



A U D I T O R - G E N E R A L  
S O U T H A F R I C A

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Dear Madam / Sir

**Comment on IPSASB Exposure Draft (ED) 1 *Conceptual framework for general purpose financial reporting by public sector entities***

The Auditor-General of South Africa has taken advantage of the opportunity to comment on ED 1 *Conceptual framework for general purpose financial reporting by public sector entities*. Please refer to the appendix to this letter for the AGSA's commentary.

I trust that the comments will be of use to the IPSASB in finalising the Conceptual framework.

Yours sincerely

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**Appendix: AGSA commentary on ED 1 *Conceptual framework for general purpose financial reporting by public sector entities***

**A. Specific matters for comment**

No.	Specific matter for comment	Comment
1.	Role, authority and scope of the conceptual framework	<ul style="list-style-type: none"> <li>• Paragraphs 1.6 and BC1.5 of the framework state that the reports of public sector entities have a scope that is more comprehensive than financial statements and their notes. This expansion of the scope of the framework is supported.  However, reference is made in the document title and throughout the document to <i>financial</i> statements, <i>financial</i> reporting, etc. Such references appear to limit the scope to financial information only and are in contradiction to the more comprehensive scope, as set out in paragraphs 1.6 and BC1.5. Consequently, the references to “financial” in the title and elsewhere in the document are inappropriate and should be amended to reflect the wider scope (e.g. integrated reporting).</li> <li>• Consideration should be given to the fact that the reference in paragraph 1.1 to “accrual accounting” is only relevant to financial information; it is not relevant to service delivery and other non-financial information.</li> <li>• The GPFR should not be limited to reporting on the current reporting period, but should specifically extend to reporting on the short-, medium- and long-term and a discussion to this effect should be included in the framework.</li> </ul>
2.	Objectives of financial reporting by public sector entities and the primary users of GPFRs of public sector entities and their information needs	<ul style="list-style-type: none"> <li>• Legislation is fundamental to and defines the operating environment and activities of all public sector entities. As such it should be a reporting concept in itself. The conclusion reached in paragraph BC3.33 that although many public sector entities may be impacted by legislation it is not a reporting concept in itself, is not supported.  Similar to service delivery, the extent of compliance or non-compliance with applicable laws and regulations should be reported on in the GPFR. The framework should therefore be updated throughout to give prominence to reporting on compliance with the applicable laws and regulations as a reporting concept in itself.</li> <li>• The information needs of users of GPFRs, may also include information on the following: <ul style="list-style-type: none"> <li>○ the circumstances/operating context under which the entity operates</li> <li>○ the entity’s strategic objectives and how it intends to achieve them</li> <li>○ risk identification and management, taking into account material financial, social, economic, environmental and governance issues</li> </ul>                     Consideration should therefore be given to expanding the framework to incorporate the above.                 </li> </ul>
3.a.	Qualitative characteristics of, and constraints on, information included in	<ul style="list-style-type: none"> <li>• The use of “faithful representation” rather than “reliability” is not supported.  It is suggested that “reliability” rather than “faithful</li> </ul>

No.	Specific matter for comment	Comment
	<p>GPFRs of public sector entities:</p> <p>Should “faithful representation” rather than “reliability” be used in the conceptual framework?</p>	<p>representation” should be used. This will ensure consistency with the acceptability criteria set out in the International Standards on Auditing (ISAs). “Reliability” should be defined consistently with the definition in appendix 2 to ISA 210</p> <p><i>Agreeing the terms of audit engagements:</i></p> <p style="padding-left: 40px;">Reliability - the information provided in the financial statements reflects the economic substance of events and transactions and not merely their legal form”</p> <ul style="list-style-type: none"> <li>• Further, “faithful representation” and “reliability” do not automatically imply such information is “complete” and “neutral”. Consequently, it is suggested that “completeness” and “neutrality” be added to the qualitative characteristics in the framework. This will again be consistent with the ISAs that list “completeness” and “neutrality” as separate criteria.</li> <li>• In summary, it is suggested that “faithful representation” should be replaced with three separate characteristics of “reliability”, “completeness” and “neutrality”.</li> </ul>
3.b.	<p>Qualitative characteristics of, and constraints on, information included in GPFRs of public sector entities:</p> <p>Should materiality be classified as a constraint on information that is included in GPFRs or as an entity-specific component of relevance?</p>	<ul style="list-style-type: none"> <li>• Elevating the prominence of “materiality” by including it as a separate criterion and not as a component of “relevance” is supported.</li> <li>• There appears to be no clear motivation or reason for classifying the criteria into the sub-categories of “qualitative characteristics” and “constraints”. It is suggested that such a sub-classification is unnecessary and can be done away with and that all the criteria can simply be qualitative characteristics for inclusion of information in the GPFR.</li> <li>• However, if a decision is made to retain the sub-categories of “qualitative characteristics” and “constraints”, then consistent reasoning should be applied in classifying the criteria between “qualitative characteristics” and “constraints”. If “materiality” is classified as a constraint, then “timeliness” should also be classified as a constraint and not as a qualitative characteristic.</li> </ul>
4.	<p>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</p>	<p>The inclusion of part 4 <i>The reporting entity and group reporting entity</i> in the framework is not supported for the reasons indicated below. It is recommended that paragraphs 4.1 – 4.13 be deleted from the framework.</p> <ul style="list-style-type: none"> <li>• Entities, organisations, programs, activities, etc. that are required to prepare GPFRs are specified and defined in legislation. The discussion in part 4 of the framework may be seen as defining a “reporting entity”. It is not appropriate for the framework to define a “reporting entity”.</li> <li>• Paragraph 4.5 states that a reporting entity may have a separate legal identity or be an arrangement, program or activity within a separate legal entity. Inclusion of such a statement in the framework may be construed as requiring components of a legal entity to prepare GFRs, which would be unacceptable.</li> <li>• The inclusion of “group/consolidation” issues in the framework is not appropriate. These issues would be more appropriately addressed at the level of the specific standard dealing with consolidations.</li> </ul>

## B. Other matters for comment

No.	ED reference	Comment
1.	Page 11, footnote 2	Footnote 2 states that “reference in this document to inclusion of information in GPFRs does not mean inclusion of that information in every GPFR that may be prepared.” This statement may cause problems from an audit point of view. As the auditors will audit adherence with the IPSAS standards clear guidance must be set in each standard developed in line with this framework regarding when information must be included and when not; keeping in mind that the requirements in the standards will be subject to the qualitative characteristics and constraints in the framework.
2.	3.22	Paragraph 3.22 states that “comparability differs from consistency”. In order to make it clear that “comparability” and “consistency” are not the same it is suggested that either the heading to paragraphs 3.21 – 3.25 be amended to “Comparability and consistency” or that a separate qualitative characteristic for “consistency” be added.
3.	3.34- 3.39	The discussion on “cost-benefit” is not clear enough on the following two issues: <ul style="list-style-type: none"><li>• It should be stressed that the “cost-benefit” assessment is made by the IPSASB in drafting the standards; it is not an assessment made by the entity in deciding what to include or exclude from the GPFR.</li><li>• It should be emphasized that “cost-benefit” is assessed primarily from the users’ perspective, not the entity’s, as service recipients and resource providers ultimately bear the cost of providing information in the GPFR (paragraph 3.36).</li></ul>
4.	General	Auditors may be required to audit adherence to the framework and standards developed based on the framework. Consequently the audit requirements, as set out in e.g. the International Standards on Auditing (ISAs) and the International Standards of Supreme Audit Institutions (ISSAIs), should be kept in mind in drafting the framework.