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Dear Stephenie Fox

IPSASB 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 Auditor General for Wales welcomes the opportunity to comment on this exposure draft. This response has been prepared on behalf of the Auditor General by the Wales Audit Office.

The Auditor General, and the auditors he appoints, are responsible for audits of the Welsh devolved public sector, which includes:

- the Welsh Government;
- Welsh Government sponsored and other related bodies;
- local government bodies in Wales; and
- local health bodies in Wales.

The WAO welcomes the development by IPSASB of its conceptual framework. At present in the UK, public sector financial reporting is based on the IASB's IFRS. However these have been developed with a purely for profit private sector locus and consequently do not fully address the needs of public sector financial reporting. As a result IPSAS are increasingly informing the development of public sector financial reporting in the UK.

We consider that the development of the conceptual framework will further facilitate the development of IPSAS that will better reflect the needs of the public sector. The conceptual framework is designed to provide a framework for the development of

standards and non authoritative guidance, which incorporates the following aspects of financial reporting:

- financial statements;
- prospective financial information; and
- non financial information.

We fully agree that the two latter areas of reporting form an important part of financial reporting in the public sector. However we have concerns regarding whether IPSASB will have the resources required to deliver such an ambitious programme which incorporates aspects of financial reporting that have not previously been subject to international codification.

It is also possible that the work required to maintain and develop the current suite of IPSAS will increase in future:

- current IPSAS are based closely on IFRS and ,following the introduction of the new IASB/FASB Conceptual Framework, future IFRS may require more modification to make them suitable for the public sector;
- the new IPSASB Conceptual Framework could result in more extensive changes to IFRS when adapting them for the public sector than were required previously; and
- the IPSASB Conceptual Framework may result in further standards that are unique to the public sector and not based on IFRS.

We therefore welcome the statement in Paragraph BC1.8 that the initial focus will be on financial statements and that the other aspects of financial reporting will be considered at a later date. However we urge caution in addressing these other issues until the basics requirements of financial statements under the new Conceptual Framework are substantially met.

We set out in Appendix 1 our response to the specific matters for comment.

I hope that you find the comments helpful. If you require further information, please contact my colleagues Iolo Llewelyn (iolo.llewelyn@wao.gov.uk).

Yours faithfully



Mike Usher

Group Director – Technical

Appendix 1

Specific Matters for Comment

1. Role, authority and scope of the Conceptual Framework

We agree with

- *the role and authority of the Conceptual Framework as set out in the Exposure Draft; and*
- *the scope of financial reporting*

as set out in the Exposure Draft.

2. Objectives of financial reporting by public sector entities and the primary users of GPFs of public sector entities and their information needs;

We agree with:

- *the objectives of financial reporting by public sector entities; and*
- *the primary users of GPFs of public sector entities and their information needs*

as set out in the Exposure Draft.

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;

(a) We note the difficulties that IPSASB has identified with the use of the term ‘reliability’ in certain jurisdiction (BC 3.12). We also note that the IASB found a ‘lack of common understanding of the term’ (IASB: The conceptual framework for Financial Reporting 2010, BC3.23).

We therefore agree with the use of ‘faithful representation’.

(b) We consider that materiality can be regarded as either:

- *a constraint on information, in that below a certain threshold (the materiality level) it may not be practical or cost effective to:*

- *provide discrete information on financial transactions and balances;*
- *ensure that the financial reports are free from misstatements;*
- *apply accounting standards to financial transactions and balances; or*
- *a qualitative characteristic, being linked to the 'relevance' characteristic, requiring financial reports to concentrate on items that could influence users of the accounts, by excluding extraneous detail that is not relevant to the needs of users.*

We consider that if materiality is considered as a constraint, there is a risk that compilers of accounting standards and/or practitioners may seek to 'overcome' the constraint which may result in financial reports containing superfluous detail.

Conversely if materiality is considered to be an entity-specific component of 'relevance' it results in a more neutral and objective to materiality, which is more consistent with 'faithful representation'.

We therefore consider materiality to be an entity-specific component of 'relevance'.

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.

We agree 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*

as set out in the Exposure Draft.