-ED4~~the Exposure Draft also expressed concern that the scope was too sharply focused on the financial statements, and that additional guidance on non-financial information and sustainability reporting be included in the Framework.

BC2.18 The IPSASB remains of the view that it is necessary that the Conceptual Framework reflect a scope for financial reporting that is more comprehensive than that encompassed by financial statements. This is because, as noted in *The Preface to the Conceptual Framework*:

- The primary objective of governments and other public sector entities is to deliver services to constituents rather than to generate profits;
- Citizens and other eligible residents are dependent on governments and other public sector entities to provide a wide range of services on an on-going basis over the long term. The activities of, and decisions made by, governments and other public sector entities in a particular reporting period can have significant consequences for future generations of service recipients and future generations of taxpayers and other involuntary resource providers; and

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- Most governments and other public sector entities operate within spending mandates and financial constraints established through the budgetary process. Monitoring implementation of the approved budget is the primary method by which the legislature exercises oversight, and citizens and their elected representatives hold the government's management financially accountable.

BC2.19 Consequently, the performance of public sector entities in achieving their financial and service delivery objectives can be only partially evaluated by examination of their financial position at the reporting date, and financial performance and cash flows during the reporting period. The IPSASB is of the view that, to respond to users' need for information for accountability and decision-making purposes, the Conceptual Framework should enable GPFs to encompass the provision of information that allows users to better assess and place in context the financial statements. Such information may be communicated by separate reports that present financial and non-financial information about: the achievement of the entity's service delivery objectives during the reporting period: its compliance with approved budgets and legislation or other authority governing the raising and use of public monies: and prospective financial and non-financial information about its future service delivery activities, objectives, and resource needs. In some cases, information about these matters may also be presented in notes to the financial statements.

BC2.20 In making decisions about financial reporting requirements or guidance that extend the information presented in GPFs beyond financial statements, the IPSASB will consider the benefits of the information to users and the costs of compiling and reporting such information.

*Limiting the Scope of Financial Reporting*

BC2.21 Some respondents who agreed that the scope of financial reporting should extend beyond the financial statements expressed concern that the scope as proposed in ~~CF-ED4~~[the Exposure Draft](#) was too open ended and/or not adequately explained or justified - in some cases proposing that the scope be limited to enhancement of matters recognized in the financial statements.

BC2.22 The IPSASB has responded to these concerns by clarifying the linkages between the scope of financial reporting, and users' information needs, and including additional explanation of the relationship between users' information needs and the information that GPFs may provide in response. In addition, the IPSASB has clarified that the scope of general purpose financial reporting is limited to the financial statements and information that enhances, complements and supplements the financial statements. Consequently, what is included in the more comprehensive scope of financial reporting will be derived from financial statements, and limited to matters that assist users to better understand and put in context the information included in those statements.

*Resource Considerations, Authoritative Requirements and Audit Status*

BC2.23 Many respondents, whether supportive or opposed to the proposals in ~~CF-ED4~~[the Exposure Draft](#), expressed concern that dealing with "broad scope" issues would absorb too much of the

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IPSASB's resources and limit its ability to deal with financial statement issues. Some respondents to ~~CF-ED1~~the Exposure Draft also:

- Advocated that the Framework clarify that authoritative requirements would only be developed for financial statement matters, broader scope issues being the subject of guidelines; and
- Expressed concern about the audit implication of including non-financial information and prospective information in GPFRs.

BC2.24 While the IPSASB can develop IPSASs which include authoritative requirements, it is not inevitable that it will do so. For example, the IPSASB's publications also include discussion papers and non-authoritative guidance intended to assist the financial reporting community to respond to particular financial reporting issues. All IPSASB documents which include authoritative requirements or non-authoritative guidance on the presentation of information in GPFRs, whether as part of the financial statements or enhancements to those statements, will be subject to full due process. Therefore, in developing authoritative or other guidance on the presentation of information that broadens the scope of financial reporting, the IPSASB will need to respond to constituent concerns about the proposed technical content and authority of the guidance.

BC2.25 The IPSASB acknowledges the concern of respondents regarding the deployment of the IPSASB's resources to "broad scope" issues. However, information presented in financial statements remains at the core of financial reporting and, therefore will remain the primary focus of the IPSASs and non-authoritative guidance developed by the IPSASB. Consequently, the standards development work program of the IPSASB will continue to respond to users' need for better financial reporting of transactions and other events that are reported in the financial statements.

BC2.26 The IPSASB is of the view that it is not the role of the Conceptual Framework, or the IPSASs that may be developed consistent with the concepts reflected in the Framework, to attempt to establish the level of audit assurance that should be provided to particular aspects of GPFRs. The QCs provide some assurance to users about the quality of information included in GPFRs. However, responsibilities for the audit of financial statements and other components of GPFRs will be established by such matters as the regulatory framework in place in particular jurisdictions and the audit mandate agreed with and/or applying to the reporting entity.

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## Chapter 3: ~~The Qualitative Characteristics of, and Constraints on, Information included in General Purpose Financial Reports~~

- 3.1 GPFs present financial and non-financial information about economic ~~and~~ other phenomena. The qualitative characteristics of information included in GPFs are the attributes that make that information useful to users and support the achievement of the objectives of financial reporting. The objectives of financial reporting are to provide information useful for accountability and decision-making purposes.
- 3.2 The qualitative characteristics of information included in GPFs of public sector entities are relevance, faithful representation, understandability, timeliness, comparability, and verifiability.
- 3.3 Materiality, cost-benefit, and achieving an appropriate balance between the qualitative characteristics are pervasive constraints on information included in GPFs.

**Staff comment:** One respondent proposed recasting this paragraph as dot points because current wording is cumbersome. Staff recommends that, if restructured, it reflect the form of paragraph 3.2 above. That is: *Pervasive constraints on information included in GPFs are materiality, cost-benefit, and achieving an appropriate balance between the qualitative characteristics.*

- 3.4 Each of the qualitative characteristics is integral to, and works with, the other characteristics to provide in GPFs information useful for achieving the objectives of financial reporting. However, in practice, all qualitative characteristics may not be fully achieved, and a balance or trade-off between certain of them may be necessary.
- 3.5 The qualitative characteristics apply to all financial and non-financial information reported in GPFs, including historic and prospective information, and explanatory ~~material~~information. However, the extent to which the qualitative characteristics can be achieved may differ depending on the degree of uncertainty and subjective assessment or opinion involved in compiling the financial and non-financial information. The need for additional guidance on interpreting and applying the qualitative characteristics to information that extends the scope of financial reporting beyond financial statements will be considered in the development of any IPSAs and ~~non-authoritative guidance~~other pronouncements of the IPSASB that deal with such matters.

### Relevance

- 3.6 Financial and non-financial information is relevant if it is capable of making a difference in achieving the objectives of financial reporting. Financial and non-financial information is capable of making a difference when it has confirmatory value, predictive value, or both. It may be capable of making a difference, and thus be relevant, even if some users choose not to take advantage of it or are already aware of it.
- 3.7 Financial and non-financial information has confirmatory value if it confirms or changes past (or present) expectations. For example, information will be relevant for accountability and decision-making purposes if it confirms expectations about such matters as the extent to which managers have discharged their responsibilities for the efficient and effective use of resources, the

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achievement of specified service delivery objectives, and compliance with relevant budgetary, legislative and other requirements.

- 3.8 GPFRs may present information about an entity's anticipated future service delivery activities, objectives and costs, and the amount and sources of the resources that are intended to be allocated to providing services in the future. Such future oriented information will have predictive value and be relevant for accountability and decision-making purposes. Information about economic and other phenomena that exist or have already occurred can also have predictive value in helping form expectations about the future. For example, information that confirms or disproves past expectations can reinforce or change expectations about financial results and service delivery outcomes that may occur in the future.
- 3.9 The confirmatory and predictive roles of information are interrelated—for example, information about the current level and structure of an entity's resources and claims to ~~those~~ resources helps users to confirm the outcome of resource management strategies during the period, and to predict an entity's ability to respond to changing circumstances and anticipated future service delivery needs. The same information helps to confirm or correct users' past expectations and predictions about the entity's ability to respond to such changes. It also helps to confirm or correct prospective financial information included in previous GPFRs.

### Faithful Representation

- 3.10 To be useful in financial reporting, information must be a faithful representation of the economic and other phenomena that it purports to represent. Faithful representation is attained when the depiction of the phenomenon is complete, neutral, and free from material error. Information that faithfully represents an economic or other phenomenon depicts the substance of the underlying transaction, other event, activity or circumstance—which is not necessarily always the same as its legal form.
- 3.11 In practice, it may not be possible to know or confirm whether information presented in GPFRs is complete, neutral, and free from material error. However, information should be as complete, neutral, and free from error as is possible.
- 3.12 An omission of some information can cause the representation of an economic or other phenomenon to be false or misleading, and thus not useful to users of GPFRs. For example, a complete depiction of the item "plant and equipment" in GPFRs will include a numeric representation of the aggregate amount of plant and equipment together with other quantitative, descriptive and explanatory information~~material~~ necessary to faithfully represent that class of assets. In some cases, this may include the disclosure of information about such matters as the major classes of plant and equipment, factors that have affected their use in the past or might impact on their use in the future, and the basis and process for determining their numeric representation. Similarly, prospective financial and non-financial information, and information about the achievement of service delivery objectives and outcomes, included in GPFRs will need to be presented with the key assumptions that underlie that information, and any explanations that are necessary to ensure that its depiction is complete and useful to users.
- 3.13 Neutrality in financial reporting is the absence of bias. It means that the selection and presentation of financial and non-financial information is not made with the intention of attaining a particular

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predetermined result—for example, to influence in a particular way users' assessment of the discharge of accountability by the entity or a decision or judgment that is to be made, or to induce particular behaviour.

- 3.14 Neutral information faithfully represents the economic and other phenomena that it purports to represent. However, to require information included in GPFRs to be neutral does not mean that it is not without purpose or that it will not influence behaviour. Relevance is a qualitative characteristic and, by definition, relevant information is capable of influencing users' assessments and decisions.
- 3.15 The economic and other phenomena represented in GPFRs generally occur under conditions of uncertainty. Information included in GPFRs will therefore often include estimates that incorporate management's judgment. To faithfully represent an economic or other phenomenon, an estimate must be based on appropriate inputs, and each input must reflect the best available information. Caution will need to be exercised when dealing with uncertainty. It may sometimes be necessary to explicitly disclose the degree of uncertainty in financial and non-financial information to faithfully represent economic and other phenomena. ~~However, in some cases, uncertainty may be so great as to make meaningful measurement impossible—that is, the impact of such uncertainty may render measurement irrelevant.~~

**Staff comment:** One respondent noted that the paragraph seems incomplete because the last sentence does not explain what preparers should do in these uncertain situations where meaningful measurement is impossible. In material distributed as part of the out-of-session review staff proposed deletion of the sentence from this paragraph, given that the relationship between the QCs and measurement is considered in another Phase of the Framework. Staff received no objections to removal of this sentence. The comment from this respondent reinforces that view.

- 3.16 Free from material error does not mean complete accuracy in all respects. Free from material error means there are no errors or omissions that are individually or collectively material in the description of the phenomenon, and the process used to produce the reported information has been applied as described. In some cases, it may be possible to determine the accuracy of some information included in GPFRs—for example, the amount of a cash transfer to another level of government, volume of services delivered or the price paid for the acquisition of plant and equipment. However, in other cases it may not—for example, the accuracy of an estimate of the value or cost of an item or the effectiveness of a service delivery program may not be able to be determined. In these cases, the estimate will be free from material error if the amount is clearly described as an estimate, the nature and limitations of the estimation process are explained, and no material errors have been identified in selecting and applying an appropriate process for developing the estimate.

### Understandability

- 3.17 Understandability is the quality of information that enables users to comprehend its meaning. GPFRs of public sector entities should present information in a manner that responds to the needs and knowledge base of users, and to the nature of the information presented. For example, explanations of financial and non-financial information and commentary on service delivery and other achievements during the reporting period and expectations for future periods should be written in plain language, and presented in a manner that is readily understandable by users.

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Understandability is enhanced when information is classified, characterized, and presented clearly and concisely. Comparability also can enhance understandability.

- 3.18 Users of GPFRs are assumed to have a reasonable knowledge of the entity's activities and the environment in which it operates, to be able and prepared to read GPFRs, and to review and analyze the information presented with reasonable diligence. Some economic and other phenomena are particularly complex and difficult to represent in GPFRs, and some users may need to seek the aid of an advisor to assist in their understanding of them. All efforts should be undertaken to represent economic and other phenomena included in GPFRs in a manner that is understandable to a wide range of users. However, information should not be excluded from GPFRs solely because it may be too complex or difficult for some users to understand without assistance.

### **Timeliness**

- 3.19 Timeliness means having information available for users before it loses its capacity to be useful for accountability and decision-making purposes. Having relevant information available sooner can enhance its usefulness as input to assessments of accountability and its capacity to inform and influence decisions that need to be made. A lack of timeliness can render information less useful.
- 3.20 Some items of information may continue to be useful long after the reporting period or reporting date. For example, for accountability and decision-making purposes, users of GPFRs may need to assess trends in the financial and service delivery performance of the entity and its compliance with budgets over a number of reporting periods. In addition, the outcome and effects of some service delivery programs may not be determinable until future periods—this may occur in respect of programs intended to, for example, enhance the economic well-being of constituents, reduce the incidence of a particular disease, or increase literacy levels of certain age groups.

### **Comparability**

- 3.21 Comparability is the quality of information that enables users to identify similarities in, and differences between, two sets of phenomena. Comparability is not a quality of an individual item of information, but rather a quality of the relationship between two or more items of information.
- 3.22 Comparability differs from consistency. Consistency refers to the use of the same accounting principles or policies and basis of preparation, either from period to period within an entity or in a single period across more than one entity. Comparability is the goal, and consistency helps in achieving that goal. In some cases, the accounting principles or policies adopted by an entity may be revised to better represent a particular transaction or event in GPFRs. In these cases, the inclusion of additional disclosures or explanation may be necessary to satisfy the characteristics of comparability.
- 3.23 Comparability also differs from uniformity. For information to be comparable, like things must look alike and different things must look different. An over-emphasis on uniformity may reduce comparability by making unlike things look alike. Comparability of information in GPFRs is not enhanced by making unlike things look alike, any more than it is by making like things look different.
- 3.24 Information about the entity's financial position, financial performance, cash flows, compliance with approved budgets and relevant legislation or other authority governing the raising and use of public

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monies, service delivery achievements, and its future plans is necessary for accountability purposes and useful as input for decision-making purposes. The usefulness of such information is enhanced if it can be compared with, for example:

- Prospective financial and non-financial information previously presented for that reporting period or reporting date;
- Similar information about the same entity for some other period or some other point in time; and
- Similar information about other entities (for example, public sector entities providing similar services in different jurisdictions) for the same reporting period.

3.25 Consistent application of accounting principles, ~~or~~ policies and basis of preparation to prospective financial and non-financial information and actual outcomes will enhance the usefulness of any comparison of projected and actual results. Comparability with other entities may be less significant for explanations of management's perception or opinion of the factors underlying the entity's current performance.

### Verifiability

3.26 Verifiability is the quality of information that helps assure users that information in GPFRs faithfully represents the economic and other phenomena that it purports to represent. Supportability is sometimes used to describe this quality when applied in respect of explanatory information and prospective financial and non-financial quantitative information disclosed in GPFRs—that is, the quality of information that helps assure users that explanatory or prospective financial and non-financial quantitative information faithfully represents the economic and other phenomena that it purports to represent. Whether referred to as verifiability or supportability, the characteristic implies that different knowledgeable and independent observers could reach general consensus, although not necessarily complete agreement, that either:

- The information represents the economic and other phenomena that it purports to represent without material error or bias; or
- An appropriate recognition, measurement, or representation method has been applied without material error or bias.

3.27 To be verifiable, information need not be a single point estimate. A range of possible amounts and the related probabilities also can be verified.

3.28 Verification may be direct or indirect. With direct verification, an amount or other representation is itself verified, such as by (a) counting cash, (b) observing marketable securities and their quoted prices, or (c) confirming that the factors identified as influencing past service delivery performance were present and operated with the effect identified. With indirect verification, the amount or other representation is verified by checking the inputs and recalculating the outputs using the same accounting convention or methodology. An example is verifying the carrying amount of inventory by checking the inputs (quantities and costs) and recalculating the ending inventory using the same cost flow assumption (for example, average cost or first-in-first-out).

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- 3.29 The quality of verifiability (or supportability if such term is used to describe this characteristic) is not an absolute—some information may be more or less capable of verification than other information. However, the more verifiable is the information included in GPFRs, the more it will assure users that the information faithfully represents the economic and other phenomena that it purports to represent.

**Staff comment:** A respondent noted that the final sentence in this in paragraph and similar text in paragraphs 3.31, BC3.30 and BC3.31 (now BC3.26 and BC3.27) may be read that the IPSASB intended *verifiability* to be a component of *faithful representation*. Staff, do not propose changes to this paragraph or 3.31, but have included some text in the BC to clarify the IPSASB's intent.

- 3.30 GPFRs of public sector entities may include financial and other quantitative information and explanations about (a) key influences on the entity's performance during the period, (b) the anticipated future effects or outcomes of service delivery programs undertaken during the reporting period, and (c) prospective financial and non-financial information. It may not be possible to verify the accuracy of all quantitative representations and explanations of such information until a future period, if at all.
- 3.31 To help assure users that prospective financial and non-financial quantitative information and explanations included in GPFRs faithfully represents the economic and other phenomena that they purport to represent, the assumptions that underlie the information disclosed, the methodologies adopted in compiling that information, and the factors and circumstances that support any opinions expressed or disclosures made should be transparent. This will enable users to form judgments about the appropriateness of those assumptions and the method of compilation, measurement, representation and interpretation of the information.

### Constraints on Information Included in General Purpose Financial Reports

#### *Materiality*

- 3.32 Information is material if its omission or misstatement could influence the discharge of accountability by the entity, or the decisions that users make on the basis of the entity's GPFRs prepared for that reporting period. Materiality depends on both the nature and amount of the item judged in the particular circumstances of each entity. GPFRs may encompass qualitative and quantitative information about service delivery achievements during the reporting period, and expectations about service delivery and financial outcomes in the future. Consequently, it is not possible to specify a uniform quantitative threshold at which a particular type of information becomes material.
- 3.33 Assessments of materiality will be made in the context of the legislative, institutional and operating environment within which the entity operates and, in respect of prospective financial and non-financial information, the preparer's knowledge and expectations about the future. Disclosure of information about compliance or non-compliance with legislation, regulation or other authority may be material because of its nature—irrespective of the magnitude of any amounts involved. In determining whether an item is material in these circumstances, consideration will be given to such matters as the nature, legality, sensitivity and consequences of past or anticipated transactions and events, the parties involved in any such transactions and the circumstances giving rise to them.

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- 3.34 Materiality is classified as a constraint on information included in GPFRs in this Conceptual Framework. The materiality of the consequences of application of a particular accounting policy or basis of preparation, or the disclosure of a particular item or type of information is considered by the IPSASB in developing IPSASs and non-authoritative guidance. However, subject to the requirements of any IPSAS to the contrary, the materiality of, for example, application of a particular accounting policy and the separate disclosure of particular items of information will also be considered by individual entities in preparing GPFRs.

**Staff comment:** One respondent proposed that basis for preparation be added to the second line.

One respondent proposed that the paragraph be redrafted as follows:

*This Conceptual Framework classifies materiality ~~is classified~~ as a constraint on information included in GPFRs ~~in this Conceptual Framework~~. In developing IPSASs and non-authoritative guidance the IPSASB will consider the materiality of the consequences of application of a particular accounting policy or disclosure of a particular item or type of information ~~is considered by the IPSASB in developing IPSASs and non-authoritative guidance~~. ~~However,~~ Subject to the requirements of any IPSAS ~~to the contrary~~, entities preparing GPFRs will also consider the materiality of the separate disclosure of particular items of information ~~will also be considered by individual entities in preparing GPFRs~~.*

*Cost-Benefit*

- 3.35 Financial reporting imposes costs. The benefits of financial reporting should justify those costs. Assessing whether the benefits of providing information justify the related costs is often a matter of judgment, because it is often not possible to identify and/or quantify all the costs and all the benefits of information included in GPFRs.
- 3.36 The costs of providing information include the costs of collecting and processing the information, the costs of verifying it and/or presenting the assumptions and methodologies that support it, and the costs of disseminating it. Users incur the costs of analysis and interpretation. Omission of useful information also imposes costs, including the costs that users incur to obtain needed information from other sources and the costs that result from making decisions using incomplete data provided by GPFRs.
- 3.37 Preparers expend the majority of the effort to provide information in GPFRs. However, service recipients and resource providers ultimately bear the cost of those efforts—because resources are redirected from service delivery activities to preparation of information for inclusion in GPFRs.
- 3.38 Users reap the majority of benefits from the information provided by GPFRs. However, information prepared for GPFRs may also be used internally by management and result in better decision-making by management. The disclosure of information in GPFRs consistent with the concepts identified in the Conceptual Framework and IPSASs and non-authoritative guidance derived from them will enhance and reinforce perceptions of the transparency of financial reporting by governments and other public sector entities and contribute to the more accurate pricing of public sector debt. Therefore, public sector entities may also benefit in a number of ways from the information provided by GPFRs.

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**Staff comment:** One respondent proposed that the first sentence be deleted and replaced as follows: The objective of financial reporting is to meet the information needs of users, as identified in this Conceptual Framework~~Users reap the majority of benefits from the information provided by GPFRs.~~

- 3.39 Application of the cost-benefit constraint involves assessing whether the benefits of reporting information are likely to justify the costs incurred to provide and use the information. When making this assessment, it is necessary to consider whether one or more qualitative characteristics might be sacrificed to some degree to reduce cost.
- 3.40 In developing IPSASs, the IPSASB considers information from preparers, users, academics, and others about the expected nature and quantity of the benefits and costs of the proposed requirements. Disclosure and other requirements which result in the presentation of information useful to users of GPFRs for accountability and decision-making purposes and satisfy the qualitative characteristics are prescribed by IPSASs when the benefits~~unless the costs~~ of compliance with those disclosures and other requirements are assessed by the IPSASB to justify their costs~~be greater than their benefits~~.

**Staff comment:** Staff proposed this amendment in material supporting the out-of-session review. Two respondents expressed support. No respondents objected to the amendment.

*Balance Between the Qualitative Characteristics*

- 3.41 The qualitative characteristics work together ~~in different ways~~ to contribute to the usefulness of information. For example, neither a depiction that faithfully represents an irrelevant phenomenon, nor a depiction that unfaithfully represents a relevant phenomenon, results in useful information. Similarly, to be relevant, information must be timely and understandable.
- 3.42 In some cases, a balancing or trade-off between qualitative characteristics may be necessary to achieve the objectives of financial reporting. The relative importance of the qualitative characteristics in each situation is a matter of professional judgment. The aim is to achieve an appropriate balance among the characteristics in order to meet the objectives of financial reporting.

## Chapter 3: Basis for Conclusions

*This Basis for Conclusions accompanies, but is not part of, the Conceptual Framework.*

### Qualitative Characteristics of Information Included in General Purpose Financial Reports

- BC3.1 In developing IPSASs, the IPSASB receives input from constituents on, and makes judgments about, information that best satisfies the objectives of financial reporting and should be included in GPFRs. In making those judgments, the IPSASB considers the extent to which each of the qualitative characteristics can be achieved. Disclosure and other requirements are included in IPSASs only when the information that results from their application is considered to satisfy the qualitative characteristics and the cost-benefit constraint identified in the Conceptual Framework.
- BC3.2 Some respondents to ~~CF-ED4~~the Exposure Draft expressed concern about the application of the QCs to all matters that may be presented in GPFRs, particularly those matters that may be presented in reports outside the financial statements. The IPSASB understands this concern. The IPSASB acknowledges that IPSASs and ~~other—non-authoritative guidance~~pronouncements that deal with the presentation in GPFRs of information outside the financial statements may need to include additional guidance on the application of the qualitative characteristics to the matters dealt with.
- BC3.3 IPSASs and ~~other—non-authoritative~~ guidance issued by the IPSASB will not deal with all financial and non-financial information that may be included in GPFRs. In the absence of an IPSAS or non-authoritative guidance that deals with particular economic or other phenomena, assessments of whether an item of information satisfies the qualitative characteristics and constraints identified in the Conceptual Framework, and therefore qualifies for inclusion in GPFRs, will be made by preparers compiling the GPFRs. Those assessments will be made in the context of achieving the objectives of financial reporting, which in turn have been developed to respond to users' information needs.

### Other Qualitative Characteristics Considered

- BC3.4 Some respondents to ~~CF-ED4~~the Exposure Draft expressed the view that additional QCs should be identified. Those characteristics included “sincerity,” “true and fair view,” “credibility,” “transparency,” and “regularity”.
- BC3.5 The IPSASB notes that “sincerity” as used in financial reporting has a similar meaning to “true and fair”. The IPSASB is of the view that “sincerity,” “true and fair view,” “credibility,” and “transparency” are important expressions of the overarching qualities that financial reporting is to achieve or aspire to. However, they do not exist as single qualitative characteristics on their own—rather, achieving these qualities is the product of application of the full set of qualitative characteristics identified in the Conceptual Framework, and the IPSASs that deal with specific reporting issues. Consequently, while important characteristics of GPFRs, they are not identified as separate individual qualitative characteristics in their own right. The IPSASB is also of the view that the notion of “regularity” as noted by some respondents is related to the

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notion of “compliance” as used in the Conceptual Framework—therefore, regularity is not identified as an additional qualitative characteristic.

## Relevance

BC3.6 The Conceptual Framework explains that financial and non-financial information is relevant if it is capable of making a difference in achieving the objectives of financial reporting. As part of its due process, the IPSASB seeks input on whether the requirements of a proposed IPSAS or any proposed non-authoritative guidance are relevant to the achievement of the objectives of financial reporting—that is, are relevant to the discharge of the entity’s obligation to be accountable and to decisions that users may make.

~~BC3.7 At the time of issue of CF-ED1, Appendix A of IPSAS 1, “Presentation of Financial Statements” included guidance on the QCs. Appendix A explained that information is relevant if it can be used to assist in evaluating past, present or future events or in confirming, or correcting, past evaluations. IPSAS 1 also noted that to be relevant, information must be timely.~~

~~BC3.8 The concept of relevance identified in the Conceptual Framework possesses similar characteristics and operates with similar intent to the concept as was identified in IPSAS 1 Appendix A when CF-ED1 was issued. However, the predictive value of information is also explicitly identified as a component of relevance in the Conceptual Framework.~~

## Faithful Representation

~~BC3.9~~BC3.7 The Conceptual Framework explains that to be useful information must be a faithful representation of the economic and other phenomena that it purports to represent. A single economic or other phenomenon may be faithfully represented in many ways. For example, the achievement of particular service delivery objectives may be depicted (a) qualitatively through an explanation of the immediate and anticipated longer term outcomes and effects of the service delivery program, (b) quantitatively as a measure of the volume and cost of services provided by the service delivery program, or (c) by a combination of both qualitative and quantitative information. Additionally, a single depiction in GFRs may represent several economic phenomena. For example, the presentation of the item “plant and equipment” in a financial statement may represent an aggregate of all of an entity’s plant and equipment, including items that have different functions, that are subject to different risks and opportunities and that are carried at amounts based on estimates that may be more or less complex and reliable.

~~BC3.10~~BC3.8 Completeness and neutrality of estimates (and inputs to those estimates) and freedom from material error are desirable, and some minimum level of accuracy is necessary for an estimate to faithfully represent an economic or other phenomenon. However, faithful representation does not imply absolute completeness or neutrality in the estimate, nor does it imply total freedom from error in the outcome. For a representation of an economic or other phenomenon to imply a degree of completeness, neutrality, or freedom from error that is impracticable for it to achieve would diminish the extent to which the information faithfully represents the economic and other phenomena that it purports to represent.

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~~BC3.14~~BC3.9 Having in place accounting systems and processes that are appropriately designed and are operated effectively will enable management to gather and process evidence to support financial reporting. The quality of these systems and processes is a key factor in ensuring that the ~~quality of~~ financial information that the entity includes in GPFRs is a faithful representation of the economic or other phenomena that it purports to represent.

**Staff comment:** One respondent proposed the paragraph's link to faithful representation be strengthened or it be placed as a stand alone paragraph with general applicability. One respondent proposed that the term *quality* be replaced by *faithful representation*. Staff has included wording intended to respond to these points and reflect the IPSASB's intent that inclusion and placement of this paragraph was to link to faithful representation.

Faithful Representation or Reliability

~~BC3.12~~BC3.10 At the time of issue of the Exposure Draft~~CF—ED4~~, IPSAS 1 Appendix A identified reliability as a qualitative characteristic. It described reliable information as information that is “free from material error and bias, and can be depended on by users to represent faithfully that which it purports to represent or could reasonably be expected to represent.” Faithful representation, substance over form, neutrality, prudence and completeness are identified as components of reliability. The Conceptual Framework uses the term “faithful representation” rather than “reliability” to describe what is substantially the same concept. In addition, it does not explicitly identify substance over form and prudence as components of faithful representation.

~~BC3.13~~BC3.11 Many respondents to ~~CF—ED4~~the Exposure Draft supported the use of faithful representation and its explanation in the ED, in some cases explaining that faithful representation is a better expression of the nature of the concept intended. Some respondents did not support the replacement of reliability with the term faithful representation, expressing concerns including that faithful representation implies the adoption of fair value or market value accounting, and reliability and faithful representation are not interchangeable terms.

~~BC3.14~~BC3.12 The use of the term faithful representation, or reliability for that matter, to describe this qualitative characteristic in the Conceptual Framework will not determine the measurement basis to be adopted in GPFRs, whether historical cost, market value, fair value or another measurement basis. The IPSASB does not intend that use of faithful representation be interpreted as such. The measurement basis or measurement bases that may be adopted for the elements of financial statements are considered in a separate Chapter of the Conceptual Framework. The qualitative characteristics will then operate to ensure that the financial statements faithfully represent the measurement base or bases reflected in GPFRs.

~~BC3.15~~BC3.13 The IPSASB appreciates the concern of some respondents that the use of a different term may be interpreted to reflect different, and even lesser, qualities to those communicated by the term reliability. However, the IPSASB is of the view that explanation in the Framework that “Faithful representation is attained when the depiction of the phenomenon is complete, neutral, and free from material error”, and the elaboration of these key features will protect against the loss of any of the qualities that were formerly reflected in the use of the term reliability.

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~~BC3.16~~BC3.14 In addition, the IPSASB has been advised that the term reliability is itself open to different interpretations and subjective judgments, with consequences for the quality of information included in GPFRs. The IPSASB is of the view that use of the term faithful representation will overcome problems in the interpretation and application of reliability that have been experienced in some jurisdictions without a lessening of the qualities intended by the term, and is more readily translated into, and understood in, a wide range of languages.

*Substance over Form and Prudence*

~~BC3.17~~BC3.15 Some respondents to ~~CF-ED4~~the *Exposure Draft* expressed concern that substance over form and prudence are not identified as qualitative characteristics or that their importance is not sufficiently recognized or explained. Some also noted that prudence need not be incompatible with the achievement of neutrality and faithful representation.

~~BC3.18~~—The Conceptual Framework explains that “Information that faithfully represents an economic or other phenomenon depicts the substance of the underlying transaction, other event, activity or circumstance—which is not necessarily always the same as its legal form.” Therefore substance over form remains a key quality that information included in GPFRs must possess. It is not identified as a separate or additional qualitative characteristic because it is already embedded in the notion of faithful representation.

~~BC3.19~~BC3.16 ~~At the time of issue of CF-ED1, IPSAS 1 Appendix A explained that prudence refers to the exercise of caution in making estimates under conditions of uncertainty, such that assets or revenue are not overstated and liabilities or expenses are not understated. However, it does not allow for the deliberate understatement or overstatement of assets, liabilities, revenues, or expenses.~~

~~BC3.20~~BC3.17 The IPSASB is of the view that the notion of prudence is also reflected in the explanation of neutrality as a component of faithful representation, and the acknowledgement of the need to exercise caution in dealing with uncertainty. Therefore, like substance over form, prudence is not identified as a separate qualitative characteristic because its intent and influence in identifying information that is included in GPFRs is already embedded in the notion of faithful representation.

**Understandability**

~~BC3.24~~BC3.18 Although presenting information clearly and concisely helps users to comprehend it, the actual comprehension or understanding of information depends largely on the users of the GPFRs.

~~BC3.22~~—Some economic and other phenomena are particularly complex and difficult to represent in GPFRs. However, the IPSASB is of the view that information that is, for example, relevant, a faithful representation of what it purports to represent, timely and verifiable should not be excluded from GPFRs solely because it may be too complex or difficult for some users to understand without assistance. Acknowledging that it may be necessary for some users to seek assistance to understand the information presented in GPFRs, does not mean that information included in GPFRs need not be understandable or that all efforts should not be

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undertaken to present information in GPFRs in a manner that is understandable to a wide range of users. However, it does reflect that, in practice, the nature of the information included in GPFRs is such that all the qualitative characteristics may not be fully achievable at all times for all users.

~~BC3.23~~BC3.19 ~~The qualitative characteristic of understandability in the Conceptual Framework possesses similar characteristics to those that were identified in IPSAS 1 Appendix A when CF-ED1 was issued. However, certain aspects of understandability have been explained more fully in particular, that users should review and analyse the information in GPFRs with reasonable diligence. The Conceptual Framework also clarifies that in some circumstances, users may need to seek assistance to understand complex economic and other phenomena presented in GPFRs.~~

### Timeliness

~~BC3.24~~ ~~At the time of issue of CF-ED1, IPSAS 1 Appendix A identified timeliness as a constraint on relevant and reliable information. It noted that undue delay in the provision of information may reduce its relevance and that reporting on a timely basis may involve reporting before all aspects of a transaction are known, thus impairing reliability.~~

~~BC3.25~~ ~~The identification of timeliness as a qualitative characteristic means that the Conceptual Framework recognizes IPSASB is of the view that the nature of timeliness and the potential for timely reporting to increase the usefulness of GPFRs for both accountability and decision-making purposes, and that undue delay in the provision of information may reduce its usefulness for these purposes. signals that it is more than a constraint on information included in GPFRs. This is reflected in its re-designation as a qualitative characteristic in its own right in the Conceptual Framework.~~

BC3.20

### Comparability

~~BC3.26~~ ~~At the time of issue of CF-ED1, IPSAS 1 Appendix A identified comparability as a qualitative characteristic. To better understand and place in context, for example, the financial and service delivery performance of an entity, users will frequently compare information reported in GPFRs for a particular period with GPFRs of the same entity for a prior period, or with GPFRs of different entities. Consequently, comparability continues to be identified as a qualitative characteristic in the Conceptual Framework. The characteristic of comparability in the Conceptual Framework reflects and builds on that previously identified in IPSAS 1 Appendix A in particular, by explaining its operation in respect of the more comprehensive scope of financial reporting reflected in the Conceptual Framework.~~

~~BC3.27~~BC3.21 ~~Some degree of comparability may be attained by maximizing the qualitative characteristics of relevance and faithful representation. For example, faithful representation of a relevant economic or other phenomenon by one public sector entity is likely to be comparable to a faithful representation of a similar relevant economic or other phenomenon by another public sector entity. However, a single economic or other phenomenon can often~~

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be faithfully represented in several ways, and permitting alternative accounting methods for the same phenomenon diminishes comparability and, therefore, may be undesirable.

~~BC3.28~~BC3.22 Some respondents to ~~CF-ED4~~the Exposure Draft expressed concern that the explanation of the relationship between comparability and consistency may be read as presenting an obstacle to the on-going development of financial reporting. This is because enhancements in financial reporting often involve a revision or change to the accounting principles, ~~or~~ policies or basis of preparation currently adopted by the entity.

~~BC3.29~~BC3.23 Consistent application of the same accounting principles, ~~or~~ policies and basis of preparation from one period to the next will assist users in assessing the financial position, financial performance and service delivery achievements of the entity compared with previous periods. However, where accounting principles or policies dealing with particular transactions or other events are not prescribed by IPSASs, achievement of the qualitative characteristic of comparability should not be interpreted as prohibiting the ~~reporting~~ entity from changing its accounting principles or policies to better represent those transactions and events. In these cases, the inclusion in GPFs of additional disclosures or explanation of the impact of the changed policy can still satisfy the characteristics of comparability.

### Verifiability

BC3.24 Verifiability is the quality of information that helps assure users that information in GPFs faithfully represents the economic and other phenomena that it purports to represent. While closely linked to faithful representation, verifiability is identified as a separate QC because information may faithfully represent economic and other phenomena even though it cannot be verified with absolute certainty. In addition, verifiability may work in different ways with faithful representation and other of the QCs to contribute to the usefulness of information presented in GPFs – for example, there may need to be an appropriate balance between the degree of verifiability an item of information may possess and other QCs to ensure it is presented in a timely fashion and is relevant.

**Staff comment:** A respondent noted that some explanation in paragraphs 3.29, 3.31, BC3.30 and BC3.31 (now BC3.25 and BC3.26) may lead readers to conclude that the IPSASB intended verifiability to be a component of faithful representation. Staff is of the view that inclusion of this paragraph may overcome the concern and clarify the IPSASB's intent.

~~BC3.30~~BC3.25 In developing the QCs identified in the Framework, the IPSASB considered whether “*supportability*” should be identified as a separate characteristic for application to information presented in GPFs outside the financial statements. The IPSASB is of the view that identifying both “*verifiability*” and “*supportability*” as separate qualitative characteristics with essentially the same features may be confusing to preparers and users of GPFs and others. However, the Conceptual Framework does acknowledge that supportability is sometimes used to refer to the quality of information that helps assure users that explanatory information and prospective financial and non-financial information included in GPFs faithfully represent the economic and other phenomena that they purport to represent.

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~~BC3.34~~BC3.26 Some respondents to ~~CF-ED4~~the Exposure Draft expressed concern about the application of verifiability to the broad range of matters that may be presented in GPFRs outside the financial statements, particularly explanatory information about service delivery achievements during the reporting period and qualitative and quantitative prospective financial and non-financial information. The IPSASB is of the view that the Framework provides appropriate guidance on the application of verifiability in respect of these matters—for example it explains that verifiability is not an absolute and it may not be possible to verify the accuracy of all quantitative representations and explanations until a future period. The Framework also acknowledges that disclosure of the underlying assumptions and methodologies adopted for the compilation of explanatory and prospective financial and non-financial information is central to the achievement of faithful representation.

### Classification of the Qualitative Characteristics and Order of their Application

~~BC3.32~~BC3.27 Some respondents to ~~CF-ED4~~the Exposure Draft expressed the view that the Conceptual Framework should identify:

- Relevance and faithful representation as fundamental qualitative characteristics, and explain the order of their application; and
- Comparability, verifiability, timeliness, and understandability as enhancing qualitative characteristics.

They noted that this would provide useful guidance on the sequence of application of the qualitative characteristics and reflect the approach adopted by the IASB.

~~BC3.33~~BC3.28 In developing the qualitative characteristics, the IPSASB considered whether some characteristics should be identified as fundamental and others identified as enhancing. The IPSASB also considered whether the order of application of the characteristics should be identified and/or explained. The IPSASB is of the view that such an approach should not be adopted because, for example:

- Matters identified as “fundamental” may be perceived to be more important than those identified as “enhancing”, even if this distinction is not intended in the case of the qualitative characteristics. As a result, there may be unintended consequences of identifying some qualitative characteristics as fundamental and others as enhancing;
- All the qualitative characteristics are important and work together to contribute to the usefulness of information. The relative importance of a particular qualitative characteristic in different circumstances is a matter of professional judgment. As such, it is not appropriate to identify certain qualitative characteristics as always being fundamental and others as having only an enhancing or supporting role, or to specify the sequence of their application, no matter what information is being considered for inclusion in GPFRs, and irrespective of the circumstances of the entity and its environment. In addition, it is questionable whether information that is not understandable or is provided so long after the event as not to be useful to users for accountability and decision-making purposes could be considered as relevant

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information—therefore, these characteristics are themselves fundamental to the achievement of the objectives of financial reporting; and

- GPFs of public sector entities may encompass historic and prospective information about financial performance and the achievement of service delivery objectives over a number of reporting periods. This provides necessary input to assessments of trends in service delivery activities and resources committed thereto—for such trend data, reporting on a comparable basis may be as important as, and cannot be separated from, faithful representation of the information.

### Constraints on Information Included in General Purpose Financial Reports

#### Materiality

~~BC3.34~~BC3.29 At the time of issue of the Exposure Draft~~GF—ED4~~, IPSAS 1 Appendix A described materiality with similar characteristics to that described in the Conceptual Framework, but identified materiality as a factor to be considered in determining only the relevance of information. Some respondents to the Exposure Draft noted that materiality may be identified as an aspect of relevance.

~~BC3.35~~BC3.30 The IPSASB has considered whether materiality should be identified as an entity-specific aspect of relevance rather than a constraint on information included in GPFs. As explained in the Conceptual Framework, and subject to requirements in an IPSAS to the contrary, materiality will be considered by preparers in determining whether, for example, a particular accounting policy should be adopted or an item of information should be separately disclosed in the financial statements of the ~~reporting~~ entity.

**Staff comment:** One respondent proposed that second sentence also refer to non-authoritative guidance or similar.

~~BC3.36~~BC3.31 However, the IPSASB is of the view that materiality has a more pervasive role than would be reflected by its classification as only an entity specific aspect of relevance. For example, materiality relates to, and can impact, a number of the qualitative characteristics of information included in GPFs. Therefore, the materiality of an item should be considered when determining whether the omission or misstatement of an item of information could undermine not only the relevance, but also the faithful representation, understandability or verifiability of financial and non-financial information presented in GPFs. The IPSASB is also of the view that whether the effects of the application of a particular accounting policy or basis of preparation or the information content of separate disclosure of certain items of information are likely to be material should be considered in establishing IPSASs and non-authoritative guidance. Consequently, the IPSASB is of the view that materiality is better reflected as a broad constraint on information to be included in GPFs.

~~BC3.37~~BC3.32 The IPSASB considered whether the Conceptual Framework should reflect that legislation, regulation or other authority may impose financial reporting requirements on public sector entities in addition to those imposed by IPSASs. The IPSASB is of the view that, while a feature of the operating environment of many public sector (and many private sector)

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entities, the impact that legislation or other authority may have on the information included in GPFs is not itself a financial reporting concept. Consequently, it has not identified it as such in the Conceptual Framework. Preparers will, of course, need to consider such requirements as they prepare GPFs. In particular, legislation may prescribe that particular items of information are to be disclosed in GPFs even though they may not be judged to satisfy a materiality threshold (or cost-benefit constraint) as identified in the Conceptual Framework. Similarly, the disclosure of some matters may be prohibited by legislation because, for example, they relate to matters of national security, notwithstanding that they are material and would otherwise satisfy the cost-benefit constraint.

*Cost-Benefit*

~~BC3.38 At the time of issue of CF—ED1, IPSAS 1 Appendix A identified the balance between cost and benefit as a pervasive constraint and explains that the evaluation of benefits and costs is substantially a matter of judgment. The Conceptual Framework also identifies consideration of costs and benefits as a pervasive constraint that standard setters, as well as preparers and users of financial reports, should be aware of and should consider in determining whether to provide a new item of information in GPFs.~~

~~BC3.39~~BC3.33 Some respondents to the Exposure Draft CF—ED1 expressed concern that the text of the proposed Conceptual Framework does not specify that entities cannot decide to depart from IPSASs on the basis of their own assessments of the costs and benefits of particular requirements of an IPSAS. The IPSASB is of the view that such specification is not necessary. This is because, as noted in Paragraph 1.2 of the Conceptual Framework, authoritative requirements relating to recognition, measurement, presentation, and disclosure in GPFs are specified in IPSASs. GPFs are developed to provide information useful to users and requirements are prescribed by IPSASs only when the benefits to users of compliance with those requirements are assessed by the IPSASB to be greater than their costs. However, preparers may consider the costs and benefits in determining whether to include in GPFs disclosure of information in addition to that required by IPSASs.

~~BC3.40~~BC3.34 Some respondents to the Exposure Draft CF—ED1 also expressed concern that the proposed Conceptual Framework does not recognize that cost-benefit trade-offs may differ for different public sector entities. They are of the view that acknowledgement of this may provide a useful principle to be applied when considering differential reporting issues. The IPSASB has considered these matters and determined that the Conceptual Framework will not deal with issues related to differential reporting, including whether the costs and benefits of particular requirements might differ for different entities.

~~BC3.44~~BC3.35 In the process of developing an IPSAS or non-authoritative guidance, the IPSASB considers and seeks input on the likely costs and benefits of providing information in GPFs of public sector entities. However, in some cases, it may not be possible for the IPSASB to identify and/or quantify all benefits that are likely to flow from, for example, the inclusion of a particular disclosure, including those that may be required because they are in the public interest, or other requirement in an IPSAS. In other cases, the IPSASB may be of the view that the benefits of a particular requirement may be marginal for users of GPFs of some

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public sector entities. In applying the cost-benefit test to determine whether particular requirements should be included in an IPSAS in these circumstances, the IPSASB's deliberations may also include consideration of whether imposing such requirements on public sector entities is likely to involve undue cost and effort for the entities applying the requirements.

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## Chapter 4: The Reporting Entity

- 4.1 A public sector reporting entity is a government or other public sector organization, program or identifiable area of activity (hereafter referred to as an entity or public sector entity) that prepares GPFs.
- 4.2 A public sector reporting entity may comprise two or more separate entities that present GPFs as if they are a single entity – such a reporting entity is referred to as a group reporting entity.

### Key Characteristics of a Reporting Entity

- 4.3 Key characteristics of a public sector reporting entity are that:
- It is an entity that raises resources from, or on behalf of, constituents and/or uses resources to undertake activities for the benefit of, or on behalf of, those constituents; and
  - There are service recipients or resource providers dependent on GPFs of the entity for information for accountability or decision-making purposes.
- 4.4 A government may establish and/or operate through administrative units such as ministries or departments. It may also operate through trusts, statutory authorities, government corporations and other entities with a separate legal identity or operational autonomy to undertake or otherwise support the provision of services to constituents. Other public sector organizations, including international public sector organizations and municipal authorities, may also undertake certain activities through, and may benefit from and be exposed to a financial burden or loss as a result of, the activities of entities with a separate legal identity or operational autonomy.

**Staff comment:** One respondent questions the inclusion of the final sentence of paragraph 4.4.

- 4.5 GPFs are prepared to report information useful to users for accountability and decision-making purposes. Service recipients and resource providers are the primary users of GPFs. Consequently, a key characteristic of a reporting entity, including a group reporting entity, is the existence of service recipients or resource providers who are dependent on GPFs of that entity or group of entities for information for accountability or decision-making purposes.
- 4.6 GPFs encompass financial statements and information that enhances, complements and supplements the financial statements. Financial statements present information about the resources of the reporting entity or group reporting entity and claims to those resources at the reporting date, and changes to those resources and claims and cash flows during the reporting period. Therefore, to enable the preparation of financial statements, a reporting entity will raise resources and/or use resources previously raised to undertake activities for the benefit of, or on behalf of, its constituents.
- 4.7 The factors that are likely to signal the existence of users of GPFs of a public sector entity or group of entities include an entity having the responsibility or capacity to raise or deploy public monies, acquire or manage public assets, incur liabilities, or undertake activities to achieve service delivery objectives. The greater the resources that a public sector entity raises, manages and/or has the capacity to deploy, the greater the liabilities it incurs and the greater the economic or social impact of its activities, the more likely it is that there will exist service recipients or resource

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providers who are dependent on GPFRs for information about it for accountability and decision-making purposes. In the absence of these factors, or where they are not significant, it is unlikely that users of GPFRs of these entities will exist.

- 4.8 The preparation of GPFRs is not a cost-free process. Therefore, if the imposition of financial reporting requirements is to be efficient and effective, it is important that only those public sector entities for which such users exist are required to prepare GPFRs.
- 4.9 In many cases, it will be clear whether or not there exist service recipients or resource providers that are dependent on GPFRs of a public sector entity for information for accountability and decision-making purposes. For example, such users are likely to exist for GPFRs of a government at the national, state or local government level and for international public sector organizations. ~~—~~ This is because these governments and organizations generally have the capacity to raise substantial resources from, and/or deploy substantial resources on behalf of, their constituents, to incur liabilities and to impact the economic and/or social well being of the communities that depend on them for the provision of ~~goods and~~ services.
- 4.10 However, it may not always be clear whether there are service recipients or resource providers that are dependent on GPFRs of, for example, individual government departments and agencies, particular programs or identifiable areas of activity for information for accountability and decision-making purposes. Determining whether these organizations, programs or activities should be identified as reporting entities and, consequently, be required to prepare GPFRs will involve the exercise of professional ~~judgement~~ judgment.

~~Separate Legal~~ Legal and other Entities

- 4.11 The government and some other public sector entities have a separate identity or standing in law (a legal identity) — for example, public corporations, trusts that are legally distinct from trustees and beneficiaries, or a statutory body with the authority to transact and enter contracts in its own right. However, public sector organizations, programs and activities without a separate legal identity may also raise or deploy public monies, acquire or manage public assets, incur liabilities, undertake activities to achieve service delivery objectives or otherwise implement government policy. Service recipients and resource providers may depend on GPFRs of these entities, programs and activities for information for accountability and decision-making purposes. Consequently, a public sector reporting entity may have a separate legal identity or be, for example, an organization, administrative arrangement or program without a separate legal identity.

**Staff comment:** One respondent noted that the heading emphasized the importance of the existence of a separate legal entity, which was not the point of the paragraph.

## Chapter 4: Basis for Conclusions

*This Basis for Conclusions accompanies, but is not part of, the Conceptual Framework.*

### Key Characteristics of a Reporting Entity

- BC4.1 The concept of the reporting entity is derived from the objectives of financial reporting by public sector entities. The objectives of financial reporting by public sector entities are to provide information about the entity that is useful to users of GPFs for accountability and decision-making purposes.
- BC4.2 Reporting entities prepare GPFs. GPFs include financial statements, which present information about such matters as the financial position, performance and cash flows of the entity, and financial and non-financial information that enhances, complements and supplements the financial statements. Therefore, a key characteristic of a public sector reporting entity is the existence of service recipients or resource providers who are dependent on GPFs of a government or other public sector entity for information for accountability or decision-making purposes.

**Staff comment:** One respondent notes that these paragraphs, in effect, repeat matters dealt with in the text and could be deleted.

### Legislation, Regulation or Other Authority

- BC4.3 ~~CF-ED 4~~The [Exposure Draft](#) did not specify which public sector entities should be identified as a reporting entity or group reporting entity and, therefore, be required to prepare GPFs. It noted that the public sector organizations and programs that are to prepare GPFs will be specified in legislation, regulation or other authority, or be determined by relevant authoritative bodies in each jurisdiction.
- BC4.4 Some respondents expressed the view that while legislation or other authority may, in practice, specify which entities are to prepare GPFs, the Conceptual Framework should focus on the concept of the reporting entity, identify key features of that concept and provide guidance on the principles and factors that should be considered in determining whether a reporting entity exists. The IPSASB was persuaded by these arguments and has refocused its discussion on an explanation of the concept of the reporting entity.

### Interpretation and Application

- BC4.5 Some respondents expressed concern that the characteristics of a reporting entity as explained in the ~~CF-ED 4~~[Exposure Draft](#) may be interpreted to identify particular activities or segments of an organization as separate reporting entities. These segments or activities would then be required to prepare GPFs in accordance with all IPSASs. Some respondents also noted that it was not clear how the guidance in the ~~CF-ED 4~~[Exposure Draft](#) applied to public sector organizations other than governments including, for example, international public sector organizations.

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- BC4.6 The IPSASB has responded to these concerns. The Framework explains that preparation of GPFRs is not a cost-free process. It also:
- Includes additional guidance on the factors that are likely to signal the existence of service recipients or resource providers who are dependent on GPFRs of a government or other public sector entity for information for accountability or decision-making purposes; and
  - Notes the likely implications of these factors for the identification of a range of public sector organizations, programs and activities as reporting entities, including government departments and agencies and international public sector organizations.
- BC4.7 The Conceptual Framework acknowledges that in some cases it may be necessary to exercise professional judgment in determining whether particular public sector entities should be identified as a reporting entity. In exercising that judgement, it should be noted that, in certain circumstances, IPSASs respond to users' needs for information about particular programs or activities undertaken by a government or other public sector reporting entity by providing for separate disclosures within the GPFRs of that government or other public sector reporting entity<sup>2</sup>. Jurisdictional factors such as the legislative and regulatory framework in place and institutional and administrative arrangements for the raising of resources and the delivery of services are also likely to inform deliberations on whether it is likely that service recipients and resource providers dependent on GPFRs of particular public sector entities exist.

**Staff comment:** One respondent questions whether this paragraph is appropriate for inclusion in a Basis for Conclusions.

### The Group Reporting Entity

- BC4.8 ~~The CF-ED4~~**Exposure Draft** outlined the circumstances that would justify the inclusion of an entity or activity within a public sector group reporting entity. It explained that:
- A government or other public sector entity may (a) have the authority and capacity to direct the activities of one or more other entities so as to benefit from the activities of those entities; and (b) be exposed to a financial burden or loss that may arise as a result of the activities of those entities; and
  - To satisfy the objectives of financial reporting, GPFRs of a group reporting entity prepared in respect of a government or other public sector entity should include that

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<sup>2</sup> For example, International Public Sector Accounting Standards (IPSASs) such as IPSAS 18, *Segment Reporting* and IPSAS 22, *Disclosure of Financial Information about the General Government Sector* provide a mechanism to satisfy users' need for information about particular segments or sectors of an entity without their identification as separate reporting entities.

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government (or other public sector entity) and the entities whose activities it has the authority and capacity to direct, when the results of such direction can (a) generate financial or other benefits for the government (or other public sector entity); or (b) expose it to a financial burden or loss.

- BC4.9 Many respondents to the ~~CF-ED4~~ Exposure Draft noted their agreement with the IPSASB's view of the criteria that should be satisfied for inclusion in a public sector group reporting entity. However, other respondents expressed their concern about the potential interpretation and application of the criteria in particular circumstances. In some cases, they noted that the Framework would need to provide additional application guidance if it was to be effective in dealing with circumstances not dealt with in IPSASs. A number of respondents also expressed the view that the criteria to be satisfied for inclusion in a group reporting entity was more appropriately addressed and resolved at the standards level, where those criteria and their consequences could be tested across a range of circumstances and supported with specific examples of the circumstances likely to exist in many jurisdictions.
- BC4.10 The IPSASB found these concerns persuasive. It has reconstructed and drawn together its discussion of the reporting entity and group reporting entity to focus on the principles underlying the identification of a public sector reporting entity - whether that reporting entity comprises a single public sector entity or a group of entities. The identification of the criteria to be satisfied for inclusion in a group reporting entity consistent with these principles will then be developed and fully explored at the standards level.

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##### **Chapter 4: The Reporting Entity**

##### **Chapter 5: Elements and Recognition in Financial Statements** *To be added*

##### **Chapter 6: Measurement of Assets and Liabilities in Financial Statements** *To be added*

##### **Chapter 7: Presentation in General Purpose Financial Reports** *To be added*

**STAFF COMMENT:** Respondents supported inclusion of an overall contents page and use of shorter Chapter titles, but had different views on what those titles should be and whether Chapters still in development should be included at this stage.

THE CONCEPTUAL FRAMEWORK FOR GENERAL PURPOSE FINANCIAL REPORTING BY PUBLIC SECTOR ENTITIES

## THE CONCEPTUAL FRAMEWORK FOR GENERAL PURPOSE FINANCIAL REPORTING BY PUBLIC SECTOR ENTITIES

### INTRODUCTION

The *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (the Conceptual Framework) establishes and makes explicit the concepts that are to be applied in developing International Public Sector Accounting Standards (IPSASs) and non-authoritative guidance applicable to the preparation and presentation of general purpose financial reports (GPFRs) of public sector entities.

**Staff comment:** One respondent noted that the Preface to IPSASs currently refers to IPSASs and other *publications*, rather than *documents* as included in this paragraph. Staff has revised text to refer to non-authoritative guidance which is currently used in Chapters 1–4. However this is a pervasive issue and this text may need to be revisited.

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.

#### The Accrual Basis of Accounting

The Conceptual Framework deals with concepts that apply to general purpose financial reporting (financial reporting) under the accrual basis of accounting.

Under the accrual basis of accounting, transactions and other events are recognized in financial statements when they occur (and not only when cash or its equivalent is received or paid). Therefore, the transactions and events are recorded in the accounting records and recognized in the financial statements of the periods to which they relate.

Financial statements prepared under the accrual basis of accounting inform users of those statements of past transactions involving the payment and receipt of cash during the reporting period, obligations to pay cash or sacrifice other resources of the entity in the future, the resources of the entity at the reporting date and changes in those obligations and resources during the reporting period. Therefore, they provide information about past transactions and other events that is more useful to users for accountability purposes and as input for decision-making than is information provided by the cash basis or other bases of accounting or financial reporting.

#### The Conceptual Framework: Chapters 1–4

The IPSASB is currently in the process of developing the Conceptual Framework. Although all the components of the Conceptual Framework are interconnected, the Conceptual Framework project is being developed in phases. Phase 1 has now been completed. It comprises Chapters 1–4 of the Conceptual Framework. These chapters deal with:

- Chapter 1: The Role and Authority of the Conceptual Framework

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- Chapter 2: The Objectives of Financial Reporting
- Chapter 3: The Qualitative Characteristics
- Chapter 4: The Reporting Entity.

The other Phases of the Framework being developed deal with:

- Phase 2—The definition and recognition of the elements of financial statements;
- Phase 3—The measurement of the elements that are recognized in the financial statements; and
- Phase 4—The presentation of information in General Purpose Financial Reports.

**STAFF COMMENT:** A respondent questioned the need for this section, particularly the reference to development of the Framework in phases.

One respondent proposed additional amendments to acknowledge that additional chapters would be added as each of phase is completed.

**STAFF NOTE:** The Preface was not included in the material sent for out of session review. It is based on the Key Characteristics ED (2011) updated as directed at the IPSASB meeting (March 2012). A clean copy is included in this draft because amendments of text and format have been extensive and a marked-up copy is difficult to use. However, a marked up copy is available on request from staff.

## PREFACE

### Introduction

1. Governments are characterized by the breadth of their powers in comparison with the private sector. Such powers involve the ability to establish and enforce legal requirements. Globally the public sector varies considerably in both its constitutional arrangements and its methods of operation. However, the governance of governments and other public sector entities generally involves the holding to account of the executive by a legislative body (or equivalent).
2. Governments 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. The size of the public sector and the services that it provides are dependent upon factors such as political ideology and the size of the economy.
3. The nature of governments and other public sector entities and the environment in which they operate has implications for the concepts that underpin IPSASs and non-authoritative guidance issued by the IPSASB. This Preface outlines the main characteristics of the public sector that distinguish it from the for-profit private sector (hereafter referred to as the private sector, unless stated otherwise). These characteristics are reflected in the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities. This Preface does not provide an exhaustive listing of all the areas in which the public sector can be distinguished from the private sector, but focuses on those with particular implications for general purpose financial reporting.
4. Governments and public sector entities have a major role in providing public goods. In economics, a public good is a good from which (a) individuals cannot be effectively excluded from consumption, and (b) where use by one individual does not reduce availability to others. Examples of public goods include parks, street lighting and fresh air. Governments also provide social goods in order to enhance or maintain the well-being of citizens and other eligible constituents. Examples of social goods are welfare programs, policing and defense. Many social goods are provided by governments, because they are unlikely to be provided by private sector entities. This is because it is not possible, or considered appropriate on public policy grounds, to provide them through competitive market mechanisms.

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5. Public sector entities include national governments, regional (e.g., state, provincial, territorial) governments, and local (e.g., city, town) governments. They also include:

- Government ministries, departments, programs, boards, commissions, and agencies;
- Public sector social security funds, trusts, and statutory authorities, and
- International governmental organizations, such as the United Nations system.

The public sector does not include private not-for-profit entities, although such entities share many of the characteristics of public sector entities.

6. Government Business Enterprises (GBEs), which are also referred to as State Owned Enterprises, Crown Corporations and are known as public corporations in statistical accounting guidelines are also public sector entities. GBEs have similar characteristics to private sector entities, but are governed by a public sector entity which benefits from the GBE's activities. GBEs may be profit seeking or have a financial objective to break even. In some jurisdictions, GBE's may apply international or domestic private sector standards, and in other jurisdictions they may apply IPSASs. Where GBEs apply IPSASs, this Framework applies.
7. There are numerous areas where the transactions, events and other economic phenomena that occur in the public sector are the same as those in the private sector. However, unlike most private sector entities, the future existence of public sector entities is not dependent upon the generation of profits.
8. This Preface discusses the following public sector characteristics that differentiate it from the private sector and influence the concepts identified in this Framework:
- The volume and financial significance of non-exchange transactions and involuntary transfers (paragraphs 9–16);
  - The importance of the approved budget (paragraphs 17–19);
  - The nature and purpose of assets in the public sector (paragraphs 20–23 );
  - The longevity of the public sector (paragraphs 24–28);
  - The regulatory role of government (paragraphs 29–30);
  - Ownership or control of rights to natural resources and phenomena (paragraph 31); and
  - The importance of statistical bases of accounting (paragraphs 32–36).

**The Volume and Financial Significance of Non-Exchange Transactions and Involuntary Transfers**

9. The primary objective of public sector entities is to deliver services to the public and eligible beneficiaries, rather than to make profits and generate a financial return to owners. Services are normally delivered in non-exchange transactions rather than exchange transactions. Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equally value to another entity in

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exchange. Conversely, in a non-exchange transaction, an entity receives value from another entity without directly giving approximately equal value in exchange.

10. For public sector entities the provision of goods and services is largely financed by involuntary transfers, principally taxation, or transfers from other tiers of government, which are initially financed through taxation. A public sector entity must regularly assess the need of its constituents for services and its capacity to undertake the activities necessary to provide those services. Such an assessment includes consideration of factors such as the legal framework that governs the operation of the entity, the cost, quantity and quality of the services to be provided, and the intended outcomes of key programs. The entity must also consider the availability of the assets needed to provide those services, its capacity to continue to service debt and its ability to raise revenue and/or borrow funds.
11. The level and quality of publicly provided goods and services received by an individual, or group of individuals is not normally related to the amount that an individual contributes through taxation. Depending on the provisions of the program, an individual may have to pay a charge or fee and/or may have had to make specified contributions to access certain services. Notwithstanding this, such transactions are, for the most part, of a non-exchange nature because the amount that an individual or group of individuals obtains in benefits will not be approximately equal to the amount of any fees paid or contributions made by the individual or group.
12. Because the primary objective of public sector entities is to provide services to constituents rather than to generate profits, their performance can be only partially evaluated by examination of their financial position at the reporting date and financial performance during the reporting period. This means that in addition to information about such matters as financial position, financial performance and cash flow, users of general purpose financial reports of public sector entities will need information to support assessments of such matters as:
  - Whether the entity provided its services to citizens in an efficient and effective manner;
  - To what extent the burden of paying for current services was shifted to future-year taxpayers;
  - Whether the entity's ability to provide services improved or deteriorated compared with the previous year; and
  - What resources are currently available for future expenditures, and to what extent are resources reserved or restricted for specified uses?
13. As indicated in paragraph 10, the principal source of revenue for governments and many other public sector entities is taxation, the collection of which is a legally mandated involuntary transaction between individuals or business entities and the government. Conversely, private sector entities rely for the large majority of their revenue on exchange transactions that are entered into voluntarily.
14. Tax raising powers can vary considerably. In centralized jurisdictions it is likely that most tax raising powers will lie with central government, with sub-national governments and other

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public sector entities having circumscribed rights to a share of specified taxes and a limited ability to create new tax sources. In decentralized jurisdictions sub-national governments and other public sector entities may have more extensive rights to the resources raised from taxation, access to broader sources of taxation and more discretion over the creation of new sources of taxation and the levels at which taxes are levied.

15. Where entities have limited access to direct taxation inflows they are likely to be dependent upon appropriations or transfers from other levels of government. While some of these transfers may have conditions attached to them, and, arguably, are quasi-contractual in nature, they are non-exchange in essential character.
16. International organizations are largely funded by transfers from national or regional governments. These may be governed by treaties and conventions or be made on a purely voluntary basis.

**The Importance of the Approved Budget**

17. Most governments and other public sector entities prepare annual financial budgets covering areas such as the revenue to be raised and capital and other spending. Entities may also develop budgets covering longer time scales. The budget documents are often widely distributed and published. In the private sector, budgets are prepared as a management tool. Commercial confidentiality means that they will very rarely be made publicly available.
18. In many jurisdictions there is a constitutional requirement to prepare and make publicly available a budget. Historically, the budget has been prominent in communicating with citizens. A government's overall budget is usually the basis for setting taxation levels, is part of the process for obtaining legislative approval for spending and the mechanism for demonstrating compliance with legal requirements relating to the raising and use of public finances. Globally, the approved budget is the primary method by which the legislature exercises oversight and citizens and their elected representatives hold the entity's management financially accountable.
19. Because of the budget's significance, information that helps users assess actual spending against budget estimates and the resulting budgetary surplus or deficit for the reporting period, compared with that budgeted, is important in determining how well a public sector entity has met its financial objectives. Comparison of actual results to the budget therefore provides information about one aspect of financial performance and is important information for accountability purposes.

**The Nature and Purpose of Assets in the Public Sector**

20. For private sector entities, the primary reason for holding property, plant, and equipment and other assets is to generate positive cash flows that contribute to the profits of the entity, either directly or in combination with other assets. 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, rather than to generate positive cash flows. Certain assets held by public sector entities do generate cash inflows but, in most cases,

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cash inflow generation will not be the primary objective of holding them. For example, most tenants of social housing units held by a public sector entity will pay rents. However, while rental income may be an important cash 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.

21. Because of the nature of the services they provide, a significant proportion of assets deployed by public sector entities are specialized in nature, for example roads and military assets. There may be a very limited market for such assets and, even then, they may need considerable adaptation in order to be used by other operators. This characteristic is not unique to the public sector, but is more pervasive.
22. Governments and other public sector entities may have extensive responsibilities for matters relating to national and local heritage. Such responsibilities include the protection or preservation of national art treasures, historical buildings, and other artifacts that contribute to the historical and cultural character of the nation or region. Governments generally also have responsibilities for the preservation of national parks and other areas of natural significance and native flora and fauna.
23. There is a strong intergenerational aspect to these responsibilities. Such buildings, art works and areas of natural significance are part of a nation's endowment. Many consider that they need to be maintained for future generations.

**The Longevity of the Public Sector**

24. The nature and extent of activities undertaken by a public sector entity and the legal formation of such entities generally means that these entities may continue to exist for a very long time. Although political power may change regularly, national governments usually remain in existence. Recent global experience has demonstrated that governments may encounter severe financial difficulties, but will cease to exist only very rarely.
25. At sub-national levels, governments and other public sector entities may be amalgamated. However, it is likely that basic public services will continue to be provided by successor or amalgamated entities.
26. Governments may operate a number of programs with very long-term horizons where the effects of past decisions may only become clear many years, even decades, into the future. It can be unclear whether obligations related to such programs meet the definition of a liability in the financial statements. The ability to meet such obligations depends upon future tax flows.
27. The going concern principle is fundamental in compiling the financial statements of private sector entities, but has often been considered less relevant in the public sector because of the general longevity of governments, the long-term character of many public sector programs, and the tax-raising powers of governments. Sub-national governments and other public sector entities may, on occasion, be amalgamated for political and efficiency reasons and to respond to changing demographics. However, public sector entities often continue to

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exist by restructuring their operations when they are unable to meet their liabilities as they come due. In addition, if sub-national entities get into financial difficulties, their main service delivery commitments may continue to be funded by a senior level of government. There are also a number of examples of national governments defaulting on sovereign debt obligations without ceasing to exist.

28. In the public sector, the long-term sustainability of key programs is of increasing relevance. Because the financial consequences of many decisions will only become clear years or even decades into the future, prospective financial information covering lengthy time horizons may be necessary for accountability and decision-making purposes.

**The Regulatory Role of Public Sector Entities**

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

**Ownership or Control of Rights to Natural Resources and Phenomena**

31. Governments often have the rights to natural resources such as mineral reserves, water, fishing grounds and forests, which allow them to grant licenses or obtain royalties and taxes. They also have rights over phenomena such as the electromagnetic spectrum.

**The Importance of Statistical Bases of Accounting**

32. Statistical bases of accounting compile and present aggregated information for macro-economic analysis and modeling purposes. GPFRs prepared in accordance with IPSASs present information about the reporting entity useful for accountability and decision-making purposes.
33. IPSAS and statistical bases of reporting financial information have different objectives, focus on different reporting entities and treat some transactions and events differently. However, they also have many similarities in treatment, deal with similar transactions and events and, in some cases, have a similar type of report structure.
34. In the public sector the Government Finance Statistics Manual (GFSM), issued by the International Monetary Fund, provides the specialized macroeconomic statistical system

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designed to support fiscal analysis. This system is consistent with the System of National Accounts. The GFSM provides the economic and statistical guidelines to be used in compiling statistics on the fiscal position of nations. The European System of Accounts (ESA) provides the guidelines for nations that are member states of the European Union.

35. 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 all 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. The boundary of the GGS is not dependent upon the relationship between central and sub-national government units.
36. In developing its Conceptual Framework the IPSASB has considered the objectives and requirements of statistical accounting models and the concepts that underpin them.

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**Staff comment:** The detailed Contents page for all chapters of the Framework has been restructured on a chapter by chapter basis and relocated to precede each chapter. The repositioning has not been shown in mark-up.

## Chapter 1: The Role and Authority of the Conceptual Framework

### Role of the Conceptual Framework

- 1.1 The *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (the Conceptual Framework) establishes the concepts that underpin general purpose financial reporting (financial reporting) by public sector entities that adopt the accrual basis of accounting. The International Public Sector Accounting Standards Board (IPSASB) will apply these concepts in developing International Public Sector Accounting Standards (IPSASs) and non-authoritative guidance applicable to the preparation and presentation of general purpose financial reports (GPFs) of public sector entities.

**Staff comment:** One respondent proposed that reference to *non-authoritative guidance* be replaced with *other pronouncements* and this wording be used throughout these chapters.

### Authority of the Conceptual Framework

- 1.2 The Conceptual Framework does not establish authoritative requirements for financial reporting by public sector entities that adopt IPSASs, nor does it override the requirements of IPSASs or non-authoritative guidance issued by the IPSASB (non-authoritative guidance). Authoritative requirements relating to the recognition, measurement, presentation and disclosure of transactions and other events and activities that are reported in GPFs are specified in IPSASs.

**Staff comment:** One respondent proposed that the first sentence should end with the addition of: "...nor does it override the requirements of IPSASs or other pronouncements."

Staff has amended as proposed but referred to *non-authoritative guidance*, rather than *other pronouncements*, pending IPSASB decision on terminology. Staff also notes this amendment is likely to prompt consequential amendments (or discussion of the need for such) to paragraphs 1.3 and BC1.1 and BC1.2, and has identified these by mark-up below for IPSASB consideration.

- 1.3 Although the Conceptual Framework has lesser authority than an IPSAS and non-authoritative guidance, it can provide guidance in dealing with financial reporting issues not dealt with by IPSASs or non-authoritative guidance. In these circumstances, preparers and others can refer to and consider the applicability of the definitions, recognition criteria, measurement principles, and other concepts identified in the Conceptual Framework.

**Staff comment:** One respondent proposed that the first sentence be amended as follows:  
Although the ~~The~~ Conceptual Framework has lesser authority than an IPSAS, it can provide....

### General Purpose Financial Reports

- 1.4 GPFs are a central component of, and support and enhance, transparent financial reporting by governments and other public sector entities. GPFs are financial reports intended to meet the information needs of users who are unable to require the preparation of financial reports tailored to meet their specific information needs.

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- 1.5 Some users of financial information may have the authority to require the preparation of reports tailored to meet their specific information needs. While such parties may find the information provided by GPFs useful for their purposes, GPFs are not developed to specifically respond to their particular information needs.
- 1.6 GPFs encompass financial statements including their notes (hereafter referred to as financial statements, unless specified otherwise), and the presentation of information that enhances, complements and supplements the financial statements. GPFs are likely to comprise multiple reports, each responding more directly to certain aspects of the objectives of financial reporting and matters included within the scope of financial reporting.
- 1.7 The scope of financial reporting establishes the boundary around the transactions, other events and activities that may be reported in GPFs. The scope of financial reporting is determined by the information needs of the primary users of GPFs and the objectives of financial reporting. The factors that determine what may be encompassed within the scope of financial reporting are outlined in the following Chapter of the Conceptual Framework. (See Chapter 2: *The Objectives of Financial Reporting*).

**Applicability of the Conceptual Framework**

- 1.8 The Conceptual Framework applies to financial reporting by public sector entities that apply IPSASs. Therefore, it applies to GPFs of national, state/provincial and local governments. It also applies to a wide range of other public sector entities including:
  - Government ministries, departments, programs, boards, commissions, agencies;
  - Public sector social security funds, trusts, and statutory authorities; and
  - International governmental organizations.

## Chapter 1: Basis for Conclusions

*This Basis for Conclusions accompanies, but is not part of, the Conceptual Framework.*

### Role and Authority of the Conceptual Framework

- BC1.1 The Conceptual Framework identifies the concepts that the IPSASB will apply in developing IPSASs and non-authoritative guidance intended to assist preparers and others in dealing with financial reporting issues. IPSASs specify authoritative requirements. IPSASs and non-authoritative guidance are developed after application of a due process which provides the opportunity for interested parties to provide input on the specific requirements proposed, including their compatibility with current practices in different jurisdictions.
- BC1.2 The IPSASB is of the view that existing authoritative requirements and non-authoritative guidance should not be amended without the application of due process. After the Conceptual Framework is issued, the IPSASB will review extant IPSASs and non-authoritative guidance and identify and, through application of the due process, address any circumstances where there is substantial conflict between an IPSAS and the Conceptual Framework.

**Staff comment:** Staff has identified in mark up the likely consequences of amendments to paragraph 1.2.

### Government Business Enterprises

- BC1.3 The Conceptual Framework underpins the development of IPSASs. Therefore, it has relevance for all entities that apply IPSASs. In some jurisdictions, GBE's (also referred to as State Owned Enterprises, Crown Corporations, public corporations or by similar terms) may apply IPSASs. GPFRs prepared at the whole-of-government level in accordance with IPSASs may consolidate all governmental entities, including GBE's. In these circumstances, GPFRs prepared at the whole of government level will include information about GBEs.

**Staff comment:** Comments from respondents included proposals to: (a) delete the second sentence and (b) revise the third sentence to refer to the consolidation of controlled entities, including controlled GBE's. One respondent also noted that insertion of the phrase "... in accordance with IPSASs..." may give rise to unintended consequences.

Staff is of the view that the final two sentences should be revised so the paragraph reads:

*The Conceptual Framework underpins the development of IPSASs. Therefore, it has relevance for all entities that apply IPSASs. In some jurisdictions, GBE's (also referred to as State Owned Enterprises, Crown Corporations, public corporations or by similar terms) may apply IPSASs. GPFRs prepared at the whole-of-government level in accordance with IPSASs may also consolidate all governmental entities, including GBE's. In these circumstances, the Conceptual Framework will have relevance for the GPFRs of, prepared at the whole of government level will include or the presentation of information about, GBE's.*

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**Special Purpose Financial Reports**

BC1.4 Standard setters often describe as “special purpose financial reports” those financial reports prepared to respond to the requirements of users that have the authority to require the preparation of financial reports that disclose the information they need for their particular purposes. The IPSASB is aware that the requirements of IPSASs have been (and may continue to be) applied effectively and usefully in the preparation of some special purpose financial reports.

**General Purpose Financial Reports**

BC1.5 The Conceptual Framework acknowledges that, to respond to user’s information needs, GPFRs may include information that enhances, complements and supplements the financial statements. Therefore, the Conceptual Framework reflects a scope for financial reporting that is more comprehensive than that encompassed by financial statements. The following Chapter of this Framework (Chapter 2: *The Objectives of Financial Reporting*) identifies the objectives of financial reporting and the primary users of GPFRs. It also outlines the consequences of the primary users’ likely information needs for what may be encompassed within the scope of financial reporting.

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## Chapter 2: The Objectives of Financial Reporting

### Objectives of Financial Reporting

- 2.1 The objectives of financial reporting by public sector entities are to provide information about the entity that is useful to users of GPFRs for accountability purposes and for decision-making purposes (hereafter referred to as “useful for accountability and decision-making purposes”).
- 2.2 Financial reporting is not an end in itself. Its purpose is to provide information useful to users of GPFRs. The objectives of financial reporting are therefore determined by reference to the users of GPFRs, and their information needs.

### Users of General Purpose Financial Reports

- 2.3 Governments and other public sector entities raise resources from taxpayers, donors, lenders and other resource providers for use in the provision of services to citizens and other service recipients. These entities are accountable for their management and use of resources to those that provide them with resources, and to those that depend on them to use those resources to deliver necessary services. Those that provide the resources and receive, or expect to receive, the services also require information as input for decision-making purposes.
- 2.4 Consequently, GPFRs of public sector entities are developed primarily to respond to the information needs of service recipients and resource providers who do not possess the authority to require a public sector entity to disclose the information they need for accountability and decision-making purposes. The legislature (or similar body) and members of parliament (or a similar representative body) are also primary users of GPFRs, and make extensive and ongoing use of GPFRs when acting in their capacity as representatives of the interests of service recipients and resource providers. Therefore, for the purposes of the Conceptual Framework, the primary users of GPFRs are service recipients and their representatives and resource providers and their representatives (hereafter referred to as service recipients and resource providers, unless identified otherwise).
- 2.5 Citizens receive services from, and provide resources to, the government and other public sector entities. Therefore, citizens are primary users of GPFRs. Some service recipients and some resource providers that rely on GPFRs for the information they need for accountability and decision-making purposes may not be citizens—for example, residents who pay taxes and/or receive benefits but are not citizens; multilateral or bilateral donor agencies and many lenders and corporations that provide resources to, and transact with, a government; and those that fund, and/or benefit from, the services provided by international governmental organizations. In most cases, governments that provide resources to international governmental organizations are dependent on GPFRs of those organizations for information for accountability and decision-making purposes.

**Staff comment:** One respondent proposes deletion of phrase “...as representatives of taxpayers...” in 8th line as unnecessary and to enhance “flow”. This phrase was added at the March 2012 meeting.

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- 2.6 GPFRs prepared to respond to the information needs of service recipients and resource providers for accountability and decision-making purposes may also provide information useful to other parties and for other purposes. For example, government statisticians, analysts, the media, financial advisors, public interest and lobby groups and others may find the information provided by GPFRs useful for their own purposes. Organizations that have the authority to require the preparation of financial reports tailored to meet their own specific information needs may also use the information provided by GPFRs for their own purposes—for example, regulatory and oversight bodies, audit institutions, subcommittees of the legislature or other governing body, central agencies and budget controllers, entity management, rating agencies and, in some cases, lending institutions and providers of development and other assistance. While these other parties may find the information provided by GPFRs useful, they are not the primary users of GPFRs. Therefore, GPFRs are not developed to specifically respond to their particular information needs.

**Accountability and Decision-Making**

- 2.7 The primary function of governments and other public sector entities is to provide services that enhance or maintain the well-being of citizens and other eligible residents. Those services include, for example, welfare programs and policing, public education, national security and defense services. In most cases, these services are provided as a result of a non-exchange transaction and in a non-competitive environment.
- 2.8 Governments and other public sector entities are accountable to those that provide them with resources, and to those that depend on them to use those resources to deliver services during the reporting period and over the longer term. The discharge of accountability obligations requires the provision of information about the entity's management of the resources entrusted to it for the delivery of services to constituents and others, and its compliance with legislation, regulation, or other authority that governs its service delivery and other operations. Given the way in which the services provided by public sector entities are funded (primarily by taxation revenues or other non-exchange transactions) and the dependency of service recipients on the provision of those services over the long term, the discharge of accountability obligations will also require the provision of information about such matters as the entity's service delivery achievements during the reporting period, and its capacity to continue to provide services in future periods.
- 2.9 Service recipients and resource providers will also require information as input for making decisions. For example:
- Lenders, creditors, donors and others that provide resources on a voluntary basis, including in an exchange transaction, make decisions about whether to provide resources to support the current and future activities of the government or other public sector entity. In some circumstances, members of the legislature or similar representative body who depend on GPFRs for the information they need, can make or influence decisions about the service delivery objectives of government departments, agencies or programs and the resources allocated to support their achievement; and
  - Taxpayers do not usually provide funds to the government or other public sector entity on a voluntary basis or as a result of an exchange transaction. In addition, in many cases, they do

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not have the discretion to choose whether or not to accept the services provided by a public sector entity or to choose an alternative service provider. Consequently, they have little direct or immediate capacity to make decisions about whether to provide resources to the government, the resources to be allocated for the provision of services by a particular public sector entity or whether to purchase or consume the services provided. However, service recipients and resource providers can make decisions about their voting preferences, and representations they make to elected officials or other representative bodies—these decisions may have resource allocation consequences for certain public sector entities.

- 2.10 Information provided in GPFRs for accountability purposes will contribute to, and inform, decision-making. For example, information about the costs, efficiency and effectiveness of past service delivery activities, the amount and sources of cost recovery, and the resources available to support future activities will be necessary for the discharge of accountability. This information will also be useful for decision-making by users of GPFRs, including decisions that donors and other financial supporters make about providing resources to the entity.

**Information Needs of Service Recipients and Resource Providers**

- 2.11 For accountability and decision-making purposes, service recipients and resource providers will need information that supports the assessments of such matters as:

- The performance of the entity during the reporting period in, for example:
  - Meeting its service delivery and other operating and financial objectives;
  - Managing the resources it is responsible for; and
  - Complying with relevant budgetary, legislative, and other authority regulating the raising and use of resources;
- The liquidity (for example, ability to meet current obligations) and solvency (for example, ability to meet obligations over the long term) of the entity;
- The sustainability of the entity's service delivery and other operations over the long term, and changes therein as a result of the activities of the entity during the reporting period including, for example:
  - The capacity of the entity to continue to fund its activities and to meet its operational objectives in the future (its financial capacity), including the likely sources of funding and the extent to which the entity is dependent on, and therefore vulnerable to, funding or demand pressures outside its control; and
  - The physical and other resources currently available to support the provision of services in future periods (its operational capacity); and
- The capacity of the entity to adapt to changing circumstances, whether changes in demographics or changes in domestic or global economic conditions which are likely to impact the nature or compositions of the activities it undertakes and the services it provides.

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2.12 The information service recipients and resource providers need for these purposes is likely to overlap in many respects. For example, service recipients will require information as input to assessments of such matters as whether:

- The entity is using resources economically, efficiently, effectively and as intended, and whether such use is in their interest;
- The range, volume and cost of services provided during the reporting period are appropriate, and the amounts and sources of their cost recoveries; and
- Current levels of taxes or other charges are sufficient to maintain the volume and quality of services currently provided.

Service recipients will also require information about the consequences of decisions made, and activities undertaken, by the entity during the reporting period on the resources available to support the provision of services in future periods, the entity's anticipated future service delivery activities and objectives, and the amounts and sources of cost recoveries necessary to support those activities.

2.13 Resource providers will require information as input to assessments of such matters as whether the entity:

- Is achieving the objectives established as the justification for the resources raised during the reporting period;
- Funded current operations from funds raised in the current period from taxpayers or from borrowings or other sources; and
- Is likely to need additional (or less) resources in the future, and the likely sources of those resources.

Lenders and creditors will require information as input to assessments of the liquidity of the entity and, therefore, whether the amount and timing of repayment will be as agreed. Donors will require information to support assessments of whether the entity is using resources economically, efficiently, effectively and as intended. They will also require information about the entity's anticipated future service delivery activities and resource needs.

### **Information Provided by General Purpose Financial Reports**

#### *Financial Position, Financial Performance and Cash Flows*

2.14 Information about the financial position of a government or other public sector entity will enable users to identify the resources of the entity and claims to those resources at the reporting date. This will provide information useful as input to assessments of such matters as:

- The extent to which management has discharged its responsibilities for safekeeping and managing the resources of the entity;
- The extent to which resources are available to support future service delivery activities, and changes during the reporting period in the amount and composition of those resources and claims to those resources; and

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- The amounts and timing of future cash flows necessary to service and repay existing claims to the entity's resources.

**Staff comment:** One respondent proposed that the second dot point to split into two.

- 2.15 Information about the financial performance of a government or other public sector entity will inform assessments of matters such as whether the entity has acquired resources economically, and used them efficiently and effectively to achieve its service delivery objectives. Information about the costs of service delivery and the amounts and sources of cost recovery during the reporting period will enable users to determine whether operating costs were recovered from, for example, taxes, user charges, contributions and transfers, or were financed by increasing the level of indebtedness of the entity.
- 2.16 Information about the cash flows of a government or other public sector entity contributes to assessments of financial performance and the entity's liquidity and solvency. It indicates how the entity raised and used cash during the period, including its borrowing and repayment of borrowing and its acquisition and sale of, for example, property, plant, and equipment. It also identifies the cash received from, for example, taxes and investments and the cash transfers made to, and received from, other governments, government agencies or international organizations. Information about cash flows can also support assessments of the entity's compliance with spending mandates expressed in cash flow terms, and inform assessments of the likely amounts and sources of cash inflows needed in future periods to support service delivery objectives.
- 2.17 Information about financial position, financial performance and cash flows are typically presented in financial statements. To assist users to better understand, interpret and place in context the information presented in the financial statements, GPFRs may also provide financial and non-financial information that enhances, complements and supplements the financial statements, including information about such matters as the government's or other public sector entity's:
- Compliance with approved budgets and other authority governing its operations;
  - Service delivery activities and achievements during the reporting period; and
  - Expectations regarding service delivery and other activities in future periods, and the long term consequences of decisions made and activities undertaken during the reporting period, including those that may impact expectations about the future.

This information may be presented in the notes to the financial statements or in separate reports included in GPFRs.

*Budget Information and Compliance with Legislation or Other Authority Governing the Raising and Use of Public Monies*

- 2.18 Typically, a government or other public sector entity prepares, approves and makes publicly available an annual budget. The approved budget provides interested parties with financial information about the entity's operational plans for the forthcoming period, its capital needs and, often, its service delivery objectives and expectations. It is used to justify the raising of monies from

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taxpayers and other resource providers, and establishes the authority for expenditure of public monies.

- 2.19 Some resources to support the activities of public sector entities may be received from donors, lenders or as a result of exchange transactions. However, resources to support the activities of public sector entities are predominantly provided in non-exchange transactions by taxpayers and others, consistent with the expectations reflected in an approved budget.
- 2.20 GPFRs provide information about the financial results (whether described as “surplus or deficit,” “profit or loss,” or by other terms), performance and cash flows of the entity during the reporting period, its assets and liabilities at the reporting date and the change therein during the reporting period, and its service delivery achievements.
- 2.21 The inclusion within GPFRs of information that assists users in assessing the extent to which revenues, expenses, cash flows and financial results of the entity comply with the estimates reflected in approved budgets, and the entity’s adherence to relevant legislation or other authority governing the raising and use of public monies, is important in determining how well a public sector entity has met its financial objectives. Such information is necessary for the discharge of a government’s or other public sector entity’s accountability to its constituents, enhances the assessment of the financial performance of the entity and will inform decision-making.

*Service Delivery Achievements*

- 2.22 The primary objective of governments and most public sector entities is to provide needed services to constituents. Consequently, the financial performance of governments and most public sector entities will not be fully or adequately reflected in any measure of financial result. Therefore, their financial results will need to be assessed in the context of the achievement of service delivery objectives.
- 2.23 In some cases, quantitative measures of the outputs and outcomes of the entity’s service delivery activities during the reporting period will provide relevant information about the achievement of service delivery objectives—for example, information about the cost, volume, and frequency of service delivery, and the relationship of services provided to the resource base of the entity. In other cases, the achievement of service delivery objectives may need to be communicated by an explanation of the quality of particular services provided or the outcome of certain programs.
- 2.24 Reporting non-financial as well as financial information about service delivery activities, achievements and/or outcomes during the reporting period will provide input to assessments of the economy, efficiency, and effectiveness of the entity’s operations. Reporting such information is necessary for a government or other public sector entity to discharge its obligation to be accountable—that is, to account for, and justify the use of, the resources raised from, or on behalf of, constituents. Decisions that donors make about the allocation of resources to particular entities and programs are also made, at least in part, in response to information about service delivery achievements during the reporting period, and future service delivery objectives.

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*Prospective Financial and Non-financial Information*

- 2.25 Given the longevity of governments and many government programs, the financial consequences of many decisions made in the reporting period may only become clear many years into the future. Financial statements which present information about financial position at a point in time and financial performance and cash flows over the reporting period will then need to be assessed in the context of the long term.
- 2.26 Decisions made by a government or other public sector entity in a particular period about programs for delivering and funding services in the future can have significant consequences for:
- Constituents who will be dependent on those services in the future; and
  - Current and future generations of taxpayers and other involuntary resource providers who will provide the taxes and levies to fund the planned service delivery activities and related financial commitments.
- 2.27 Information about the entity's anticipated future service delivery activities and objectives, their likely impact on the future resource needs of the entity, and the likely sources of funding for such resources, will be necessary as input to any assessment of the ability of the government or other public sector entity to meet its service delivery and financial commitments in the future. The disclosure of such information in GPFRs will support assessments of the sustainability of service delivery by a government or other public sector entity, enhance the accountability of the entity and provide additional information useful for decision-making purposes.

*Explanatory Information*

- 2.28 Information about the major factors underlying the financial and service delivery performance of the entity during the reporting period and the assumptions that underpin expectations about, and factors that are likely to influence, the entity's future performance may be presented in GPFRs in notes to the financial statements or in separate reports. Such information will assist users to better understand and place in context the financial and non-financial information included in GPFRs, and enhance the role of GPFRs in providing information useful for accountability and decision-making purposes.

**Financial Statements and Information that Enhances, Complements and Supplements the Financial Statements**

- 2.29 The scope of financial reporting establishes the boundary around the transactions, other events and activities that may be reported in GPFRs. To respond to the information needs of users, the Conceptual Framework reflects a scope for financial reporting that is more comprehensive than that encompassed by financial statements. It provides for the presentation within GPFRs of additional information that enhances, complements and supplements those statements.
- 2.30 While the Conceptual Framework reflects a scope of financial reporting that is more comprehensive than that encompassed by financial statements, information presented in financial statements remains at the core of financial reporting. How the elements of financial statements are defined, recognized and measured, and forms of presentation and communication that might be adopted for

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information included within GPFRs, is considered in other components of the Conceptual Framework and in the development of individual IPSASs or non-authoritative guidance, as appropriate.

**Other Sources of Information**

- 2.31 GPFRs play a significant role in communicating information necessary to support the discharge of a government's or other public sector entity's obligation to be accountable, as well as providing information useful as input for decision-making purposes. However, GPFRs will not provide all the information users need for accountability and decision-making purposes. For example, while comparison of actual with budget information for the reporting period may be included in GPFRs, the budgets and financial forecasts issued by governments provide more detailed financial and non-financial information about the financial characteristics of the plans of governments and other public sector entities over the short and medium terms. Governments and independent agencies also issue reports on the need for, and sustainability of, existing service delivery initiatives, and anticipated economic conditions and changes in the jurisdiction's demographics over the medium and longer term that will influence budgets and service delivery needs in the future. Consequently, service recipients and resource providers may also need to consider information from other sources, including reports on current and anticipated economic conditions, government budgets and forecasts, and information about government policy initiatives not reported in GPFRs.

**Staff comment:** Staff proposed that the explanation in the second sentence that *GPFRs "will not provide all the information users need..."* is too exhaustive and be "softened" to reflect that it *"...is unlikely that GPFRs will provide all the information users need..."*

One respondent expressed some reservations about the proposed wording and proposed that the extent to which GPFRs satisfy needs be further discussed.

## Chapter 2: Basis for Conclusions

*This Basis for Conclusions accompanies, but is not part of, the Conceptual Framework.*

### Primary User Groups

BC2.1 In developing the Conceptual Framework, the IPSASB sought views on whether the Conceptual Framework should identify the primary users of GPFRs. Many respondents to the initial Consultation Paper<sup>1</sup> expressed the view that the Framework should identify the primary users of GPFRs, and the IPSASB should focus on the information needs of those primary users in developing IPSASs. The IPSASB was persuaded by these views.

### Identifying the Primary User Groups

BC2.2 Conceptual Framework Exposure Draft 1, *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Role, Authority and Scope; Objectives and Users; Qualitative Characteristics; and Reporting Entity* (the Exposure Draft) identified service recipients and their representatives, and resource providers and their representatives as the primary users of GPFRs. It explained that, while the IPSASB will develop IPSASs and non-authoritative guidance on the contents of GPFRs to respond primarily to the information needs of these primary users, GPFRs may still be used by others with an interest in financial reporting, and may provide information of use to those other users.

BC2.3 Many respondents to the Exposure Draft expressed support for the identification of service recipients and their representatives and resource providers and their representatives as the primary users of GPFRs. However, others were of the view that the public, citizens or legislature should be identified as the primary or most important users of GPFRs of public sector entities. They explained that this is because governments are primarily accountable to the citizens or their representatives and, in many jurisdictions, the legislature and individual members of parliament (or similar representative body) acting on behalf of citizens are the main users of GPFRs. Some respondents also expressed the view that resource providers and their representatives should be identified as the primary users of GPFRs of public sector entities. They explained that it is unlikely that GPFRs would be able to respond to the information needs of all users, and resource providers are likely to have the greatest interest in GPFRs. Therefore, identifying resource providers as the primary user group will allow the IPSASB to focus more sharply on the information needs of a single user group. They also noted that GPFRs prepared to respond to the information needs of resource providers are likely to also provide information useful to other potential users.

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<sup>1</sup> Consultation Paper, *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: The Objectives of Financial Reporting; The Scope of Financial Reporting; The Qualitative Characteristics of Information Included in General Purpose Financial Reports; The Reporting Entity*.

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BC2.4 The IPSASB acknowledges that there is merit in many of the proposals made by respondents regarding the identity of the primary users of GPFRs of public sector entities, particularly as they apply to governments in many jurisdictions. However, given the objectives of financial reporting by public sector entities, the IPSASB remains of the view that the primary users of GPFRs of public sector entities should be identified as service recipients and their representatives and resource providers and their representatives. This is because:

- governments and other public sector entities are accountable to those that depend on them to use resources to deliver necessary services, as well as to those that provide them with the resources that enable the delivery of those services; and
- GPFRs have a significant role in the discharge of that accountability and the provision of information useful to those users for decision-making purposes.

As such, GPFRs should be developed to respond to the information needs of service recipients and their representatives and resource providers and their representatives as the primary users. In addition, the Conceptual Framework will apply to governments and a potentially wide range of other public sector entities in many different jurisdictions, and to international governmental organizations. Consequently, it is not clear that identification of other user groups as the primary users of GPFRs will be relevant, and operate effectively, for all public sector entities across all jurisdictions.

BC2.5 The IPSASB accepts that some information in GPFRs may be of more interest and greater use to some users than others. The IPSASB also accepts that, in developing IPSASs and non-authoritative guidance, it will need to consider and, in some cases, balance the needs of different groups of primary users. However, the IPSASB does not believe that such matters invalidate the identification of both service recipients and their representatives and resource providers and their representatives as the primary users of GPFRs.

BC2.6 The IPSASB's views on the relationship between the primary user groups identified by respondents, and service recipients and resource providers are further elaborated below.

*Citizens*

BC2.7 The IPSASB acknowledges the importance of citizens, the public and their representatives as users of GPFRs, but is of the view that classifying citizens as service recipients and resource providers provides a basis for assessing their potential information needs. This is because citizens encompass many individuals with a potentially wide range of diverse information needs – focusing on the information needs of citizens as service recipients and resource providers enables the IPSASB to draw together those diverse interests and explore what information needs GPFRs should attempt to respond to. The IPSASB is also of the view that, in developing IPSASs, it is appropriate that it has the capacity to consider the information needs of a range of service recipients and resource providers who may not be citizens (including donors and lenders) and use but do not possess the authority to require a public sector entity to disclose the information they need for accountability and decision-making purposes.

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*Resource Providers*

BC2.8 The IPSASB agrees that GPFRs directed at the provision of information to satisfy the information needs of resource providers will also provide information useful to other potential users of GPFRs. However, the IPSASB is of the view that the Conceptual Framework should make clear its expectation that governments and other public sector entities should be accountable to both those that provide them with resources and those that depend on them to use those resources to deliver necessary and/or promised services. In addition, it has been noted that in some jurisdictions, resource providers are primarily donors or lenders that may have the authority to require the preparation of special purpose financial reports to provide the information they need.

**Staff comment:** One respondent proposed that the sequence of paragraphs BC2.7 and BC2.8 be reversed to improve the flow.

BC2.9 As noted at paragraph 2.5, the IPSASB has formed a view that both service recipients and resource providers and their representatives are primary users of GPFRs. The IPSASB is of the view that the Conceptual Framework should not exclude citizens who may be interested in GPFRs in their capacity as service recipients from the potential users of GPFRs, or identify their information needs as less important than those of resource providers. The IPSASB is also of the view that it is not appropriate that donors, lenders, and others that provide resources on a voluntary or involuntary basis to governments and other public sector entities be excluded as potential users of GPFRs, or that their information needs be identified as less important than those of service recipients.

*The Legislature*

BC2.10 The IPSASB is of the view that the legislature or similar governing body is a primary user of GPFRs in its capacity as a representative of service recipients and resource providers. The legislature, parliaments, councils and similar bodies will also require information for their own specific accountability and decision-making purposes, and usually have the authority to require the preparation of detailed special purpose financial and other reports to provide that information. However, they may also use the information provided by GPFRs as well as information provided by special purpose financial reports for input to assessments of whether resources were used efficiently and as intended and in making decisions about allocating resources to particular government entities, programs or activities.

BC2.11 Individual members of the legislature or other governing body, whether members of the government or opposition, can usually require the disclosure of the information they need for the discharge of their official duties as directed by the legislature or governing body. However, they may not have the authority to require the preparation of financial reports that provide the information they require for other purposes, or in other circumstances. Consequently, they are users of GPFRs, whether in their capacity as representatives of service recipients and resource providers in their electorate or constituency, or in their personal capacity as citizens and members of the community.

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**Staff comment:** One respondent proposed that BC2.10 and BC2.11 be moved before BC2.7 and BC2.8 to reflect the sequence in which they are identified in paragraph BC2.3.

*Other User Groups*

- BC2.12 In developing the Conceptual Framework, the IPSASB considered a wide range of other potential users of GPFs, including whether special interest groups and their representatives, or those transacting with public sector entities on a commercial or non-commercial basis or on a voluntary or involuntary basis (such as public sector and private sector resource providers) should be identified as separate user groups. The IPSASB is of the view that identifying service recipients and their representatives and resource providers and their representatives as the primary users of GPFs will respond appropriately to the information needs of subgroups of service recipients and resource providers.
- BC2.13 The information provided by GPFs may be useful for compiling national accounts, as input to statistical financial reporting models, for assessments of the impact of government policies on economic activity and for other economic analytical purposes. However, GPFs are not developed specifically to respond to the needs of those who require information for these purposes. Similarly, while those that act as advisors to service recipients or to resource providers (such as citizen advocacy groups, bond rating agencies, credit analysts and public interest groups) are likely to find the information reported in GPFs useful for their purposes, GPFs are not prepared specifically to respond to their particular information needs.

**The Objectives of Financial Reporting**

- BC2.14 Many respondents to the Exposure Draft agreed that the provision of information useful for both accountability and decision-making purposes should be identified as the objectives of financial reporting by public sector entities. Some respondents advocated that only accountability be identified as the single or dominant objective of financial reporting by public sector entities, other respondents advocated that decision-making should be identified as the single objective. However, the IPSASB remains of the view that users of GPFs of public sector entities will require information for both accountability and decision-making purposes.
- BC2.15 Some respondents to the Exposure Draft advocated that the link between accountability and decision-making be more clearly articulated and the public sector characteristics that underpinned the IPSASB's views on the objectives of financial reporting by public sector entities be identified. The IPSASB has responded positively to these proposals. The Framework has been restructured and clarifications added. In addition, the Framework includes a Preface which outlines the key characteristics of the public sector.
- BC2.16 The explanation of accountability and its relationship to decision-making and GPFs has been strengthened. In this context, the IPSASB acknowledges that the notion of accountability reflected in this Framework is broad. It encompasses the provision of information about the entity's management of the resources entrusted to it, and information useful to users in assessing the sustainability of the activities of the entity and the continuity of the provision of services over the long term. The IPSASB is of the view that this broad notion of accountability

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is appropriate because citizens and other constituents provide resources to governments and other public sector entities on an involuntary basis and, for the most part, depend on governments and other public sector entities to provide needed services over the long term. However, the IPSASB also recognizes that it is unlikely that GPFRs will provide all the information that service recipients and resource providers need for accountability and decision-making purposes.

**The Scope of Financial Reporting – Financial Statements and Information that Enhances, Complements and Supplements the Financial Statements**

BC2.17 Many respondents to the Exposure Draft expressed support for the scope of financial reporting and its explanation as proposed by the IPSASB, with some identifying matters for clarification and others noting that projects dealing with the broader scope issues would need to provide guidance on application of the qualitative characteristics (QCs) such as verifiability and comparability. Other respondents did not support the scope of financial reporting being broader than financial statements, expressing concern that:

- The proposed broad scope dealt with matters which were outside the Terms of Reference of the IPSASB that were in effect at that time (the IPSASB's Terms of Reference has been updated to overcome this concern); and

**Staff comment:** One respondent questioned inclusion of the observation that the IPSASB's Terms of Reference has been updated.

- Guidance on matters outside the financial statements, such as non-financial and prospective information, is appropriately a matter for individual governments, or governing bodies or other authority.

Some respondents to the Exposure Draft also expressed concern that the scope was too sharply focused on the financial statements, and that additional guidance on non-financial information and sustainability reporting be included in the Framework.

BC2.18 The IPSASB remains of the view that it is necessary that the Conceptual Framework reflect a scope for financial reporting that is more comprehensive than that encompassed by financial statements. This is because, as noted in *The Preface to the Conceptual Framework*:

- The primary objective of governments and other public sector entities is to deliver services to constituents rather than to generate profits;
- Citizens and other eligible residents are dependent on governments and other public sector entities to provide a wide range of services on an on-going basis over the long term. The activities of, and decisions made by, governments and other public sector entities in a particular reporting period can have significant consequences for future generations of service recipients and future generations of taxpayers and other involuntary resource providers; and
- Most governments and other public sector entities operate within spending mandates and financial constraints established through the budgetary process. Monitoring

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implementation of the approved budget is the primary method by which the legislature exercises oversight, and citizens and their elected representatives hold the government's management financially accountable.

- BC2.19 Consequently, the performance of public sector entities in achieving their financial and service delivery objectives can be only partially evaluated by examination of their financial position at the reporting date, and financial performance and cash flows during the reporting period. The IPSASB is of the view that, to respond to users' need for information for accountability and decision-making purposes, the Conceptual Framework should enable GPFs to encompass the provision of information that allows users to better assess and place in context the financial statements. Such information may be communicated by separate reports that present financial and non-financial information about: the achievement of the entity's service delivery objectives during the reporting period: its compliance with approved budgets and legislation or other authority governing the raising and use of public monies: and prospective financial and non-financial information about its future service delivery activities, objectives, and resource needs. In some cases, information about these matters may also be presented in notes to the financial statements.
- BC2.20 In making decisions about financial reporting requirements or guidance that extend the information presented in GPFs beyond financial statements, the IPSASB will consider the benefits of the information to users and the costs of compiling and reporting such information.

*Limiting the Scope of Financial Reporting*

- BC2.21 Some respondents who agreed that the scope of financial reporting should extend beyond the financial statements expressed concern that the scope as proposed in the Exposure Draft was too open ended and/or not adequately explained or justified - in some cases proposing that the scope be limited to enhancement of matters recognized in the financial statements.
- BC2.22 The IPSASB has responded to these concerns by clarifying the linkages between the scope of financial reporting, and users' information needs, and including additional explanation of the relationship between users' information needs and the information that GPFs may provide in response. In addition, the IPSASB has clarified that the scope of general purpose financial reporting is limited to the financial statements and information that enhances, complements and supplements the financial statements. Consequently, what is included in the more comprehensive scope of financial reporting will be derived from financial statements, and limited to matters that assist users to better understand and put in context the information included in those statements.

*Resource Considerations, Authoritative Requirements and Audit Status*

- BC2.23 Many respondents, whether supportive or opposed to the proposals in the Exposure Draft, expressed concern that dealing with "broad scope" issues would absorb too much of the IPSASB's resources and limit its ability to deal with financial statement issues. Some respondents to the Exposure Draft also:

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- Advocated that the Framework clarify that authoritative requirements would only be developed for financial statement matters, broader scope issues being the subject of guidelines; and
- Expressed concern about the audit implication of including non-financial information and prospective information in GPFRs.

BC2.24 While the IPSASB can develop IPSASs which include authoritative requirements, it is not inevitable that it will do so. For example, the IPSASB's publications also include discussion papers and non-authoritative guidance intended to assist the financial reporting community to respond to particular financial reporting issues. All IPSASB documents which include authoritative requirements or non-authoritative guidance on the presentation of information in GPFRs, whether as part of the financial statements or enhancements to those statements, will be subject to full due process. Therefore, in developing authoritative or other guidance on the presentation of information that broadens the scope of financial reporting, the IPSASB will need to respond to constituent concerns about the proposed technical content and authority of the guidance.

BC2.25 The IPSASB acknowledges the concern of respondents regarding the deployment of the IPSASB's resources to "broad scope" issues. However, information presented in financial statements remains at the core of financial reporting and, therefore will remain the primary focus of the IPSASs and non-authoritative guidance developed by the IPSASB. Consequently, the standards development work program of the IPSASB will continue to respond to users' need for better financial reporting of transactions and other events that are reported in the financial statements.

BC2.26 The IPSASB is of the view that it is not the role of the Conceptual Framework, or the IPSASs that may be developed consistent with the concepts reflected in the Framework, to attempt to establish the level of audit assurance that should be provided to particular aspects of GPFRs. The QCs provide some assurance to users about the quality of information included in GPFRs. However, responsibilities for the audit of financial statements and other components of GPFRs will be established by such matters as the regulatory framework in place in particular jurisdictions and the audit mandate agreed with and/or applying to the entity.

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Understandability .....	
Timeliness.....	
Comparability.....	
Verifiability.....	
Classification of the Qualitative Characteristics and Order of their Application.....	
Constraints on Information Included in General Purpose Financial Reports .....	
Materiality .....	
Cost-Benefit .....	

## Chapter 3: The Qualitative Characteristics

- 3.1 GPFs present financial and non-financial information about economic and other phenomena. The qualitative characteristics of information included in GPFs are the attributes that make that information useful to users and support the achievement of the objectives of financial reporting. The objectives of financial reporting are to provide information useful for accountability and decision-making purposes.
- 3.2 The qualitative characteristics of information included in GPFs of public sector entities are relevance, faithful representation, understandability, timeliness, comparability, and verifiability.
- 3.3 Materiality, cost-benefit, and achieving an appropriate balance between the qualitative characteristics are pervasive constraints on information included in GPFs.

**Staff comment:** One respondent proposed recasting this paragraph as dot points because current wording is cumbersome. Staff recommends that, if restructured, it reflect the form of paragraph 3.2 above. That is: *Pervasive constraints on information included in GPFs are materiality, cost-benefit, and achieving an appropriate balance between the qualitative characteristics.*

- 3.4 Each of the qualitative characteristics is integral to, and works with, the other characteristics to provide in GPFs information useful for achieving the objectives of financial reporting. However, in practice, all qualitative characteristics may not be fully achieved, and a balance or trade-off between certain of them may be necessary.
- 3.5 The qualitative characteristics apply to all financial and non-financial information reported in GPFs, including historic and prospective information, and explanatory information. However, the extent to which the qualitative characteristics can be achieved may differ depending on the degree of uncertainty and subjective assessment or opinion involved in compiling the financial and non-financial information. The need for additional guidance on interpreting and applying the qualitative characteristics to information that extends the scope of financial reporting beyond financial statements will be considered in the development of any IPSASs and non-authoritative guidance that deal with such matters.

### Relevance

- 3.6 Financial and non-financial information is relevant if it is capable of making a difference in achieving the objectives of financial reporting. Financial and non-financial information is capable of making a difference when it has confirmatory value, predictive value, or both. It may be capable of making a difference, and thus be relevant, even if some users choose not to take advantage of it or are already aware of it.
- 3.7 Financial and non-financial information has confirmatory value if it confirms or changes past (or present) expectations. For example, information will be relevant for accountability and decision-making purposes if it confirms expectations about such matters as the extent to which managers have discharged their responsibilities for the efficient and effective use of resources, the achievement of specified service delivery objectives, and compliance with relevant budgetary, legislative and other requirements.

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- 3.8 GPFRs may present information about an entity's anticipated future service delivery activities, objectives and costs, and the amount and sources of the resources that are intended to be allocated to providing services in the future. Such future oriented information will have predictive value and be relevant for accountability and decision-making purposes. Information about economic and other phenomena that exist or have already occurred can also have predictive value in helping form expectations about the future. For example, information that confirms or disproves past expectations can reinforce or change expectations about financial results and service delivery outcomes that may occur in the future.
- 3.9 The confirmatory and predictive roles of information are interrelated—for example, information about the current level and structure of an entity's resources and claims to those resources helps users to confirm the outcome of resource management strategies during the period, and to predict an entity's ability to respond to changing circumstances and anticipated future service delivery needs. The same information helps to confirm or correct users' past expectations and predictions about the entity's ability to respond to such changes. It also helps to confirm or correct prospective financial information included in previous GPFRs.

**Faithful Representation**

- 3.10 To be useful in financial reporting, information must be a faithful representation of the economic and other phenomena that it purports to represent. Faithful representation is attained when the depiction of the phenomenon is complete, neutral, and free from material error. Information that faithfully represents an economic or other phenomenon depicts the substance of the underlying transaction, other event, activity or circumstance—which is not necessarily always the same as its legal form.
- 3.11 In practice, it may not be possible to know or confirm whether information presented in GPFRs is complete, neutral, and free from material error. However, information should be as complete, neutral, and free from error as is possible.
- 3.12 An omission of some information can cause the representation of an economic or other phenomenon to be false or misleading, and thus not useful to users of GPFRs. For example, a complete depiction of the item "plant and equipment" in GPFRs will include a numeric representation of the aggregate amount of plant and equipment together with other quantitative, descriptive and explanatory information necessary to faithfully represent that class of assets. In some cases, this may include the disclosure of information about such matters as the major classes of plant and equipment, factors that have affected their use in the past or might impact on their use in the future, and the basis and process for determining their numeric representation. Similarly, prospective financial and non-financial information, and information about the achievement of service delivery objectives and outcomes, included in GPFRs will need to be presented with the key assumptions that underlie that information, and any explanations that are necessary to ensure that its depiction is complete and useful to users.
- 3.13 Neutrality in financial reporting is the absence of bias. It means that the selection and presentation of financial and non-financial information is not made with the intention of attaining a particular predetermined result—for example, to influence in a particular way users' assessment of the

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discharge of accountability by the entity or a decision or judgment that is to be made, or to induce particular behaviour.

- 3.14 Neutral information faithfully represents the economic and other phenomena that it purports to represent. However, to require information included in GPFRs to be neutral does not mean that it is not without purpose or that it will not influence behaviour. Relevance is a qualitative characteristic and, by definition, relevant information is capable of influencing users' assessments and decisions.
- 3.15 The economic and other phenomena represented in GPFRs generally occur under conditions of uncertainty. Information included in GPFRs will therefore often include estimates that incorporate management's judgment. To faithfully represent an economic or other phenomenon, an estimate must be based on appropriate inputs, and each input must reflect the best available information. Caution will need to be exercised when dealing with uncertainty. It may sometimes be necessary to explicitly disclose the degree of uncertainty in financial and non-financial information to faithfully represent economic and other phenomena.

**Staff comment:** One respondent noted that the paragraph seems incomplete because the last sentence does not explain what preparers should do in these uncertain situations where meaningful measurement is impossible. In material distributed as part of the out-of-session review staff proposed deletion of the sentence from this paragraph, given that the relationship between the QCs and measurement is considered in another Phase of the Framework. Staff received no objections to removal of this sentence. The comment from this respondent reinforces that view.

- 3.16 Free from material error does not mean complete accuracy in all respects. Free from material error means there are no errors or omissions that are individually or collectively material in the description of the phenomenon, and the process used to produce the reported information has been applied as described. In some cases, it may be possible to determine the accuracy of some information included in GPFRs—for example, the amount of a cash transfer to another level of government, volume of services delivered or the price paid for the acquisition of plant and equipment. However, in other cases it may not—for example, the accuracy of an estimate of the value or cost of an item or the effectiveness of a service delivery program may not be able to be determined. In these cases, the estimate will be free from material error if the amount is clearly described as an estimate, the nature and limitations of the estimation process are explained, and no material errors have been identified in selecting and applying an appropriate process for developing the estimate.

### Understandability

- 3.17 Understandability is the quality of information that enables users to comprehend its meaning. GPFRs of public sector entities should present information in a manner that responds to the needs and knowledge base of users, and to the nature of the information presented. For example, explanations of financial and non-financial information and commentary on service delivery and other achievements during the reporting period and expectations for future periods should be written in plain language, and presented in a manner that is readily understandable by users. Understandability is enhanced when information is classified, characterized, and presented clearly and concisely. Comparability also can enhance understandability.

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3.18 Users of GPFs are assumed to have a reasonable knowledge of the entity's activities and the environment in which it operates, to be able and prepared to read GPFs, and to review and analyze the information presented with reasonable diligence. Some economic and other phenomena are particularly complex and difficult to represent in GPFs, and some users may need to seek the aid of an advisor to assist in their understanding of them. All efforts should be undertaken to represent economic and other phenomena included in GPFs in a manner that is understandable to a wide range of users. However, information should not be excluded from GPFs solely because it may be too complex or difficult for some users to understand without assistance.

**Timeliness**

3.19 Timeliness means having information available for users before it loses its capacity to be useful for accountability and decision-making purposes. Having relevant information available sooner can enhance its usefulness as input to assessments of accountability and its capacity to inform and influence decisions that need to be made. A lack of timeliness can render information less useful.

3.20 Some items of information may continue to be useful long after the reporting period or reporting date. For example, for accountability and decision-making purposes, users of GPFs may need to assess trends in the financial and service delivery performance of the entity and its compliance with budgets over a number of reporting periods. In addition, the outcome and effects of some service delivery programs may not be determinable until future periods—this may occur in respect of programs intended to, for example, enhance the economic well-being of constituents, reduce the incidence of a particular disease, or increase literacy levels of certain age groups.

**Comparability**

3.21 Comparability is the quality of information that enables users to identify similarities in, and differences between, two sets of phenomena. Comparability is not a quality of an individual item of information, but rather a quality of the relationship between two or more items of information.

3.22 Comparability differs from consistency. Consistency refers to the use of the same accounting principles or policies and basis of preparation, either from period to period within an entity or in a single period across more than one entity. Comparability is the goal, and consistency helps in achieving that goal. In some cases, the accounting principles or policies adopted by an entity may be revised to better represent a particular transaction or event in GPFs. In these cases, the inclusion of additional disclosures or explanation may be necessary to satisfy the characteristics of comparability.

3.23 Comparability also differs from uniformity. For information to be comparable, like things must look alike and different things must look different. An over-emphasis on uniformity may reduce comparability by making unlike things look alike. Comparability of information in GPFs is not enhanced by making unlike things look alike, any more than it is by making like things look different.

3.24 Information about the entity's financial position, financial performance, cash flows, compliance with approved budgets and relevant legislation or other authority governing the raising and use of public monies, service delivery achievements, and its future plans is necessary for accountability purposes

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and useful as input for decision-making purposes. The usefulness of such information is enhanced if it can be compared with, for example:

- Prospective financial and non-financial information previously presented for that reporting period or reporting date;
- Similar information about the same entity for some other period or some other point in time; and
- Similar information about other entities (for example, public sector entities providing similar services in different jurisdictions) for the same reporting period.

3.25 Consistent application of accounting principles, policies and basis of preparation to prospective financial and non-financial information and actual outcomes will enhance the usefulness of any comparison of projected and actual results. Comparability with other entities may be less significant for explanations of management's perception or opinion of the factors underlying the entity's current performance.

#### **Verifiability**

3.26 Verifiability is the quality of information that helps assure users that information in GPFRs faithfully represents the economic and other phenomena that it purports to represent. Supportability is sometimes used to describe this quality when applied in respect of explanatory information and prospective financial and non-financial quantitative information disclosed in GPFRs—that is, the quality of information that helps assure users that explanatory or prospective financial and non-financial quantitative information faithfully represents the economic and other phenomena that it purports to represent. Whether referred to as verifiability or supportability, the characteristic implies that different knowledgeable and independent observers could reach general consensus, although not necessarily complete agreement, that either:

- The information represents the economic and other phenomena that it purports to represent without material error or bias; or
- An appropriate recognition, measurement, or representation method has been applied without material error or bias.

3.27 To be verifiable, information need not be a single point estimate. A range of possible amounts and the related probabilities also can be verified.

3.28 Verification may be direct or indirect. With direct verification, an amount or other representation is itself verified, such as by (a) counting cash, (b) observing marketable securities and their quoted prices, or (c) confirming that the factors identified as influencing past service delivery performance were present and operated with the effect identified. With indirect verification, the amount or other representation is verified by checking the inputs and recalculating the outputs using the same accounting convention or methodology. An example is verifying the carrying amount of inventory by checking the inputs (quantities and costs) and recalculating the ending inventory using the same cost flow assumption (for example, average cost or first-in-first-out).

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- 3.29 The quality of verifiability (or supportability if such term is used to describe this characteristic) is not an absolute—some information may be more or less capable of verification than other information. However, the more verifiable is the information included in GPFRs, the more it will assure users that the information faithfully represents the economic and other phenomena that it purports to represent.

**Staff comment:** A respondent noted that the final sentence in this paragraph and similar text in paragraphs 3.31, BC3.30 and BC3.31 (now BC3.26 and BC3.27) may be read that the IPSASB intended *verifiability* to be a component of *faithful representation*. Staff, do not propose changes to this paragraph or 3.31, but have included some text in the BC to clarify the IPSASB's intent.

- 3.30 GPFRs of public sector entities may include financial and other quantitative information and explanations about (a) key influences on the entity's performance during the period, (b) the anticipated future effects or outcomes of service delivery programs undertaken during the reporting period, and (c) prospective financial and non-financial information. It may not be possible to verify the accuracy of all quantitative representations and explanations of such information until a future period, if at all.
- 3.31 To help assure users that prospective financial and non-financial quantitative information and explanations included in GPFRs faithfully represents the economic and other phenomena that they purport to represent, the assumptions that underlie the information disclosed, the methodologies adopted in compiling that information, and the factors and circumstances that support any opinions expressed or disclosures made should be transparent. This will enable users to form judgments about the appropriateness of those assumptions and the method of compilation, measurement, representation and interpretation of the information.

### Constraints on Information Included in General Purpose Financial Reports

#### *Materiality*

- 3.32 Information is material if its omission or misstatement could influence the discharge of accountability by the entity, or the decisions that users make on the basis of the entity's GPFRs prepared for that reporting period. Materiality depends on both the nature and amount of the item judged in the particular circumstances of each entity. GPFRs may encompass qualitative and quantitative information about service delivery achievements during the reporting period, and expectations about service delivery and financial outcomes in the future. Consequently, it is not possible to specify a uniform quantitative threshold at which a particular type of information becomes material.
- 3.33 Assessments of materiality will be made in the context of the legislative, institutional and operating environment within which the entity operates and, in respect of prospective financial and non-financial information, the preparer's knowledge and expectations about the future. Disclosure of information about compliance or non-compliance with legislation, regulation or other authority may be material because of its nature—irrespective of the magnitude of any amounts involved. In determining whether an item is material in these circumstances, consideration will be given to such matters as the nature, legality, sensitivity and consequences of past or anticipated transactions and events, the parties involved in any such transactions and the circumstances giving rise to them.

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- 3.34 Materiality is classified as a constraint on information included in GPFRs in this Conceptual Framework. The materiality of the consequences of application of a particular accounting policy or basis of preparation, or the disclosure of a particular item or type of information is considered by the IPSASB in developing IPSASs and non-authoritative guidance. However, subject to the requirements of any IPSAS to the contrary, the materiality of, for example, application of a particular accounting policy and the separate disclosure of particular items of information will also be considered by individual entities in preparing GPFRs.

**Staff comment:** One respondent proposed that basis for preparation be added to the second line.

One respondent proposed that the paragraph be redrafted as follows:

One respondent proposed that the paragraph be redrafted as follows:

*This Conceptual Framework classifies materiality ~~is classified~~ as a constraint on information included in GPFRs ~~in this Conceptual Framework~~. In developing IPSASs and non-authoritative guidance the IPSASB will consider the materiality of the consequences of application of a particular accounting policy or disclosure of a particular item or type of information ~~is considered by the IPSASB in developing IPSASs and non-authoritative guidance~~. ~~However,~~ Subject to the requirements of any IPSAS ~~to the contrary~~, entities preparing GPFRs will also consider the materiality of the separate disclosure of particular items of information ~~will also be considered by individual entities in preparing GPFRs~~.*

*Cost-Benefit*

- 3.35 Financial reporting imposes costs. The benefits of financial reporting should justify those costs. Assessing whether the benefits of providing information justify the related costs is often a matter of judgment, because it is often not possible to identify and/or quantify all the costs and all the benefits of information included in GPFRs.
- 3.36 The costs of providing information include the costs of collecting and processing the information, the costs of verifying it and/or presenting the assumptions and methodologies that support it, and the costs of disseminating it. Users incur the costs of analysis and interpretation. Omission of useful information also imposes costs, including the costs that users incur to obtain needed information from other sources and the costs that result from making decisions using incomplete data provided by GPFRs.
- 3.37 Preparers expend the majority of the effort to provide information in GPFRs. However, service recipients and resource providers ultimately bear the cost of those efforts—because resources are redirected from service delivery activities to preparation of information for inclusion in GPFRs.
- 3.38 Users reap the majority of benefits from the information provided by GPFRs. However, information prepared for GPFRs may also be used internally by management and result in better decision-making by management. The disclosure of information in GPFRs consistent with the concepts identified in the Conceptual Framework and IPSASs and non-authoritative guidance derived from them will enhance and reinforce perceptions of the transparency of financial reporting by governments and other public sector entities and contribute to the more accurate pricing of public

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sector debt. Therefore, public sector entities may also benefit in a number of ways from the information provided by GPFRs.

**Staff comment:** One respondent proposed that the first sentence be deleted and replaced as follows: *The objective of financial reporting is to meet the information needs of users, as identified in this Conceptual Framework*~~*Users reap the majority of benefits from the information provided by GPFRs.*~~

- 3.39 Application of the cost-benefit constraint involves assessing whether the benefits of reporting information are likely to justify the costs incurred to provide and use the information. When making this assessment, it is necessary to consider whether one or more qualitative characteristics might be sacrificed to some degree to reduce cost.
- 3.40 In developing IPSASs, the IPSASB considers information from preparers, users, academics, and others about the expected nature and quantity of the benefits and costs of the proposed requirements. Disclosure and other requirements which result in the presentation of information useful to users of GPFRs for accountability and decision-making purposes and satisfy the qualitative characteristics are prescribed by IPSASs when the benefits of compliance with those disclosures and other requirements are assessed by the IPSASB to justify their costs.

**Staff comment:** Staff proposed this amendment in material supporting the out-of-session review. Two respondents expressed support. No respondents objected to the amendment.

*Balance Between the Qualitative Characteristics*

- 3.41 The qualitative characteristics work together to contribute to the usefulness of information. For example, neither a depiction that faithfully represents an irrelevant phenomenon, nor a depiction that unfaithfully represents a relevant phenomenon, results in useful information. Similarly, to be relevant, information must be timely and understandable.
- 3.42 In some cases, a balancing or trade-off between qualitative characteristics may be necessary to achieve the objectives of financial reporting. The relative importance of the qualitative characteristics in each situation is a matter of professional judgment. The aim is to achieve an appropriate balance among the characteristics in order to meet the objectives of financial reporting.

## Chapter 3: Basis for Conclusions

*This Basis for Conclusions accompanies, but is not part of, the Conceptual Framework.*

### Qualitative Characteristics of Information Included in General Purpose Financial Reports

- BC3.1 In developing IPSASs, the IPSASB receives input from constituents on, and makes judgments about, information that best satisfies the objectives of financial reporting and should be included in GPFs. In making those judgments, the IPSASB considers the extent to which each of the qualitative characteristics can be achieved. Disclosure and other requirements are included in IPSASs only when the information that results from their application is considered to satisfy the qualitative characteristics and the cost-benefit constraint identified in the Conceptual Framework.
- BC3.2 Some respondents to the Exposure Draft expressed concern about the application of the QCs to all matters that may be presented in GPFs, particularly those matters that may be presented in reports outside the financial statements. The IPSASB understands this concern. The IPSASB acknowledges that IPSASs and non-authoritative guidance that deal with the presentation in GPFs of information outside the financial statements may need to include additional guidance on the application of the qualitative characteristics to the matters dealt with.
- BC3.3 IPSASs and non-authoritative guidance issued by the IPSASB will not deal with all financial and non-financial information that may be included in GPFs. In the absence of an IPSAS or non-authoritative guidance that deals with particular economic or other phenomena, assessments of whether an item of information satisfies the qualitative characteristics and constraints identified in the Conceptual Framework, and therefore qualifies for inclusion in GPFs, will be made by preparers compiling the GPFs. Those assessments will be made in the context of achieving the objectives of financial reporting, which in turn have been developed to respond to users' information needs.

### Other Qualitative Characteristics Considered

- BC3.4 Some respondents to the Exposure Draft expressed the view that additional QCs should be identified. Those characteristics included "sincerity," "true and fair view," "credibility," "transparency," and "regularity".
- BC3.5 The IPSASB notes that "sincerity" as used in financial reporting has a similar meaning to "true and fair". The IPSASB is of the view that "sincerity," "true and fair view," "credibility," and "transparency" are important expressions of the overarching qualities that financial reporting is to achieve or aspire to. However, they do not exist as single qualitative characteristics on their own—rather, achieving these qualities is the product of application of the full set of qualitative characteristics identified in the Conceptual Framework, and the IPSASs that deal with specific reporting issues. Consequently, while important characteristics of GPFs, they are not identified as separate individual qualitative characteristics in their own right. The IPSASB is also of the view that the notion of "regularity" as noted by some respondents is related to the

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notion of “compliance” as used in the Conceptual Framework—therefore, regularity is not identified as an additional qualitative characteristic.

**Relevance**

BC3.6 The Conceptual Framework explains that financial and non-financial information is relevant if it is capable of making a difference in achieving the objectives of financial reporting. As part of its due process, the IPSASB seeks input on whether the requirements of a proposed IPSAS or any proposed non-authoritative guidance are relevant to the achievement of the objectives of financial reporting—that is, are relevant to the discharge of the entity’s obligation to be accountable and to decisions that users may make.

**Faithful Representation**

BC3.7 The Conceptual Framework explains that to be useful information must be a faithful representation of the economic and other phenomena that it purports to represent. A single economic or other phenomenon may be faithfully represented in many ways. For example, the achievement of particular service delivery objectives may be depicted (a) qualitatively through an explanation of the immediate and anticipated longer term outcomes and effects of the service delivery program, (b) quantitatively as a measure of the volume and cost of services provided by the service delivery program, or (c) by a combination of both qualitative and quantitative information. Additionally, a single depiction in GPFRs may represent several economic phenomena. For example, the presentation of the item “plant and equipment” in a financial statement may represent an aggregate of all of an entity’s plant and equipment, including items that have different functions, that are subject to different risks and opportunities and that are carried at amounts based on estimates that may be more or less complex and reliable.

BC3.8 Completeness and neutrality of estimates (and inputs to those estimates) and freedom from material error are desirable, and some minimum level of accuracy is necessary for an estimate to faithfully represent an economic or other phenomenon. However, faithful representation does not imply absolute completeness or neutrality in the estimate, nor does it imply total freedom from error in the outcome. For a representation of an economic or other phenomenon to imply a degree of completeness, neutrality, or freedom from error that is impracticable for it to achieve would diminish the extent to which the information faithfully represents the economic and other phenomena that it purports to represent.

BC3.9 Having in place accounting systems and processes that are appropriately designed and are operated effectively will enable management to gather and process evidence to support financial reporting. The quality of these systems and processes is a key factor in ensuring that the financial information that the entity includes in GPFRs is a faithful representation of the economic or other phenomena that it purports to represent.

**Staff comment:** One respondent proposed the paragraph’s link to faithful representation be strengthened or it be placed as a stand alone paragraph with general applicability. One respondent proposed that the term *quality* be replaced by *faithful representation*. Staff has

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included wording intended to respond to these points and reflect the IPSASB's intent that inclusion and placement of this paragraph was to link to faithful representation.

Faithful Representation or Reliability

- BC3.10 At the time of issue of the Exposure Draft, IPSAS 1 Appendix A identified reliability as a qualitative characteristic. It described reliable information as information that is “free from material error and bias, and can be depended on by users to represent faithfully that which it purports to represent or could reasonably be expected to represent.” Faithful representation, substance over form, neutrality, prudence and completeness are identified as components of reliability. The Conceptual Framework uses the term “faithful representation” rather than “reliability” to describe what is substantially the same concept. In addition, it does not explicitly identify substance over form and prudence as components of faithful representation.
- BC3.11 Many respondents to the Exposure Draft supported the use of faithful representation and its explanation in the ED, in some cases explaining that faithful representation is a better expression of the nature of the concept intended. Some respondents did not support the replacement of reliability with the term faithful representation, expressing concerns including that faithful representation implies the adoption of fair value or market value accounting, and reliability and faithful representation are not interchangeable terms.
- BC3.12 The use of the term faithful representation, or reliability for that matter, to describe this qualitative characteristic in the Conceptual Framework will not determine the measurement basis to be adopted in GPFRs, whether historical cost, market value, fair value or another measurement basis. The IPSASB does not intend that use of faithful representation be interpreted as such. The measurement basis or measurement bases that may be adopted for the elements of financial statements are considered in a separate Chapter of the Conceptual Framework. The qualitative characteristics will then operate to ensure that the financial statements faithfully represent the measurement base or bases reflected in GPFRs.
- BC3.13 The IPSASB appreciates the concern of some respondents that the use of a different term may be interpreted to reflect different, and even lesser, qualities to those communicated by the term reliability. However, the IPSASB is of the view that explanation in the Framework that “Faithful representation is attained when the depiction of the phenomenon is complete, neutral, and free from material error”, and the elaboration of these key features will protect against the loss of any of the qualities that were formerly reflected in the use of the term reliability.
- BC3.14 In addition, the IPSASB has been advised that the term reliability is itself open to different interpretations and subjective judgments, with consequences for the quality of information included in GPFRs. The IPSASB is of the view that use of the term faithful representation will overcome problems in the interpretation and application of reliability that have been experienced in some jurisdictions without a lessening of the qualities intended by the term, and is more readily translated into, and understood in, a wide range of languages.

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*Substance over Form and Prudence*

- BC3.15 Some respondents to the Exposure Draft expressed concern that substance over form and prudence are not identified as qualitative characteristics or that their importance is not sufficiently recognized or explained. Some also noted that prudence need not be incompatible with the achievement of neutrality and faithful representation.
- BC3.16 The Conceptual Framework explains that “Information that faithfully represents an economic or other phenomenon depicts the substance of the underlying transaction, other event, activity or circumstance—which is not necessarily always the same as its legal form.” Therefore substance over form remains a key quality that information included in GPFRs must possess. It is not identified as a separate or additional qualitative characteristic because it is already embedded in the notion of faithful representation.
- BC3.17 The IPSASB is of the view that the notion of prudence is also reflected in the explanation of neutrality as a component of faithful representation, and the acknowledgement of the need to exercise caution in dealing with uncertainty. Therefore, like substance over form, prudence is not identified as a separate qualitative characteristic because its intent and influence in identifying information that is included in GPFRs is already embedded in the notion of faithful representation.

**Understandability**

- BC3.18 Although presenting information clearly and concisely helps users to comprehend it, the actual comprehension or understanding of information depends largely on the users of the GPFRs.
- BC3.19 Some economic and other phenomena are particularly complex and difficult to represent in GPFRs. However, the IPSASB is of the view that information that is, for example, relevant, a faithful representation of what it purports to represent, timely and verifiable should not be excluded from GPFRs solely because it may be too complex or difficult for some users to understand without assistance. Acknowledging that it may be necessary for some users to seek assistance to understand the information presented in GPFRs, does not mean that information included in GPFRs need not be understandable or that all efforts should not be undertaken to present information in GPFRs in a manner that is understandable to a wide range of users. However, it does reflect that, in practice, the nature of the information included in GPFRs is such that all the qualitative characteristics may not be fully achievable at all times for all users.

**Timeliness**

- BC3.20 The identification of timeliness as a qualitative characteristic means that the Conceptual Framework recognizes the potential for timely reporting to increase the usefulness of GPFRs for both accountability and decision-making purposes, and that undue delay in the provision of information may reduce its usefulness for these purposes.

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### Comparability

- BC3.21 Some degree of comparability may be attained by maximizing the qualitative characteristics of relevance and faithful representation. For example, faithful representation of a relevant economic or other phenomenon by one public sector entity is likely to be comparable to a faithful representation of a similar relevant economic or other phenomenon by another public sector entity. However, a single economic or other phenomenon can often be faithfully represented in several ways, and permitting alternative accounting methods for the same phenomenon diminishes comparability and, therefore, may be undesirable.
- BC3.22 Some respondents to the Exposure Draft expressed concern that the explanation of the relationship between comparability and consistency may be read as presenting an obstacle to the on-going development of financial reporting. This is because enhancements in financial reporting often involve a revision or change to the accounting principles, policies or basis of preparation currently adopted by the entity.
- BC3.23 Consistent application of the same accounting principles, policies and basis of preparation from one period to the next will assist users in assessing the financial position, financial performance and service delivery achievements of the entity compared with previous periods. However, where accounting principles or policies dealing with particular transactions or other events are not prescribed by IPSASs, achievement of the qualitative characteristic of comparability should not be interpreted as prohibiting the entity from changing its accounting principles or policies to better represent those transactions and events. In these cases, the inclusion in GPFs of additional disclosures or explanation of the impact of the changed policy can still satisfy the characteristics of comparability.

### Verifiability

- BC3.24 Verifiability is the quality of information that helps assure users that information in GPFs faithfully represents the economic and other phenomena that it purports to represent. While closely linked to faithful representation, verifiability is identified as a separate QC because information may faithfully represent economic and other phenomena even though it cannot be verified with absolute certainty. In addition, verifiability may work in different ways with faithful representation and other of the QCs to contribute to the usefulness of information presented in GPFs – for example, there may need to be an appropriate balance between the degree of verifiability an item of information may possess and other QCs to ensure it is presented in a timely fashion and is relevant.

**Staff comment:** A respondent noted that some explanation in paragraphs 3.29, 3.31, BC3.30 and BC3.31 (now BC3.25 and BC3.26) may lead readers to conclude that the IPSASB intended verifiability to be a component of faithful representation. Staff is of the view that inclusion of this paragraph may overcome the concern and clarify the IPSASB's intent.

- BC3.25 In developing the QCs identified in the Framework, the IPSASB considered whether “*supportability*” should be identified as a separate characteristic for application to information presented in GPFs outside the financial statements. The IPSASB is of the view that identifying both “*verifiability*” and “*supportability*” as separate qualitative characteristics with

THE CONCEPTUAL FRAMEWORK FOR GENERAL PURPOSE FINANCIAL REPORTING BY PUBLIC SECTOR ENTITIES

essentially the same features may be confusing to preparers and users of GPFRs and others. However, the Conceptual Framework does acknowledge that supportability is sometimes used to refer to the quality of information that helps assure users that explanatory information and prospective financial and non-financial information included in GPFRs faithfully represent the economic and other phenomena that they purport to represent.

- BC3.26 Some respondents to the Exposure Draft expressed concern about the application of verifiability to the broad range of matters that may be presented in GPFRs outside the financial statements, particularly explanatory information about service delivery achievements during the reporting period and qualitative and quantitative prospective financial and non-financial information. The IPSASB is of the view that the Framework provides appropriate guidance on the application of verifiability in respect of these matters—for example it explains that verifiability is not an absolute and it may not be possible to verify the accuracy of all quantitative representations and explanations until a future period. The Framework also acknowledges that disclosure of the underlying assumptions and methodologies adopted for the compilation of explanatory and prospective financial and non-financial information is central to the achievement of faithful representation.

**Classification of the Qualitative Characteristics and Order of their Application**

- BC3.27 Some respondents to the Exposure Draft expressed the view that the Conceptual Framework should identify:
- Relevance and faithful representation as fundamental qualitative characteristics, and explain the order of their application; and
  - Comparability, verifiability, timeliness, and understandability as enhancing qualitative characteristics.

They noted that this would provide useful guidance on the sequence of application of the qualitative characteristics and reflect the approach adopted by the IASB.

- BC3.28 In developing the qualitative characteristics, the IPSASB considered whether some characteristics should be identified as fundamental and others identified as enhancing. The IPSASB also considered whether the order of application of the characteristics should be identified and/or explained. The IPSASB is of the view that such an approach should not be adopted because, for example:
- Matters identified as “fundamental” may be perceived to be more important than those identified as “enhancing”, even if this distinction is not intended in the case of the qualitative characteristics. As a result, there may be unintended consequences of identifying some qualitative characteristics as fundamental and others as enhancing;
  - All the qualitative characteristics are important and work together to contribute to the usefulness of information. The relative importance of a particular qualitative characteristic in different circumstances is a matter of professional judgment. As such, it is not appropriate to identify certain qualitative characteristics as always being fundamental and others as having only an enhancing or supporting role, or to specify

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the sequence of their application, no matter what information is being considered for inclusion in GPFRs, and irrespective of the circumstances of the entity and its environment. In addition, it is questionable whether information that is not understandable or is provided so long after the event as not to be useful to users for accountability and decision-making purposes could be considered as relevant information—therefore, these characteristics are themselves fundamental to the achievement of the objectives of financial reporting; and

- GPFRs of public sector entities may encompass historic and prospective information about financial performance and the achievement of service delivery objectives over a number of reporting periods. This provides necessary input to assessments of trends in service delivery activities and resources committed thereto—for such trend data, reporting on a comparable basis may be as important as, and cannot be separated from, faithful representation of the information.

### Constraints on Information Included in General Purpose Financial Reports

#### *Materiality*

- BC3.29 At the time of issue of the Exposure Draft, IPSAS 1 Appendix A described materiality with similar characteristics to that described in the Conceptual Framework, but identified materiality as a factor to be considered in determining only the relevance of information. Some respondents to the Exposure Draft noted that materiality may be identified as an aspect of relevance.
- BC3.30 The IPSASB has considered whether materiality should be identified as an entity-specific aspect of relevance rather than a constraint on information included in GPFRs. As explained in the Conceptual Framework, and subject to requirements in an IPSAS to the contrary, materiality will be considered by preparers in determining whether, for example, a particular accounting policy should be adopted or an item of information should be separately disclosed in the financial statements of the entity.

**Staff comment:** One respondent proposed that second sentence also refer to non-authoritative guidance or similar.

- BC3.31 However, the IPSASB is of the view that materiality has a more pervasive role than would be reflected by its classification as only an entity specific aspect of relevance. For example, materiality relates to, and can impact, a number of the qualitative characteristics of information included in GPFRs. Therefore, the materiality of an item should be considered when determining whether the omission or misstatement of an item of information could undermine not only the relevance, but also the faithful representation, understandability or verifiability of financial and non-financial information presented in GPFRs. The IPSASB is also of the view that whether the effects of the application of a particular accounting policy or basis of preparation or the information content of separate disclosure of certain items of information are likely to be material should be considered in establishing IPSASs and non-authoritative guidance. Consequently, the IPSASB is of the view that materiality is better reflected as a broad constraint on information to be included in GPFRs.

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BC3.32 The IPSASB considered whether the Conceptual Framework should reflect that legislation, regulation or other authority may impose financial reporting requirements on public sector entities in addition to those imposed by IPSASs. The IPSASB is of the view that, while a feature of the operating environment of many public sector (and many private sector) entities, the impact that legislation or other authority may have on the information included in GPFRs is not itself a financial reporting concept. Consequently, it has not identified it as such in the Conceptual Framework. Preparers will, of course, need to consider such requirements as they prepare GPFRs. In particular, legislation may prescribe that particular items of information are to be disclosed in GPFRs even though they may not be judged to satisfy a materiality threshold (or cost-benefit constraint) as identified in the Conceptual Framework. Similarly, the disclosure of some matters may be prohibited by legislation because, for example, they relate to matters of national security, notwithstanding that they are material and would otherwise satisfy the cost-benefit constraint.

*Cost-Benefit*

BC3.33 Some respondents to the Exposure Draft expressed concern that the text of the proposed Conceptual Framework does not specify that entities cannot decide to depart from IPSASs on the basis of their own assessments of the costs and benefits of particular requirements of an IPSAS. The IPSASB is of the view that such specification is not necessary. This is because, as noted in Paragraph 1.2 of the Conceptual Framework, authoritative requirements relating to recognition, measurement, presentation, and disclosure in GPFRs are specified in IPSASs. GPFRs are developed to provide information useful to users and requirements are prescribed by IPSASs only when the benefits to users of compliance with those requirements are assessed by the IPSASB to be greater than their costs. However, preparers may consider the costs and benefits in determining whether to include in GPFRs disclosure of information in addition to that required by IPSASs.

BC3.34 Some respondents to the Exposure Draft also expressed concern that the proposed Conceptual Framework does not recognize that cost-benefit trade-offs may differ for different public sector entities. They are of the view that acknowledgement of this may provide a useful principle to be applied when considering differential reporting issues. The IPSASB has considered these matters and determined that the Conceptual Framework will not deal with issues related to differential reporting, including whether the costs and benefits of particular requirements might differ for different entities.

BC3.35 In the process of developing an IPSAS or non-authoritative guidance, the IPSASB considers and seeks input on the likely costs and benefits of providing information in GPFRs of public sector entities. However, in some cases, it may not be possible for the IPSASB to identify and/or quantify all benefits that are likely to flow from, for example, the inclusion of a particular disclosure, including those that may be required because they are in the public interest, or other requirement in an IPSAS. In other cases, the IPSASB may be of the view that the benefits of a particular requirement may be marginal for users of GPFRs of some public sector entities. In applying the cost-benefit test to determine whether particular requirements should be included in an IPSAS in these circumstances, the IPSASB's deliberations may also include

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consideration of whether imposing such requirements on public sector entities is likely to involve undue cost and effort for the entities applying the requirements.

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## Chapter 4: The Reporting Entity

- 4.1 A public sector reporting entity is a government or other public sector organization, program or identifiable area of activity (hereafter referred to as an entity or public sector entity) that prepares GPFs.
- 4.2 A public sector reporting entity may comprise two or more separate entities that present GPFs as if they are a single entity – such a reporting entity is referred to as a group reporting entity.

### Key Characteristics of a Reporting Entity

- 4.3 Key characteristics of a public sector reporting entity are that:
- It is an entity that raises resources from, or on behalf of, constituents and/or uses resources to undertake activities for the benefit of, or on behalf of, those constituents; and
  - There are service recipients or resource providers dependent on GPFs of the entity for information for accountability or decision-making purposes.
- 4.4 A government may establish and/or operate through administrative units such as ministries or departments. It may also operate through trusts, statutory authorities, government corporations and other entities with a separate legal identity or operational autonomy to undertake or otherwise support the provision of services to constituents. Other public sector organizations, including international public sector organizations and municipal authorities, may also undertake certain activities through, and may benefit from and be exposed to a financial burden or loss as a result of, the activities of entities with a separate legal identity or operational autonomy.

**Staff comment:** One respondent questions the inclusion of the final sentence of paragraph 4.4.

- 4.5 GPFs are prepared to report information useful to users for accountability and decision-making purposes. Service recipients and resource providers are the primary users of GPFs. Consequently, a key characteristic of a reporting entity, including a group reporting entity, is the existence of service recipients or resource providers who are dependent on GPFs of that entity or group of entities for information for accountability or decision-making purposes.
- 4.6 GPFs encompass financial statements and information that enhances, complements and supplements the financial statements. Financial statements present information about the resources of the reporting entity or group reporting entity and claims to those resources at the reporting date, and changes to those resources and claims and cash flows during the reporting period. Therefore, to enable the preparation of financial statements, a reporting entity will raise resources and/or use resources previously raised to undertake activities for the benefit of, or on behalf of, its constituents.
- 4.7 The factors that are likely to signal the existence of users of GPFs of a public sector entity or group of entities include an entity having the responsibility or capacity to raise or deploy public monies, acquire or manage public assets, incur liabilities, or undertake activities to achieve service delivery objectives. The greater the resources that a public sector entity raises, manages and/or has the capacity to deploy, the greater the liabilities it incurs and the greater the economic or social impact of its activities, the more likely it is that there will exist service recipients or resource

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providers who are dependent on GPFRs for information about it for accountability and decision-making purposes. In the absence of these factors, or where they are not significant, it is unlikely that users of GPFRs of these entities will exist.

- 4.8 The preparation of GPFRs is not a cost-free process. Therefore, if the imposition of financial reporting requirements is to be efficient and effective, it is important that only those public sector entities for which such users exist are required to prepare GPFRs.
- 4.9 In many cases, it will be clear whether or not there exist service recipients or resource providers that are dependent on GPFRs of a public sector entity for information for accountability and decision-making purposes. For example, such users are likely to exist for GPFRs of a government at the national, state or local government level and for international public sector organizations. This is because these governments and organizations generally have the capacity to raise substantial resources from, and/or deploy substantial resources on behalf of, their constituents, to incur liabilities and to impact the economic and/or social well being of the communities that depend on them for the provision of services.
- 4.10 However, it may not always be clear whether there are service recipients or resource providers that are dependent on GPFRs of, for example, individual government departments and agencies, particular programs or identifiable areas of activity for information for accountability and decision-making purposes. Determining whether these organizations, programs or activities should be identified as reporting entities and, consequently, be required to prepare GPFRs will involve the exercise of professional judgment.

*Legal and other Entities*

- 4.11 The government and some other public sector entities have a separate identity or standing in law (a legal identity) — for example, public corporations, trusts that are legally distinct from trustees and beneficiaries, or a statutory body with the authority to transact and enter contracts in its own right. However, public sector organizations, programs and activities without a separate legal identity may also raise or deploy public monies, acquire or manage public assets, incur liabilities, undertake activities to achieve service delivery objectives or otherwise implement government policy. Service recipients and resource providers may depend on GPFRs of these entities, programs and activities for information for accountability and decision-making purposes. Consequently, a public sector reporting entity may have a separate legal identity or be, for example, an organization, administrative arrangement or program without a separate legal identity.

**Staff comment:** One respondent noted that the heading emphasized the importance of the existence of a separate legal entity, which was not the point of the paragraph.

## Chapter 4: Basis for Conclusions

*This Basis for Conclusions accompanies, but is not part of, the Conceptual Framework.*

### Key Characteristics of a Reporting Entity

- BC4.1 The concept of the reporting entity is derived from the objectives of financial reporting by public sector entities. The objectives of financial reporting by public sector entities are to provide information about the entity that is useful to users of GPFs for accountability and decision-making purposes.
- BC4.2 Reporting entities prepare GPFs. GPFs include financial statements, which present information about such matters as the financial position, performance and cash flows of the entity, and financial and non-financial information that enhances, complements and supplements the financial statements. Therefore, a key characteristic of a public sector reporting entity is the existence of service recipients or resource providers who are dependent on GPFs of a government or other public sector entity for information for accountability or decision-making purposes.

<p><b>Staff comment:</b> One respondent notes that these paragraphs, in effect, repeat matters dealt with in the text and could be deleted.</p>
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### Legislation, Regulation or Other Authority

- BC4.3 The Exposure Draft did not specify which public sector entities should be identified as a reporting entity or group reporting entity and, therefore, be required to prepare GPFs. It noted that the public sector organizations and programs that are to prepare GPFs will be specified in legislation, regulation or other authority, or be determined by relevant authoritative bodies in each jurisdiction.
- BC4.4 Some respondents expressed the view that while legislation or other authority may, in practice, specify which entities are to prepare GPFs, the Conceptual Framework should focus on the concept of the reporting entity, identify key features of that concept and provide guidance on the principles and factors that should be considered in determining whether a reporting entity exists. The IPSASB was persuaded by these arguments and has refocused its discussion on an explanation of the concept of the reporting entity.

### Interpretation and Application

- BC4.5 Some respondents expressed concern that the characteristics of a reporting entity as explained in the Exposure Draft may be interpreted to identify particular activities or segments of an organization as separate reporting entities. These segments or activities would then be required to prepare GPFs in accordance with all IPSASs. Some respondents also noted that it was not clear how the guidance in the Exposure Draft applied to public sector organizations other than governments including, for example, international public sector organizations.

THE CONCEPTUAL FRAMEWORK FOR GENERAL PURPOSE FINANCIAL REPORTING BY PUBLIC SECTOR ENTITIES

- BC4.6 The IPSASB has responded to these concerns. The Framework explains that preparation of GPFRs is not a cost-free process. It also:
- Includes additional guidance on the factors that are likely to signal the existence of service recipients or resource providers who are dependent on GPFRs of a government or other public sector entity for information for accountability or decision-making purposes; and
  - Notes the likely implications of these factors for the identification of a range of public sector organizations, programs and activities as reporting entities, including government departments and agencies and international public sector organizations.
- BC4.7 The Conceptual Framework acknowledges that in some cases it may be necessary to exercise professional judgment in determining whether particular public sector entities should be identified as a reporting entity. In exercising that judgement, it should be noted that, in certain circumstances, IPSASs respond to users' needs for information about particular programs or activities undertaken by a government or other public sector reporting entity by providing for separate disclosures within the GPFRs of that government or other public sector reporting entity<sup>2</sup>. Jurisdictional factors such as the legislative and regulatory framework in place and institutional and administrative arrangements for the raising of resources and the delivery of services are also likely to inform deliberations on whether it is likely that service recipients and resource providers dependent on GPFRs of particular public sector entities exist.

**Staff comment:** One respondent questions whether this paragraph is appropriate for inclusion in a Basis for Conclusions.

### The Group Reporting Entity

- BC4.8 The Exposure Draft outlined the circumstances that would justify the inclusion of an entity or activity within a public sector group reporting entity. It explained that:
- A government or other public sector entity may (a) have the authority and capacity to direct the activities of one or more other entities so as to benefit from the activities of those entities; and (b) be exposed to a financial burden or loss that may arise as a result of the activities of those entities; and
  - To satisfy the objectives of financial reporting, GPFRs of a group reporting entity prepared in respect of a government or other public sector entity should include that

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<sup>2</sup> For example, International Public Sector Accounting Standards (IPSASs) such as IPSAS 18, *Segment Reporting* and IPSAS 22, *Disclosure of Financial Information about the General Government Sector* provide a mechanism to satisfy users' need for information about particular segments or sectors of an entity without their identification as separate reporting entities.

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government (or other public sector entity) and the entities whose activities it has the authority and capacity to direct, when the results of such direction can (a) generate financial or other benefits for the government (or other public sector entity); or (b) expose it to a financial burden or loss.

- BC4.9 Many respondents to the Exposure Draft noted their agreement with the IPSASB's view of the criteria that should be satisfied for inclusion in a public sector group reporting entity. However, other respondents expressed their concern about the potential interpretation and application of the criteria in particular circumstances. In some cases, they noted that the Framework would need to provide additional application guidance if it was to be effective in dealing with circumstances not dealt with in IPSASs. A number of respondents also expressed the view that the criteria to be satisfied for inclusion in a group reporting entity was more appropriately addressed and resolved at the standards level, where those criteria and their consequences could be tested across a range of circumstances and supported with specific examples of the circumstances likely to exist in many jurisdictions.
- BC4.10 The IPSASB found these concerns persuasive. It has reconstructed and drawn together its discussion of the reporting entity and group reporting entity to focus on the principles underlying the identification of a public sector reporting entity - whether that reporting entity comprises a single public sector entity or a group of entities. The identification of the criteria to be satisfied for inclusion in a group reporting entity consistent with these principles will then be developed and fully explored at the standards level.

## **Responses to Out-of-Session Review**

### **RESPONSE 1 A. BERGMANN**

**Sent:** Sunday, 14 October 2012 12:47 AM  
**To:** Paul Sutcliffe; Paul Sutcliffe  
**Cc:** Leah Weselowski; Stephenie Fox  
**Subject:** AW: Phase 1 Conceptual Framework - for out of session review

Hi Paul,

Thanks for the excellent work. Only one very minor remark from my side:

- Use of the acronym CF-ED 1 in the BC. I thought the Board had cautioned the use of this kind of acronym, which is fine with us internally, but troublesome once we issue the Framework. Why don't we just refer to the Exposure Draft? We do so in every standard and mean the ED for this very standard (and not any other ED, unless we explicitly say so) – so why not here? Please (re)consider.

Best regards,

Andreas

**Von:** Leah Weselowski [<mailto:LeahWeselowski@ifac.org>]  
**Gesendet:** Montag, 1. Oktober 2012 16:15  
**Cc:** Paul Sutcliffe  
**Betreff:** Phase 1 Conceptual Framework - for out of session review

Dear Members, Technical Advisors and Observers,

Conceptual Framework Phase 1: Out of session review of final draft Introduction and Chapters 1, 2, 3, and 4.

Attached please find the following material:

1. Covering Memorandum.
2. Marked-up drafts of:
  - a. The Introduction and Chapters 1, 2, and 3; and
  - b. Chapter 4.(Note PDF only versions of the mark-up draft, but word versions are available on request.)
3. Clean copy of The Introduction and Chapters 1,2,3 and 4. (Again only in PDF form here, but a word version is available on request)
4. An extract of the minutes from the IPSASB meeting in Düsseldorf in March 2012 which deals with Phase 1.

*Please send all comments to Paul Sutcliffe ([paulsutcliffe@ifac.org](mailto:paulsutcliffe@ifac.org)) by **October 23, 2012** (or sooner, if possible)*

**RESPONSE 2: K. WARREN**

**From:** Ken Warren [mailto:Ken.Warren@treasury.govt.nz]  
**Sent:** Wednesday, 17 October 2012 3:20 PM  
**To:** Paul Sutcliffe; Joanne Scott  
**Cc:** Leah Weselowski  
**Subject:** RE: Phase 1 Conceptual Framework - for out of session review

Hi Paul

Please find comments attached. My grateful thanks also to Joanne for doing most of the work here.

Cheers  
Ken

**Ken Warren** | Chief Accounting Advisor | **The Treasury**  
Tel: +64 4 917 6128 | [ken.warren@treasury.govt.nz](mailto:ken.warren@treasury.govt.nz)

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**RESPONSE 2: K. WARREN**

**Comments on Phase 1 Framework (out of session review Oct 2012)**

Some feedback on the Introduction and Chapters 1-4 as requested. Note that page references are to the clean copy of Chapters 1-4.

**Outstanding “Form-Type” Issues and Additional Matters for Resolution**

**Action Required**

Members are asked to provide direction on issues relating to the form and contents of Introductory material, Contents page and other matters identified above by staff. Members are also requested to advise staff of any additional “format” or content issues that should be addressed as the Introduction to, and the first four Chapters of, the Framework are finalized.

*The Introduction*

I support most of your proposals and the wording of the Introduction.

Some suggestions, for your consideration, of changes to the Introduction.

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The *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (the Conceptual Framework) ~~will~~ establish<sup>es</sup> and make<sup>s</sup> explicit the concepts that are to be applied in developing International Public Sector Accounting Standards (IPSASs) and other documents that provide guidance on information included in general purpose financial reports (GPFs).

[Reason: put the Framework in the present tense. Otherwise this para will need to be changed when it is finalised.]

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Financial statements prepared under the accrual basis of accounting inform users ~~of those statements~~ of past transactions involving the payment and receipt of cash during the reporting period, obligations to pay cash or sacrifice other resources of the entity in the future, the resources of the entity at the reporting date and changes in those obligations and resources during the reporting period. Therefore, they provide information about past transactions and other events that is more useful to users for accountability purposes and as input for decision-making than is information provided by the cash basis ~~or other bases~~ of accounting or financial reporting.

[Reasons: (i) I think the words “of those statements” are implied by the context. (ii) This might be something that the IPSASB wants to discuss. The IPSASB develops standards solely for the cash basis and the accrual basis. The IPSASB has previously found that it isn’t possible to clearly identify other bases as there are so many variations. The words “or other bases” could be read as implying that there are other “agreed bases”. Alternatively they could be read as being a general reference to any other form of accounting used by an entity.]

**RESPONSE 2: K. WARREN (continued)**

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**The Conceptual Framework: Chapters 1- 4**

[The IPSASB is currently in the process of developing a Conceptual Framework.](#) Although all the components of the Conceptual Framework are interconnected, the Conceptual Framework project is being developed in phases.

~~This version of the Conceptual Framework includes the first four chapters the IPSASB published as a result of its first phase of the Conceptual Framework project. Phase 1 has now been completed. It comprises Chapters 1– 4 of the Conceptual Framework. These chapters deal with:~~

- Chapter 1: The Role and Authority of the Framework
- Chapter 2: The Objectives of General Purpose Financial Reporting
- Chapter 3: The Qualitative Characteristics ~~of Information Included in General Purpose Financial Reports~~
- Chapter 4: The Reporting Entity.

The other Phases of the Framework ~~being developed~~ [are at various stages of development.](#) They deal with:

- Phase 2—The definition and recognition of the elements of financial statements;
- Phase 3—The measurement of the elements that are recognized in the financial statements; and
- Phase 4—The presentation of information in GPFs.

[As these phases are finalised by the IPSASB, the relevant chapters will be inserted in this Framework. When the Conceptual Framework project is completed, the IPSASB will have a complete, comprehensive and single document called the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities.](#)

[Reason: To spell out that this version includes Phase 1 material and material from the other chapters will be added over time.]

*Chapter Titles*

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I support your proposals to shorten chapter titles and would make the Chapter 3 title even shorter.

- Chapter 1. The Role and Authority of the Conceptual Framework
- Chapter 2. The Objectives of Financial Reporting
- Chapter 3. The Qualitative Characteristics ~~of Information Included in General Purpose Financial Reports~~
- Chapter 4. The Reporting Entity

**RESPONSE 2: K. WARREN (continued)**

*The Contents Page*

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I support your proposal that:

- (a) The initial Contents page identifies only the Chapter titles.
- (b) A detailed contents be presented at the start of each Chapter

*Qualitative Characteristics- Chapter 3 BC (New vs old QCs, what to say)*

I support your proposals that:

- (a) the paragraphs of the BC to Chapter 3 which outline changes from the QCs identified by Appendix A of IPSAS 1 should be deleted, unless they respond to a concern identified by respondents to CF-ED1; and
- (b) a new document comparing the QCs in the Framework vs the QCs in IPSAS 1 QC be developed and put on the website.

However, I'm not sure exactly which paras you would propose to delete. My thoughts (for you to see if you agree) are:

BC6-BC8 summarise into one para (relevance)

BC3.19 delete (prudence) but keep remainder of section

BC3.23 delete (understandability) but keep remainder of section

BC3.24 delete (timeliness)

BC3.25 rewrite (timeliness)

BC3.26 delete (comparability), but keep remainder of section

BC3.34 delete (materiality) but keep remainder of section

BC3.38 delete (cost:benefit) but keep remainder of section

**Consistent Terminology**

**Action Required**

Members are asked to confirm that staff approach to conforming terminology is appropriate, and to provide direction on any other terminology issues that need to be resolved.

*"Public Sector Entities" and "Governments and Other Public Sector Entities"*

*"Resources" and "Economic Resources"*

I agree, in principle, with Paul's proposals re terminology.

**RESPONSE 2: K. WARREN (continued)**

**Consequential Amendments and Potential Revisions**

**Action Required**

Members are asked to confirm or otherwise the amendments processed and proposed by staff, and identify any other revisions and drafting matters to be addressed.

I've worked through your proposals and, except as noted below, agree with them.

Paragraphs that I suggest you look at, and my reasons why, are noted below.

*Chapter 1*

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**Authority of the Conceptual Framework**

1.2 The Conceptual Framework does not establish authoritative requirements for financial reporting by public sector entities that adopt IPSASs, nor does it override the requirements of IPSASs. Authoritative requirements relating to the recognition, measurement, presentation and disclosure of transactions and other events and activities that are reported in GPFRs are specified in IPSASs.

1.3 ~~Although the~~ The Conceptual Framework ~~has lesser authority than an IPSAS, it~~ can provide guidance in dealing with financial reporting issues not dealt with by IPSASs or non-authoritative guidance issued by the IPSASB. In these circumstances, preparers and others can refer to and consider the applicability of the definitions, recognition criteria, measurement principles, and other concepts identified in the Conceptual Framework.

[Reason: I don't like the words "lesser authority". It is partly true in the sense that it does not override IPSASs, but in some ways the Framework has more authority because it has the overarching concepts. As a comparison, the IASB Framework wording is as follows:

The IASB's *Conceptual Framework* is not an IFRS and hence does not define standards for any particular measurement or disclosure issue. Nothing in the IASB's *Conceptual Framework* overrides any specific IFRS.]

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**Role and Authority of the Conceptual Framework**

BC1.1 The Conceptual Framework identifies the concepts that the IPSASB will apply in developing IPSASs and non-authoritative guidance intended to assist preparers and others in dealing with financial reporting issues. IPSASs specify authoritative requirements. IPSASs are developed after application of a due process which provides the opportunity for interested parties to provide input on the specific requirements proposed, including their compatibility with current practices in different jurisdictions.

BC1.2 The issuance of this Framework may lead to a need to examine the requirements in certain IPSASs. The IPSASB is of the view that existing authoritative requirements should not be amended without the application of due process. After the Conceptual Framework is issued, the IPSASB will review extant IPSASs and identify and, through application of the due process, address any circumstances where there is substantial conflict between an IPSAS and the Conceptual Framework.

[Reason: I think there needs to be a linking sentence.]

**RESPONSE 2: K. WARREN (continued)**

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**Government Business Enterprises**

BC1.3 The Conceptual Framework underpins the development of IPSASs. Therefore, it has relevance for all entities that apply IPSASs. In some jurisdictions, GBE's (also referred to as State Owned Enterprises, Crown Corporations or by similar terms) may apply IPSASs. ~~Consolidated GPFRs prepared at the whole-of-government financial statements prepared level~~—in accordance with IPSASs include all controlled entities~~may consolidate all governmental entities~~, including controlled GBE's. In these circumstances, GPFRs prepared at the whole of government level will include information about GBEs.

**Chapter 2**

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2.5 Citizens receive services from, and provide resources to, the government and other public sector entities. Therefore, citizens are primary users of GPFRs. Some service recipients and some resource providers that rely on GPFRs for the information they need for accountability and decision-making purposes may not be citizens—for example, residents who pay taxes and/or receive benefits but are not citizens; multilateral or bilateral donor agencies and many lenders and corporations that provide resources to, and transact with, a government; and those that fund, and/or benefit from, the services provided by international governmental organizations. In most cases, governments, ~~as representatives of taxpayers~~, that provide resources to international governmental organizations are dependent on GPFRs of those organizations for information for accountability and decision-making purposes.

[Reason: this subclause interrupted the flow of the sentence and I couldn't see why it was required.]

Page 14 of 47

2.8 Governments and other public sector entities are accountable to those that provide them with resources, and to those that depend on them to use those resources to deliver services during the reporting period and over the longer term. The discharge of accountability obligations requires the provision of information about the ~~reporting~~ entity's management of the resources entrusted to it for the delivery of services to constituents and others, and its compliance with legislation, regulation, or other authority that governs its service delivery and other operations. Given the way in which the services provided by public sector entities are funded (primarily by taxation revenues or other non-exchange transactions) and the dependency of service recipients on the provision of those services over the long term, the discharge of accountability obligations will also require the provision of information about such matters as the entity's service delivery achievements during the reporting period, and its capacity to continue to provide services in future periods.

[Reason: this is the first use of "reporting entity" in the Framework. Suggest "entity" is sufficient. Leave reporting entity til Chapter 4]

2.9

Lenders, creditors, donors and others that provide resources on a voluntary basis, including in an exchange transaction, make decisions about whether to provide resources to support the current and future activities of the government or other public sector entity. In some circumstances, members of the legislature or similar representative body who depend on GPFRs for ~~the information they need~~, can make or influence decisions about the service delivery objectives of government departments, agencies or programs and the resources allocated to support their achievement; and

[Reason: clear from context]

**RESPONSE 2: K. WARREN (continued)**

2.12 The information service recipients and resource providers need for these purposes ~~are-is~~ likely to overlap in many respects.

2.13- para following has no para number.

Page 15 of 47

2.14 Information about the financial position of a government or other public sector entity will enable users to identify the resources of the entity and claims to those resources at the reporting date. This will provide information useful as input to assessments of such matters as:

- The extent to which management has discharged its responsibilities for safekeeping and managing the resources of the entity;
- ~~The extent to which resources are available to support future service delivery activities, and~~
- changes Changes during the reporting period in the amount and composition of ~~those~~ resources and claims to resources~~them~~; and
- The amounts and timing of future cash flows necessary to service and repay existing claims to the entity's resources.

[Reason: Relooking at this I thought that the second bullet comprised two ideas.]

Page 15 of 47

2.19 Some resources to support the activities of public sector entities may be received from donors, lenders or as a result of exchange transactions. However, resources to support the activities of public sector entities are predominantly provided in non-exchange transactions by taxpayers and others, consistent with the expectations reflected in an approved budget.

Not sure what this last phrase "consistent with the expectations reflected in an approved budget" means and suspect it is not necessary in the context of what you are saying.

Page 18 of 47

2.29 The scope of financial reporting establishes the boundary around the transactions, other events and activities that may be reported in GPFs. To respond to the information needs of users, the scope of financial reporting addressed by/considered by this Conceptual Framework ~~reflects a scope for financial reporting that~~ is more comprehensive than that encompassed by financial statements. It provides for the presentation within GPFs of additional information that enhances, complements and supplements those statements

[Reason: I had to think twice about what the words "reflects a scope" mean]

Page 24 of 47

BC2.17

Some respondents to CF-ED1 also expressed concern that the scope was too sharply focused on the financial statements, and that additional guidance on non-financial information and sustainability reporting should be included in the Framework

**RESPONSE 2: K. WARREN (continued)**

Chapter 3

Page 28 of 47

3.9 The confirmatory and predictive roles of information are interrelated—for example, information about the current level and structure of an entity’s resources and claims to ~~them~~ [those resources](#) helps users to confirm the outcome of resource management strategies during the period, and to predict an entity’s ability to respond to changing circumstances and anticipated future service delivery needs. The same information helps to confirm or correct users’ past expectations and predictions about the entity’s ability to respond to such changes. It also helps to confirm or correct prospective financial information included in previous GPFRs.

Page 32 of 47

3.31 To help assure users that prospective financial and non-financial quantitative information and explanations included in GPFRs faithfully represents the phenomena that they purport to represent, the assumptions that underlie the information disclosed, the methodologies adopted in compiling [that information](#), and the factors and circumstances that support any opinions expressed or disclosures made should be transparent. This will enable users to form judgements about the appropriateness of those assumptions and the method of compilation, measurement, representation and interpretation of the information

3.33 Assessments of materiality will be made in the context of the legislative, institutional and operating environment within which the entity operates and, in respect of prospective financial and non-financial information, the preparer’s knowledge and expectations about the future. Disclosure of information about compliance or non-compliance with legislation, regulation or other authority may be material because of its nature—irrespective of the magnitude of any amounts involved. In determining whether an item is material in these circumstances, **consideration will be given to such matters as the nature, legality, sensitivity and consequences of past or anticipated transactions and events, the parties involved in any such transactions and the circumstances giving rise to them.**

[Comment: I’m not sure what “consequences of past or anticipated transactions and events” means here.]

3.34 [This Conceptual Framework classifies](#) materiality ~~is classified~~ as a constraint on information included in GPFRs ~~in this Conceptual Framework. In developing IPSASs and non-authoritative guidance the IPSASB will consider~~ the materiality of the consequences of application of a particular accounting policy or disclosure of a particular item or type of information ~~is considered by the IPSASB in developing IPSASs and non-authoritative guidance. However,~~ Subject to the requirements of any IPSAS ~~to the contrary,~~ [entities preparing GPFRs will also consider](#) the materiality of the separate disclosure of particular items of information ~~will also be considered by individual entities in preparing GPFRs.~~

[\[Reason: To simplify sentences by bringing objects to the beginning.\]](#)

**RESPONSE 2: K. WARREN (continued)**

Page 32 of 47

3.38 The objective of financial reporting is to meet the information needs of users, as identified in this Conceptual Framework~~Users reap the majority of benefits from the information provided by GPFs.~~ However, information prepared for GPFs may also be used internally by management and result in better decision-making by management. The disclosure of information in GPFs consistent with the concepts identified in the Conceptual Framework and IPSASs derived from them, will enhance and reinforce perceptions of the transparency of financial reporting by governments and other public sector entities and contribute to the more accurate pricing of public sector debt. Therefore, public sector entities may also benefit in a number of ways from the information provided by GPFs.

[This suggestion might be contentious. However, I'm not sure that we have any evidence to assert this. I would therefore rather rephrase the statement.]

3.40 [I support your proposed change.]

3.41 The qualitative characteristics work together ~~in different ways~~ to contribute to the usefulness of information. For example, neither a depiction that faithfully represents an irrelevant phenomenon, nor a depiction that unfaithfully represents a relevant phenomenon, results in useful information. Similarly, to be relevant, information must be timely and understandable.

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BC3.3 IPSASs and other non-authoritative guidance issued by the IPSASB will not deal with all financial and non-financial information that may be included in GPFs. In the absence of an IPSAS or non-authoritative guidance that deals with particular economic or other phenomena, assessments of whether an item of information satisfies the qualitative characteristics and constraints identified in the Conceptual Framework, and therefore qualifies for inclusion in GPFs, will be made by preparers compiling the GPFs. Those assessments will be made in the context of achieving the objectives of financial reporting, which in turn have been developed to respond to users' information needs.

[Comment: Is this a BC para, or would it sit better in the body of the chapter?]

**Chapter 4**

Page 43 of 47

4.4 A government may establish and/or operate through administrative units such as ministries or departments. It may also operate through trusts, statutory authorities, government corporations and other entities with a separate legal identity or operational autonomy to undertake or otherwise support the provision of services to constituents. Other public sector organizations, including international public sector organizations and municipal authorities, **may also undertake certain activities through, and may benefit from and be exposed to a financial burden or loss as a result of, the activities of entities with a separate legal identity or operational autonomy.**

[What is this last sentence saying? I don't get it. I also can't see how it links with the next para.]

4.7 The factors that are likely to signal the existence of users of GPFs of a public sector entity or group of entities include an entity having the responsibility or capacity to raise or deploy public monies, acquire or manage public assets, incur liabilities, or undertake activities to achieve service delivery objectives. The greater the resources that a public sector entity raises, manages and/or has the capacity to deploy, the greater the liabilities it incurs and the greater the economic or social impact of its activities, the more likely it is that there will exist service recipients or resource providers who ...

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4.9 In many cases, it will be clear whether or not there exist service recipients or resource providers that are dependent on GPFs of a public sector entity for information for accountability and decision-making purposes. For example, such users are likely to exist for GPFs of a government at the national, state or local government level and for international public sector organizations. ~~—because t~~ These governments and organizations generally have the capacity to raise substantial resources from, and/or deploy substantial resources on behalf of, their constituents, to incur liabilities and to impact the economic and/or social well being of the communities that depend on them for the provision of goods and services.

Page 45 of 47

BC4.1 and BC4.2.

I don't think these paras are BC paras. In my view they repeat what is in the body of the text. Agree that BC4.3 and 4.4 are BC paras but I don't think they need BC4.1 and BC4.2 to make sense.

BC4.7 Again, is this a BC para?

END RESPONSE 2 – K.WARREN

**RESPONSE 3: J. POGGIOLINI**

**From:** Jeanine Poggiolini [mailto:jeaninep@asb.co.za]  
**Sent:** Wednesday, 24 October 2012 12:32 AM  
**To:** Paul Sutcliffe  
**Cc:** John Stanford  
**Subject:** Comments on Phase I chapters  
**Importance:** High

Hello Paul,

I trust you are well?

I apologise for only getting the comments to you at this late stage. I unfortunately had a few other bits of work to do for our Board which were fairly urgent and before I knew it the 23<sup>rd</sup> had rolled around....

I have been through the memo and the proposed changes and have a few comments which are in the table below (some are only minor editorial amendments). I agree with most of your changes, and believe you have done a good job in reflecting the last discussions we had. I especially agree with your analysis of section 3 and the references to IPSAS 1 and how this should be addressed.

I worked off the clean copy, which is only really an issue where I have referred to pages rather than paragraphs. Please let me know if anything is unclear?

Kind regards

Jeanine

Paragraph	Comment
Page 2/47	Introduction 1 <sup>st</sup> paragraph. We use the term IPSASs and other “documents” that provide guidance on information... We use the term “publication” broadly in the Preface. Although this is a fairly minor point, I think it more closely reflects the Board’s outputs.
Page 2/47	The Conceptual Framework: Chapters 1-4 & accompanying text. I wondered whether we need this at all, especially the text about the framework being developed in four phases, all at different stages of completion. While I can understand this is important for a consultation document, I am not sure we need this in the final text of the Phase I chapters. If retained, it will invariably require revision in future.
Page 5/47	I am fine with the revised chapter heading for 1-4. I am not sure if the reference to “constraints” in the chapter 3 title was purposefully left out or not (to shorten the title). I am not sure that we should include the other chapter titles (5-7) as this may be a bit premature. Just as an example, at the last board meeting we debated whether recognition should accompany the elements or the measurement sections. On this basis, I think making a decision about the titles of these chapter titles may be premature.
Paragraph 1.1	I know you have flagged this as a change in your memo, but I feel a little uncomfortable referring to “IPSAS and non-authoritative pronouncements”. We had a fairly lengthy debate at the last (and previous meetings) about the possible need for another suite of pronouncements that deal with reporting outside the financial statements, which could be authoritative or not. By stating that we only have IPSAS

	<p>and other non-authoritative guidance, is quite limiting. I would feel more comfortable if we referred to IPSAS and other publication or other guidance broadly without indicating whether it is authoritative or non-authoritative if it isn't an IPSAS. This is obviously pervasive throughout the document.</p> <p>We use "IPSASs and other pronouncements" in the last sentence of 3.5 – I would be comfortable with this wording if used throughout.</p>
Paragraph 1.2	<p>End of first sentence: I think this should refer... "nor does it override the requirements of IPSASs <u>or other pronouncements</u>.."?                  The next sentence of this paragraph also only seems to acknowledge that there are authoritative requirements for financial statements (by reference to recognition, measurement, presentation and disclosure).                  Also, we refer to "presentation and disclosure" when I think this should be "presentation" using the terminology from phase 4?</p>
Paragraph BC1.3	<p>I worry about the second sentence of this paragraph where we say that in some jurisdictions GBEs apply IPSAS when we specifically state in the Preface that the IPSASB does not develop Standards for GBEs and this is made clear in each IPSAS. I don't think we lose anything if we delete that sentence? Unless of course the point we want to make is that even though different reporting frameworks may be applied by GBEs they are still included in whole-of-government accounts using IPSASs.                  Just note, that in our jurisdiction, it is not only at a whole of government level that there are issues with the consolidation of GBEs. It also happens at our provincial and local government levels.</p>
Paragraph 2.8	<p>Second sentence: we use the term "reporting entity" here. Should it just refer to an entity? We have used reporting in a few other paragraphs, but we have most used government or other PSE, or PSE.</p>
Paragraph BC2.1	<p>The last sentence of this paragraph indicates that the board was persuaded by these arguments. We haven't really outlined the arguments in the previous sentences about why a primary user group should be established.</p>
Paragraph BC2.7 and BC2.8	<p>I wondered if the format might work better if these two paragraphs were swapped around. At the moment, we discuss citizens, then resource providers, then legislatures, when in fact both citizens and legislatures might have an interest in both the resources and services provided. It might work better to discuss resource provider first, and then follow with the discussion on the users that might have an interest in the resources as well as services provided.</p>
BC 2.17	<p>First bullet refers to the fact that the Terms of Reference have been updated to overcome this challenge. Would it possibly be more appropriate to just refer to the Terms of Reference that were in effect at that time?</p>
Paragraph 3.25	<p>We refer to <u>accounting principles or policies</u> when we refer to "prospective financial and non-financial information" – this might need to be amended to something along with lines of the wording in paragraph 3.22 where we refer to "basis of preparation" or a methodology or something along those lines. Accounting principles and policies seem GPFS focused.                  There are one or two other paragraphs where a similar change might be appropriate, e.g. para 3.34 second sentence, BC3.28, last sentence, BC3.36, second last sentence</p>
Paragraph 3.26	<p>I have noted in this paragraph and one or two others (3.29, 3.31) that we refer to "phenomena" where in other places we have referred to "economic of other phenomena". Perhaps we might need change these references so that they are consistent.</p>
Paragraph 3.34	<p>The last sentence of this paragraph seems to imply that materiality only applies to separate disclosure of an item in the GPFs. Materiality goes beyond just that, and would also inform the accounting policy or basis of preparation. We do seem to acknowledge this in BC3.28. I would delete the following words: "the materiality of <del>the separate disclosure of</del> particular item...." An adjustment would also be needed to BC3.35 in the last sentence.</p>

Paragraph 3.38	The second sentence refers to the “conceptual framework and IPSASs derived from them...”. I think this should include a reference to “other pronouncement” (or whatever wording we use). I have a similar comment on para BC3.6 (second sentence), BC3.35 (second sentence), BC3.41 (first and second sentence).
Paragraph BC3.11	I don’t disagree with the content of this paragraph, but wonder about its placement under faithful representation. We discuss appropriate systems being necessary to ensure good quality information is generated. Either this paragraph should be on its own and not linked to a specific QC, or we need to make a stronger link between the quality of information and its faithful representation.

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**END RESPONSE 3: J. POGGIOLINI**

**RESPONSE 4: S. FRASER**

**From:** Sheila Fraser [mailto:sheila.fraser@rogers.com]  
**Sent:** Wednesday, 24 October 2012 2:48 AM  
**To:** Paul Sutcliffe  
**Cc:** John Stanford; Leah Weselowski  
**Subject:** Fw: Phase 1 Conceptual Framework - for out of session review

Hello Paul,

First, apologies for being so last minute on this review. But you have done such a great job that I only have a few comments.

As we've been through these papers many times, I focused my review on the changes you made and your specific questions.

I agree with the proposals you have made regarding the form and content of the Introductory material, Contents page, BC to Chapter 3, etc. They will make the paper much simpler and easier for readers.

I also agree with the terminology changes and all but one of the edits. My comments:

BC 1.3- I have difficulty trying to understand what the point of this paragraph is. Is it that GBEs might apply IPSASs or that GPFRs will include information on GBEs? If the latter, wouldn't this be more relevant in Chapter 4

As well, I find that the third sentence (some GBEs adopt IPSAS) could lead a reader to conclude that this is a condition for including information on GBEs in GPFRs, because of the beginning of the last sentence (In these circumstances).

BC 2.10- I would keep as presented. It parallels the discussion about resource providers.

You've done a great job on this, Paul. I look forward to seeing the final product in December.  
All the best,  
Sheila

----- Forwarded Message -----

**From:** Leah Weselowski <[LeahWeselowski@ifac.org](mailto:LeahWeselowski@ifac.org)>  
**To:**  
**Cc:** Paul Sutcliffe <[paulsutcliffe@ifac.org](mailto:paulsutcliffe@ifac.org)>  
**Sent:** Monday, October 1, 2012 10:15:14 AM  
**Subject:** Phase 1 Conceptual Framework - for out of session review

Dear Members, Technical Advisors and Observers,  
Conceptual Framework Phase 1: Out of session review of final draft Introduction and Chapters 1, 2, 3, and 4.  
Attached please find the following material:

1. Covering Memorandum.
2. Marked-up drafts of:
  - a. The Introduction and Chapters 1, 2, and 3; and
  - b. Chapter 4.  
(Note PDF only versions of the mark-up draft, but word versions are available on request.)
3. Clean copy of The Introduction and Chapters 1,2,3 and 4. (Again only in PDF form here, but a word version is available on request)
4. An extract of the minutes from the IPSASB meeting in Düsseldorf in March 2012 which deals with Phase 1.

*Please send all comments to Paul Sutcliffe ([paulsutcliffe@ifac.org](mailto:paulsutcliffe@ifac.org)) by **October 23, 2012** (or sooner, if possible)*

**RESPONSE 5: T. MUELLER-MARQUES.BERGER**

**From:** Thomas.Mueller-Marques.Berger@de.ey.com [mailto:Thomas.Mueller-Marques.Berger@de.ey.com]

**Sent:** Wednesday, 24 October 2012 11:41 PM

**To:** Paul Sutcliffe

**Cc:** waldbauer@idw.de; robin.braun@ch.ey.com

**Subject:** Fw: Draft: Feedback to the Conceptual Framework - Phase 1

Dear Paul

Thank you for your work and giving the opportunity to comment on the Conceptual Framework - Phase 1 at this stage as an out of session review. I discussed it with Gill Waldbauer, my TA, as well as with supporting colleagues of my team at Ernst & Young.

On that basis we have the following inputs:

**Typos:** (pages refer to clean version)

Pg 2 and 5 - Title of Chapter 3 is inconsistent with rest of the document.

Pg 5 - Contents - 'Conceptual' is missing from the title of Chapter 1

Pg 6 - Contents - Chapter 1 should start with 'The'

Pg 7 - Contents - Title of chapter 3 inconsistent with pg 2.

**Other edits for consideration:**

We appreciate that it was mentioned that there is a case for deleting Appendix A of IPSAS 1 once the CF has been published. We think the IPSASB ought to discuss this point again, purely from the viewpoint of the different authorities / binding effects attached to the CF and an IPSAS. Indeed, Appendix A currently states that it is an integral part of IPSAS 1. We need to be clear as to the desired authority.

Para 2.31 - We appreciate the thought behind your proposed change to para. 2.31, but are not sure that we agree with your wording (for some users this may be all the financial information to which they will have access), however, in our view, the change you are proposing to para. 2.31 relates to the highly significant issue of whether GPFs/GPFR fulfils needs and if so to what extent, which deserves discussion at the upcoming IPSASB meeting.

Para 3.3 - The wording is cumbersome. Can we rephrase it as: The following are pervasive constraints on information included in GPFRS:

- materiality;
- cost versus benefit and
- achieving an appropriate balance between the QCs.

Para 3.7 - 3.9 - Instead of 'confirmatory', would 'corroborative' convey the message better?

**RESPONSE 5: T. MUELLER-MARQUES.BERGER (continued)**

Para 3.11 - As you are aware, we still have grave concerns at the wording of para. 3.11, but did not hear sufficient support for our argument at the IPSASB Meeting in March. At least, we should delete the word "material" in the first sentence too, in order to be consistent with the second sentence. Besides that, this would kind of adress our concerns that management has to ensure that there financial statement closing processes are avoid material errors. Whilst I agree that the last sentence of para. 3.15 is a measurement issue that need to be elaborated on in the measurements' section, I would prefer to retain this as a mere acknowledgement here.

Para 3.15 - The paragraph seems incomplete. It begs the question, so what do preparers do in these uncertain situations where meaningful measurement is impossible?

Para 3.16 - In regard to 3.16 and the word cost and the proposal in your email – there may be situations where the original cost has to be used, but is not known and therefore has to be estimated – I therefore suggest leaving this in.

Para 4.11 - The heading seems to emphasize the importance of having a separate legal entity, would it be better to amend the title that the consideration of the reporting entity concept is **substance over form**,

We hope that the feedback is helpful for the further finalization.

Kind regards  
Thomas

Best regards, mit freundlichen Grüßen,



**Thomas Müller-Marqués Berger** | Partner | Wirtschaftsprüfer |  
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Leader International Public Sector Accounting

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Thank you for considering the environmental impact of printing emails.

**END RESPONSE 5: T. MUELLER-MARQUES.BERGER**

**RESPONSE 6: A. TIRON TUDOR**

**From:** Adriana Tiron Tudor [mailto:[adriana.tiron@ceccaro.ro](mailto:adriana.tiron@ceccaro.ro)]  
**Sent:** Wednesday, 24 October 2012 5:31 PM  
**To:** Paul Sutcliffe  
**Cc:** Leah Weselowski  
**Subject:** RE: Phase 1 Conceptual Framework - for out of session review

Dear Paul,

In my view, the amendments processed by staff reflect those agreed at March 2012 IPSASB meeting, without any additional consequential amendments not previously discussed.

Kind regards,  
Adriana Tiron Tudor

**From:** Leah Weselowski [mailto:[LeahWeselowski@ifac.org](mailto:LeahWeselowski@ifac.org)]  
**Sent:** Monday, October 01, 2012 5:15 PM  
**Cc:** Paul Sutcliffe  
**Subject:** Phase 1 Conceptual Framework - for out of session review

Dear Members, Technical Advisors and Observers,

Conceptual Framework Phase 1: Out of session review of final draft Introduction and Chapters 1, 2, 3, and 4.

Attached please find the following material:

1. Covering Memorandum.
2. Marked-up drafts of:
  - a. The Introduction and Chapters 1, 2, and 3; and
  - b. Chapter 4.(Note PDF only versions of the mark-up draft, but word versions are available on request.)
3. Clean copy of The Introduction and Chapters 1,2,3 and 4. (Again only in PDF form here, but a word version is available on request)
4. An extract of the minutes from the IPSASB meeting in Düsseldorf in March 2012 which deals with Phase 1.  
*Please send all comments to Paul Sutcliffe ([paulsutcliffe@ifac.org](mailto:paulsutcliffe@ifac.org)) by **October 23, 2012** (or sooner, if possible)*

**RESPONSE 7: KENJI IZAWA**

-----Original Message-----

From: izawa-knj@shinnihon.or.jp [mailto:izawa-knj@shinnihon.or.jp]  
Sent: Saturday, 3 November 2012 1:01 PM  
To: Paul Sutcliffe  
Cc: Takeo.Fukiya@jp.kpmg.com  
Subject: Re: Phase 1 Conceptual Framework - for out of session review

Dear Paul

I apologize my late response for the draft of Phase 1 Conceptual Framework.

My comments are as follows.

It is my great pleasure if my comments are valuable for your revising your draft paper and don't hesitate to comment me if you have any question on my comments.

Regards Kenji

------(My

Comments)-----

(The page numbers below are the pages of marked-up drafts)

a. The Introduction and Chapters 1, 2, and 3

>Contents (Page 6 of 53)

Chapter 5: The Elements of Financial Statements → I suggest that the title of the chapter should be replaced with "Chapter

5: The Definition and Recognition of the Elements of Financial Statements".

>Chapter 2: The Objectives of Financial Reporting, Users, Information

>Needs

and General Purpose Financial Reports

Para 2.11 (Page 18 of 53)

7th line: I am concerned of the difference between "resources" and "public monies".

Please check whether the term "public monies" can be replaced with the term "resource" or explain what public monies are.

8th line: It is more understandable for readers if you provide the explanation on "liquidity" and "solvency".

**RESPONSE 7: KENJI IZAWA (continued)**

Para 2.14 (Page 19 of 53)

1st line: minor point. a government or other public sector entity → a government and other public sector entity

Para 2.20 (Page 21 of 53)

1st line: I am concerned of the term "the financial results". Please explain what "the financial results" are.

Para BC2.8 -BC2.11 (Page 26 of 53)

The location issue. The draft explains "Resource Providers" firstly , and "The Legislature" secondly. but in para BC 2.3 the draft explains "The Legislature" firstly, and "Resource Providers" secondly. So I recommend that BC 2.10 and BC 2.11 are moved ahead of BC 2.8 and BC 2.9.

>Chapter 3: Qualitative Characteristics of, and Constraints on,  
>Information

included in General Purpose Financial Reports Para 3.5 (Page 34 of 53) 2nd line: minor point. I recommend that the term "explanatory material" is replaced with the term "explanatory information". See para 2.28

Para 3.29 (Page 39 of 53)

3rd line: However, the more verifiable is the information included in GPFRs, the more it will assure users that the information faithfully represents the phenomena that it purports to represent. →Reading this sentence, I wonder that "Verifiability" is the component of "Faithful Representation". Please check.

Para 3.31 (Page 39 of 53)

1st line: The same concern as that of para 3.29. Please check.

Para 3.34 (Page 40 of 53)

On the top line of Page 40 : the materiality of the separate disclosure of particular items of information will also be considered by individual entities in preparing GPFRs. How about "application of particular accounting policy" ? Please check.

Para 3.40 (Page 40 of 53)

I am supportive of the staff's proposal to reword the final sentence.

Para BC 3.1(Page 42 of 53)

6th line: I suggest that other constraints than the cost-benefit should be added.

Para BC 3.5(Page 43 of 53)

On the 4th line from the top of the page : This sentence states that the notion of "compliance" is used in the Conceptual Framework. But I wonder whether the notion of "compliance" is used in CFW. Please check.

Para BC 3.11 (Page 44 of 53)

4th line : I suggest the term "the quality" should be replaced with the term "a faithful representation".

**RESPONSE 7: KENJI IZAWA (continued)**

Para BC 3.29 (Page 47 of 53)

2nd line : I wonder whether the term "service achievements" is appropriate to insert in this sentence regarding accounting principles or policies.

Please check.

Para BC 3.30 (Page 47 of 53)

the last sentence : This sentence leads the readers to misunderstand that the verifiability is the component of the faithful representation. Please check the wording.

Para BC 3.31 (Page 47 of 53)

the last sentence: The same concern as that of BC 3.30

Para BC 3.35 (Page 49 of 53)

4th line : "materiality will be considered by preparers in determining whether an item of information should be separately disclosed in the financial statements of the reporting entity" the same concern as that of Para 3.34 (see above)

b Chapter 4

No comments.

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**MINUTES IPSASB MEETING March 2012 – Düsseldorf, Germany****Extract – Dealing with Phase 1 Chapters 1-4****2.3 Discuss Responses to Phase 1 Exposure Draft (CF—ED1) (Agenda Item 2B)****Conceptual Framework Phase 1 – Review of draft of final Conceptual Framework**

At this meeting the IPSASB:

- Completed its review of outstanding issues identified by the 55 responses to the Phase 1 Exposure Draft (CF—ED1): *Role, Authority and Scope, Objectives and Users, Qualitative Characteristics and Reporting Entity*; and
- Undertook a detailed page by page review of draft chapters of the Framework dealing with matters addressed in CF—ED1.

The IPSASB approved final draft chapters of the Framework dealing with matters addressed in Phase 1, subject to the processing of final amendments identified at the meeting and confirmation by a formal vote as other Phases of the Framework are finalized. Some Members expressed the view that, as the elements and measurement Phases of the Framework are further developed, it would be useful to consider whether final chapters dealing with matters addressed in Phase 1 of the Framework should be issued, and in what form—for example, as final chapters, as final draft chapters or as a staff draft of the final chapters.

The IPSASB agreed that the final draft chapters of Phase 1 should be revisited as the other Phases of the Framework are further developed to:

- Identify and resolve any overarching issues and to ensure that all Phases of the Framework articulate;
- Finalize the positioning of the Basis for Conclusions (BC) – some Members noted that there was a case for the BC of each chapter to be brought together and positioned after each Phase of the Framework, or at the end of the complete Framework, rather than after each section as had been adopted for CF—ED1; and
- Confirm, or otherwise, that the appendices which outline how similar matters are dealt with in the IASB Conceptual Framework and in the statistical bases of reporting should be included in the Framework, and to ensure they are dealt with on a consistent basis across all Phases of the Framework.

**Section 1: The role and authority of the Framework**

The IPSASB confirmed that the Framework will:

- Establish the concepts that underpin financial reporting and will be applied by the IPSASB in developing IPSASs. The Framework will not establish authoritative requirements or override the requirements of IPSASs, but can provide guidance in dealing with financial reporting issues not dealt with by IPSASs or non-authoritative guidance issued by the IPSASB. The IPSASB agreed the wording of the explanation of these matters in the text and the basis for conclusions.

- Explain that GPFRs encompass financial statements, including notes thereto, and the presentation of information that enhances, complements, and supplements the financial statements.
- Paragraphs explaining the scope of general purpose financial reporting are to be included in Chapter 2 of the Framework (rather than in Chapter 1 as in CF-ED1), and are to follow the discussion of user information needs and the potential contents of GPFRs.
- In paragraph BC1.3, explain that the Framework has relevance for all entities that apply IPSASs. In addition, in some jurisdictions government business enterprises (GBEs) may apply IPSASs and GPFRs prepared at the whole-of-government level may include information about GBEs.

The IPSASB also directed that the following editorial/drafting amendments be made to this chapter:

- Delete the final sentence of paragraph 1.3, which notes that IPSASs may identify circumstances in which the definitions and other concepts in the Framework have authoritative status.
- Delete the final sentence of paragraph 1.6, which explains that reference to inclusion of information in GPFRs does not mean inclusion of that information in every GPFR that may be prepared.
- In paragraph 1.8, delete the phrase “that are public sector entities” in the third dot point and all of the fourth dot point, which refers to GBE’s.

### **Section 2: Users, objectives and information provided by GPFRs**

The IPSASB confirmed that:

- The objectives of financial reporting are the provision of information useful for accountability and decision making purposes by users of GPFRs as identified and explained in this section.
- The primary users of general purpose financial reports (GPFRs) are service recipients (and their representatives) and resource providers (and their representatives). After some discussion, the IPSASB also confirmed that the reference to service recipients and then resource providers is appropriate as the initial identification of the primary users, and that subsequent references to primary users, are also appropriate and should not be changed.
- The title of Chapter 2 should be revised to reflect the sequence in which matters are discussed.
- The explanation of the following matters which had been revised as directed at the previous meeting are appropriate:
  - The relationship between users, objectives and information that may be provided by GPFRs and by the budget; and
  - Accountability for public sector entities and decisions making by users of GPFRs of public sector entities.
- It is appropriate to include in this chapter the “additional step” to identify that for accountability and decision making purposes users need information useful as input to assessments of such matters as: the solvency; financial capacity, operational capacity and flexibility of public sector entities; and the sustainability of the services they provide. Information about: financial position, performance and cash flows; service achievements; compliance with budget; prospective information; and additional explanation to put the financial and other information in context will then be included in GPFRs to respond to these needs.

After some discussion, the IPSASB agreed that the inclusion of this “additional step” did not result in unnecessary repetition or duplication of discussion of the likely information needs of service recipients and resource providers, and amendments to that discussion are not necessary.

- The Framework is to explain that GPFRs can encompass financial statements, including notes thereto, that will present information about financial position, financial performance and cash flows, and additional information about the following matters that will enhance, complement, and supplement the financial statements:
  - Budget information;
  - Service delivery achievements;
  - Prospective financial and non-financial information; and
  - Explanatory information.

The IPSASB agreed that the phrase “governments and other public sector entities” rather than another similar or equivalent phrase should be used consistently throughout Chapter 2 and other chapters as appropriate, directed staff to review the final draft chapters to ensure that consistent terminology is used throughout each of the chapters, noted that the IPSASB’s Terms of Reference (TOR) had recently been updated and directed that the BC should reflect that respondents’ comments on the IPSASB’s TOR related to the TOR in place at the time of issue of CF–ED1. Some Members also questioned whether the reference to CF–ED1, rather than a more generic reference to the Framework Exposure Draft should be retained in the BC. However, it was noted that the IPSASB had previously agreed that this form of referencing to Framework EDs was to be adopted across all Phases of the Framework, and decisions to change this nomenclature should be considered as other Phases are further developed.

The IPSASB also agreed that the following editorial/drafting amendments be made to this chapter and the BC:

- In the final sentence of paragraph 2.3, “will” is to be deleted.
- The final sentence of paragraph 2.5 is to refer to governments “as representatives of taxpayers...”
- Paragraph 2.6 is to also identify rating agencies as users of GPFRs with authority to require the preparation of financial reports for their own purposes.
- Paragraph 2.8 is to refer to “management” of the resources entrusted to it, rather than to “stewardship” of those resources.
- The final sentence of paragraph 2.9 is to note that “service recipients and resource providers” can make decisions about voting preferences and representations to be made to elected officials.
- The first dot point of paragraph 2.11 is to note that service recipients and resource providers require information to support assessments of the performance of the entity in, for example, managing the resources “and claims to resources” it is responsible for.
- The final sentence of paragraph 2.17 is to replicate the revised wording to be included in the subsection on explanatory information around paragraph 2.27—that is, “This information may be presented in the notes to the financial statements or in separate reports included in GPFRs”.
- The subheading “Compliance with the Budget” is to be replaced with the subheading “Budget Information” and the wording of paragraphs 2.19, 2.20 and 2.21 is to, as appropriate, reflect the

wording agreed at this meeting for the equivalent paragraphs in the ED, *Key Characteristics of the Public Sector with Potential Implications for Financial Reporting*.

- The subheading “Narrative Reporting” is to be replaced with the subheading “Explanatory Information”, paragraph 2.27 is to be revised with the alternative paragraph as proposed by staff and included in the draft materials considered at the meeting, and paragraph 2.28 is to be moved and absorbed in the section dealing with service delivery achievements, as appropriate. Consequential amendments are to be made to the text to replace references to narrative reports or narrative reporting with explanation or explanatory information as appropriate.
- The current subheading “Scope of Financial Reporting” is to be replaced with the subheading “Financial Statements and Information that Enhances, Complements and Supplements the Financial Statements” and the final two sentences of paragraphs 2.29 are to be deleted because they replicate previous explanations of what may be encompassed within GPFRs.
- The third sentence of paragraph 2.31 is to commence: “For example, while comparison of actual with budget information for the reporting period may be included in GPFRs, the budgets and financial forecasts...”
- The second sentence of paragraph BC2.4 is to commence: “However, given the objectives of financial reporting by public sector entities, the IPSASB remains...” and “primary” is to be deleted from the first dot point.
- Paragraph BC2.24 is to be reduced in length and focused more sharply on the confirmation that due process will be followed when preparing IPSASs or non-authoritative guidance.
- Paragraphs BC2.25 and 2.26 are to be deleted.

### **Section 3: Qualitative characteristics and constraints**

The IPSASB confirmed that:

- The term “faithful representation” rather than “reliability” is to be adopted and the qualitative characteristics (QCs) of information included in GPFRs are to be identified as relevance, faithful representation, understandability, timeliness, comparability and verifiability.
- The QCs are not to be classified as either fundamental or enhancing—rather, the draft is to reflect that the QCs work together to contribute to the usefulness of information.
- The constraints on information included in GPFRs are materiality, cost-benefit, and achieving an appropriate balance between the qualitative characteristics. In addition, the explanation in the draft considered at the meeting, that materiality can relate to a number of the QCs and can operate at the standards setting and individual entity level is appropriate.
- The explanation in paragraphs 3.22 and BC3.28 and BC 3.29 that reflect that comparability should not be read as limiting the ability of accounting policies to change to better represent particular transactions and events that are not dealt with by IPSASs, is appropriate. However, reference to “accounting policies and procedures” in paragraph 3.22 is to be replaced by the phrase “accounting principles or policies and basis for preparation”. The IPSASB also agreed that references to “accounting policies” throughout the Framework should be replaced with the phrase “accounting principles or policies”.

After a lengthy discussion of a number of aspects of the explanation of faithful representation, the IPSASB agreed that:

- Paragraph 3.11 is to be amended by deletion of words “fully” in the second line and “material” in the last line. The term “material error” in the second line is to be retained to link with its usage in paragraph 3.10.
- The following paragraph is to be included in the BC following paragraph BC3.10:  
*“Having in place accounting systems and processes that are appropriately designed and operating effectively will enable management to gather and process evidence supporting financial reporting. The quality of these systems and processes is a key factor in ensuring the quality of financial information that the entity includes in GPFRs.”*
- The following sentence is to be added at the end of paragraph 3.15:  
*“However, in some cases, uncertainty may be so great as to make meaningful measurement impossible—that is, the impact of such uncertainty may render measurement irrelevant.”*

The IPSASB also agreed that the following editorial/drafting type amendments be made to this chapter and the BC:

- In paragraph 3.24, the reference to information that may be included in GPFRs is to include “cash flows”. In addition, staff is to confirm that terminology used in this paragraph is similar to other equivalent references, if any, to information that may be provided by GPFRs.
- Item (b) of paragraph 3.28, which refers to checking records of service response times or patients treated, is to be deleted.
- The final sentence of paragraph BC3.2, which notes that as part of its due process the IPSASB will seek input on application of the QCs in these circumstances, is to be deleted.
- The BC is to be updated to reflect that references to the QCs in Appendix A of IPSAS 1 relate to the version of IPSAS 1 in place at the time the CF–ED1 was issued. The IPSASB noted that Appendix A to IPSAS 1 will be amended following issue of the Framework.
- In paragraph BC3.26, the final sentence, notes the IPSASB is of the view that IPSASs should preclude or limit the extent to which alternative accounting methods are permitted for presentation of the same phenomena, is to be deleted.
- In paragraph BC3.35, the final sentence and related footnote, which explains that the role of materiality as explained in the Framework is consistent with that reflected in IPSASs, is to be deleted.
- Paragraph BC3.40 is to note that GPFRs are developed to provide information useful to users and, therefore, requirements are prescribed in IPSASs when the IPSASB is of the view that the benefits to users are greater than their costs.

#### **Section 4 dealing with the reporting entity**

The IPSASB confirmed that:

- A public sector reporting entity is a government or other public sector organization, program or identifiable area of activity that prepares GPFRs. It may comprise two or more separate entities that present GPFRs as if they are a single entity.

- Key characteristics of a public sector reporting entity are that:
  - It is an entity that raises economic resources from, or on behalf of, constituents and/or uses economic resources to undertake activities for the benefit of, or on behalf of, those constituents; and
  - There are service recipients or resource providers dependent on GPFRs of the entity for information for accountability or decision-making purposes.

The IPSASB also agreed that the following editorial and structural amendments be made to this chapter and the BC:

- Paragraph 4.3, which explains that a public sector reporting entity may comprise two or more separate entities that present GPFRs as if they are a single entity, is to be repositioned to follow paragraph 4.1.
- The reference to local government in the third sentence of paragraph 4.4 is to be deleted.
- Paragraph BC4.11, which explains that the Framework does not specify whether, and in what circumstances, consolidated, combined or other financial statements should be prepared for a group reporting entity, is to be deleted.

## Extract from Minutes of Dusseldorf Meeting–March 2012

### 2.2 Key Characteristics of the Public Sector – Review Exposure Draft (ED) Responses (Agenda Item 2A)

The IPSASB reviewed staff's analysis of, and proposed positions on, the 37 responses received to the ED.

#### ***Specific Matter for Comment (SMC) 1: Usefulness of the material***

Staff noted that a large majority of respondents considered that the material is useful and supported further development.

Members agreed that the material should be further developed because it provides a context for the Framework and is an important positioning piece for the IPSASB (i.e., helps define the IPSASB's jurisdiction vis-à-vis the IASB). The Vice-Chairman suggested that staff liaise with the IASB on this matter.

#### ***SMC2: How and where the material should be published***

In light of the respondents' support for the material, staff had proposed that the material be published in its entirety as an appendix to the Framework. Members disagreed with this proposal and directed that the material should precede the Framework either as an Introduction or Preface.

Members suggested that, for the material to be useful in this regard:

- Repetition among the sections should be removed.
- It should be more succinct (i.e., provide more high-level descriptions and fewer specific examples).
- It should be published with the Framework to ensure there are no inconsistent messages between the key characteristics material and the Framework. Thus, further development of the material should be done together as the phases of the Framework progress.
- A Member noted that a view on whether all items identified in the ED are key characteristics can only be formed once the Framework is complete. The Chairman cautioned against a complete "cross off" of all key characteristics identified in the ED. Specific financial reporting implications would be determined either in the Framework or in specific standards-level projects.
- There was some discussion as to whether any material included in the ED needed to link with the concepts in the Framework, or whether this material could be seen as merely providing useful background to the environment in which the concepts were developed.

#### ***Section 1: Introduction***

The main comments on the Introduction related to the description of "public sector".

Members noted the following:

- The description of "public sector" is not intended to be a formal "definition", nor is it intended to be a definition of a "public sector reporting entity". The description of the public sector is similar to the description currently included in the *Preface*, and the *Preface* will need to be revisited once the Framework is complete. Any such description of the public sector should only be presented in one place in the IPSASB Handbook (i.e., in the *Preface* or in the key characteristics material, with

some preference expressed for the Preface. A final decision on placement would be made when the final material is prepared.

- Staff had proposed the following amended description of the term “public sector” to address concerns raised by respondents to the ED:

The term “the public sector” includes the following entities: national governments; supranational governments (e.g., the European Union); sub-national or regional governments (e.g., state, provincial, territorial); local governments (e.g., municipality, city, town) and their component entities (e.g., departments, agencies, boards, commissions, government business enterprises); single purpose entities (e.g. school boards or regional health authorities); regulatory bodies; and international organizations (e.g., the United Nations). The public sector does not include the private not-for-profit sector, although this sector shares many of the characteristics of the public sector.

Members did not support all of staff’s proposed changes to the description of the public sector. In particular they noted that the addition of GBEs as a component entity is not as clear a distinction as that presented in the ED. It was agreed that the text should revert to the ED structure with respect to GBEs, and that the statement in the *Preface* that GBEs do not follow IPSASs be included for review in the next draft of this material. The wording in the ED was as follows:

The term “the public sector” includes national governments, sub-national governments, local government units and regulatory bodies. In the context of this paper, the term also extends to international organizations that are public sector entities, such as the United Nations system. It also includes a number of other entities with varying structures and governance arrangements. Such entities include Government Business Enterprises (GBEs), which are known as public corporations in statistical accounting guidelines. GBEs have similar characteristics to private sector entities, but are governed by a public sector entity, which benefits from the GBE’s activities. They may be profit seeking or have a financial objective to break even. The public sector does not include the private not-for-profit sector, although this sector shares many of the characteristics of the public sector.

- Respondents to the ED had suggested that the paper address the issue of sector neutrality, either strongly endorsing such a standard-setting approach or questioning its suitability for public sector standard setting. Staff noted that these matters had not been addressed in the ED, given the ED’s limited and primarily educational objective, and recommended that they not be included in the Introduction/Preface to the Framework. Members supported staff’s conclusion that the Introduction/Preface should not include references to sector neutrality. It was noted that some transactions in the public sector are sector neutral. Those that are not need to be specifically addressed by the IPSASB in public-sector specific projects.
- A description of the public sector should be applicable to all jurisdictions.

## ***Section 2: Volume and significance of non-exchange transactions***

Members were supportive of staff’s recommendations on this section, and did not propose any changes to the ED other than those recommended, which were.

- Review the final list in paragraph 2.3 to ensure it is consistent with relevant material in Phase 1 of the Framework.
- Amend the discussion of non-exchange transactions and provision of goods and services in a non-market environment. The amendments will consider voluntary and mandatory non-exchange transactions in the public and private sectors to draw out the public sector implications more clearly. In addition, the IPSASB agreed that the difference between commercial and non-

commercial transactions should not be retained given the importance of non-exchange transactions in the public sector.

- Do further research to determine the proper usage of the term “public good”.

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

Several Members noted that clarity was needed that in the private sector a budget is a management tool, and generally an internal document, while in the public sector, it is often a constitutional requirement with legal force and a public accountability document. It was suggested that wording drawn from IPSAS 24 be used to make this point clear in the paper.

Staff had proposed the following change to paragraph 3.2:

3.2 In many jurisdictions the budget has a special legal significance and, historically, has been very prominent ~~than the financial statements~~ in communicating with citizens.

Members agreed with the proposed change to paragraph 3.2, with the exception of the addition of “very” preceding “prominent”.

Staff had proposed redrafting the first sentence in paragraph 3.3 as follows in order to clarify the significance of the budget in the public sector as follows:

3.3 The budget's is significant ~~in the public sector because it information that helps~~ allows users to assess actual spending-revenues and expense against budget estimates and the resulting budgetary surplus or deficit for the reporting period against budget estimates, compared with that budgeted. This is important in determining allows users to assess how well a public sector entity has met its financial objectives.

Members did not agree with the proposed changes to paragraph 3.3, but wanted it replaced with more general discussion, as outlined above.

### **Section 4: Property, plant, and equipment**

Members were generally supportive of staff's recommendations on this section, and did not propose any changes to the ED (other than the structural change noted in Section 5, below).

### **Section 5: Heritage assets**

Staff had suggested that paragraph 5.1 be expanded as proposed by some respondents to the ED. The IPSASB did not agree with the proposal.

Staff had suggested the addition of “some or all” to paragraph 5.2. The IPSASB agreed with this change.

One Member commented that the issue of heritage assets may arise in the Framework under Phase 3. However, other Members noted that this document is meant to be descriptive of characteristics that may affect financial reporting rather than prescriptive of the impact and the reporting requirements.

The IPSASB considered whether Section 5 should be combined with Section 4 and retitled, “The Nature and Purpose of Assets in the Public Sector”. A Member disapproved, noting that merging the two sections takes away the prominence of this issue. However, the IPSASB directed that the two sections be combined.

### **Section 6: Longevity of the public sector**

It was agreed that the example in the second sentence of paragraph 6.1 should be removed, as a specific example is not required to explain the statement made and it is not the only such example.

It was agreed that the statement in paragraph 6.1 should be reworded from “usually remain in existence” to “will not cease to exist”. Another member expressed concern with referring to the “going concern” principle, which is a private sector term.

The issue is not one of financial viability but of how public sector entities may restructure their operations. It was noted that a public sector entity may not continue as a debtor in certain cases without the entity ceasing to exist.

It was agreed that the focus in this section should be on sustainability rather than on “going concern”. It was agreed that the phrase “... , and whether social obligations are a liability” should be added at the end of the last sentence of paragraph 6.3 to address the potential liability similar to the potential asset related to “power to tax” noted in that sentence.

### **Section 7: Regulatory role of government**

The IPSASB agreed that the title of this section should be changed to “The Regulatory Role of Public Sector Entities” because the paper’s scope is intended to be broader than government.

### **Section 8: Ownership or control of rights to natural resources and phenomena**

Members were generally supportive of staff’s recommendations on this section, and did not propose any changes to the ED.

### **Section 9: Statistical bases of accounting**

A Member noted that in some jurisdictions, private sector entities may also be required to report statistical information. It was noted by other Members that in the public sector, the requirement to provide statistical information is more prevalent across jurisdictions. In addition, it was noted that the distinction between the public and private sectors is a matter of degree of importance. In the public sector, information compiled in accordance with statistical accounting requirements is of great importance in assessing the fiscal position of the general government sector.

The IPSASB directed staff to make the following editorial/drafting amendments:

- Change the title to “The importance of statistical bases of accounting”;
- Delete references to the date of the System of National Accounts to avoid the material becoming outdated.

### **Next steps**

The Chairman noted that there is no plan at present for an integrated (or umbrella) ED for the Framework and that the nature and extent of the changes to this ED in developing it to become the Introduction/Preface to the Framework are not significant. Therefore, the final changes to the Introduction/Preface will be made as the Framework is further developed and issued with the complete Framework without re-exposure.