

**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



REQUEST FOR COMMENTS

The IPSASB welcomes comments on the proposals in this Consultation Paper. Please submit your comments, preferably by email, so that they will be received by **March 31, 2009**. All comments will be considered a matter of public record. Comments should be addressed to:

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Introduction

When the International Public Sector Accounting Standards Board (IPSASB) first initiated its standards-setting program, it determined to start by developing a credible core set of International Public Sector Accounting Standards (IPSASs) that could be adopted by those entities seeking guidance on financial reporting issues. Many concepts, definitions, and principles were considered and embedded in the specific IPSASs as they were developed. To date, however, these concepts, definitions, and principles have not been explicitly identified and explained.

National standards setters in a number of countries have developed conceptual frameworks to respond to the political systems and institutional arrangements in their countries. These frameworks are an important component of the literature of those national standards setters.

The IPSASB is of the view that it is now time to develop an international conceptual framework for general purpose financial reporting (financial reporting) by public sector entities. The IPSASB's Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities (the IPSASB Framework) will establish the concepts that are to be applied in developing IPSASs and other documents that provide guidance on information included in general purpose financial reports (GPFRs).

The IPSASB Framework will underpin IPSASs that apply across countries and jurisdictions with different political systems and forms of government. The institutional and administrative arrangements established by the public sector for the delivery of services to constituents can also differ widely from jurisdiction to jurisdiction. The IPSASB Framework will therefore need to recognize the diversity of (a) underlying social and cultural traditions, (b) forms of government, and (c) service delivery mechanisms that exist in the many jurisdictions that may adopt IPSASs.

Many of the IPSASs currently on issue are based on International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB), to the extent that the requirements of those IFRSs are relevant to the public sector. The current IPSASs therefore draw on relevant concepts and definitions in the IASB's "Framework for Preparation and Presentation of Financial Statements" (the IASB Framework), with modifications where necessary to address public sector circumstances.¹

The IASB is currently reviewing its Framework in a joint project with the Financial Accounting Standards Board (FASB) of the USA. The initial focus of the IASB-FASB joint project is on financial reporting by business entities in the private sector. In a later phase of the project, the applicability of the IASB Framework to financial reporting by not-for-profit entities in the private sector and business entities in the public sector will be considered. However, the IASB Framework will not apply to other public sector entities.

Given (a) the relationship between the IPSASs currently on issue and the concepts and definitions in IFRSs, and (b) the IPSASB's ongoing IFRS convergence strategy, developments in the IASB Framework are being closely monitored.² The IPSASB Framework will draw on the

¹ Consistent with the IPSASB's IFRS convergence strategy, the accrual IPSASs that are based on International Financial Reporting Standards (IFRSs) reflect the requirements of those IFRSs unless there is a public sector specific reason for a departure.

² In July 2006, the IASB issued a Discussion Paper "Preliminary Views on an improved Conceptual Framework for Financial Reporting: The Objective of Financial Reporting and Qualitative Characteristics of Decision-useful Financial Reporting Information." An Exposure Draft was issued in May 2008: "Conceptual for

work of the IASB where it is relevant to the public sector. However, the objective of the IPSASB's project is not simply to interpret the application of the IASB Framework to the public sector, but rather to develop a public sector conceptual framework that makes explicit the concepts, definitions, and principles that underpin the development of IPSASs.

It is intended to develop the IPSASB Framework primarily for public sector entities other than Government Business Enterprises (GBEs). GBEs, which are profit-seeking entities, apply IFRSs issued by the IASB. They are therefore subject to the IASB Framework. However, the performance objectives of GBEs often include both the maximization of profit and the achievement of certain non-profit/social policy objectives imposed on them by governments. In developing the IPSASB Framework and the revised IASB Framework, the IPSASB and the IASB will need to consider whether the social policy/service delivery objectives to which GBEs may be subject will influence (a) the objectives of financial reporting by them, and/or (b) other components of the IPSASB or IASB Framework that applies to them. The IPSASB will consider its work plan and determine whether a separate project to address GBEs should be given priority.

The IPSASB encourages public sector entities to adopt the accrual basis of accounting, but acknowledges that many public sector entities currently adopt the cash basis of accounting (or a near-cash or modified-cash basis). As part of its framework project, the IPSASB will consider the concepts that underpin the cash basis of financial reporting. This will be done at a later stage of the project.

The concepts underlying the statistical financial reporting models, and the potential for convergence with them, will also be considered in developing the IPSASB Framework. The IPSASB is committed to minimizing divergence from the statistical financial reporting models. The extent to which this is achievable will depend on the significance of any differences in the information needs of users of GPFRs and users of statistical reports.

Consultation Papers and Exposure Draft

This project was initiated in 2006 with a project brief that was approved in November 2006. It is a collaborative project that the IPSASB is leading in conjunction with a number of participating national standards setters and similar organizations.

Although the components of the IPSASB Framework are interconnected, the project is being developed in phases, and the IPSASB will issue consultation papers at the conclusion of each phase, followed by an exposure draft of the complete accrual IPSASB Framework. This will (a) provide constituents with the opportunity to review and comment on components of the IPSASB Framework as they are developed, as well as the full exposure draft, and (b) allow each stage of project development to be informed by responses to prior consultation papers.

The components of the accrual IPSASB Framework have been grouped, and are being considered in the following sequence:

Financial Reporting: Chapter 1: The Objective of Financial Reporting (and) Chapter 2: the Qualitative Characteristics and Constraints of Decision-useful Financial Reporting Information." In May 2008, the IASB also issued a Discussion Paper: "Preliminary Views on an improved Conceptual Framework for Financial Reporting – The Reporting Entity."

INTRODUCTION

Phase 1 – the objectives of financial reporting, the scope of financial reporting, the qualitative characteristics of information included in GPFRs, and the reporting entity.

Phase 2 – the definition and recognition of the “elements” that are reported in financial statements.

Phase 3 – consideration of the measurement basis (or bases) that may validly be adopted for the elements that are recognized in the financial statements.

Phase 4 – consideration of concepts that may underpin the cash basis of financial reporting.

More details of each of these phases can be obtained from the project brief that can be found online at www.ipsasb.org.³

³ International Public Sector Accounting Standards Board, Public Sector Conceptual Framework – Project Brief (December 2006). Posted at www.ipsasb.org. Then go to project histories and public sector conceptual framework.

Executive Summary

This Consultation Paper is the product of Phase 1 of the IPSASB's project to develop a Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities, and covers:

- the role and authority of the IPSASB Framework;
- the objectives of financial reporting;
- the scope of financial reporting;
- the qualitative characteristics of information included in general purpose financial reports (GPFs); and
- the nature of the reporting entity.

The Role and Authority of the IPSASB Framework

The IPSASB Framework will establish the concepts that underpin financial reporting by public sector entities that adopt the accrual basis of financial reporting.

The IPSASB Framework will not establish new authoritative requirements for financial reporting by public sector entities that adopt IPSASs, nor will it override the requirements of existing IPSASs. However, where an accounting issue is not specifically addressed in an IPSAS or other IPSASB guidance, the IPSASB Framework will be a relevant source of guidance in dealing with such issues.

The Objectives of Financial Reporting

The objectives of financial reporting are determined by reference to the users of GPFs and their information needs. The potential users of GPFs are identified as recipients of services, providers of resources, and those with a special interest in particular services. Their information needs are summarized. The role of the legislature as a major user of GPFs in many jurisdictions is also acknowledged.

The objectives of financial reporting by public sector entities are to provide information about the reporting entity useful to users of GPFs for accountability purposes, and for making resource allocation, political, and social decisions.

The Scope of Financial Reporting

The scope of financial reporting establishes the boundary around the transactions, other events, and activities that may be reported in GPFs. The types of information that may be included within the scope of financial reporting, and presented in GPFs to achieve the objectives of financial reporting, are considered in detail.

The scope of financial reporting should be sufficiently broad to allow GPFs of an entity to report financial and non-financial information about the past, present, and the future, including prospective financial and other information about future service delivery activities and objectives, and the resources needed to support them.

The Qualitative Characteristics of Information included in GPFRs

The qualitative characteristics are the attributes that make information included in GPFRs useful to users for the achievement of the objectives of financial reporting.

The qualitative characteristics of information included in GPFRs of public sector entities are considered. They are identified as: relevance, faithful representation, understandability, timeliness, comparability, and verifiability. Materiality, cost, and achieving an appropriate balance between the qualitative characteristics are pervasive constraints on that information.

The Reporting Entity

For purposes of the IPSASB Framework, a public sector entity that prepares GPFRs is described as a reporting entity.

The IPSASB Framework will not identify which governments (or components of the government), or other public sector entities in any jurisdiction, are reporting entities or group reporting entities. The IPSASB Framework will, however, identify (a) key characteristics that a reporting entity is likely to possess, and (b) the criteria to be adopted for determining the entities to be included within a group reporting entity.

The nature of the relationship between the legislature and the executive arm of government in many jurisdictions, and the implications of that relationship for financial reporting, are also explored.

Request for Comments

The IPSASB welcomes comments on all of the matters addressed in this Consultation Paper.

The IPSASB has developed Preliminary Views on nine key issues. The IPSASB would particularly welcome comment on each of these Preliminary Views. (Paragraph numbers identify the location of the Preliminary View in the text.)

Comments are most useful when they include reasons for agreeing or disagreeing. If you disagree, please provide alternative proposals.

Preliminary View 1 - The Authority of the IPSASB Framework (following paragraph 1.7)

The IPSASB Framework will not establish new authoritative requirements for financial reporting by public sector entities that adopt IPSASs, nor will it override the requirements of existing IPSASs.

In selecting accounting policies to deal with circumstances not dealt with in IPSASs or other guidance issued by the IPSASB, public sector entities will refer to, and consider the applicability of, the definitions, recognition criteria, measurement principles, and other concepts identified in the IPSASB Framework.

Preliminary View 2 - General Purpose Financial Reports (GPFRs) (following paragraph 1.15)

GPFRs are financial reports intended to meet the common information needs of a potentially wide range of users who are unable to demand the preparation of financial reports tailored to meet their specific information needs.

Preliminary View 3 - The Users of GPFRs (following paragraph 2.7)

As a mechanism for focusing on their common information needs, the potential users of GPFRs of public sector entities are identified as:

- recipients of services or their representatives;
- providers of resources or their representatives; and
- other parties, including special interest groups and their representatives.

The legislature is a major user of GPFRs. It acts in the interest of members of the community, whether as recipients of services, providers of resources, or citizens with an interest in, or need for, particular services or activities.

Preliminary View 4- The Objectives of Financial Reporting (following paragraph 2.22)

The objectives of financial reporting by public sector entities are to provide information about the reporting entity useful to users of GPFRs for:

- accountability purposes; and
- making resource allocation, political and social decisions.

Preliminary View 5 - The Scope of Financial Reporting (following paragraph 3.18)

The scope of financial reporting encompasses the provision of financial and non-financial information about:

- economic resources of the reporting entity at the reporting date and claims to those resources;
- the effect of transactions, other events, and activities that change the economic resources of the reporting entity and claims to those resources during the reporting period, including cash inflows and outflows and financial performance;
- the reporting entity's compliance with relevant legislation or regulation and legally adopted or approved budgets used to justify the raising of monies from taxpayers and ratepayers;
- the reporting entity's achievement of its service delivery objectives; and
- prospective financial and other information about the reporting entity's future service delivery activities and objectives, and the resources necessary to support those activities.

It also encompasses explanatory material about: (a) the major factors underlying the financial performance of the entity, the achievement of its service delivery and other objectives and the factors which are likely to influence its performance in the future; and (b) the assumptions underlying and major uncertainties affecting the information included in GPFs.

Preliminary View 6 - Evolution of the Scope of Financial Reporting (following paragraph 3.22)

The scope of financial reporting should evolve in response to users' information needs, consistent with the objectives of financial reporting.

Preliminary View 7 - The Qualitative Characteristics of Information Included in GPFs (following paragraph 4.40)

The qualitative characteristics of information included in GPFs of public sector entities are:

- relevance, which encompasses confirmatory value, predictive value, or both;
- faithful representation, which is attained when depiction of economic or other phenomena is complete, neutral, and free from material error;
- understandability;
- timeliness;
- comparability; and
- verifiability (including supportability).

Constraints on financial reporting are materiality, cost, and achieving an appropriate balance between the qualitative characteristics.

Preliminary View 8 - Characteristics of a Reporting Entity (following paragraph 5.10)

The key characteristic of a reporting entity is the existence of users who are dependant on GPFs of the entity for information for accountability purposes, and for making resource allocation, political, and social decisions.

A public sector reporting entity may be an entity with a separate legal identity or other organisational structure or arrangement.

Preliminary View 9 – The Composition of a Group Reporting Entity (following paragraph 5.35)

A group reporting entity will comprise the government (or other public sector entity) and other entities when the government (or other public sector entity):

- has the power to govern the strategic financing and operating policies of the other entities (a “power criterion”); and
- can benefit from the activities of the other entities, or is exposed to a financial burden that can arise as a result of the operations or actions of those entities; and can use its power to increase, maintain, or protect the amount of those benefits, or maintain, reduce, or otherwise influence the financial burden that may arise as a result of the operations or actions of those entities (a “benefit or financial burden/loss” criterion).

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

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The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities

The Role of the Conceptual Framework

- 1.1 The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities (the IPSASB Framework) establishes the concepts that underpin general purpose financial reporting (financial reporting) by public sector entities that adopt the accrual basis of financial reporting. The International Public Sector Accounting Standards Board (IPSASB) will apply these concepts in developing International Public Sector Accounting Standards (IPSASs) and other guidance applicable to the preparation and presentation of general purpose financial reports (GPFRs) of public sector entities.
- 1.2 The benefits to the IPSASB of developing and applying its Framework will include:
- the development of IPSASs that are consistent, because they are based on applying a coherent and orderly set of interrelated concepts relevant to public sector financial reporting;
 - a more efficient and effective standards development process, because all Board members will debate issues from the same explicit conceptual basis; and
 - increased accountability of the IPSASB for its decisions, because the concepts that underpin the Board's decisions will be readily apparent.
- 1.3 The IPSASB Framework can also benefit users and other members of the financial reporting community. For example, it will:
- provide guidance to preparers and auditors in dealing with financial reporting issues not dealt with by IPSASs or other guidance issued by the IPSASB; and
 - enhance communication between the IPSASB and its constituents – because the conceptual underpinnings of IPSASB decisions, and the parameters within which the IPSASB operates, will be apparent. This will assist members of the financial reporting community to participate more effectively in the standards-setting process.

Authority of the IPSASB Framework

- 1.4 Authoritative requirements relating to the recognition, measurement, presentation, and disclosure of transactions, other events, and activities that are reported in GPFRs are specified in IPSASs. The IPSASB adopts a due process for developing IPSASs that provides the opportunity for comment by all interested parties.
- 1.5 The IPSASB Framework will not establish new authoritative requirements for financial reporting by public sector entities that adopt IPSASs and other pronouncements of the IPSASB. Nor will it override the requirements of existing IPSASs. If an IPSAS currently on issue conflicts with the IPSASB Framework, the IPSASB may review that IPSAS and, through application of due process, revise it. However, until that occurs, the requirements of the existing IPSAS will apply.

- 1.6 The Preface to the International Accounting Standards Board (IASB) Exposure Draft “An improved Conceptual Framework for Financial Reporting: Chapter 1: The Objective of Financial Reporting (and) Chapter 2: Qualitative Characteristics and Constraints of Decision-useful Financial Reporting Information” (hereafter referred to as IASB Framework ED “Objective and Qualitative Characteristics” 2008), explains that the IASB and the Financial Accounting Standards Board (FASB) of the USA have not reached a common conclusion on the authoritative status of their revised Frameworks, but have agreed that the Frameworks will not override existing financial reporting standards (see paragraph P14).⁴
- 1.7 Although the IPSASB Framework will have lesser authority than an IPSAS developed to deal with a specific transaction or other event, it will be a relevant source of guidance to management in selecting accounting policies to deal with circumstances not specifically dealt with in an IPSAS. In dealing with these circumstances, public sector entities will refer to, and consider the applicability of, the definitions, recognition criteria, measurement principles, and other concepts identified in the IPSASB Framework.

IPSASB Preliminary View 1

The IPSASB Framework will not establish new authoritative requirements for financial reporting by public sector entities that adopt IPSASs, nor will it override the requirements of existing IPSASs.

In selecting accounting policies to deal with circumstances not dealt with in IPSASs or other guidance issued by the IPSASB, public sector entities will refer to, and consider the applicability of, the definitions, recognition criteria, measurement principles, and other concepts identified in the IPSASB Framework.

Applicability: Public Sector Entities other than Government Business Enterprises

- 1.8 The IPSASB Framework is being developed for general purpose financial reporting by public sector entities other than Government Business Enterprises (GBEs). Therefore, it applies to GPFRs of national, state/provincial, and local governments, and to a wide range of other public sector entities. These include government ministries, departments, programs, boards, commissions, agencies, public sector social security funds, trusts, and statutory authorities. The IPSASB Framework also applies to other entities, including international governmental organizations, that prepare GPFRs in accordance with IPSASs.

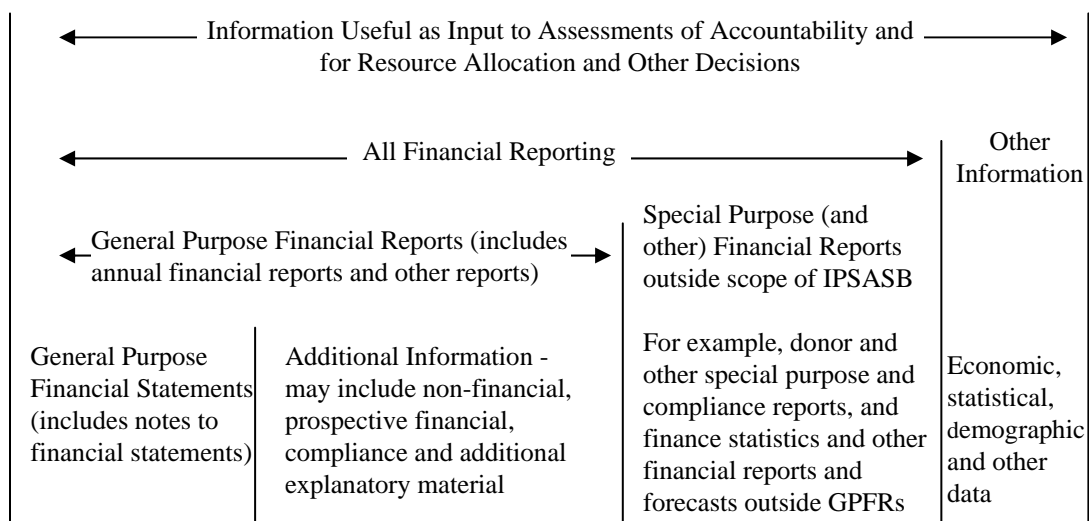
⁴ As noted in the Introduction to this Consultation Paper, the IASB is currently reviewing its Framework in a joint project with the USA Financial Accounting Standards Board (FASB). As part of this project the IASB has issued the Exposure Draft “Conceptual Framework for Financial Reporting: The Objective of Financial Reporting and Qualitative Characteristics and Constraints of Decision-useful Financial Reporting Information” May 2008, and two Discussion Papers: “Preliminary Views on an improved Conceptual Framework for Financial Reporting – The Reporting Entity” (DP, May 2008) and “Preliminary Views on an improved Conceptual Framework for Financial Reporting: The Objective of Financial Reporting and Qualitative Characteristics of Decision-useful Financial Reporting Information” (Discussion Paper, Objectives and Qualitative Characteristics, July 2006).

- 1.9 The “Preface to International Public Sector Accounting Standards” (paragraph 12) explains that IPSASs do not apply to GBEs. GBEs apply International Financial Reporting Standards (IFRSs), which are issued by the IASB. The IASB Framework establishes the concepts that underpin the development of IFRSs.

General Purpose Financial Reports

- 1.10 GPFRs are financial reports intended to meet the common information needs of a potentially wide range of users who are unable to demand the preparation of financial reports tailored to meet their specific information needs. These users rely on an independent standards setter to establish appropriate principles for application in preparing the financial reports upon which they must rely. GPFRs are a central component of, and support and enhance, transparent financial reporting by governments and other public sector entities.
- 1.11 Some users of financial information may have the authority to command the preparation of reports tailored to meet their specific information needs – for example: governing bodies, the legislature, and in some cases lending institutions and providers of development and other assistance. Financial reports prepared to meet the specific information needs of these users are termed special purpose financial reports. The IPSASB Framework, and the IPSASs developed consistent with it, are not developed specifically for application to special purpose financial reports, but may be applied to them.
- 1.12 The IASB Framework ED “Objective and Qualitative Characteristics” (2008, paragraph OB4) explains that general purpose financial reporting stems from the information needs of users who (a) lack the ability to prescribe all the financial information they need from an entity, and (b) therefore must rely, at least partly, on the information provided in financial reports.
- 1.13 GPFRs include, but are broader than, financial statements and their notes as currently dealt with in IPSASs. GPFRs may provide information about the past, present, and the future that is useful to users. They may comprise (a) general purpose financial statements that present financial information about past transactions and other events, (b) prospective financial and other information, and (c) non-financial information about the achievement of the entity’s service delivery objectives. The scope of financial reporting and information that GPFRs may provide will develop and evolve in response to a number of factors, including:
- the changing operating environment faced by entities that prepare GPFRs; and
 - users’ need for relevant information about new and innovative transactions that affect such matters as the assessment of the financial position and performance of the entity, and the discharge of its accountability obligations.
- 1.14 GPFRs may not provide all the information users need for accountability, decision-making or other purposes. In some cases, users will need to refer to information from other sources. Figure 1 below identifies potential sources of information that meet users’ information needs.

Figure 1: Information needs of users



1.15 General purpose financial statements may comprise historical information, prospective information or both historical and prospective information. GPFs may also include prospective financial and other information as additional information outside the financial statements. While prospective financial information included in GPFs may be derived from budgets, GPFs do not encompass budget policy statements or matters related to budget formulation. GPFs may also include certain information about compliance with budgets and relevant legislation and regulation.⁵ Additional financial forecasts and information about compliance with budgetary policy initiatives and other legislative, contractual, or regulatory matters may be included in budget execution or budget monitoring reports, or other financial reports issued by governments in addition to their GPFs.

IPSASB Preliminary View 2

GPFs are financial reports intended to meet the common information needs of a potentially wide range of users who are unable to demand the preparation of financial reports tailored to meet their specific information needs.

Differential Reporting

1.16 In some jurisdictions, certain types or classes of entity may not be required to apply all the requirements of complex accounting standards.⁶ In these cases, differential reporting requirements are said to apply to these classes of entities. Included in these classes, for

⁵ For example, IPSAS 24 “Presentation of Budget Information in Financial Statements” currently requires certain disclosures about budget and actual information to be included in general purpose financial statements.

⁶ For example, the IASB has issued an exposure draft proposing simplified requirements for application in the preparation of general purpose financial statements of private (small and medium-sized) business entities in the private sector: “Exposure Draft of a Proposed IFRS for Small and Medium-sized Entities” (ED - February 2007).

example, may be entities that elect to prepare financial reports and make them available to interested parties, even though they (a) are not required to do so by legislation or a regulatory body, and (b) do not issue or otherwise incur public debt, or consume or administer material amounts of public resources.

- 1.17 The IPSASB Framework does not establish different concepts for application by different types or classes of entities. Whether differential reporting requirements should be developed for application by certain public sector entities will be considered in the development of individual IPSASs, or in a separate differential reporting project.

The Objectives of Financial Reporting

Introduction

2.1 The objectives of financial reporting are at the core of the IPSASB Framework. They identify the purpose of financial reporting by public sector entities. The other components of the IPSASB Framework, and the IPSASs themselves, are developed to respond to the objectives.

Users of GPFRs of Public Sector Entities

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.

2.3 The IPSASB has reviewed the potential users of GPFRs of public sector entities identified by many national standards setters and other authoritative bodies who are responsible for establishing financial reporting standards for public sector entities. Those users include:

- taxpayers, ratepayers, and similar “involuntary” resource providers;
- citizens and other recipients of services⁷ from government;
- the legislature and oversight bodies;
- elected or appointed officials and their staff;
- donors, including international organizations, and other voluntary providers of resources;
- national accountants and government statisticians;
- present and potential institutional and individual lenders, including purchasers of government bonds and other debt instruments;
- “fee-for-service” consumers of services;
- suppliers and employees;
- the media; and
- representatives of, or advisors to, these user groups.

2.4 Some national standards setters with responsibility for not-for-profit entities in the public and/or private sectors have (a) identified present and potential funders and financial supporters as the primary user group, and (b) developed the objective(s) of financial reporting to respond to the likely information needs of those primary users. In other cases, standards setters identify broad groupings of potential users, and consider the likely information needs common to those broad groups of users.

⁷ Governments primarily provide services to their constituents, but may also provide goods such as food and clothing in some circumstances. The term “services” is used in this paper to also encompass goods.

- 2.5 The legislature acts in the interest of members of the community, whether as (a) recipients of services from the government and its agencies, (b) providers of resources to the government, or (c) citizens with an interest in, or need for, particular services or activities of the government or its agencies. The legislature generally has the authority to demand the preparation of special purpose financial reports to meet its particular information needs. However, in many jurisdictions and in many forms of government, the legislature (whether at the national, state/provincial, or local government level) remains a major user of GPFRs. Recipients of the services provided by governments and their entities, and those that provide the resources to support provision of those services, are also likely to be users of the GPFRs.
- 2.6 The following user groups are used as a mechanism to explore and identify the common information needs of a wide range of potential users of GPFRs of public sector entities in different jurisdictions and under different forms of government:
- recipients of services or their representatives – includes citizens and their representatives, the legislature, and oversight or monitoring bodies;
 - resource providers or their representatives – includes “involuntary resource providers” such as taxpayers and ratepayers and “voluntary resource providers” such as lenders, donors, suppliers, fee-for-service consumers, investors, the legislature and elected officials, central agencies, oversight bodies, and advisors. This grouping also encompasses present and potential funders and financial supporters, and other resource providers; and
 - other parties, including special interest groups or their representatives –includes the legislature, analysts, government statisticians, the media, and special interest community groups and their representatives – that is, those with an interest in the funding and delivery of particular services.
- 2.7 These groupings of potential users are not mutually exclusive. For example, citizens will often be both service recipients and resource providers as well as members of special interest groups. Similarly, the legislature acts in the interests of all members of the community and is included in each group. However, these groupings encompass the full range of potential users and allow consideration of the different purposes for which users may require information.

IPSASB Preliminary View 3

As a mechanism for focusing on their common information needs, the potential users of GPFRs of public sector entities are identified as:

- recipients of services or their representatives;
- providers of resources or their representatives; and
- other parties, including special interest groups and their representatives.

The legislature is a major user of GPFRs. It acts in the interest of members of the community, whether as recipients of services, providers of resources, or citizens with an interest in, or need for, particular services or activities.

- 2.8 The IASB Framework ED “Objective and Qualitative Characteristics” (2008) explains that capital providers are the primary users of GPFs, and that the decisions they make include whether and how to (a) allocate resources to a particular entity, and (b) protect or enhance their investments. The ED identifies the objective of general purpose financial reporting of business entities in the private sector as being “...to provide information about the reporting entity that is useful to present and potential equity investors, lenders, and other creditors in making decisions in their capacity as capital providers. Information that is decision useful to capital providers may also be useful to other users of financial reporting who are not capital providers.” (paragraph OB2).
- 2.9 There are similarities in the potential users of GPFs of public sector entities and business entities in the private sector. The relationship of some of those users to the reporting entity and their information needs are also similar – particularly in the case of lenders, suppliers and purchasers of government services. However, there are differences in the operating objectives of public sector entities subject to the IPSASB Framework and business entities that are subject to the IASB Framework. There are also differences in how these entities raise funds, and in the nature and range of decisions that can be made by many funders and consumers of the services they provide. For example:
- public sector entities that are subject to the IPSASB Framework are constituted and funded primarily to provide services to constituents, rather than to provide financial returns to equity investors and other capital providers – as such, their performance will not be fully or adequately reflected in measures of their financial results or changes in their net assets;
 - present and potential investors in private sector business entities have the discretion to decide whether to invest in the entity, but taxpayers, ratepayers, and certain other providers of resources to government entities do not – they provide funds involuntarily, and cannot choose to “invest” or “disinvest” in the government or public sector entity;
 - donors and providers of development and other assistance voluntarily provide resources to public sector entities, but do not expect services of approximately equal value in return, or a financial return on the resources they provide. However, they do expect that resources will be used for the intended purposes and to achieve the anticipated outcomes – that is, there are compliance and performance stipulations attached to the resources provided to recipients;
 - taxpayers, ratepayers, and other citizens and residents receive services from the government or a government entity, but not (except for some fee-for-service consumers) as a result of an exchange transaction – that is, rarely would the taxes paid by taxpayers and the services they receive in return be classified as an exchange transaction, as conventionally defined in accounting standards; and
 - consumers of the goods and services provided by private sector business entities can decide whether or not to purchase the goods and services provided by an entity, and often have a choice of service provider. Recipients of services and other

benefits provided by public sector entities often do not have such discretion or a choice of service provider.

- 2.10 These differences will influence, and be reflected in, (a) the purposes for which users of GPFRs of public sector entities need information, and (b) the nature of the information provided consistent with those purposes. They will also influence the nature of the reporting obligation of public sector entities, and be reflected in the objective(s) of financial reporting by them.

Information Needs of Users of GPFRs of Public Sector Entities

- 2.11 Recipients of services, or their representatives, will require information about:
- the resources raised by the government or other public sector entity during the reporting period, and amounts used to provide particular classes of services;
 - the volume, types, and costs of services provided during the period, and whether service delivery was consistent with the quantity, quality, and frequency prescribed by approved budgets, enabling legislation, or other authority governing the raising and use of public monies; and
 - the entity’s anticipated future service delivery activities and objectives, including:
 - the resources to be allocated for the delivery of particular classes of services in future periods, and the likely sources of those resources; and
 - the level of service delivery intended for existing services in the future, the anticipated cost, and the sources of cost recovery.
- 2.12 Recipients of services will require this information as input to assessments of such matters as whether (a) the entity is using resources economically, efficiently, effectively, and as intended, (b) such use is in their interests, and (c) current levels of taxes, rates, or other charges are sufficient to maintain the volume and quality of services currently provided, or are likely to change. This may influence their voting preferences and representations they make to elected or other representatives about the amount of resources raised by the entity, how those resources were used, and the amount of resources that should be allocated to providing particular services in the future. It may also influence their views about their own likely dependency on provision of those services by a public sector entity in the future or, where such an alternative exists, a private sector supplier.
- 2.13 Resource providers or their representatives will require information about:
- the amount and type of resources raised by the government or other public sector entity during the reporting period, and the resources available to support future operations;
 - the amount and type of resources used in the provision of services, the acquisition of capital assets, the repayment of debt, or for other purposes;

- whether resources were used consistent with approved budgets, enabling legislation, or other authority governing the raising and use of public monies, or as otherwise specified in funding agreements;
 - the nature, volume, and cost of services provided during the period; and
 - the entity’s anticipated future service delivery activities and objectives, including the resources necessary to support the intended level of service delivery in future periods, and the likely sources of those resources.
- 2.14 Resource providers will require this information to enable them to form judgments about such matters as whether (a) the entity is achieving the objectives established as the justification for the resources raised during the reporting period, (b) the entity funded current operations from funds raised in the current period from taxpayers and ratepayers or from borrowings or other sources, and (c) its resource needs are likely to increase or decrease in the future (and the likely sources of those resources). Donors will require information to confirm that monetary and non-monetary assets provided for specific purposes were used for those purposes, and that the outcomes were as anticipated. Lenders and creditors will require information as input to assessments about the liquidity of the entity and to confirm expectations that the amount and timing of repayment will be as agreed. This may influence, for example:
- the voting preferences of taxpayers and ratepayers and the representations they make to elected or other representatives about the amount of resources to be raised in the future and allocated to particular programs or entities, and how efficiently and effectively resources have been used in the past;
 - decisions of elected officials, including parliaments and similar representative boards, councils, or chambers about the allocation of resources to support current or additional programs for providing services;
 - expectations of capital markets about the demand for debt financing by governments, and the pricing of that debt;
 - decisions of donors and other voluntary resource providers about whether continued support for the activities of the program or entity is warranted; and
 - expectations of fee-for-service consumers about the likely costs they will face for continued consumption of those services, and actions they may take in respect of alternate providers of such services.
- 2.15 Other parties, including special interest groups or their representatives, will require information about:
- the volume, types, and costs of services provided to constituents (or particular constituent subgroups) during the period, and whether this was as prescribed by approved budgets or other authority or agreement relating to service delivery;
 - the amount, nature, and changes in resources (and claims to them) during the period, and the resources allocated to providing particular classes of services during the reporting period; and

- future service delivery activities and objectives, and the resources to be allocated to support those activities.
- 2.16 These other parties will require this information to (a) identify the resources that were allocated to the delivery of particular services, (b) confirm that those services were made available to constituents as intended during the reporting period, (c) anticipate the level of delivery of particular services and related resource needs in future periods, and (d) form judgments about such matters as the extent to which public monies are used efficiently and effectively in the interest of the community, or sections thereof. This information will also be required to compile national accounts and as input to statistical financial reporting models and assessments of the impact of government policies on economic activity. It will also facilitate international comparisons of such matters as resources allocated to providing particular services, sources of funding for government activities, and the level of government debt.
- 2.17 Such assessments are likely to influence actions and initiatives these parties take with respect to the use of public monies by public sector entities, and their support for government policies.

The Objectives of Financial Reporting

- 2.18 Governments and other public sector entities raise resources from taxpayers, ratepayers, and other resource providers for use in the provision of services to citizens and other service recipients. These entities are accountable to those that provide them with resources, and to those that depend on them to use those resources to deliver necessary services. Accountability has been defined in many dictionaries and, in respect of its application to financial reporting, in the accounting literature. Although the wording may differ, those definitions have common themes that are reflected in the following definition: “The obligation of evidencing good management, control, or other performance imposed by law, regulation, agreement, or custom.” (Kohler’s Dictionary for Accountants).
- 2.19 For a government or other public sector entity, the discharge of accountability requires reporting to constituents on its stewardship of public resources. That includes reporting information that will enable users to form judgments about such matters as (a) the extent to which the entity has discharged its responsibilities in safekeeping and managing public resources, (b) the efficient and effective use of those resources in achieving specified service delivery objectives, and (c) compliance with relevant budgetary, legislative, and other controls regulating the raising and use of public monies. Such information is necessary for accountability purposes – to justify the raising and use of resources – and will inform public debate and provide input to decision-making by users of GPFRs.
- 2.20 The legislature can make or influence decisions about (a) the resources allocated to support the delivery of particular services, and (b) the “investment” made in the government departments, agencies or other entities used for such purposes. Lenders, creditors, and donors can also make decisions about whether to provide resources and, within certain constraints, whether to withdraw those resources from the government or other public sector entity. These users will require information for accountability

purposes and as input to formulating government policy initiatives and decisions about the resources they will allocate to particular entities in the future.

- 2.21 Citizens and other potential users of GPFRs may have little direct or immediate capacity to make resource allocation decisions in respect of a particular public sector reporting entity on an ongoing basis. However, they can make decisions about such matters as 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. In some cases, they can also make decisions about personal circumstances, such as choosing a school for their children, choosing a health service provider or choosing the city or suburb in which to live. In most cases, these decisions will not be made directly in response to information included in GPFRs – for example, voting decisions may be made only every three or four years and involve consideration of a wide range of factors. Other decisions may also be made periodically and be influenced by information outside GPFRs. However, information provided in annual or other GPFRs about such matters as (a) the entity’s management and use of public resources, (b) its achievement of service delivery objectives in the past, and (c) its likely future resource needs and service delivery objectives to support the ongoing discharge of accountability obligations, will also contribute to and (cumulatively) inform decision-making. Therefore, citizens and other potential users will also require information for accountability purposes, and as input to economic, political and social decision-making purposes.

Common information needs of the user groups

- 2.22 Each of the user groups considered above require information for accountability purposes, and as input for resource allocation, political and/or social decision-making purposes. In addition, common themes in their information needs can be identified. For example, all require information about such matters as:
- the types and amount of resources currently available for providing services in future periods and claims to those resources;
 - the amount, sources, and uses of resources raised during the reporting period;
 - the cost of services provided during the period and the amount and sources of cost recovery during the period, including amounts recovered from taxpayers, ratepayers, fee-for-service consumers, and donors;
 - whether resources have been used economically, efficiently, and effectively, and in accordance with approved budgets and other authority that justified the raising and use of those resources;
 - the entity’s performance in achieving its service delivery objectives, including quantitative and qualitative aspects of its service delivery achievements;
 - anticipated future service delivery activities and objectives of the entity, including information about their anticipated cost and the amount and sources of the resources that will be allocated to their provision; and

- prospective financial and other information useful in assessing the sustainability of government operations and programs, and at what level.

They also require explanatory information to support assessments of the efficiency and effectiveness of operations, and to place in context (a) financial and other information about the compliance and service delivery achievements of the entity during the reporting period, and (b) the entity's future plans, objectives, and anticipated resource needs.

IPSASB Preliminary View 4

The objectives of financial reporting by public sector entities are to provide information about the reporting entity useful to users of GPFRs for:

- accountability purposes; and
- making resource allocation, political and social decisions.⁸

Limitations of GPFRs

- 2.23 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 economic, political, or social decision-making purposes. For example, GPFRs can provide, in "conventional" financial statements and their notes, information about the financial position as at the reporting date, and financial performance, cash flows, and changes in net assets during the reporting period. GPFRs can also provide (a) non-financial information about the entity's service delivery achievements during the reporting period, (b) prospective financial and other information about the entity's plans and objectives for service delivery in the future, and (c) the anticipated amount and sources of the resources needed to support those plans and objectives.
- 2.24 However, GPFRs may not provide all the information users require for accountability and economic, political, and social decision-making purposes. Users of GPFRs 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. Figure 1 following paragraph 1.14 indicates the potential sources of financial and other information users are likely to need for accountability and decision-making purposes.
- 2.25 Conventionally, general purpose financial statements and their notes report information about the financial effects of transactions and other events that have occurred. The extent to which GPFRs will respond to users' information needs for additional information about (a) the entity's achievement of its service delivery objectives, and (b) its future service delivery objectives and projected resource needs, and the nature of that response, will depend on what is encompassed within the scope of financial reporting. The scope of financial reporting is considered in the next section.

⁸ Paragraph 2.8 outlines key features of the objective of general purpose financial reporting proposed by the IASB.

The Scope of Financial Reporting

Introduction

- 3.1 The scope of financial reporting establishes the boundary around the transactions, other events and activities that may be reported in GPFRs. The scope has been developed to respond to the information needs of users, and to the objectives of financial reporting derived from those information needs.
- 3.2 GPFRs report on (a) the results of transactions, other events, and activities that have been entered into by, or have otherwise affected, the reporting entity, and (b) the achievement of its service delivery and other objectives. GPFRs may also provide financial and other information about the entity's future service delivery activities and objectives, and its anticipated resource needs. Although financial reporting provides information about the actual or anticipated results of government policy, it does not encompass involvement in matters of policy formulation – except to the extent that information reported in GPFRs informs the process of policy formulation.
- 3.3 Figure 1 following paragraph 1.14 provides a broad overview of the potential sources of information useful to users as input for accountability and decision making purposes. It reflects that information useful to users for these purposes will be provided by general purpose financial statements and other information included in GPFRs. It also reflects that users may find compliance, economic, statistical, demographic, and other information from sources outside GPFRs useful for accountability and decision-making purposes.

General Purpose Financial Reports

- 3.4 Information that may be included within the scope of financial reporting and presented in GPFRs is considered below.

Economic resources, claims to those resources, and changes in them

- 3.5 General purpose financial statements, and their notes and supporting commentary and schedules, can provide information about the economic resources of the entity and claims to those resources at the reporting date, and changes to them during the reporting period. For example, this information will enable users of GPFRs to identify:
- the economic resources, and their classes, that are available for providing services at the reporting date, and the increase or decrease in those resources during the reporting period;
 - the nature and sources of any increase in the economic resource base available for providing services in the future, and the extent to which any decline in that base arose because of consumption of service potential in the delivery of services, or for other reasons; and
 - the nature and amount of claims to the resources at the reporting date, the increase or decrease in those claims during the reporting period and their sources, and the amounts and timing of cash flows necessary to service and repay them.

- 3.6 Providing services to constituents, obtaining resources from them, and a range of other events (such as changes in interest rates) will have consequences for the economic resources of the entity and claims to them during the reporting period. These activities, transactions and other events will impact the entity's financial performance presented under the accrual basis of accounting. For example, (a) the provision of services during the reporting period will consume cash and other economic resources, (b) amounts received or receivable as taxes and user charges for the reporting period will increase cash and receivables, and (c) changes in interest rates will change the cost of servicing debt or the return from cash deposits and other investments.
- 3.7 Information about the financial performance of the entity, and other transactions or events that have resulted in changes to its financial position during the reporting period, 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 amount and sources of cost recovery will enable users to determine whether operating costs were recovered from taxes, rates, user charges, donor contributions, transfers from other levels of government, or through issuing debt.
- 3.8 Information about the entity's cash flows 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 (a) its borrowing and repayment of borrowing, (b) transfers it made to and received from other governments, (c) its acquisition and sale of capital assets, and (d) cash dividends it received from investments. 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 amount and sources of cash inflows needed in future periods to support service delivery objectives.

Compliance

- 3.9 Governments and other public sector entities are accountable to constituents for their use of the resources raised from them, or raised or provided on their behalf. Most governments make their approved budgets for the forthcoming annual or other period publicly available. The approved budget reflects the financial characteristics of the government's (or other entity's) plans for the forthcoming period. It is used to justify the raising of monies from taxpayers, ratepayers, and other resource providers, and establishes the authority for expenditure of public monies. Reporting against that budget is a key tool for discharging a government's accountability to its constituents.
- 3.10 The inclusion in GPFRs of information to assist users in assessing (a) the entity's compliance with legally adopted or approved budgets, and (b) its adherence to relevant legislation or other authority governing the raising and use of public monies, will enhance the usefulness of GPFRs for accountability purposes, and will inform decision-making. Information about compliance with certain government policy initiatives and other legislative, contractual, or regulatory matters may also be included in reports that governments or regulatory agencies issue to supplement their GPFRs.

Service delivery achievements

- 3.11 Public sector entities that are subject to IPSASs use both financial and non-financial resources to achieve service delivery objectives. Reporting non-financial as well as financial information about service delivery activities and achievements during the reporting period will provide input to assessments of the economy, efficiency, and effectiveness of the entity's operations. Providing this information is necessary for the entity to discharge its obligation to be accountable for its performance in achieving its service delivery objectives – that is, to account for, and justify the use of, the financial resources raised from taxpayers, ratepayers, and other resource providers. Decisions about the allocation of resources to particular entities and programs are also made, at least in part, in response to (a) non-financial information about service delivery outputs and outcomes during the reporting period, and (b) future service delivery objectives. The disclosure of non-financial information in GPFRs is therefore necessary to achieve the objectives of financial reporting.
- 3.12 In some cases, quantitative measures of the outputs and outcomes of the entity's service delivery activities will provide relevant information about the achievement of these 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. However, in other cases, the achievement of service delivery objectives may be communicated by explanatory material about the quality of particular services or the outcome of certain social support programs.

Prospective financial and other information

- 3.13 Decisions made in a particular period about programs for delivering services in the future can have significant consequences for:
- constituents who are and will be dependent on those services in the future; and
 - current and future generations of taxpayers, ratepayers, and other involuntary resource providers who will provide the taxes, rates, and levies to fund the planned service delivery.
- 3.14 Presenting 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 such resources, will enhance the accountability of the entity and provide additional information for decision-making purposes.
- 3.15 Prospective financial information provided in GPFRs can encompass reporting information about the anticipated future financial consequences of past transactions and other events, including consequences that are not reflected in the financial statements. It can also encompass information about transactions and other events and activities that have not yet occurred, but may, or are anticipated to, occur in the future consistent with existing government programs, policies, and initiatives, including those that underpin government budgets and forecasts.
- 3.16 In the interests of enhancing transparent financial reporting, governments and government agencies in some jurisdictions may currently elect to, or be directed to,

present future-oriented information about the anticipated outcomes of government programs or policies as GPFRs. They may also present financial and other information about the fiscal sustainability of existing government programs that are to be operated over the long term, including the anticipated costs of the programs and the tax revenues and other resources that will need to be generated in the future to fund them.

Explanatory material

- 3.17 GPFRs may include explanatory material from management or a governing body about (a) the major factors underlying the financial performance of the entity, (b) the achievement of the entity's service delivery and other objectives, and (c) the factors that are likely to influence the entity's future performance. This information will assist users to better understand and place in context the financial and other information included in GPFRs, and will enhance the role of GPFRs in providing information useful for accountability and decision-making purposes.
- 3.18 Information provided in GPFRs will include estimates and expectations about the outcomes of certain transactions and other events that have occurred, and the anticipated outcomes of future activities and service delivery objectives. An explanation of (a) the assumptions and major uncertainties underlying amounts recognized in the financial statements and other information presented in GPFRs, and (b) methods used to compile such information, will also assist users in evaluating the information provided.

IPSASB Preliminary View 5

The scope of financial reporting encompasses the provision of financial and non-financial information about:

- economic resources of the reporting entity at the reporting date and claims to those resources;
- the effect of transactions, other events, and activities that change the economic resources of the reporting entity and claims to those resources during the reporting period, including cash inflows and outflows and financial performance;
- the reporting entity's compliance with relevant legislation or regulation and legally adopted or approved budgets used to justify the raising of monies from taxpayers and ratepayers;
- the reporting entity's achievement of its service delivery objectives; and
- prospective financial and other information about the reporting entity's future service delivery activities and objectives, and the resources necessary to support those activities.

It also encompasses explanatory material about: (a) the major factors underlying the financial performance of the entity, the achievement of its service delivery and other objectives and the factors which are likely to influence its performance in the future; and (b) the assumptions underlying and major uncertainties affecting the information included in GPFRs.

- 3.19 How information will be presented and disclosed in the financial statements, and other forms of presentation and communication that might be adopted for GPFs, will be considered in other components of the IPSASB Framework and in the development of individual IPSASs, as appropriate. The scope of financial reporting will not change dependent on the frequency of preparing and presenting GPFs. The information to be included within annual and interim GPFs will be prescribed in IPSASs, as appropriate.
- 3.20 The IASB has not yet issued a discussion paper or exposure draft dealing with the information spectrum that might be included within the scope of financial reporting. However, the IASB Framework ED “Objective and Qualitative Characteristics” (2008) proposes that financial reporting should disclose information about (a) the economic resources of an entity (its assets) and claims to those resources (its liabilities and equity), (b) the effects of transactions and other events that change those resources and claims to them during the reporting period (financial performance reflected by accrual accounting and by cash flows), (c) other changes in resources, and management explanation (Paragraphs OB15 to OB25). The Basis for Conclusions in the ED explains that the objective of financial reporting should be broad enough to encompass information that might eventually be provided by financial reporting outside financial statements (Paragraphs BC 1.4 and 1.5).⁹
- 3.21 IPSASB’s Preliminary View 5 reflects a potentially broad scope for financial reporting – a scope that allows financial reporting to evolve in response to users’ information needs. However, acknowledging that reporting financial and non-financial information about the past, present, or future may be within the scope of financial reporting does not mean that it is inevitable that an IPSAS will be developed to direct reporting on the matter.
- 3.22 Information presented in financial statements and their notes remains at the core of financial reporting. Consequently, the standards development work program of the IPSASB will continue to respond to users’ needs for better financial reporting of transactions and other events that impact the financial position, financial performance, and cash flows of the entity. However, GPFs will also need to respond to users’ needs for financial and non-financial information about, for example, (a) the reporting entity’s achievement of its service delivery objectives during the reporting period, and (b) its future service delivery activities, objectives, and resource needs.

IPSASB Preliminary View 6

The scope of financial reporting should evolve in response to users’ information needs, consistent with the objectives of financial reporting.

⁹ The nature of additional information that might be presented in GPFs including, for example, environmental sustainability or social information, prospective information or forecasts, and cash flow forecasts will be considered at a later phase of the project. See IASB Discussion Paper “Preliminary Views on an improved Conceptual Framework for Financial Reporting: The Objective of Financial Reporting and Qualitative Characteristics of Decision-useful Financial Reporting Information” July 2006 (paragraphs BC1.3 to 1.7).

The Qualitative Characteristics of Information included in General Purpose Financial Reports

Introduction

- 4.1 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 – that is, for accountability purposes and for making resource allocation, political, and social decisions.
- 4.2 The qualitative characteristics of information included in GPFs of public sector entities are relevance, faithful representation, understandability, timeliness, comparability, and verifiability (including supportability). Materiality, cost, and achieving an appropriate balance between the qualitative characteristics are pervasive constraints on information in GPFs. 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.
- 4.3 These qualitative characteristics have been developed after considering the qualitative characteristics proposed in the IASB Framework ED “Objective and Qualitative Characteristics” (2008). However, they differ in some respects from those proposed by the IASB, because they (a) respond to the objectives of GPFs of public sector entities, and (b) reflect a potentially broader scope of financial reporting than the IASB has currently identified.
- 4.4 Assessments of the information that conform with the qualitative characteristics, 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.

The Qualitative Characteristics of Information included in GPFs of Public Sector Entities

- 4.5 Economic phenomena are economic resources of the entity, claims to those resources, and transactions and other events and circumstances that change those resources during a reporting period. Information included in GPFs depict economic and other phenomena. For example, GPFs provide information about the entity’s financial position, financial performance, achievement of service delivery objectives, and compliance during a reporting period. GPFs may also include (a) prospective financial and other information about the entity’s anticipated service delivery activities and objectives in future periods, and (b) explanatory material that assists users to understand the current performance of the entity and its future expectations, strategies, and goals.
- 4.6 The qualitative characteristics apply to all information included in GPFs, including non-financial information, prospective financial information, and explanatory material or other narrative reporting. However, their interpretation, relative importance, and the extent to which they can be achieved may differ depending on (a) the nature of information included in GPFs, and (b) the degree of uncertainty and subjective

assessment or opinion involved in compiling that information. For example, the degree of verifiability achievable for prospective financial and other information may be less than is possible for historical information – therefore, disclosure of the underlying assumptions and methodologies adopted for their compilation becomes necessary to achieve faithful representation. Similarly, comparability with other entities is less important for narrative reporting of, for example, management’s perception of the factors that underlie current performance and/or that are likely to impact future operations and achievements. In addition, for narrative reporting, verifiability may be more appropriately interpreted as the presentation of information to support the reported explanations, opinions and expectations. The need for additional guidance on interpreting and applying the qualitative characteristics will be considered in the development of any IPSASs and other pronouncements of the IPSASB that extend the scope of financial reporting beyond traditional financial statements and their notes.

Relevance

- 4.7 Information is relevant if it is capable of making a difference in achieving the objectives of financial reporting – that is, in the discharge of the entity’s accountability obligations or in the decisions made by users of GPFRs. Information about the transactions, other events, or activities that are within the scope of financial reporting is capable of making a difference when it has confirmatory value, predictive value, or both. Whether information about these transactions, other events, or activities is capable of making a difference in the assessment of accountability or in decision-making does not depend on whether the information has actually made a difference in the past or will definitely make a difference in the future. Information 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.
- 4.8 Information about economic or other phenomena has confirmatory value if it confirms or changes past (or present) expectations, including those based on previous evaluations. Information will be relevant for accountability and decision-making purposes if it confirms (or is useful in making assessments directed at confirming) past expectations about such matters as (a) the extent to which managers have discharged their responsibilities for the efficient and effective use of resources, (b) the achievement of specified service delivery objectives, and (c) compliance with relevant budgetary, legislative, and other requirements.
- 4.9 GPFRs may present information about an entity’s anticipated future service delivery activities and objectives, including prospective financial information about their anticipated cost, 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 forming expectations about the future. Information that confirms past expectations can increase the likelihood that future financial and service delivery outcomes or results will be as expected. If the information changes past expectations, it also changes the perceived probabilities of the range of possible outcomes.

- 4.10 The confirmatory and predictive roles of information are interrelated – for example, information about the current level and structure of an entity’s economic resources, and claims to them, helps users to (a) confirm the outcome of resource management strategies during the period, and (b) 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 predictions about that ability. It also helps to confirm or correct prospective financial information included in previous GPFRs.

Faithful Representation

- 4.11 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.
- 4.12 Although not separately identified as a qualitative characteristic or component thereof, substance over form remains a key quality that information included in GPFRs must possess. This is because the achievement of faithful representation requires that the substance, and not merely the legal form, of economic or other phenomena be presented in GPFRs.
- 4.13 A single economic or other phenomenon may be represented in many ways. For example, the achievement of particular service delivery objectives may be depicted (a) qualitatively through a narrative explanation of the immediate and anticipated longer term outcomes and effects of the service delivery program, (b) quantitatively as a measure of the volume 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.
- 4.14 A depiction of an economic or other phenomenon is complete if it includes all information that is necessary for faithful representation of the phenomena that it purports to depict. An omission can cause information to be false or misleading, and thus not be helpful to users of GPFRs. Prospective 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 the information, and any explanations that are necessary to ensure that its depiction is complete and it is helpful to users.
- 4.15 Neutrality is the absence of bias that is intended to attain a predetermined result or to induce a particular behavior. Neutral information is free from bias, so that it faithfully represents the economic and other phenomena that it purports to represent.
- 4.16 GPFRs are not neutral if, by the selection or presentation of financial information, they influence the assessment of accountability or the making of a decision or judgment in order to achieve a predetermined result or outcome. However, to require information included in GPFRs to be neutral does not mean that it should be without purpose or that it

should not influence behavior – by definition, relevant information is capable of influencing users’ assessments and decisions.

- 4.17 The economic and other phenomena represented in GPFRs generally take place or occur under conditions of uncertainty. Information included in GPFRs will therefore 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. Completeness and neutrality of estimates (and inputs to those estimates) 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 phenomena 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 phenomena that it purports to represent. It may sometimes be necessary to explicitly disclose the degree of uncertainty in financial and other information to faithfully represent economic and other phenomena.
- 4.18 The existing qualitative characteristics in IPSAS 1 “Presentation of Financial Statements” (see Appendix B) identify both “neutrality” and “prudence” as components of “reliability.”¹⁰ Neutrality focuses on preparers not taking a stance for or against a particular matter or outcome – IPSAS 1 explains that “Financial statements are not neutral if the information they contain has been selected or presented in a manner designed to influence the making of a decision or judgment in order to achieve a predetermined result or outcome.” IPSAS 1 also explains that “Prudence is the inclusion of a degree of caution in the exercise of the judgments needed in making the estimates under conditions of uncertainty, such that assets or revenue are not overstated and liabilities or expenses are not understated. However, the exercise of prudence does not allow, for example, the creation of hidden reserves or excessive provisions, the deliberate understatement of assets or revenues, or the deliberate overstatement of liabilities or expenses because this would mean that the financial statements would not be neutral or have the quality of reliability.”
- 4.19 The neutrality of information and the need to exercise caution in dealing with uncertainty remain important characteristics of information presented in GPFRs for accountability and decision-making purposes. Prudence is not identified as an essential component of faithful representation because the appropriate features of prudence that were identified in IPSAS 1 are encompassed by, and reflected in, the quality of neutrality. Neutrality is

¹⁰ IPSAS 1, *Presentation of Financial Statements* (Appendix B) identifies the qualitative characteristics that currently apply in respect of information included in financial statements prepared in accordance with IPSASs. It identifies “reliability” rather than faithful representation as a qualitative characteristic. However it does explain that reliability encompasses faithful representation, substance over form, neutrality, prudence and completeness. The full suite of qualitative characteristics identified by IPSAS 1 are: understandability; relevance (which encompasses materiality); reliability; and comparability. Constraints that impact on the achievement of those characteristics are identified as: timeliness; balance between benefit and cost; and the balance between the qualitative characteristics.

incompatible with prudence if prudence is interpreted to allow for a bias in information included in GPFRs.

Understandability

- 4.20 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 their users, and to the nature of the information presented. For example, explanations of financial and other information and narrative reporting of achievements and expectations 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.
- 4.21 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. Users of GPFRs are assumed to have a reasonable knowledge of the entity's activities and the environment in which it operates, and to be able and prepared to read and review a GPFR. In making assessments and judgments for accountability and decision-making purposes, users also should review and analyze the information with reasonable diligence. However, when underlying economic and other phenomena are particularly complex, fewer users may understand the financial information depicting those phenomena. In these cases, some users may need to seek the aid of an advisor. Information that is relevant and faithfully represents the economic or other phenomena should not be excluded from GPFRs solely because it may be too complex or difficult for some users to understand without assistance.

Timeliness

- 4.22 Timeliness means having information available to 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 influence decisions, and a lack of timeliness can render information less useful.
- 4.23 Some items of information may continue to be timely long after the reporting date, because some users may continue to consider it when making decisions. For example, for accountability purposes and as input to resource allocation, political, or social decisions, users may need to assess (a) trends in the financial and service delivery performance of the entity, (b) the achievement of the planned service levels it reported previously, and (c) 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

- 4.24 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. Consistency refers to the use of the same accounting policies and procedures, 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.
- 4.25 Information about the entity's financial position, financial performance, compliance, service delivery achievements, and its future plans is necessary input for accountability and decision-making purposes. The usefulness of such information is enhanced if it can be compared with (a) budget or prospective financial information for the entity for the reporting period or reporting date, (b) similar information about the same entity for some other period or some other point in time, and/or (c) similar information about other entities (for example, public sector entities providing similar services in different jurisdictions). Consistent application of accounting policies to budget or other prospective information about a future period, and actual outcomes for that period, will enhance the usefulness of any comparison of projected and actual results. Comparability with other entities may be less significant for narrative reporting of management's perception or opinion of the factors underlying the entity's current performance.
- 4.26 Comparability should not be confused with 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.
- 4.27 Some degree of comparability may be attained by maximizing the qualitative characteristics of relevance and faithful representation. That is, faithful representation of a relevant economic or other phenomenon by one entity should naturally possess some degree of comparability to a faithful representation of a similar relevant economic or other phenomenon by another entity. Although a single economic or other phenomenon can be faithfully represented in several ways, permitting alternative accounting methods for the same phenomenon diminishes comparability and, therefore, may be undesirable.

Verifiability (including supportability)

- 4.28 Verifiability is a quality of information that helps assure users that information faithfully represents the phenomena that it purports to represent. Verifiability encompasses, and in some cases may be described as, supportability. The term verifiability is often used in respect of quantitative information disclosed in financial statements, while supportability is linked to qualitative and prospective information disclosed in GPFRs. Whether referred to as verifiability or supportability, the characteristic implies that the information included in GPFRs is supportable, and that different knowledgeable and independent observers could reach general consensus, although not necessarily complete agreement, that either:

- the information represents the 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.
- 4.29 To be verifiable, information need not be a single point estimate. A range of possible amounts and the related probabilities also can be verified.
- 4.30 Verification may be direct or indirect. With direct verification, an amount or other representation is itself verified, such as by (a) counting cash, (b) checking records of service response times or records of patients treated, or (c) observing marketable securities and their quoted prices. 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).
- 4.31 GPFRs of public sector entities may include quantitative and narrative information 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 other information. It may not be possible to determine the accuracy of quantitative or qualitative representations of such information until a future period, if at all. To help assure users that such information faithfully represents the phenomena that it purports to represent, the disclosures should be supportable. Therefore, the assumptions that underlie the information, the methodologies adopted in compiling it, 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. It will also enable users to confirm that, based on those assumptions and methodologies, the information represents the phenomena that it purports to represent without material error or bias.
- 4.32 Verifiability and supportability are not absolutes. Rather, the more verifiable or supportable is the information included in the financial report, the more useful it is. In particular, some information may be less capable of verification or less supportable than other information.

Constraints on information included in GPFRs

Materiality

- 4.33 Information is material if its omission or misstatement could influence the discharge of accountability by the entity for the reporting period, or the decisions that users make on the basis of the entity’s GPFRs prepared for that period. Because materiality depends on the nature and amount of the item judged in the particular circumstances of its omission or misstatement, it is not possible to specify a uniform quantitative threshold at which a particular type of information becomes material.

- 4.34 Materiality is a pervasive constraint, because it pertains to all of the qualitative characteristics of information included in GPFRs. For example, materiality should be considered when determining whether information is sufficiently complete, neutral, and free from material error to faithfully represent the economic or other phenomenon that it purports to represent. Material omissions or misstatements will result in information that is incomplete, inaccurate, or biased.

Cost

- 4.35 Financial reporting imposes costs. The benefits of financial reporting should justify those costs. Assessing whether the benefits of providing information justify the related costs will usually be more qualitative than quantitative. Even the qualitative assessment of benefits and costs will often be incomplete.
- 4.36 The costs of providing information include costs of collecting and processing the information, costs of verifying it and/or presenting the assumptions and methodologies that support it, and 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, or attempt to estimate, needed information using incomplete data in GPFRs or data available elsewhere. 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, as resources are redirected from service delivery activities to collection of data for inclusion in GPFRs.
- 4.37 Information provided by GPFRs is necessary for the discharge of accountability, and helps providers of resources and other users make better resource allocation, political, and social decisions. Individual entities can also enjoy benefits such as (a) better management decisions, because information used internally often is based (at least partly) on information prepared for GPFRs, and (b) in the case of governments, perhaps lower costs of debt.
- 4.38 Application of the cost constraint involves assessing whether the benefits of reporting information are likely to justify the costs incurred to provide and use it. When making this assessment, it is necessary to consider whether one or more qualitative characteristics might be sacrificed to some degree to reduce cost. When applying the cost constraint to a proposed standard, standards setters seek information from preparers, users, academics, and others about the expected nature and quantity of the benefits and costs of that standard.

Balance between the qualitative characteristics

- 4.39 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.
- 4.40 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.

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The qualitative characteristics of information included in GPFRs of public sector entities are:

- relevance, which encompasses confirmatory value, predictive value, or both;
- faithful representation, which is attained when depiction of economic or other phenomena is complete, neutral, and free from material error;
- understandability;
- timeliness;
- comparability; and
- verifiability (including supportability).

Constraints on financial reporting are materiality, cost, and achieving an appropriate balance between the qualitative characteristics.

4.41 The IASB Framework ED “Objective and Qualitative Characteristics” (2008) distinguishes between “fundamental” and “enhancing” qualitative characteristics, and identifies:

- relevance and faithful representation as fundamental qualitative characteristics, and outlines the order of their application;
- comparability, verifiability, timeliness, and understandability as enhancing qualitative characteristics, and explains that their application is an iterative process that does not follow a prescribed order; and
- materiality and cost as pervasive constraints that limit the information provided by financial reporting.
- As noted in paragraph 4.3, the IPSASB’s Preliminary View on the qualitative characteristics and constraints on information included in GPFRs has been developed after considering the qualitative characteristics proposed by the IASB, but differs in responding to public sector circumstances.

The Reporting Entity

Introduction

- 5.1 GPFRs may be prepared to report information useful to users about, for example, (a) an individual public sector entity, such as a national, state/provincial or local government, (b) a government ministry or department, or (c) a program for delivery of particular services. GPFRs may also be prepared to report information useful to users about groups of public sector organizations or programs as if they were a single entity (described as a group reporting entity or an economic entity) – for example, the government and all its separate agencies, business entities and government corporations, or all the separate organizations that make up a particular government ministry.
- 5.2 In some cases, GPFRs of a government or other public sector organization or program may be required to be prepared by legislation, regulation or an authoritative body such as a ministry of finance. In other cases, GPFRs may be prepared on a voluntary basis.
- 5.3 This section uses the term “public sector entity” to refer to a government, other public sector organization, government program, or other identifiable governmental activity. For the purposes of the IPSASB Framework, a public sector entity that prepares GPFRs is described as a reporting entity. Therefore, (a) governments and other public sector entities at the national, state/provincial, or local government levels, and (b) international governmental organizations that are required to, or elect to, prepare GPFRs are reporting entities for the purposes of the IPSASB Framework.
- 5.4 The IPSASB Framework will not identify which governments or other public sector entities in any jurisdiction should be reporting entities or group reporting entities. This will be specified in legislation, regulation or other authority, or be determined by relevant authoritative bodies with knowledge of the characteristics of public sector entities in their jurisdiction and the likely information needs of users. However, the IPSASB Framework will identify the key characteristics that a reporting entity is likely to possess, and the criteria for determining the entities to be included within a group reporting entity.
- 5.5 The definition of the elements of GPFRs, the basis of their measurement, and the format of presentation of information that may be included in GPFRs, will be dealt with in other components of the IPSASB Framework and, as appropriate, in individual IPSASs. Individual IPSASs will also specify the methods to be adopted to combine or consolidate information about the separate reporting entities that are encompassed within a group reporting entity.

Characteristics of a Reporting Entity

- 5.6 The objectives of financial reporting are to provide information about the reporting entity useful to users for accountability purposes, and for making resource allocation, political, and social decisions. Consequently, the key characteristic of a reporting entity is the existence of users who are dependent on GPFRs of the entity, whether a government or

- other public sector entity, for information for accountability and decision-making purposes.¹¹
- 5.7 The government and some public sector entities will 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 authority with the power to transact and enter contracts in its own right. Having a separate legal identity will remove any doubt about the separate existence of the organization and its right to, for example, raise funds, own assets, incur liabilities, and use assets consistent with the terms of its operating mandate as specified in legislation, regulation, or other enabling authority.
- 5.8 Public sector entities without a separate legal identity may also (a) raise, consume, deploy, or manage public monies, (b) implement government policy, or (c) be responsible for providing services directly to constituents. Some users may depend on GPFRs of these entities for information for accountability and decision-making purposes. For example, many administrative units (such as government departments), or integrated or related groups of activities directed at the provision of particular services (such as government programs), may be separately accountable to the legislature and the community, but do not have a separate legal identity – for example, they cannot enter into contractual arrangements with third parties.¹²
- 5.9 Consequently, a public sector reporting entity may have a separate legal identity (including a national, state/provincial, local government, or statutory authority), or be an organizational structure, administrative arrangement, or activity without a legal identity (including government departments or government programs).
- 5.10 In considering whether a particular public sector entity should prepare GPFRs, it is appropriate to focus on circumstances that are likely to signal that it is reasonable to expect the existence of users who depend on GPFRs of the entity for information for accountability or decision-making purposes. In many cases, such entities will have the responsibility or capacity to raise or deploy public monies and/or incur liabilities to achieve their objectives. However, this may not always be the case – for example, some entities (a) may be created with a narrowly defined purpose related to formulation or implementation of some aspects of government policy, but (b) may not have the capacity to raise or deploy public monies or incur liabilities. There may also be users who depend on GPFRs of these entities for accountability and decision-making purposes.

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The key characteristic of a reporting entity is the existence of users who are dependant on GPFRs of the entity for information for accountability purposes, and for making resource allocation, political, and social decisions.

¹¹ Which entities are identified as reporting entities in any jurisdiction can then develop in response to, for example, changes in the operating characteristics of particular entities and changing user needs.

¹² In some cases, GPFRs of a government will include note disclosure of information about particular groups of activities or resources or programs in accordance with IPSAS 18 “Segment Reporting.”

A public sector reporting entity may be an entity with a separate legal identity or other organizational structure or arrangement.

- 5.11 The IASB Discussion Paper “Preliminary Views on an improved Conceptual Framework for Financial Reporting – The Reporting Entity” (May 2008. Hereafter, referred to as IASB Framework DP “Reporting Entity” 2008) describes a reporting entity as a circumscribed area of business activity of interest to present and potential equity investors, lenders, and other capital providers. The IASB Framework DP “Reporting Entity” 2008 also explains that a reporting entity should not be limited to business activities that are structured as legal entities.

The Group Reporting Entity

- 5.12 A government may operate through a number of administrative units, such as ministries, departments, and programs that have responsibility for particular activities. It may also establish trusts, statutory authorities, and government corporations with a separate legal identity, or with operational autonomy to undertake or otherwise support the provision of services to constituents. Government ministries, departments, and programs may also undertake certain of their service delivery activities through separate legal and other entities.
- 5.13 A group reporting entity is a reporting entity that comprises two or more separate reporting entities that are presented as a single reporting entity. In some cases, legislation or other authority will require the preparation of GPFs that combine and report information about all the administrative units and separate entities that comprise (a) a government (referred to as the whole of government group reporting entity), or (b) other public sector group reporting entity, as if they were a single entity. In other cases, GPFs of a whole of government group reporting entity or other public sector group reporting entity may be prepared voluntarily.
- 5.14 This section considers the relationship between public sector entities, and identifies the circumstances in which separate entities are included within a group reporting entity. Those circumstances are determined by reference to the objectives of financial reporting.
- 5.15 For the most part, the following discussion is framed in terms of the basis for determining the whole of government group reporting entity. This is because there is significant interest in many jurisdictions in financial reporting by a whole of government group reporting entity. However, the criteria to be adopted in determining the whole of government group reporting entity, and many of the issues that arise in their application, will also apply when other public sector group reporting entities are to be identified – for example, if GPFs are prepared in respect of all the entities that comprise a particular government sector, ministry, or department.
- 5.16 The IASB’s Preliminary View in the IASB Framework DP “Reporting Entity” (2008) is that the composition of a group reporting entity should be based on control, and that the controlling entity model should be used as the primary basis for determining the composition of the group. The group will therefore comprise the controlling entity and all controlled entities, and consolidated financial statements will be presented from the perspective of the group reporting entity, rather than from the perspective of the parent

entity's shareholders.¹³ The IASB Framework DP "Reporting Entity" 2008 (paragraph 49) proposes the following working definition of control: "Control of an entity is the ability to direct the financing and operating policies of an entity, so as to access benefits from that entity (or to reduce the incidence of losses) and increase, maintain or protect the amount of those benefits (or reduce the amount of those losses)."

- 5.17 The IPSASB has considered a wide range of potential bases for determining the composition of a public sector group reporting entity. The terms "control basis," "accountability basis," and "oversight and substantial influence" have been used by public sector standards setters and similar authoritative bodies in a number of jurisdictions to describe the bases that should be adopted for identifying a group reporting entity in their jurisdiction. That is, included within the whole of government group reporting entity in these jurisdictions will be all entities that the government controls, is accountable for, or has oversight and substantial influence over. Other bases sometimes advocated include the "majority of risks and rewards basis," "common control basis," "only operations covered by a public budget," and "only operations with a similar function or purpose."
- 5.18 Many of these bases have some common features and, in some cases, GPFRs prepared on one basis can present information about the resources, obligations, and activities reflected in other bases.¹⁴ However, the bases also differ in some respects, and can have a particular, and not necessarily the same, meaning in different jurisdictions. As such, terms such as control, accountability, or oversight basis are not used in this section. Rather, the section focuses on the criteria that justify inclusion of an entity with a separate legal identity or with operational autonomy in the whole of government group reporting entity, without designating those criteria as reflecting a control, accountability, oversight, or some other basis.

Criteria for inclusion within the whole of government group reporting entity

- 5.19 This section reflects the view that a whole of government group reporting entity will comprise the government and other entities when the following criteria are satisfied:
- the government has the power to govern the strategic financing and operating policies of those entities ("power" criterion); and
 - the government (a) can benefit from the activities of those entities, or is exposed to a financial burden that can arise as a result of their operations or actions, and (b) can use its power to increase, maintain, or protect the amount of those benefits, or to maintain, reduce, or otherwise influence the financial burden that may arise as a

¹³ The IASB Framework DP "Reporting Entity" 2008 also notes that a common control model (which does not include the controlling entity in the group reporting entity) may be appropriate in some circumstances.

¹⁴ For example, IPSASs currently adopt a control basis for determining a group reporting entity. However, IPSAS 18 "Segment Reporting" requires a reporting entity to disclose, by note, information about particular groups of activities; IPSAS 22 "Disclosure of Information about the General Government Sector" requires disclosure, by note, of certain information about the general government sector at the whole of government level; and IPSAS 24 "Presentation of Budget Information in Financial Statements" requires a reporting entity that makes its budget publicly available to disclose budget and actual information.

result of the operations or actions of the other entity (“benefit or financial burden/loss” criterion).

- 5.20 When the relationship between the government and another entity is such that both these “power” and “benefit or financial burden/loss” criteria exist, the government can direct the other entity to raise resources and/or to use its resources to achieve the objectives of the government. In these cases, the nature of the relationship between the government and the other entity is such that, to respond to users’ information needs and achieve the objectives of financial reporting, GPFs prepared in respect of the whole of government group reporting entity should present complete information about the two entities as if they were one.
- 5.21 Both the “power” and the “benefit or financial burden/loss” criteria need to be present to justify inclusion of a separate entity in the whole of government reporting entity. In some cases, a government may have power over an entity, but only as a regulator, trustee, or agent. In these cases, the government is unable to exercise that power for its own benefit – either by increasing the benefits or reducing the financial burden imposed on it by these other entities. Therefore, the government and the other entity do not work together to achieve the government’s objectives, and the nature of their relationship is such that presenting them as a single entity will (a) misrepresent, for example, the economic resources of the government and claims to them, and (b) not achieve the objectives of financial reporting.
- 5.22 In other cases, a government may benefit, or be subject to a financial burden/loss, from the activities of entities whose strategic financing and operating policies it cannot govern. In these cases, the government cannot direct the other entity to raise or use resources for particular purposes, and the nature of the relationship of the government to the other entity is such that presenting them as a single entity will not achieve the objectives of financial reporting. These entities will not satisfy the criteria for inclusion in the whole of government group reporting entity, and a different financial reporting mechanism will be adopted for presenting information about the benefits or financial burden/loss that result from the activities of these entities.

The power criterion

- 5.23 The power to govern the strategic financing and operating policies of another entity may arise from a number of sources – for example, from the enabling legislation that established the entity, or from formal contractual or other agreement. It is often reflected in the government’s right to appoint or dismiss the majority of the voting members of the other entity’s management or governing body. In the case of GBEs and other entities that adopt a corporate structure, it may arise when the government holds a majority shareholding or other equity interest, or a “golden share”¹⁵ (or equivalent) in the entity.

¹⁵ “Golden share” refers to a class of share that entitles the holder to specified powers or rights generally exceeding those normally associated with the holder’s ownership interest or representation on the governing body. A golden share often confers rights to govern the financing and operating policies of that other entity. Whether a “golden share” held by a government in a public corporation will enable the government to govern

- 5.24 The power to govern the strategic financing and operating policies must be presently exercisable, even if the government chooses not to exercise that power during the reporting period (and has not done so in prior periods). Therefore, the “power” criterion will be satisfied even if the government chooses not to exercise its power to establish the strategic financing and operating policies that the entity must operate within¹⁶ or to intervene in the ongoing decision-making of the other entity. However, the power is not presently exercisable if it requires changes in legislation or renegotiation of agreements to be effective. Governments have the capacity (usually subject to various processes and checks and balances) to change current legislation to regulate public and business behavior of certain entities or industries. For financial reporting purposes, assessment of whether the “power” criterion is satisfied is based on current legislation, rather than legislation that may or may not be enacted in the future. The group reporting entity will not include entities whose strategic financing and operating policies the government cannot govern during the reporting period, even though changes in legislation may allow it to do so in the future.

The benefit or financial burden/loss criterion

- 5.25 The “benefit” derived by the government from the other entity may be in the form of rights to a distribution of the surpluses of that entity (such as a dividend from a GBE), or to residual benefits if that entity is dissolved. The benefit may also be in the form of an ability to direct the other entity to work with the government to achieve the service delivery objectives of the government, including provision of services to constituents.
- 5.26 The government’s exposure to a “financial burden/loss” will arise when the government is legally obligated, or has otherwise assumed the obligation, to (a) finance the deficits of, or provide financial support to, the other entity, or (b) settle residual liabilities of the other entity if that entity is dissolved.

The whole of government group reporting entity

- 5.27 Consistent with the “power” and “benefit or financial burden/loss” criteria, core government activities administered through ministries, departments, programs, or other administrative arrangements and structures will be included in the whole of government group reporting entity.
- 5.28 Many systems of government, particularly democratic systems, distinguish the legislature from the executive branch of government. In these systems of government, the relationship between the legislature and the executive can differ in different systems of government - however, in broad terms the legislature makes and amends laws, and has the authority to raise taxes and rates and to adopt the budget and other money bills. On the other hand, the executive is responsible for managing the administrative and related arms of government, and for implementing and enforcing laws enacted by the legislature.

the strategic financing and operating policies of the other entity will depend on the powers it provides to the holder – this should be assessed by reference to all relevant circumstances.

¹⁶ Circumstances in which the strategic financing and operating policies of an entity are established by a government are discussed in paragraphs 5.33 and 5.34.

- In parliamentary systems of government, the legislature appoints the executive branch of government. In congressional systems of government, the legislature is at least equal to, and is independent of, the executive. Typically, the legislature and its officers are funded from public monies reflected in the government budget. However, the executive arm of government does not have the power to govern the strategic financing and operating policies of the representational bodies that form the legislature at national, state/provincial, and local levels of government. In some jurisdictions, GPFRs may be prepared to report information about a group reporting entity that comprises both (a) the legislature and the executive arm of government, and (b) the separate legal and other entities established to support their service delivery activities.
- 5.29 In centralized or planned economies, governments may have the power to govern the strategic financing and operating policies of a wide range of entities, and to direct those entities to work with the government for the benefit of the community. As such, if GPFRs were prepared in respect of the whole of government group reporting entity, they may include all, or a substantial proportion, of economic activity undertaken within that jurisdiction by non-government business entities as well as by government departments and other public sector entities. Whether or not GPFRs for the whole of government group reporting entity prepared on this basis will provide information useful to users for accountability and decision-making purposes will need to be considered in developing and applying authoritative requirements in those jurisdictions.
- 5.30 Certain public sector bodies such as the central bank, office of the government statistician, and a range of commissions and statutory authorities may be established by the government with (a) statutory or constitutional authority to be professionally independent, and (b) autonomy to establish their operating processes and policies. The existence of separate statutory or constitutional authority and operational autonomy does not, of itself, preclude these separate entities from being included within the whole of government group reporting entity. For example, such entities are often fully or substantially funded by public monies reflected in the government budget, and are subject to budget oversight and direction by the department of the treasury or other government department. In addition, in many cases, the framework within which they operate is established in a manner consistent with the objectives set by government, and the government retains the right to amend their objectives and to claim or redirect their residual assets if they are discontinued. To satisfy the objectives of financial reporting, GPFRs prepared in respect of the whole of government reporting entity will include information about the government and all other entities when the government (a) has the power to govern their strategic financing and operating policies, and (b) can benefit from or is exposed to a financial burden/loss as a result of their activities.
- 5.31 In some cases, entities may be established by, and/or be accountable to, the legislature rather than to the executive arm of government. For example, in many forms of government, the auditor-general is an officer of parliament or a similar legislative body, and reports to the parliament or similar body rather than to the executive arm of government. For purposes of preparation of GPFRs, a whole of government group reporting entity that encompasses the legislature as well as the executive arm of government will include the officers of the legislature, and other entities, when the

legislature (a) has the power to govern their strategic financing and operating policies, and (b) can benefit from or is exposed to a financial burden/loss as a result of their activities.

- 5.32 Statutory authorities, GBEs, and sovereign wealth funds,¹⁷ whether described as future funds, infrastructure funds, or other funds, will also be included within the whole of government group reporting entity when the government has the capacity to, for example, appoint the majority of the governing board of the GBE or the trustees of the fund, even if it chooses not to exercise that power. GBEs and sovereign wealth funds have the potential to provide significant benefits for, and impose significant burdens on, the government. Therefore, it is appropriate that when the “power” and “benefit or financial burden/loss” criteria are satisfied, information about these entities should be presented in GPFs that are intended to provide information about the government for accountability and decision-making purposes.
- 5.33 In assessing whether an entity is to be included within the whole of government group reporting entity, the substance and not merely the form of the relationship of the entity to the government should be considered. In some cases, it may be necessary to exercise professional judgment in determining whether (a) the “power” and “benefit or financial burden/loss” criteria have been satisfied in substance, and (b) the relationship of the entity to the government is such that its exclusion from the whole of government group reporting entity would undermine the ability of GPFs of the group to satisfy the objectives of financial reporting. For example:
- a government may establish an investment fund or other operating entity with specific operating objectives. The enabling legislation for the fund or operating entity establishes all significant strategic and other financing and operating policies, including (a) investment strategies and deployment of the earnings of the investment fund, or (b) the nature and recipients of services to be provided by the operating entity. These policies cannot be modified. The earnings of the fund will benefit specified government agencies, and the services provided by the operating entity are consistent with government policy; or
 - an independent entity may be created to issue debt on behalf of a government to fund a specific project, and to receive specified revenues from, or provided on behalf of, the government or its constituents to service and repay that debt. The activities of the entity are limited to collecting rates, taxes, or other specified revenues, paying interest to the debt holders, and undertaking the administrative and management tasks necessary to facilitate this activity. These entities are often referred to as “special purpose entities.”
- 5.34 Although the government will benefit substantially, if not exclusively, from the activities of each of these entities (or be exposed to a financial burden as a result of those

¹⁷ Sovereign wealth funds (or state wealth funds) may be established and owned by a government, central bank, or other government agency to provide for pension benefits or future infrastructure or other needs. They can represent a significant store of wealth for the government, and be of significant economic and fiscal importance in supporting the delivery of a government’s economic and other policy initiatives. They may be established as state-owned investment companies – GBEs. Governments may also establish GBEs for the delivery of other goods and services, for example: a rail authority, government airline, or state-owned utility company.

activities), the strategic financing and operating policies of these entities are determined in the process of their establishment and the specification of their operating mandates. This may give rise to different views about the ability of the government to govern those policies, particularly on an ongoing basis. In each case, however, the government that benefits from the activities of the entity has determined, or approved, the strategic financing and operating policies with which the entity must comply. In addition, neither the management of the entity nor any other party has the power to make decisions about strategic financing and operating policies that will redirect or otherwise materially influence the amount or nature of the benefits, or the financial burden, that flows to the government. As such, it is likely that, in substance, both the “power” and the “benefit or financial burden/loss” criteria are satisfied, and that these entities will be included within the whole of government group reporting entity.

Jurisdictional differences

- 5.35 IPSASs are intended to apply across jurisdictions that adopt different forms of government and different institutional and administrative arrangements for delivering services. IPSASs that give authority to the criteria identified above for determining the whole of government group reporting entity (or other public sector group reporting entity) will need to respond to operational and implementation issues that may arise in applying IPSASs in different jurisdictions.

IPSASB Preliminary View 9

A group reporting entity will comprise the government (or other public sector entity) and other entities when the government (or other public sector entity):

- has the power to govern the strategic financing and operating policies of the other entities (a “power” criterion); and
- can benefit from the activities of the other entities, or is exposed to a financial burden that can arise as a result of the operations or actions of those entities; and can use its power to increase, maintain, or protect the amount of those benefits, or to maintain, reduce, or otherwise influence the financial burden that may arise as a result of the operations or actions of those entities (a “benefit or financial burden/loss” criterion).

Attachment 1**Comparison of IPSASB Preliminary Views with Current IASB Proposals/Preliminary Views**

The IPSASB's preliminary views that have been developed within this Consultation Paper are compared in this Attachment with current IASB proposals/preliminary views. The paragraph number in parenthesis identifies the location of the IPSASB preliminary view in the body of the Consultation Paper text.

The current IASB proposals/preliminary views on these matters are summarized below after the IPSASB preliminary view.

The IASB proposals/preliminary views are drawn from:

- Exposure Draft “An improved Conceptual Framework for Financial Reporting: Chapter 1: The Objective of Financial Reporting (and) Chapter 2: Qualitative Characteristics and Constraints of Decision-useful Financial Reporting Information” (May 2008. Hereafter referred to as IASB Framework ED “Objective and Qualitative Characteristics” 2008);
- Discussion Paper “Preliminary Views on an improved Conceptual Framework for Financial Reporting – The Reporting Entity” (May 2008. Hereafter, referred to as IASB Framework DP “Reporting Entity” 2008); and
- Discussion Paper “Preliminary Views on an improved Conceptual Framework for Financial Reporting: The Objective of Financial Reporting and Qualitative Characteristics of Decision-useful Financial Reporting Information” (July 2006. Hereafter, referred to as IASB Framework DP “Objective and Qualitative Characteristics” 2006).

For a full understanding of the IASB proposals and preliminary views, readers should refer to the IASB documents themselves.

The Authority of the IPSASB Framework***IPSASB Preliminary View 1 - (following paragraph 1.7)***

The IPSASB Framework will not establish new authoritative requirements for financial reporting by public sector entities that adopt IPSASs, nor will it override the requirements of existing IPSASs.

In selecting accounting policies to deal with circumstances not dealt with in IPSASs or other guidance issued by the IPSASB, public sector entities will refer to, and consider the applicability of, the definitions, recognition criteria, measurement principles, and other concepts identified in the Framework.

The IASB Framework ED “Objective and Qualitative Characteristics” (2008) explains that the IASB and FASB have not reached a common conclusion on the authoritative status of their revised Frameworks, but have agreed that they will not override existing financial reporting standards.

General Purpose Financial Reports (GPFRs)

IPSASB Preliminary View 2 - (following paragraph 1.15)

GPFRs are financial reports intended to meet the common information needs of a potentially wide range of users who are unable to demand the preparation of financial reports tailored to meet their specific information needs.

The IASB Framework ED “Objective and Qualitative Characteristics” (2008) explains that general purpose financial reporting is directed to the needs of a wide range of users rather than only to the needs of a single group. General purpose financial reporting stems from the information needs of users who lack the ability to prescribe all the financial information they need from an entity and therefore must rely, at least partly, on the information provided in financial reports.

The Users of GPFRs

IPSASB Preliminary View 3 - (following paragraph 2.7)

As a mechanism for focusing on their common information needs, the potential users of GPFRs of public sector entities are identified as:

- recipients of services or their representatives;
- providers of resources or their representatives; and
- other parties, including special interest groups and their representatives.

The legislature is a major user of GPFRs. It acts in the interest of members of the community, whether as recipients of services, providers of resources, or citizens with an interest in, or need for, particular services or activities.

The IASB Framework ED “Objective and Qualitative Characteristics” (2008) explains that capital providers are the primary users of GPFRs and notes that information that is decision-useful to capital providers may also be useful to other users of financial reporting who are not capital providers.

The Objectives of Financial Reporting

IPSASB Preliminary View 4 - (following paragraph 2.22)

The objectives of financial reporting by public sector entities are to provide information about the reporting entity useful to users of GPFRs for:

- accountability purposes; and
- making resource allocation, political and social decisions.

The IASB Framework ED “Objective and Qualitative Characteristics” (2008) identifies the objective of general purpose financial reporting of business entities in the private sector as being “...to provide information about the reporting entity that is useful to present and potential equity investors, lenders, and other creditors in making decisions in their capacity as capital providers. Information that is decision-useful to capital providers may also be useful to other users of financial reporting who are not capital providers.”

The Scope of Financial Reporting

IPSASB Preliminary View 5 - (following paragraph 3.18)

The scope of financial reporting encompasses the provision of financial and non-financial information about:

- economic resources of the reporting entity at the reporting date and claims to those resources;
- the effect of transactions, other events, and activities that change the economic resources of the reporting entity and claims to those resources during the reporting period, including cash inflows and outflows and financial performance;
- the reporting entity’s compliance with relevant legislation or regulation and legally adopted or approved budgets used to justify the raising of monies from taxpayers and ratepayers;
- the reporting entity’s achievement of its service delivery objectives; and
- prospective financial and other information about the reporting entity’s future service delivery activities and objectives, and the resources necessary to support those activities.

It also encompasses explanatory material about: (a) the major factors underlying the financial performance of the entity, the achievement of its service delivery and other objectives and the factors which are likely to influence its performance in the future; and (b) the assumptions underlying and major uncertainties affecting the information included in GPFRs.

The IASB Framework ED “Objective and Qualitative Characteristics” (2008) proposes that financial reporting should disclose information about the economic resources of an entity (its assets) and claims to those resources (its liabilities and equity), the effects of transactions and other events that change those resources and claims to them during the reporting period (financial performance reflected by accrual accounting and by cash flows), other changes in resources and management explanation. The Basis for Conclusions in the ED explains that the objective of financial reporting should be broad enough to encompass information that might eventually be provided by financial reporting outside financial statements.

The Evolution of the Scope of Financial Reporting

IPSASB Preliminary View 6 - (following paragraph 3.22)

The scope of financial reporting should evolve in response to users’ information needs, consistent with the objectives of financial reporting.

The IASB Framework DP “Objective and Qualitative Characteristics” (2006) explains that the nature of additional information that might be presented in GPFRs including, for example, environmental sustainability or social information, prospective information or forecasts, and cash flow forecasts will be considered at a later phase of the project.

The Qualitative Characteristics of Information Included in GPFRs

IPSASB Preliminary View 7 - (following paragraph 4.40)

The qualitative characteristics of information included in GPFRs of public sector entities are:

- relevance, which encompasses confirmatory value, predictive value, or both;
- faithful representation, which is attained when depiction of economic or other phenomena is complete, neutral, and free from material error;
- understandability;
- timeliness;
- comparability; and
- verifiability (including supportability).

Constraints on financial reporting are materiality, cost, and achieving an appropriate balance between the qualitative characteristics.

IASB Framework ED “Objective and Qualitative Characteristics” (2008) distinguishes between “fundamental” and “enhancing” qualitative characteristics, and proposes that:

- relevance and faithful representation are fundamental qualitative characteristics;
- comparability, verifiability, timeliness, and understandability are enhancing qualitative characteristics; and
- materiality and cost are pervasive constraints that limit the information provided by financial reporting.

The Characteristics of a Reporting Entity

IPSAB Preliminary View 8 - (following paragraph 5.10)

The key characteristic of a reporting entity is the existence of users who are dependant on GPFs of the entity for information for accountability purposes and for making resource allocation, political, and social decisions.

A public sector reporting entity may be an entity with a separate legal identity or other organisational structure or arrangement.

The IASB Framework DP “Reporting Entity” (2008) describes a reporting entity as a circumscribed area of business activity of interest to present and potential equity investors, lenders and other capital providers. The DP also explains that a reporting entity should not be limited to business activities that are structured as legal entities.

The Basis for Determining the Composition of a Group Reporting Entity

IPSASB Preliminary View 9 - (following paragraph 5.35)

A group reporting entity will comprise the government (or other public sector entity) and other entities when the government (or other public sector entity):

- has the power to govern the strategic financing and operating policies of the other entities (a “power criterion”); and
- can benefit from the activities of the other entities, or is exposed to a financial burden that can arise as a result of the operations or actions of those entities; and can use its power to increase, maintain, or protect the amount of those benefits, or to maintain, reduce, or

otherwise influence the financial burden that may arise as a result of the operations or actions of those entities (a “benefit or financial burden/loss” criterion).

The IASB Framework DP “Reporting Entity” (2008) proposes that the composition of a group reporting entity should be based on control, and that the controlling entity model should be used as the primary basis for determining the composition of the group. It also identifies the following as a working definition of control: “Control of an entity is the ability to direct the financing and operating policies of an entity, so as to access benefits from that entity (or to reduce the incidence of losses) and increase, maintain or protect the amount of those benefits (or reduce the amount of those losses).”



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