

Comments on Conceptual Framework Exposure Draft 1

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

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

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 GPFs of public sector entities and their information needs;
3. Qualitative characteristics of, and constraints on, information included in GPFs 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 GPFs 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.

Role, authority and scope of the Conceptual Framework

Role of the Conceptual Framework

NAO agrees that the role of the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities is to regulate the financial reporting by public sector entities that adopt the accrual basis of accounting, except for financial reporting by government business enterprises.

NAO is of the opinion that an additional section be introduced in the conceptual framework to provide guidance to public sector entities who prepare financial statements on the cash basis of accounting and to government business enterprises (GBEs) in instances where these are consolidated with central government Financial Reporting.

Authority of the Conceptual Framework

NAO is of the opinion that the requirements of the Conceptual Framework are authoritative, however, they are of lesser authority than IPSASs and do not override the latter's requirements.

Moreover, although the Conceptual Framework is not an IPSAS, it forms the basis upon which the IPSASB develops future IPSAS and reviews existing IPSASs and assists preparers of public sector financial statements in applying IPSASs. This fact is to be stated in the framework itself rather than in the basis for conclusions.

Scope of the Conceptual Framework

NAO agrees with the concept that General Purpose Financial Reports (GPFRs) of public sector entities are to be more comprehensive than private sector financial statements including their notes, although the latter remain at the core of financial reporting. NAO also opines that GPFRs are to be prepared to meet users' information needs.

Objectives of financial reporting by public sector entities and the primary users of GPFRs of public sector entities and their information needs

NAO agrees that 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. NAO also opines that the IPSASB, in preparing financial reporting standards, is to seek to provide information that will meet the needs of the maximum number of primary users.

Moreover, NAO agrees that the primary users of GPFRs are service recipients and resource providers. GPFRs should therefore be prepared to respond to the needs of these users for accountability and decision-making purposes. NAO further agrees that GPFRs may also provide information useful to other parties and for other purposes.

NAO also agrees with the information to be provided by GPFRs on:

1. Financial Position, Financial Performance and Cash Flows;
2. Compliance with the Budget;
3. Service Delivery Achievements;
4. Prospective Financial and Non-Financial Information;
5. Narrative Reports.

A brief mention is to be made to assets, liabilities and equities under financial position, and income, expenses and capital maintenance adjustments under performance. Reference is to be then made to Phase 2 of 4, namely to the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Elements and Recognition in Financial Statements.

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

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

Relevance

NAO agrees that financial and non-financial information is relevant if it is capable of making a difference in achieving the objectives of financial reporting and in the decisions made by users. NAO also agrees that financial and non-financial information is capable of making a difference when it has confirmatory value, predictive value, or both.

Faithful representation

The true and fair view is still to feature in the Conceptual Framework since it is one of the overarching qualities that financial reporting is to achieve or aspire to. The concept of faithful representation must have the overall objective of ensuring a true and fair view of the Department’s financial and operational results and achievements.

However, NAO agrees with the IPSASB that the term *faithful representation* should be used rather than the term *reliability* 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. Information that faithfully represents an economic or other phenomenon is also reliable.

NAO also agrees that it is sufficient that the concept of substance over form and prudence be embedded in the notion of faithful representation and not identified as separate qualitative characteristics.

Understandability

NAO agrees that information in GPFRs is to be presented in a comprehensible format. Complex information is also to be included in GPFRs, however, it should be presented in a way that is understandable to a wide range of users.

Timeliness

NAO agrees that timeliness is an important qualitative characteristic as it renders information more useful rather than a constraint on relevant and reliable information. NAO also concurs with the IPSASB’s opinion that some items of information may

continue to be useful long after the reporting period or reporting date such as determining the effects of some service delivery programmes.

Comparability

NAO agrees that comparability is a qualitative characteristic. NAO also concurs with the distinction identified in the Conceptual Framework between comparability, consistency and uniformity. Moreover, NAO agrees that information on a Government Department's results can be rendered more useful if it can be compared to the budget for that entity, results for the same Department pertaining to previous years, and similar information relating to other entities.

Verifiability

NAO is of the opinion that verifiability should form part of faithful representation since it is one of the qualities that ensures that information is fully complete, neutral, and free from material error.

Constraints on Information Included in General Purpose Financial Reports

Materiality

NAO opines that materiality should be identified as an entity-specific aspect of relevance based on the nature and/or magnitude, of the items to which the information relates in the context of an individual entity's GPFR rather than as a constraint. In order for information to be relevant, it must include all material items.

Cost-Benefit

NAO agrees with the IPSASB that 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 to be prescribed by IPSASs unless the cost of compliance with those requirements are assessed by the IPSASB to be greater than their benefits.

NAO is of the opinion that relevance and faithful representation are to be considered as fundamental qualitative characteristics; and comparability, verifiability, timeliness and understandability as enhancing qualitative characteristics. This is due to the fact that the latter category of characteristics tends to form part of relevance and faithful representation.

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.

NAO agrees with 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.

In particular, it agrees that a public sector reporting entity may have a separate legal identity or may be an organisational structure, administrative arrangement, programme or activity without a separate legal identity but with the authority to raise or deploy public

monies, acquire or manage public assets, incur liabilities, undertake activities to achieve service delivery objectives or otherwise implement government policy. In both cases, entities would be required to prepare GPFRs.

NAO also agrees that an entity should be included in a group reporting entity when the Government (or other public sector entity) has the authority and capacity to direct its activities.