International
Public Sector
Accounting
Standards Board

Conceptual Framework Exposure Draft 1
December 2010
Comments are requested by June 15, 2011

International Public Sector Accounting Standards Board

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

- Role, Authority and Scope;
- Objectives and Users;
- Qualitative Characteristics; and
- Reporting Entity

International Federation of Accountants

REQUEST FOR COMMENTS

The International Public Sector Accounting Standards Board (IPSASB), an independent standard-setting body within the International Federation of Accountants (IFAC), approved for publication in December 2010 this Conceptual Framework Exposure Draft (CF–ED1), *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities:*

- *Role, Authority and Scope;*
- *Objectives and Users;*
- *Qualitative Characteristics; and*
- *Reporting Entity.*

The proposals in this Exposure Draft may be modified in light of comments received before being issued in final form. **Comments are requested by June 15, 2011.**

Respondents are asked to submit their comments **electronically** through the IFAC website (www.ifac.org), using the "Submit a Comment" link on the Exposure Drafts and Consultation Papers page. Please note that first-time users must register to use this feature. All comments will be considered a matter of public record and will ultimately be posted on the IFAC website. Although IFAC prefers that comments be submitted electronically, e-mail may be sent to stepheniefox@ifac.org. Comments can also be faxed to the attention of the IPSASB Technical Director at +1 (416) 204-3412, or mailed to:

The Technical Director
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International Federation of Accountants
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Copies of this Exposure Draft may be downloaded free-of-charge from the IFAC website at www.ifac.org.

Background to the Conceptual Framework

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

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

The Accrual Basis of Accounting

This Exposure Draft (ED) deals with concepts that apply to general purpose financial reporting (hereafter referred to as financial reporting) under the accrual basis of accounting.

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

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

Project Development

The IPSASB is developing the Conceptual Framework with input from an advisory panel comprising a number of national standard setters and similar organizations with a role in establishing financial reporting requirements for governments and other public sector entities in their jurisdictions.

The purpose of the IPSASB's Conceptual Framework project is to develop concepts, definitions and principles that:

- Respond to the objectives, environment and circumstances of governments and other public sector entities; and therefore
- Are appropriate to guide the development of IPSASs and other documents dealing with financial reporting by public sector entities.

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 IPSASB's strategy also includes maintaining the alignment of IPSASs with IFRSs where appropriate for the public sector.

The IASB is currently developing an improved Conceptual Framework for private sector business entities in a joint project with the Financial Accounting Standards Board (FASB) of the USA. Development of the IASB's Conceptual Framework is being closely monitored. However, development of the IPSASB's Conceptual Framework is not an IFRS convergence project, and the purpose of the IPSASB's project is not to interpret the application of the IASB Framework to the public sector.

The concepts underlying statistical financial reporting models, and the potential for convergence with them, are also being considered by the IPSASB in developing its Conceptual Framework. The IPSASB is committed to minimizing divergence from the statistical financial reporting models where appropriate.

Consultation Papers and Exposure Drafts

Although all the components of the Conceptual Framework are interconnected, the Conceptual Framework project is being developed in phases. The components of the Conceptual Framework have been grouped as follows, and are being considered in the following sequence:

Phase 1—the scope of financial reporting, the objectives of financial reporting and users of GPFRs, the qualitative characteristics of information included in GPFRs, and the reporting entity;

Phase 2—the definition and recognition of the elements of 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; and

Phase 4—consideration of the concepts that should be adopted in deciding how to present financial and non-financial information in GPFRs.

The project initially involves the development and issue for comment of Consultation Papers (CPs) that draw out key issues and explore the ways in which those issues could be dealt with. The CP dealing with Phase 1 was issued in September 2008[1], CPs dealing with Phase 2 and Phase 3 are being issued at the same time as this ED and a CP dealing with Phase 4 is under development.

The IPSASB's current intention is to issue EDs dealing with each of Phases 2, 3 and 4 of the Conceptual Framework after consideration of responses to the CPs dealing with those Phases. The process for developing the finalized Conceptual Framework will be determined in light of

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

the responses received to CPs and EDs, and may include issue of an umbrella ED of the full Conceptual Framework.

Objective of the Exposure Draft

The objective of this Exposure Draft is to identify and explain the proposed role and authority of the Conceptual Framework, and the scope of financial reporting. It also identifies and explains the proposed:

- Objectives of financial reporting and users of general purpose financial reports;
- Qualitative characteristics of, and constraints on, information included in general purpose financial reports; and
- Reporting entity concept and the basis for determining the composition of a group reporting entity.

Guide for Respondents

The IPSASB would welcome comments on all the proposals in the Exposure Draft. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale and, where applicable, provide a suggestion for proposed changes to the Exposure Draft.

Specific Matters for Comment

The IPSASB would particularly value comments on whether you agree with the:

1. Role, authority and scope of the Conceptual Framework;
2. Objectives of financial reporting by public sector entities and the primary users of GPFRs of public sector entities and their information needs;
3. Qualitative characteristics of, and constraints on, information included in GPFRs of public sector entities. In particular, whether:
   (a) "Faithful representation" rather than "reliability" should be used in the Conceptual Framework to describe the qualitative characteristic that is satisfied when the depiction of an economic or other phenomenon is complete, neutral, and free from material error; and
   (b) Materiality should be classified as a constraint on information that is included in GPFRs or as an entity-specific component of relevance; and
4. The basis on which a public sector reporting entity is identified and the circumstances in which an entity should be included in a group reporting entity.

The further development of this Phase of the Conceptual Framework project will also be informed by responses received to Consultation Papers and Exposure Drafts of the other Phases of the project.

THE CONCEPTUAL FRAMEWORK FOR GENERAL PURPOSE FINANCIAL REPORTING BY PUBLIC SECTOR ENTITIES: ROLE, AUTHORITY AND SCOPE; OBJECTIVES AND USERS; QUALITATIVE CHARACTERISTICS; AND REPORTING ENTITY

CONTENTS

1 Role and Authority of the Conceptual Framework and the Scope of General Purpose Financial Reporting

Role of the Conceptual Framework

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

Authority of the Conceptual Framework

1.2 This Conceptual Framework does not establish authoritative requirements for financial reporting by public sector entities that adopt IPSASs, nor does it override the requirements of IPSASs. However, it can provide guidance in dealing with financial reporting issues not dealt with by IPSASs or non-authoritative guidance issued by the IPSASB. In these circumstances, preparers and others can refer to and consider the applicability of the definitions, recognition criteria, measurement principles, and other concepts identified in this Conceptual Framework. In some cases, an IPSAS may identify circumstances in which the definitions and other concepts in this Conceptual Framework have authoritative status.

General Purpose Financial Reports

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

1.4 Some users of financial information may have the authority to require the preparation of reports tailored to meet their specific information needs. While such parties may find the information provided by GPFRs useful for their purposes, GPFRs are not developed to specifically respond to their particular information needs.

Scope of Financial Reporting

1.5 The scope of financial reporting establishes the boundary around the transactions, other events and activities that may be reported in GPFRs. The scope of financial reporting is determined by the information needs of the primary users of GPFRs and the objectives of financial reporting (as identified in *The Objectives of Financial Reporting* section of this Conceptual Framework), and responds to the operating characteristics of public sector entities. The scope of financial reporting will evolve in response to users' information needs, consistent with the objectives of financial reporting.

1.6 GPFRs of public sector entities include, but are more comprehensive than, financial statements including their notes. They can report information about the past, present, and the future that is useful to users—including financial and non-financial quantitative and qualitative information about the achievement of financial and service delivery objectives in the current reporting period, and anticipated future service delivery activities and resource needs[2]. GPFRs are likely to comprise multiple reports, each responding more directly to certain aspects of the objectives of financial reporting and matters included within the scope of financial reporting. The format of presentation adopted by GPFRs will also respond to, and be influenced by matters included within, the scope of financial reporting.

1.7 While this Conceptual Framework reflects a scope of financial reporting that is more comprehensive than that encompassed by financial statements, information presented in financial statements remains at the core of financial reporting. How the elements of financial statements are defined, recognized and measured, and forms of presentation and communication that might be adopted for information included within GPFRs, is considered in other components of this Conceptual Framework and in the development of individual IPSASs or non-authoritative guidance, as appropriate.

Applicability of the Conceptual Framework

1.8 The Conceptual Framework applies to financial reporting by public sector entities other than GBEs. Therefore, it applies to GPFRs of national, state/provincial and local governments. It also applies to a wide range of other public sector entities including government ministries, departments, programs, boards, commissions, agencies, public sector social security funds, trusts, and statutory authorities and international governmental organizations that are public sector entities.

[2] Reference in this document to inclusion of information in GPFRs does not mean inclusion of that information in every GPFR that may be prepared.

1 Basis for Conclusions

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

Role and Authority of the Conceptual Framework

BC1.1 The Conceptual Framework identifies the broad principles that the IPSASB will apply in developing IPSASs and non-authoritative guidance intended to assist preparers and others in dealing with financial reporting issues. Authoritative requirements relating to the recognition, measurement, presentation and disclosure of transactions and other events and activities that are reported in GPFRs are specified in IPSASs. IPSASs are developed after application of a due process which provides the opportunity for interested parties to provide input on the specific requirements proposed, including their compatibility with current practices in different jurisdictions.

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

BC1.3 Although the Conceptual Framework has lesser authority than an IPSAS developed to deal with specific transactions or other events, it will be a relevant source of guidance in dealing with financial reporting issues not specifically dealt with in IPSASs. In addition, as appropriate, IPSASs may also specify that certain definitions or other concepts identified in this Conceptual Framework are to be applied in dealing with particular transactions or events.

Special Purpose Financial Reports

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

Scope of Financial Reporting

BC1.5 This Conceptual Framework reflects a scope for financial reporting that is more comprehensive than that encompassed by financial statements including their notes. For example, in addition to financial statements that present financial information about past transactions and other events, GPFRs may encompass reports that present financial and non-financial information about the achievement of the entity’s service delivery objectives during the reporting period, and prospective financial and non-financial information about its future service delivery activities, objectives, and resource needs.

BC1.6 The IPSASB is of the view that this more comprehensive scope is necessary to ensure that financial reporting responds to users' information needs and reflects the operating characteristics of public sector entities. It is also necessary to allow financial reporting to evolve in response to further developments in users' need for financial reporting information.

BC1.7 Acknowledging a more comprehensive scope for financial reporting does not mean that it is inevitable that authoritative requirements will be developed to direct reporting on all the matters that may be encompassed by that scope. For example:

- The IPSASB's publications include discussion papers and non-authoritative guidance intended to assist the financial reporting community to respond to particular financial reporting issues; and
- The financial reports of public sector entities in many jurisdictions currently include information about service delivery achievements and prospective financial and non-financial information that is not specifically required by IPSASs.

In addition, information presented in financial statements including their notes remains at the core of financial reporting. Consequently, the standards development work program of the IPSASB will continue to respond to users' need for better financial reporting of transactions and other events that are reported in the financial statements including their notes.

BC1.8 The IPSASB has also determined that components of the Conceptual Framework dealing with the definition, recognition and measurement of the elements of GPFRs will be developed to initially focus on elements of the financial statements. How these concepts may apply to other areas of financial reporting will be considered subsequently. Existing IPSASB projects dealing with such matters as narrative reporting, performance reporting and reporting long-term fiscal sustainability are also likely to inform the ongoing development of a number of aspects of the Conceptual Framework.

BC1.9 In making decisions that extend the scope of financial reporting beyond financial statements including their notes, the IPSASB will consider the benefits of the information to users and the costs of compiling and reporting such information. The timing of these developments of the scope of financial reporting will therefore respond to developments in users' information needs and assessments of the benefits and costs of reporting information to respond to those needs.

Other Reports and Information

BC1.10 GPFRs may not provide all the information users need for accountability and decision-making purposes. In addition to GPFRs, governments and other public sector entities report a wide range of financial and non-financial information about their activities, achievements, plans, and the economic and other conditions and factors that influence them. GPFRs will need to be read in conjunction with other information provided by governments and other public (and in some cases private) sector entities when users require additional or more detailed information about, for example, the activities and plans of a government or other public sector entity, and the factors that influence them.

Appendix 1A

The IASB Conceptual Framework (September 2010)

Role, Authority and Scope

The International Accounting Standards Board (IASB) develops and publishes International Financial Reporting Standards (IFRSs). IFRSs are designed to apply to the general purpose financial statements and other financial reporting of all profit-oriented entities. The IASB Conceptual Framework (issued in 1989 and updated in part in September 2010):

- Sets out the concepts that underlie the preparation and presentation of financial statements for external users.
- Focuses on financial statements that are prepared for the purpose of providing information that is useful in making economic decisions.
- Does not define standards for any particular measurement or disclosure issue.
- Does not override any specific IFRS. The IASB recognizes that in a limited number of cases there may be a conflict between the Conceptual Framework and an IFRS. If there is a conflict between an IFRS and the Conceptual Framework, the requirements of the IFRS prevail over those of the Conceptual Framework.

The purposes of the IASB Conceptual Framework include:

- Assisting the IASB in the development of future IFRSs and in its review of existing IFRSs.
- Assisting preparers in applying IFRSs and dealing with matters not yet dealt with by IFRSs.

The Conceptual Framework will also assist national standard setters, auditors, users and others who use IFRSs or have other interest in them.

Appendix 1B

The Statistical Bases of Reporting of the 1993 System of National Accounts (updated 2008) and other guidance derived from it (ESA 95 and GFSM 2001)

Role, Authority and Scope

The 1993 System of National Accounts (SNA)—as updated in 2008 (2008 SNA):

- Applies to economic activities taking place within an economy and between an economy and the rest of the world, and the interaction between the different economic agents and groups of agents that takes place in markets or elsewhere.
- Is an internationally agreed standard set of recommendations on how to compile and present measures of economic activity.
- Requires all parties to report transactions in the same way.
- Identifies interconnected flow accounts linked to different types of economic activity taking place within a given period of time. It also supports preparation of balance sheets that record the values of the stocks of assets and liabilities held by institutional units or sectors at the beginning and end of the period.
- Explains that the classifications and accounting rules are meant to be universally applicable. 2008 SNA does not define parts of the SNA differently for application in different economies, for example in less developed or more developed economies, in large relatively closed economies or small open economies, or in high-inflation or low inflation economies.
- Adopts a standardized classification and sector-identification basis, and a multiple entry data system to facilitate institutional, sectoral and cross-country comparability.

The Government Finance Statistics Manual 2001 (GFSM 2001) and the European System of Accounts (ESA 95) are consistent with the principles of the 1993 System of National Accounts. However, at a detailed level, some reporting differences may arise as a result of differences in purpose and specific data needs. Updates to the 2008 SNA will be incorporated in updates to these, and other, statistical manuals.

2 Objectives of Financial Reporting and Users of General Purpose Financial Reports

2.1 The objectives of financial reporting by public sector entities are to provide information about the entity that is useful to users of GPFRs for accountability purposes and for decision-making purposes (hereafter referred to as "useful for accountability and decision-making purposes").

2.2 Financial reporting is not an end in itself. Its purpose is to provide information useful to users of GPFRs. The objectives of financial reporting are therefore determined by reference to the users of GPFRs, and their information needs.

Users of General Purpose Financial Reports

2.3 Governments and other public sector entities raise resources from taxpayers, donors, lenders and other resource providers for use in the provision of services to citizens and other service recipients. These entities are accountable for their management and use of resources to those that provide them with resources, and to those that depend on them to use those resources to deliver necessary services. Those that provide the resources and receive, or expect to receive, the services will also require information as input for decision-making purposes.

2.4 Consequently, GPFRs of public sector entities are developed primarily to respond to the information needs of service recipients and resource providers who do not possess the authority to require a public sector entity to disclose the information they need for accountability and decision-making purposes. The legislature (or similar body) and members of parliament (or a similar representative body) are also primary users of GPFRs when acting in their capacity as representatives of the interests of service recipients and resource providers. Therefore, for the purposes of this Conceptual Framework, the primary users of GPFRs are service recipients and their representatives and resource providers and their representatives.

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

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

Information Needs of Service Recipients and Resource Providers

2.7 Service recipients include taxpayers and other members of the community that benefit from the services provided by the government or other public sector entity, whether as a result of exchange or non-exchange transactions.

2.8 For accountability and decision-making purposes, service recipients and their representatives will require information as input to assessments of such matters as whether:

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

They will also require information about the entity's anticipated future service delivery activities and objectives, and the amounts and sources of cost recoveries necessary to support those activities.

2.9 Resource providers include "involuntary resource providers" such as taxpayers, and "voluntary resource providers" such as lenders, donors, suppliers, fee-for-service consumers and employees.

2.10 For accountability and decision-making purposes, resource providers and their representatives will require information as input to assessments of such matters as whether the entity:

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

2.11 Lenders and creditors will require information as input to assessments of the liquidity of the entity and to confirm that the amount and timing of repayment will be as agreed. Donors will require information to support assessments of whether the entity is using resources economically, efficiently, effectively and as intended. They will also need information about the entity's anticipated future service delivery activities and resource needs. In most cases, governments that provide resources to international governmental organizations are dependent on GPFRs of those organizations for information for accountability and decision-making purposes.

Accountability and Decision Making

2.12 Service recipients and resource providers will require information for accountability purposes and as input for making decisions. For example:

- Lenders, creditors, donors and others that provide resources on a voluntary basis, including in an exchange transaction, make decisions about whether to provide resources to support the current and future activities of the government or other public sector entity. In some circumstances, members of the legislature or similar representative body who depend on GPFRs for the information they need, can make or influence decisions about the service delivery objectives of government departments, agencies or programs and the resources allocated to support their achievement; and
- Taxpayers do not usually provide funds to the government or other public sector entity on a voluntary basis or as a result of an exchange transaction. In addition, in many cases, they do not have the discretion to choose whether or not to accept the goods and services provided by a public sector entity or to choose an alternative service provider. Consequently, they have little direct or immediate capacity to make decisions about whether to provide resources to the government, the resources to be allocated for the provision of services by a public sector entity or whether to purchase or consume the services provided. However, they can make decisions about their voting preferences, and representations they make to elected officials or other representative bodies—these decisions may have resource allocation consequences for certain public sector entities.

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

Information Provided by General Purpose Financial Reports

2.14 To respond to the information needs of users, GPFRs will need to provide information about the financial position of the government or other public sector entity as at the reporting date and its financial performance, cash flows, and changes in net assets during the reporting period. GPFRs will also need to provide financial and non-financial information about such matters as the government's or other public sector entity's:

- Service delivery activities, achievements or outcomes during the reporting period, including 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; and
- Plans and objectives for service delivery in the future, including the anticipated amount and sources of the resources needed to support those plans and objectives.

Financial Position, Financial Performance and Cash Flows

2.15 Information about the financial position of a government or other public sector entity will enable users to identify the resources of the entity that can be used to provide particular services in future periods and claims to those resources at the reporting date. This will provide information useful as input to assessments of such matters as:

- The extent to which management has discharged its responsibilities for safekeeping and managing the resources of the entity;
- The extent to which resources are available to support future service delivery objectives; and
- The amounts and timing of future cash flows necessary to service and repay existing claims to the entity's resources.

2.16 Information about the financial performance of a government or other public sector entity will inform assessments of matters such as whether the entity has acquired resources economically, and used them efficiently and effectively to achieve its service delivery objectives. Information about the costs of service delivery and the amounts and sources of cost recovery during the reporting period will enable users to determine whether operating costs were recovered from, for example, taxes, user charges, contributions and transfers or were financed by increasing the level of indebtedness of the entity.

2.17 The financial performance of public sector entities will not be fully or adequately reflected in any measure of their financial result (whether described as "surplus or deficit," "profit or loss," or by other terms). Rather, assessments of their financial performance will involve analysis of such matters as:

- The purposes for which resources were used during the reporting period;
- The costs, efficiency and effectiveness of service delivery during the reporting period; and
- Changes during the reporting period in the amount and composition of the resources that are available for the provision of services in the future and claims to those resources.

2.18 Information about the cash flows of a government or other public sector entity contributes to assessments of financial performance and the entity's liquidity and solvency. It indicates how the entity raised and used cash during the period, including its borrowing and repayment of borrowing and its acquisition and sale of, for example, property, plant, and equipment. It also identifies the cash received from, for example, taxes and investments and the cash transfers made to, and received from, other governments, government agencies or international organizations. Information about cash flows can also support assessments of the entity's compliance with spending mandates expressed in cash flow terms, and inform assessments of the likely amounts and sources of cash inflows needed in future periods to support service delivery objectives.

Compliance with the Budget

2.19 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. The approved budget of a government or other public sector entity reflects the financial characteristics of the entity's plans for the forthcoming period. It is used to justify the raising of monies from taxpayers and other resource providers, and establishes the authority for expenditure of public monies.

2.20 Information that assists users in assessing the entity's compliance with legally adopted or approved budgets, and its adherence to relevant legislation or other authority governing the raising and use of public monies, is included in GPFRs. Such information is necessary for the discharge of a government's (or other entity's) accountability to its constituents, and will inform decision making.

Service Delivery Achievements

2.21 Reporting non-financial as well as financial information about service delivery activities, achievements or outcomes during the reporting period will provide input to assessments of the economy, efficiency, and effectiveness of the entity's operations. Reporting this information is necessary for a government or other public sector entity to discharge its obligation to be accountable—that is, to account for, and justify the use of, the financial resources raised from, or on behalf of, constituents. Decisions that donors make about the allocation of resources to particular entities and programs are also made, at least in part, in response to information about service delivery achievements during the reporting period, and future service delivery objectives.

Prospective Financial and Non-financial Information

2.22 Decisions made by a government or other public sector entity in a particular period about programs for delivering and funding services in the future can have significant consequences for:

- Constituents who will be dependent on those services in the future; and
- Current and future generations of taxpayers and other involuntary resource providers who will provide the taxes and levies to fund the planned service delivery activities and related financial commitments.

2.23 Information about the entity's anticipated future service delivery activities and objectives, their likely impact on the future resource needs of the entity, and the likely sources of funding for such resources, will be necessary as input to any assessment of the ability of the government or other public sector entity to meet its service delivery and financial commitments in the future. The disclosure of such information in GPFRs will enhance the accountability of the entity and provide additional information useful for decision-making purposes.

Narrative Reports

2.24 Narrative reports can provide additional information about the major factors underlying the financial and service delivery performance of the entity during the reporting period. They can also outline the assumptions that underpin expectations about, and factors that are likely to influence, the entity's future performance. This will assist users to better understand and place in context the financial and non-financial information included in GPFRs, and enhance the role of GPFRs in providing information useful for accountability and decision-making purposes.

2.25 In some cases, quantitative measures of the outputs and outcomes of the entity's service delivery activities during the period and anticipated activities in future periods 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. In other cases, the achievement of service delivery objectives may need to be communicated by an explanation of the quality of particular services provided or the outcome of certain programs.

Other Sources of Information

2.26 GPFRs play a significant role in communicating information necessary to support the discharge of a government's or other public sector entity's obligation to be accountable, as well as providing information useful as input for decision-making purposes. However, some information useful for accountability and decision-making purposes may also be provided by reports other than GPFRs. Consequently, service recipients and resource providers may also need to consider information from other sources, including reports on current and anticipated economic conditions, government budgets and forecasts, and information about government policy initiatives not reported in GPFRs.

2 Basis for Conclusions

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

Primary User Groups

BC2.1 The IPSASB Consultation Paper (Phase 1 CP), *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* (September 2008) did not identify a primary user, or primary users, of GPFRs. Rather, the IPSASB's Preliminary View 3 (PV3) in the Phase 1 CP identified the potential users of GPFRs of public sector entities as recipients of services (service recipients) or their representatives; providers of resources (resource providers) or their representatives; and other parties, including special interest groups, and their representatives.

BC2.2 Many respondents to the Phase 1 CP expressed support for PV3. However, many others were of the view that the public, citizens, electors or their representatives (for example, the legislature, parliament, elected council or other representative body), should be identified as the primary or most important users of GPFRs of public sector entities. They explained that this is because governments are primarily accountable to the citizens or their representatives and, in many jurisdictions, the legislature and individual members of parliament (or similar representative body) acting on behalf of citizens are the main users of GPFRs.

BC2.3 Other respondents were of the view that resource providers, funders, financial supporters or similar providers of resources should be identified as the primary users of GPFRs of public sector entities. These respondents explained that it is unlikely that GPFRs can respond to the information needs of all users, and resource providers are likely to have the greatest interest in GPFRs. Therefore, identifying resource providers as the primary user group will allow the IPSASB to focus more sharply on their information needs. They also noted that GPFRs prepared to respond to the information needs of resource providers are likely to also provide information useful to other potential users.

BC2.4 The IPSASB acknowledges that there is merit in many of the proposals made by respondents to the Phase 1 CP regarding the identity of the primary users of GPFRs of public sector entities, particularly as they apply to governments in many jurisdictions. However, on balance, the IPSASB is of the view that the primary users of GPFRs of public sector entities should be identified as service recipients and their representatives and resource providers and their representatives. This is because governments and other public sector entities are accountable primarily to those that provide them with resources, and to those that depend on them to use those resources to deliver necessary services. In addition, the Conceptual Framework will apply to governments and a potentially wide range of other public sector entities in many different jurisdictions as well as international governmental organizations. Consequently, it is not clear that identification of other user groups as the primary users of GPFRs will be relevant, and operate effectively, for all public sector entities across all jurisdictions.

BC2.5 The IPSASB's views on the relationship between the individual primary user groups identified by respondents, and service recipients and resource providers are outlined below.

Citizens

BC2.6 There is much common ground between the views of those that identify citizens and their representatives as the primary user group and the views of the IPSASB. This is because citizens (or the public) are both service recipients and resource providers. The IPSASB acknowledges the importance of citizens and their representatives as users of GPFRs, but is of the view that classifying citizens as service recipients and resource providers provides a basis for assessing their potential information needs. The IPSASB is also of the view that in developing IPSASs it is appropriate that it has the capacity to consider the information needs of a range of non-citizen service recipients and resource providers (including donors and lenders) who do not possess the authority to require a public sector entity to disclose the information they need for accountability and decision-making purposes.

Resource Providers

BC2.7 The IPSASB agrees that GPFRs directed at the provision of information to satisfy the information needs of resource providers will also provide information useful to other potential users of GPFRs. However, the IPSASB is of the view that the Conceptual Framework should make clear its expectation that governments and other public sector entities should be accountable to both those that provide them with resources and those that depend on them to use those resources to deliver necessary or promised services. In addition, in many jurisdictions, resource providers are primarily donors or lenders that, in many cases, have the authority to require the preparation of special purpose financial reports to provide the information they need.

The Legislature

BC2.8 The IPSASB is of the view that the legislature or similar governing body is a primary user of GPFRs in its capacity as a representative of service recipients and resource providers. The legislature, parliaments, councils and similar bodies will also require information for their own specific accountability and decision-making purposes, and usually have the authority to require the preparation of detailed financial and other reports to provide that information. However, they may also use the information provided by GPFRs for their own particular purposes, including for example, as input to assessments of whether resources were used efficiently and as intended and in making decisions about allocating resources to particular government entities, programs or activities.

BC2.9 Individual members of the legislature or other governing body, whether members of the government or opposition, can usually require the disclosure of the information they need for the discharge of their official duties as directed by the governing body. However, they may not have the authority to require the preparation of financial reports that provide the information they require for other purposes, or in other circumstances. Consequently, they are users of GPFRs, whether in their capacity as representatives of service recipients and resource providers in their electorate or constituency, or in their personal capacity as citizens and members of the community.

Other User Groups

BC2.10 In developing the Phase 1 CP, the IPSASB considered a wide range of potential users of GPFRs, including whether those transacting with public sector entities on a commercial or non-commercial basis or on a voluntary or involuntary basis, such as public sector and private sector resource providers, should be identified as separate user groups. The IPSASB is of the view that identifying service recipients and their representatives and resource providers and their representatives as the primary users of GPFRs will respond to the information needs of these subgroups of resource providers.

BC2.11 The Phase 1 CP identified as potential users of GPFRs "other parties, including special interest groups and their representatives." However, a number of respondents argued that many of these potential users of GPFRs would be encompassed within the groups identified as service recipients and their representatives and resource providers and their representatives. Consequently, they should not be identified as a separate user group. Some also expressed concern that identifying or implying that GPFRs should be developed to respond to the needs of special interest groups was contrary to the "general purpose" nature of GPFRs. The IPSASB was persuaded by these arguments.

BC2.12 The information provided by GPFRs may also be useful for compiling national accounts, as input to statistical financial reporting models, for assessments of the impact of government policies on economic activity and for other economic analytical purposes. However, GPFRs are not developed specifically to respond to the needs of those who require information for these purposes. Similarly, while those that act as advisors to service recipients or resource providers such as citizen advocacy groups, bond rating agencies and credit analysts and public interest groups are likely to find the information reported in GPFRs useful for their purposes, GPFRs are not prepared specifically to respond to their particular information needs.

Appendix 2A

The IASB Conceptual Framework (September 2010)

Objectives and Users

The International Accounting Standards Board (IASB) develops and publishes International Financial Reporting Standards (IFRSs). IFRSs are designed to apply to the general purpose financial statements and other financial reporting of all profit-oriented entities. The IASB Conceptual Framework (issued in 1989 and updated in part in September 2010):

- Identifies the primary users of general purpose financial reports (GPFRs) as existing and potential investors, lenders and other creditors that cannot require reporting entities to provide information directly to them and must rely on GPFRs for much of the financial information they need.
- Identifies the objective of general purpose financial reporting as being to provide information about the reporting entity that is useful to existing and potential investors, lenders, and other creditors in making decisions about providing resources to the entity. Those decisions involve buying, selling or holding equity and debt instruments, and providing or settling loans and other forms of credit.
- Explains that existing and potential investors, lenders and other creditors need information to help them assess the prospects for future net cash inflows to an entity. For this purpose they need information about the resources of the entity, claims against the entity, and how efficiently and effectively the entity's management and governing board have discharged their responsibilities to use the entity's resources.
- Notes that other parties, such as regulators and members of the public other than investors, lenders and other creditors, may also find GPFRs useful. However, it also explains that GPFRs are not primarily directed to these other parties.

Appendix 2B

The Statistical Bases of Reporting of the 1993 System of National Accounts (updated 2008) and other guidance derived from it (ESA 95 and GFSM 2001)

Objectives and Users

The primary objective of the System of National Accounts (SNA) is to provide a comprehensive conceptual and accounting framework that can be used to create a macroeconomic database suitable for analyzing and evaluating the performance of an economy.

Specific uses of the SNA include providing input for monitoring the behavior of the economy, macroeconomic analysis and making international comparisons.

The 2008 System of National Accounts (2008 SNA) does not identify specific user groups or primary users, but acknowledges that data generated in accordance with its principles may be used by many parties including, for example, analysts, politicians, the press, the business community and the public at large.

The objective of the SNA and the likely users of the information as identified in the 2008 SNA is reflected in the Government Finance Statistics Manual 2001 (GFSM 2001) and the European System of Accounts (ESA 95).

3 Qualitative Characteristics of, and Constraints on, Information included in General Purpose Financial Reports

3.1 GPFRs present financial and non-financial information about economic or other phenomena. The qualitative characteristics of information included in GPFRs are the attributes that make that information useful to users and support the achievement of the objectives of financial reporting. The objectives of financial reporting are to provide information useful for accountability and decision-making purposes.

3.2 The qualitative characteristics of information included in GPFRs of public sector entities are relevance, faithful representation, understandability, timeliness, comparability, and verifiability.

3.3 Materiality, cost-benefit, and achieving an appropriate balance between the qualitative characteristics are pervasive constraints on information included in GPFRs.

3.4 Each of the qualitative characteristics is integral to, and works with, the other characteristics to provide in GPFRs information useful for achieving the objectives of financial reporting. However, in practice, all qualitative characteristics may not be fully achieved, and a balance or trade-off between certain of them may be necessary.

3.5 The qualitative characteristics apply to all financial and non-financial information reported in GPFRs, including historic and prospective information, and explanatory material or other narrative reporting. However, the extent to which the qualitative characteristics can be achieved may differ depending on the degree of uncertainty and subjective assessment or opinion involved in compiling the financial and non-financial information. The need for additional guidance on interpreting and applying the qualitative characteristics to information that extends the scope of financial reporting beyond financial statements including their notes will be considered in the development of any IPSASs and other pronouncements of the IPSASB that deal with such matters.

Relevance

3.6 Financial and non-financial information is relevant if it is capable of making a difference in achieving the objectives of financial reporting. Financial and non-financial information is capable of making a difference when it has confirmatory value, predictive value, or both. It may be capable of making a difference, and thus be relevant, even if some users choose not to take advantage of it or are already aware of it.

3.7 Financial and non-financial information has confirmatory value if it confirms or changes past (or present) expectations. For example, information will be relevant for accountability and decision-making purposes if it confirms expectations about such matters as the extent to which managers have discharged their responsibilities for the efficient and effective use of resources, the achievement of specified service delivery objectives, and compliance with relevant budgetary, legislative and other requirements.

3.8 GPFRs may present information about an entity's anticipated future service delivery activities, objectives and costs, and the amount and sources of the resources that are intended to be allocated to providing services in the future. Such future oriented information will have predictive value and be relevant for accountability and decision-making purposes. Information about economic and other phenomena that exist or have already occurred can also have predictive value in helping form expectations about the future. For example, information that confirms or disproves past expectations can reinforce or change expectations about financial results and service delivery outcomes that may occur in the future.

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

Faithful Representation

3.10 To be useful in financial reporting, information must be a faithful representation of the economic and other phenomena that it purports to represent. Faithful representation is attained when the depiction of the phenomenon is complete, neutral, and free from material error. Information that faithfully represents an economic or other phenomenon depicts the substance of the underlying transaction, other event, activity or circumstance—which is not necessarily always the same as its legal form.

3.11 In practice, it may not be possible to know or confirm whether information presented in GPFRs is fully complete, neutral, and free from material error. However, information should be as complete, neutral, and free from material error as is possible.

3.12 A depiction of an economic or other phenomenon is complete if it includes all information that is necessary for faithful representation of the phenomenon that it purports to depict. An omission of some information can cause the representation to be false or misleading, and thus not useful to users of GPFRs. For example, a complete depiction of the item "plant and equipment" in GPFRs will include a numeric representation of the aggregate amount of plant and equipment together with other quantitative, descriptive and explanatory material necessary to faithfully represent that class of assets. In some cases, this may include the disclosure of information about such matters as the major classes of plant and equipment, factors that have affected their use in the past or might impact on their use in the future, and the basis and process for determining their numeric representation. Similarly, prospective financial and non-financial information, and information about the achievement of service delivery objectives and outcomes, included in GPFRs will need to be presented with the key assumptions that underlie that information, and any explanations that are necessary to ensure that its depiction is complete and useful to users.

3.13 Neutrality in financial reporting is the absence of bias. It means that the selection and presentation of financial and non-financial information is not made with the intention of attaining a particular predetermined result—for example, to influence in a particular way users' assessment of the discharge of accountability by the entity or a decision or judgment that is to be made, or to induce particular behaviour.

3.14 Neutral information faithfully represents the economic and other phenomena that it purports to represent. However, to require information included in GPFRs to be neutral does not mean that it is not without purpose or that it will not influence behaviour. Relevance is a qualitative characteristic and, by definition, relevant information is capable of influencing users' assessments and decisions.

3.15 The economic and other phenomena represented in GPFRs generally occur under conditions of uncertainty. Information included in GPFRs will therefore often include estimates that incorporate management's judgment. To faithfully represent an economic or other phenomenon, an estimate must be based on appropriate inputs, and each input must reflect the best available information. Caution will need to be exercised when dealing with uncertainty. It may sometimes be necessary to explicitly disclose the degree of uncertainty in financial and non-financial information to faithfully represent economic and other phenomena.

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

Understandability

3.17 Understandability is the quality of information that enables users to comprehend its meaning. GPFRs of public sector entities should present information in a manner that responds to the needs and knowledge base of users, and to the nature of the information presented. For example, explanations of financial and non-financial information and 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.

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

Timeliness

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

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

Comparability

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

3.22 Comparability differs from consistency. Consistency refers to the use of the same accounting 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.

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

3.24 Information about the entity's financial position, financial performance, compliance, service delivery achievements, and its future plans is necessary for accountability purposes and useful as input for decision-making purposes. The usefulness of such information is enhanced if it can be compared with, for example:

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

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

Verifiability

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

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

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

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

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

3.30 GPFRs of public sector entities may include financial and other quantitative information and explanations about (a) key influences on the entity's performance during the period, (b) the anticipated future effects or outcomes of service delivery programs undertaken during the reporting period, and (c) prospective financial and non-financial information. It may not be possible to verify the accuracy of all quantitative representations and explanations of such information until a future period, if at all.

3.31 To help assure users that prospective financial and non-financial quantitative information and explanations included in GPFRs faithfully represents the phenomena that they purport to represent, the assumptions that underlie the information disclosed, 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.

Constraints on Information Included in General Purpose Financial Reports

Materiality

3.32 Information is material if its omission or misstatement could influence the discharge of accountability by the entity, or the decisions that users make on the basis of the entity's GPFRs prepared for that reporting period. Materiality depends on both the nature and amount of the item judged in the particular circumstances of each entity. GPFRs may encompass qualitative and quantitative information about service delivery achievements during the reporting period, and expectations about service delivery and financial outcomes in the future. Consequently, it is not possible to specify a uniform quantitative threshold at which a particular type of information becomes material.

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

Cost-Benefit

3.34 Financial reporting imposes costs. The benefits of financial reporting should justify those costs. Assessing whether the benefits of providing information justify the related costs is often a matter of judgment, because it is often not possible to identify and/or quantify all the costs or benefits of information included in GPFRs.

3.35 The costs of providing information include the costs of collecting and processing the information, the costs of verifying it and/or presenting the assumptions and methodologies that support it, and the costs of disseminating it. Users incur the costs of analysis and interpretation. Omission of useful information also imposes costs, including the costs that users incur to obtain needed information from other sources and the costs that result from making decisions using incomplete data provided by GPFRs.

3.36 Preparers expend the majority of the effort to provide information in GPFRs. However, service recipients and resource providers ultimately bear the cost of those efforts—because resources are redirected from service delivery activities to preparation of information for inclusion in GPFRs.

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

3.38 Application of the cost-benefit constraint involves assessing whether the benefits of reporting information are likely to justify the costs incurred to provide and use the information. When making this assessment, it is necessary to consider whether one or more qualitative characteristics might be sacrificed to some degree to reduce cost.

3.39 In developing IPSASs, the IPSASB considers information from preparers, users, academics, and others about the expected nature and quantity of the benefits and costs of the proposed requirements. Disclosure and other requirements which result in the presentation of information useful to users of GPFRs for accountability and decision-making purposes and satisfy the qualitative characteristics are prescribed by IPSASs unless the costs of compliance with those requirements are assessed by the IPSASB to be greater than their benefits.

Balance Between the Qualitative Characteristics

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

3.41 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.

3 Basis for Conclusions

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

Qualitative Characteristics of Information Included in General Purpose Financial Reports

BC3.1 In developing IPSASs, the IPSASB receives input on, and makes judgments about, information that best satisfies the objectives of financial reporting and should be included in GPFRs[3]. In making those judgements, the IPSASB considers the extent to which each of the qualitative characteristics can be achieved. Disclosure and other requirements are included in IPSASs only when the information that results from their application is considered to satisfy the qualitative characteristics and the cost-benefit constraint identified in this Conceptual Framework.

BC3.2 IPSASs will not deal with all financial and non-financial information that may be included in GPFRs. In the absence of an IPSAS that deals with particular economic or other phenomena, assessments of whether an item of information satisfies the qualitative characteristics and constraints identified in this Conceptual Framework, and therefore qualifies for inclusion in GPFRs, will be made by preparers compiling the GPFRs. Those assessments will be made in the context of achieving the objectives of financial reporting, which in turn have been developed to respond to users' information needs.

Other Qualitative Characteristics Considered

BC3.3 Some respondents to the Phase 1 CP expressed the view that additional qualitative characteristics should be identified. Those characteristics included "sincerity," "true and fair view," "credibility," "transparency," and "regularity".

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

[3] In the development of IPSASs, the IPSASB seeks input from its constituents through a due process that provides for the issue of Consultation Papers and Exposure Drafts of proposed IPSASs and other public consultation.

Relevance

BC3.5 The Conceptual Framework explains that financial and non-financial information is relevant if it is capable of making a difference in achieving the objectives of financial reporting. As part of its due process, the IPSASB seeks input on whether the requirements of a proposed IPSAS are relevant to the achievement of the objectives of financial reporting—that is, are relevant to the discharge of the entity's obligation to be accountable and to decisions that users may make.

BC3.6 Appendix A of IPSAS 1, *Presentation of Financial Statements* explains that information is relevant if it can be used to assist in evaluating past, present or future events or in confirming, or correcting, past evaluations. IPSAS 1 also notes that to be relevant, information must be timely.

BC3.7 The concept of relevance identified in this Conceptual Framework possesses similar characteristics and operates with similar intent to the concept as identified in IPSAS 1 Appendix A. However, the predictive value of information is also explicitly identified as a component of relevance in this Conceptual Framework. In addition, timeliness is identified as a separate qualitative characteristic because it can influence the achievement of other qualitative characteristics and, through them, the usefulness of information included in GPFRs.

Faithful Representation

BC3.8 The Conceptual Framework explains that to be useful information must be a faithful representation of the economic and other phenomena that it purports to represent. A single economic or other phenomenon may be 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 and cost of services provided by the service delivery program, or (c) by a combination of both qualitative and quantitative information. Additionally, a single depiction in GPFRs may represent several economic phenomena. For example, the presentation of the item "plant and equipment" in a financial statement may represent an aggregate of all of an entity's plant and equipment, including items that have different functions, that are subject to different risks and opportunities and that are carried at amounts based on estimates that may be more or less complex and reliable.

BC3.9 Completeness and neutrality of estimates (and inputs to those estimates) and freedom from material error are desirable, and some minimum level of accuracy is necessary for an estimate to faithfully represent an economic or other phenomenon. However, faithful representation does not imply absolute completeness or neutrality in the estimate, nor does it imply total freedom from error in the outcome. For a representation of an economic or other phenomenon to imply a degree of completeness, neutrality, or freedom from error that is impracticable for it to achieve would diminish the extent to which the information faithfully represents the economic phenomena that it purports to represent.

Faithful Representation or Reliability

BC3.10 IPSAS 1 Appendix A identifies reliability as a qualitative characteristic. It describes reliable information as information that is "free from material error and bias, and can be depended on by users to represent faithfully that which it purports to represent or could reasonably be expected to represent." Faithful representation, substance over form, neutrality, prudence and completeness are identified as components of reliability. This Conceptual Framework uses the term "faithful representation" rather than "reliability" to describe what is substantially the same concept. In addition, it does not explicitly identify substance over form and prudence as components of faithful representation.

BC3.11 Some respondents to the Phase 1 CP did not support the replacement of reliability with the term faithful representation, noting that their experience was that reliability is widely used and well understood in the public sector. Some also expressed the view that reliability is a more accurate reflection of the substance of this qualitative characteristic than is faithful representation, particularly as it applies to qualitative and prospective information included in GPFRs. However, some of these respondents also noted that in the interests of alignment with International Accounting Standards Board (IASB) terminology, faithful representation should be adopted.

BC3.12 The IPSASB has also been advised that:

- In some jurisdictions, reliability is sometimes interpreted to mean "verifiable" or "free from error" or "complete" or "neutral," rather than its intended meaning of broadly representing faithfully the economic and other phenomena that it purports to represent;
- Difficulties in interpretation and application of reliability may be overcome by using the term faithful representation and re-expressing its role and components; and
- Faithful representation is less dependent on judgment than is reliability, is a better reflection of what preparers aspire to achieve in presenting information in GPFRs and is more readily translated into, and understood in, a wide range of languages.

BC3.13 On balance, the IPSASB was persuaded by arguments that the term faithful representation should be adopted in its Conceptual Framework, because it overcomes problems in the interpretation and application of reliability that have been experienced in some jurisdictions.

Substance over Form and Prudence

BC3.14 Some respondents to the Phase 1 CP expressed concern that substance over form and prudence are not identified as qualitative characteristics or that their importance is not sufficiently recognized or explained. Some also noted that prudence need not be incompatible with the achievement of neutrality and faithful representation.

BC3.15 The Conceptual Framework explains that "Information that faithfully represents an economic or other phenomenon depicts the substance of the underlying transaction, other event, activity or circumstance―which is not necessarily always the same as its legal form." Therefore substance over form remains a key quality that information included in GPFRs must possess. It is not identified as a separate or additional qualitative characteristic because it is already embedded in the notion of faithful representation.

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

BC3.17 The IPSASB is of the view that the same notion of prudence as currently identified in IPSAS 1 Appendix A is reflected in the explanation of neutrality as a component of faithful representation, and the acknowledgement of the need to exercise caution in dealing with uncertainty. Therefore, like substance over form, prudence is not identified as a separate qualitative characteristic because its intent and influence in identifying information that is included in GPFRs is already embedded in the notion of faithful representation.

Understandability

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

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

BC3.20 The qualitative characteristic of understandability in this Conceptual Framework possesses similar characteristics to those identified in IPSAS 1 Appendix A. However, certain aspects of understandability have been explained more fully―in particular, that users should review and analyze the information in GPFRs with reasonable diligence. The Conceptual Framework also clarifies that in some circumstances, users may need to seek assistance to understand complex economic and other phenomena presented in GPFRs.

Timeliness

BC3.21 IPSAS 1 Appendix A identifies timeliness as a constraint on relevant and reliable information. It notes that undue delay in the provision of information may reduce its relevance and that reporting on a timely basis may involve reporting before all aspects of a transaction are known, thus impairing reliability.

BC3.22 The IPSASB is of the view that the nature of timeliness and the potential for timely reporting to increase the usefulness of GPFRs for both accountability and decision-making purposes, signals that it is more than a constraint on information included in GPFRs. This is reflected in its re-designation as a qualitative characteristic in its own right in this Conceptual Framework.

Comparability

BC3.23 IPSAS 1 Appendix A identifies comparability as a qualitative characteristic. To better understand and place in context, for example, the financial and service delivery performance of an entity, users will frequently compare information reported in GPFRs for a particular period with GPFRs of the same entity for a prior period or with GPFRs of different entities. Consequently, comparability continues to be identified as a qualitative characteristic in this Conceptual Framework. The characteristic of comparability in this Conceptual Framework reflects and builds on that in IPSAS 1 Appendix A—in particular, by explaining its operation in respect of the more comprehensive scope of financial reporting.

BC3.24 Some degree of comparability may be attained by maximizing the qualitative characteristics of relevance and faithful representation. For example, faithful representation of a relevant economic or other phenomenon by one public sector entity is likely to be comparable to a faithful representation of a similar relevant economic or other phenomenon by another public sector entity. However, a single economic or other phenomenon can often be faithfully represented in several ways, and permitting alternative accounting methods for the same phenomenon diminishes comparability and, therefore, may be undesirable. Consequently, the IPSASB is of the view that IPSASs should preclude or limit the extent to which alternative accounting methods are permitted for presentation of the same economic or other phenomena.

Verifiability

BC3.25 The Phase 1 CP explains that verifiability encompasses, and in some cases may be described as, supportability when applied to qualitative and prospective information disclosed in GPFRs. However, whether referred to as verifiability or supportability, the characteristic is substantially the same.

BC3.26 Some respondents to the Phase 1 CP expressed the view that supportability should be identified as a separate characteristic for application to information presented in GPFRs outside the financial statements. The IPSASB is of the view that identifying both verifiability and supportability as separate qualitative characteristics with essentially the same features may be confusing to preparers and users of GPFRs and others. However, the Conceptual Framework does acknowledge that supportability is sometimes used to refer to the quality of information that helps assure users that explanatory information and prospective financial and non-financial information included in GPFRs faithfully represents the phenomena that it purports to represent. It also acknowledges that disclosure of the underlying assumptions and methodologies adopted for the compilation of explanatory and prospective financial and non-financial information is central to the achievement of faithful representation.

BC3.27 In addition, the IPSASB will consider the applicability and operation of the qualitative characteristics when it develops and gains experience with IPSASs and other IPSASB pronouncements that deal with prospective financial and non-financial information and explanatory material to be included in GPFRs.

Classification of the Qualitative Characteristics and Order of their Application

BC3.28 Some respondents to the Phase 1 CP expressed the view that the IPSASB's Conceptual Framework should identify:

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

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

BC3.29 In developing the qualitative characteristics, the IPSASB considered whether some characteristics should be identified as fundamental and others identified as enhancing. The IPSASB also considered whether the order of application of the characteristics should be identified and/or explained. The IPSASB is of the view that such an approach should not be adopted because, for example:

- Matters identified as "fundamental" may be perceived to be more important than those identified as "enhancing," even if this distinction is not intended in the case of the qualitative characteristics. As a result, there may be unintended consequences of identifying some qualitative characteristics as fundamental and others as enhancing;
- All the qualitative characteristics are important. The relative importance of a particular qualitative characteristic in different circumstances is a matter of professional judgment. As such, it is not appropriate to identify certain qualitative characteristics as always being fundamental and others as having only

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

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

Constraints on Information Included in General Purpose Financial Reports

Materiality

BC3.30 IPSAS 1 Appendix A describes materiality with similar characteristics to that described in this Conceptual Framework, but identifies materiality as a factor to be considered in determining only the relevance of information. The Preface to International Public Sector Accounting Standards explains that IPSASs are not meant to apply to immaterial items and IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors* explains that the accounting policies set out in IPSASs need not be applied when their effect is immaterial.

BC3.31 Some respondents to the Phase 1 CP expressed the view that there should be additional emphasis on the significance of materiality based on the "context and nature" of the item. The IPSASB has responded to these concerns by clarifying that judgments about the materiality of each item are made by reference to the circumstances of each entity, and by providing guidance on matters to be considered by public sector entities in assessing the materiality of particular items.

BC3.32 The IPSASB considered whether materiality should be identified as an entity-specific aspect of relevance rather than a constraint to be considered in setting financial reporting standards. However, the IPSASB is of the view that materiality relates to, and can impact, a number of the qualitative characteristics of information included in GPFRs, and is therefore better reflected as a broad constraint. For example, materiality should be considered when determining whether the omission or misstatement of an item of information could undermine the relevance, faithful representation, understandability or verifiability of financial and non-financial information presented in GPFRs.

BC3.33 Some respondents to the Phase 1 CP expressed the view that the Conceptual Framework should explain that legislation may require disclosure irrespective of the cost or perceived materiality of the item. The IPSASB acknowledges that legislation, regulation or other authority may impose financial reporting requirements on public sector entities in addition to those imposed by IPSASs and the operation of this Conceptual Framework. However, while a feature of the operating environment of many public sector (and many private sector) entities, the impact that legislation or other authority may have on the information included in GPFRs is not itself a financial reporting concept, and the IPSASB has not identified it as such in this Conceptual Framework. Preparers will need to consider such requirements as they prepare GPFRs. In particular, legislation may prescribe that particular items of information are to be disclosed in GPFRs even though they may not be judged to satisfy a materiality threshold (or cost-benefit constraint) as identified in this Conceptual Framework. Similarly, the disclosure of some matters may be prohibited by legislation because, for example, they relate to matters of national security, notwithstanding that they are material and would otherwise satisfy the cost-benefit constraint.

Cost-Benefit

BC3.34 IPSAS 1 Appendix A identifies the balance between cost and benefit as a pervasive constraint and explains that the evaluation of benefits and costs is substantially a matter of judgment. This Conceptual Framework also identifies consideration of costs and benefits as a pervasive constraint that standard setters, as well as preparers and users of financial reports, should be aware of and should consider in determining whether to provide a new item of information in GPFRs.

BC3.35 Some respondents expressed concern that the Phase 1 CP did not explain that entities cannot decide to depart from IPSASs on the basis of their own assessments of the cost and benefits of particular requirements of an IPSAS. As noted previously in the basis for conclusions to the Conceptual Framework, authoritative requirements relating to recognition, measurement, presentation, and disclosure in GPFRs are specified in IPSASs. These requirements are prescribed by IPSASs only when the benefits of compliance with them are assessed by the IPSASB to be greater than their costs.

BC3.36 Some respondents expressed concern that the Phase 1 CP did not recognize that cost-benefit trade-offs may differ for different public sector entities. They expressed the view that acknowledgement of this may provide a useful principle to be applied when considering differential reporting issues. The IPSASB has considered these matters and determined that the Conceptual Framework will not deal with issues related to differential reporting.

BC3.37 In the process of developing an IPSAS, the IPSASB considers and seeks input on the likely costs and benefits of providing information in GPFRs of public sector entities. However, in some cases, it may not be possible for the IPSASB to identify and/or quantify all benefits that are likely to flow from the inclusion of a particular requirement in an IPSAS. In other cases, the IPSASB may be of the view that the benefits of a particular requirement may be marginal for users of GPFRs of some public sector entities. In applying the cost-benefit test to determine whether particular requirements should be included in an IPSAS in these circumstances, the IPSASB's deliberations may also include consideration of whether imposing such requirements on public sector entities is likely to involve undue cost and effort for the entities applying the requirements.

Appendix 3A

The IASB Conceptual Framework (September 2010)

Qualitative Characteristics

The International Accounting Standards Board (IASB) develops and publishes International Financial Reporting Standards (IFRSs). IFRSs are designed to apply to the general purpose financial statements and other financial reporting of all profit-oriented entities. The IASB Conceptual Framework (issued in 1989 and updated in part in September 2010):

- Identifies relevance and faithful representation as fundamental qualitative characteristics.
- Explains that the process for applying the fundamental qualitative characteristics would usually be to first identify an economic phenomenon that has the potential to be useful to users, secondly to identify the type of information about that phenomenon that would be most relevant and then determine whether that information is available and can be faithfully represented.
- Identifies materiality as an entity-specific aspect of relevance based on the nature or magnitude, or both, of the items to which the information relates in the context of an individual entity's financial report.
- Identifies 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.
- Identifies cost as a pervasive constraint that limits the information provided by financial reporting.
- Explains that the qualitative characteristics and the cost constraint apply to financial information provided in financial statements and in other ways. However, the considerations in applying the qualitative characteristics and the cost constraint may be different for different types of information—for example, in applying them to forward-looking information and to information about existing economic resources and claims, and to changes to them.

Appendix 3B

The Statistical Bases of Reporting of the 1993 System of National Accounts (updated 2008) and other guidance derived from it (ESA 95 and GFSM 2001)

Qualitative Characteristics

The 2008 System of National Accounts (2008 SNA) identifies the qualitative characteristics that source data included in the national accounts are to possess as part of the accounting rules embedded in the system. Source data may be adjusted to be brought into line with SNA compilation principles.

Consistent with SNA, the Government Finance Statistics Manual 2001 (GFSM 2001) and the European System of Accounts (ESA 95) identify qualitative characteristics and constraints of information embedded in the statistical bases of financial reporting prepared in accordance with their requirements. The United Nations, *Fundamental Principles of Official Statistics* and data dissemination standards also apply to these data sets.

Some data included in the SNA is drawn from data in GPFRs, or prepared for inclusion in GPFRs which comply with IFRSs, IPSASs or national accounting standards. Such data will also satisfy the qualitative characteristics specified by those accounting standards, and/or related Conceptual Frameworks.

ESA 95

Statistics produced within the European Statistical System (ESS) are expected to be compiled in an impartial, objective and reliable way, respecting statistical confidentiality and cost effectiveness. The main indicators of quality identified are relevance, accuracy, timeliness, punctuality, accessibility, clarity, comparability and coherence.

Individual areas of statistics are usually based on legislation which sets common methodological and reporting standards, including for quality issues, within the ESS framework.

GFSM 2001

The data dissemination standards of the International Monetary Fund identify minimum qualitative requirements with which data and data reporters should comply. The "quality" of the statistics are assessed against a Data Quality Assessment Framework (DQAF) which is drawn from the United Nations code of *Fundamental Principles of Official Statistics*, which identifies qualitative requirements for all "official" statistics.

The International Monetary Fund DQAF identifies a set of prerequisites and the following five dimensions of data quality: assurances of integrity, methodological soundness, accuracy and reliability, serviceability, and accessibility. Each quality dimension identifies elements of good practice with indicators relevant for specific data sets.

4 The Reporting Entity and Group Reporting Entity

4.1 A public sector reporting entity is a government or other public sector organization, program or identifiable activity that prepares general purpose financial reports. A public sector group reporting entity comprises two or more separate entities that present GPFRs as if they are a single entity.

4.2 GPFRs are prepared to report information useful to users for accountability and decision-making purposes. Service recipients and their representatives and resource providers and their representatives are the primary users of GPFRs. Consequently, a key characteristic of a reporting entity is the existence of service recipients or resource providers who are dependent on GPFRs for information about the activities of particular governmental organizations, programs or other identifiable activities for accountability or decision-making purposes.

4.3 For accountability and decision-making purposes, service recipients and resource providers will often require information about the group of separate entities that make up the government as a whole, or the group of separate entities that comprise a government ministry or otherwise work together to deliver a particular government program. Therefore, a key characteristic of a group reporting entity is also the existence of service recipients and resource providers who are dependent on GPFRs prepared in respect of the group for the information they need for accountability and decision-making purposes.

4.4 The factors that are likely to signal the existence of users of GPFRs of a government or other public sector organization, program or identifiable activity (or groups thereof) include the responsibility or capacity to raise or deploy public monies, acquire or manage public assets, incur liabilities, or undertake activities to achieve service delivery objectives.

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

4.6 In most cases, legislation, regulation or other authority will require a public sector organization, program, or identifiable activity to prepare GPFRs. In some cases, GPFRs for these entities may be prepared on a voluntary basis. GPFRs that present information about a whole of government or other public sector group reporting entity (such as a government ministry or sector) as if they are a single entity may also be required by legislation or other authority, or may be prepared voluntarily.

The Group Reporting Entity

4.7 A government frequently has the authority and capacity to direct the activities of one or more entities so as to benefit from the activities of those entities. It may also be exposed to a financial burden or loss that may arise as a result of the activities of entities whose activities it has the authority and capacity to direct. Other public sector reporting entities, including government departments, agencies or programs may also have the authority and capacity to direct the activities of other entities and to benefit and/or be exposed to a financial burden or loss as a result.

4.8 The benefits derived by the government (or other public sector entity) from the entities whose activities it has the authority and capacity to direct may be financial, such as a dividend or other distribution of the surplus of a GBE or a reduction in the loss or financial burden that it would otherwise have been exposed to. However, because governments and many other public sector entities are established primarily to provide services to members of the community rather than to generate a financial return, those benefits may also be an ability to direct that other entity to work with the government (or other public sector entity) to achieve its service delivery objectives, including the provision of services to constituents. A financial burden or loss may arise if the government (or other public sector entity) is legally obligated, or otherwise assumes an obligation, to provide financial support to that other entity by, for example, financing its deficits or settling its residual liabilities if it is dissolved, or to assume the provision of services that the entity would otherwise provide.

4.9 The disclosure of information about the resources, obligations and service delivery or other activities that a government as a whole (or other public sector entity) has the authority and capacity to direct, including those it can direct through other entities, will be necessary for accountability and decision-making purposes when the results of such direction can generate benefits for the government (or other public sector entity) or expose it to a financial burden or loss.

4.10 When GPFRs for a group reporting entity are prepared, they will present information about, for example, all the resources of the entities that make up that group, claims to those resources, and other aspects of the financial position, performance and achievements of those entities as if they are a single entity. They will also present prospective financial and non-financial information as required by IPSASs.

The Authority and Capacity to Direct the Activities of Another Entity

4.11 A government (or other public sector entity) may possess the authority and capacity to direct the activities of another entity even though it chooses not to exercise that authority. In many cases, it will be clear when a government (or other public sector entity) has the authority and capacity to direct the activities of another entity—for example, it may be specified in the enabling legislation that established the entity, or in formal contractual or other agreements that relate to its operation. Similarly, in the case of GBEs and other entities that adopt a corporate structure, the government (or other public sector entity) may hold a majority shareholding or other equity interest that confers rights to direct the financing and operating policies of that other entity. It may also be clear when such authority and capacity does not exist—for example the government (or other public sector entity) will not possess that authority and capacity if it requires changes in legislation, establishment of new (or renegotiation of existing) contracts and agreements or changes in ownership rights for that authority and capacity to be effective. However, in other cases, the exercise of professional judgment may be necessary in determining whether such authority and capacity exists.

4.12 In some cases, a public sector entity may have the authority to direct the activities of another entity in the capacity of a trustee or agent, but cannot exercise that authority to increase the benefits it receives from, or influence the financial burden imposed on it by, the other entity. In other cases, a public sector entity may benefit, or be subject to a financial burden or loss, as a result of the actions of an entity whose activities it cannot direct. In each of these cases, the nature of the relationship between the entities is such that presenting GPFRs of a group reporting entity that comprises the public sector entity and these other entities would not achieve the objectives of financial reporting.

Jurisdictional Differences

4.13 IPSASs apply across jurisdictions that adopt different forms of government and different institutional and administrative arrangements for the delivery of services. IPSASs that give authority to the principles for determining the whole of government or other public sector group reporting entity will need to respond to operational and implementation issues that may arise in different jurisdictions.

4 Basis for Conclusions

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

Which Entities and Activities are Reporting Entities

BC4.1 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, government corporations and other entities with a separate legal identity or 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.

BC4.2 The Conceptual Framework does not identify which governments or other public sector entities, programs or activities should be identified as a reporting entity or group reporting entity. The IPSASB is of the view that this is not the function of the Conceptual Framework. Rather, entities or activities (or groups thereof) that are to prepare GPFRs 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. In addition, some entities or activities (or groups thereof) may voluntarily elect to prepare GPFRs.

Separate Legal Identity

BC4.3 The Conceptual Framework explains that a public sector reporting entity need not have a separate legal identity. Having a separate legal identity will remove any doubt about the separate existence of an organization, administrative unit or activity and its right to, for example, raise funds, incur liabilities and own and use assets consistent with the terms of its operating mandate as specified in legislation, regulation, or other enabling authority. However, many administrative units (such as government departments), or integrated or related groups of identifiable activities directed at the provision of particular services (such as government programs) do not have a separate legal identity—for example, they cannot enter into contractual arrangements with third parties. These administrative units and activities may be responsible for raising and using public monies and managing public resources, and are often separately accountable to the legislature or similar body. Where users exist for GPFRs of such administrative units, programs or other identifiable activities, they may be identified as a public sector reporting entity.

BC4.4 While many respondents supported the characteristics of a reporting entity as proposed in the Phase 1 CP, some expressed concern that additional characteristics may be necessary to ensure that, for example, insignificant entities are not identified as reporting entities and required to prepare GPFRs in accordance with IPSASs. The additional characteristics identified most frequently by respondents were, in broad terms:

- The existence of identifiable transactions or economic (or other) activities undertaken by the administrative unit or program; or
- Assets or liabilities of the entity or program, for which it should be accountable and/or which have significance for decision-making purposes.

BC4.5 The IPSASB appreciates that preparation of GPFRs is not a cost-free process and judgment will be necessary in ensuring that insignificant entities are not identified as reporting entities and, consequently, required to prepare GPFRs. The Conceptual Framework identifies factors that are likely to signal the existence of users of GPFRs. The IPSASB is of the view that, in the absence of these factors, it is unlikely that users of GPFRs of these entities or activities will exist.

The Group Reporting Entity

BC4.6 IPSAS 1, *Presentation of Financial Statements* defines the term "economic entity" as "a group of entities comprising the controlling entity and any controlled entities." The term "reporting entity" is not defined in IPSASs, but is frequently used to encompass both a single entity and a group of entities that present financial statements as if they are a single entity. The glossary of definitions to IPSASs explains that "administrative entity," "financial entity," "financial reporting entity," "consolidated entity," and "group" are also used to refer to a group of entities comprising the controlling entity and controlled entities.

BC4.7 The Phase 1 CP explained that groups of public sector organizations or programs that prepare GPFRs to present information as if they were a single entity are sometimes described as a "group reporting entity" or an "economic entity." The Phase 1 CP then used the term reporting entity and group reporting entity consistently to refer, respectively, to (a) a single entity that prepares a GPFR or (b) a group of entities that prepare a GPFR as if they were a single entity.

BC4.8 The IPSASB is aware that different interpretations of the meaning of the term "economic" are possible and this may have consequences for what is considered to be a public sector reporting entity or group reporting entity. It is also aware that the term "economic entity" may be (and, on occasion, has been) applied equally to an individual reporting entity or a group reporting entity. The IPSASB is of the view that consistent use of the terms "reporting entity" and "group reporting entity" more clearly identifies, and distinguishes between, the types of reporting entity referred to in the Conceptual Framework. Respondents to the Phase 1 CP did not express concern with the use of this terminology.

Determining the Group Reporting Entity

BC4.9 In developing its Preliminary View on the group reporting entity in the Phase 1 CP, the IPSASB considered a wide range of potential bases for determining the composition of a public sector group reporting entity, including those described as the "control basis," "accountability basis," and "oversight and substantial influence." Other bases considered included those described as the "majority of risks and rewards basis," "common control basis," "operations covered by a public budget," and "operations with a similar function or purpose."

BC4.10 Many of these bases have common features and, in some cases, GPFRs prepared consistent with one basis can present information about the resources, obligations, and activities of a group reporting entity that is similar to a group identified under other bases. However, the bases also differ in some respects, and can have different meanings in different jurisdictions. Consequently, the IPSASB determined that the Conceptual Framework should identify the circumstances that justify inclusion of an entity or activity within a public sector group reporting entity, without designating those circumstances as reflecting a "control," "accountability," "oversight," or some other basis.

BC4.11 Consistent with the principles identified in the Conceptual Framework, a group reporting entity may comprise a government and all the statutory authorities, government business enterprises and other entities whose activities it can direct for its benefit, including those which expose it to a financial burden or loss. A group reporting entity may also constitute a ministry or a sector of government—for example, a government department and all the agencies and statutory authorities whose activities it can direct.

The Authority and Capacity to Direct the Activities of Other Entities

BC4.12 The Phase 1 CP identified the government's (or other entity's) "power to govern the strategic financial and operating policies" as one of the criteria to be satisfied for inclusion in a group reporting entity. Some respondents to the Phase 1 CP expressed concern that use of the term "power to govern" may be interpreted as "power to regulate," and this may result in the inclusion of additional and unintended entities in the group reporting entity.

BC4.13 The IPSASB also notes that underpinning the views expressed by some respondents is a more fundamental concern: that whether or not the capacity to govern the strategic financial and operating policies of another entity would justify the inclusion of an entity in a group reporting entity should be dealt with more expansively at the standards development level, and should include additional direction on what constitutes "strategic financial policies" and "strategic operating policies." The IPSASB has responded to these concerns by referring more broadly to the underlying principles and circumstances that would give rise to a group reporting entity.

The Capacity to Benefit or be Exposed to a Financial Burden or Loss

BC4.14 This Conceptual Framework reflects the view that, to satisfy the objectives of financial reporting, GPFRs of a group reporting entity should present financial and non-financial information as specified in IPSASs about the government (or other public sector entity) and the entities whose activities it has the authority and capacity to direct, when the results of such direction can generate financial or other benefits for the government (or other public sector entity) or expose it to a financial burden or loss.

Application of the Principles in Particular Circumstances

BC4.15 The Phase 1 CP included the IPSASB's views on application of the principles to a number of circumstances including the composition of the whole of government group reporting entity in different forms of government, and whether a whole of government group reporting entity would include, for example:

- Public sector organizations with statutory or constitutional authority to be professionally independent—particularly where they are fully or substantially funded by public monies and subject to budget oversight; and
- Statutory authorities, GBEs, sovereign wealth funds and a range of what are known in some jurisdictions as "special purpose entities."

BC4.16 Many respondents to the Phase 1 CP noted their agreement with the IPSASB's views about the consequences of application of the definition of the reporting entity and the criteria for inclusion of an entity within a group reporting entity in the specific circumstances dealt with. However, they also expressed concern that these were matters that were more appropriately addressed and resolved at the standards development level. Some respondents also expressed concern about some potential implications of the application of the criteria to circumstances that were not specifically addressed in the Phase 1 CP, including the relationship between national and state or provincial governments in some jurisdictions.

BC4.17 The IPSASB found these concerns persuasive. It has reconstructed its discussion of the reporting entity and group reporting entity to focus on the underlying principles. Specific applications of the principles will then be dealt with at the standards development level. This will ensure that the circumstances of particular jurisdictions are acknowledged in developing authoritative requirements that give effect to the principles identified in the Conceptual Framework.

BC4.18 The Conceptual Framework does not specify the basis on which financial statements for a group reporting entity are to be prepared, including for example:

- Whether, and in what circumstances, consolidated, combined or other financial statements should be prepared for a group reporting entity or components thereof; and
- The techniques to be adopted in compiling such statements.

The IPSASB is of the view that these are also matters that should be dealt with at the standards level.

Jurisdictional Differences

BC4.19 In centralized or planned economies, governments may have the authority and capacity to direct the financial and other activities of a wide range of entities, and to instruct those entities to work with the government for the benefit of the community. If GPFRs were prepared for the whole of government group reporting entity in these jurisdictions, they may include all, or a substantial proportion, of the economic activity undertaken within that jurisdiction by non-government business entities as well as by government departments and other public sector entities, including other levels of government.

BC4.20 In some market economies, national governments may have the authority and capacity to direct the financial and other activities of state, provincial and/or local governments and to benefit, or suffer a financial burden or loss, as a result of their activities. If GPFRs were prepared for a whole of government group reporting entity at the national level in these jurisdictions they may encompass all levels of government.

BC4.21 Whether or not GPFRs for the whole of government group reporting entity in these circumstances will provide information useful to users for accountability and decision-making purposes will need to be considered in developing authoritative requirements in each jurisdiction. In these jurisdictions, users may exist for GPFRs prepared in respect of a subgroup of the entities or activities that comprise a whole-of-government or other group reporting entity, and legislation, regulation or other authority may require GPFRs to be prepared in respect of them.

Appendix 4A

The IASB Conceptual Framework (September 2010)

Reporting Entity

The International Accounting Standards Board (IASB) develops and publishes International Financial Reporting Standards (IFRSs). IFRSs are designed to apply to the general purpose financial statements and other financial reporting of all profit-oriented entities.

The IASB Conceptual Framework (issued in 1989) identified a reporting entity as an entity for which there are users who rely on the financial statements as their major source of financial information about the entity.

The IASB issued Exposure Draft, *Conceptual Framework for Financial Reporting: The Reporting Entity* in March 2010. However, the IASB has not yet approved a final updated Chapter of its Conceptual Framework that deals with the reporting entity.

Appendix 4B

The Statistical Bases of Reporting of the 1993 System of National Accounts (updated 2008) and other guidance derived from it (ESA 95 and GFSM 2001)

Reporting Entity

The focus of the 2008 System of National Accounts (2008 SNA) is on institutional units which are allocated into mutually exclusive sectors, one of them being the general government sector. The general government sector comprises central, state and local government (with possibly separate social security funds) in any country. The 2008 SNA also provides for reporting by the public sector which comprises the general government sector and public corporations.

An institutional unit is an economic entity that is capable, in its own right, of owning assets, incurring liabilities and engaging in economic activities and in transactions with other entities.

A similar focus on institutional units and sectors is reflected in the Government Finance Statistics Manual 2001 (GFSM 2001), the European System of Accounts (ESA 95) and other statistical bases of reporting derived from the 2008 SNA.

As a rule, the entries in the SNA are not consolidated. However, there is a summation of entries of all resident institutional units belonging to a sector, and for the economic territory (referred to as economy-wide aggregates).

The GFSM 2001 requires that data presented for a group of units be consolidated so that flows and positions of entities within such a grouping are eliminated and the data is presented as flows and positions with the remainder of the economy.

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