

# Memo

19. maj 2011  
ØKO/MOB

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## Comments on Conceptual Framework Exposure Draft 1

Below, the comments from the Danish Agency for governmental management are divided into a number of general comments and a number of specific comments regarding the conceptual framework exposure draft.

### 1. General comments

We generally agree with the guidelines presented in IPSASBs conceptual framework.

Our main divergence from the framework is concerning the users and the coherence with objectives of the financial reporting. We stress the importance of identifying parliament, legislators or similar bodies, as a primary user of GPRF's and downsizing citizens to be secondary users. Our argument is that GPRS's are mainly used for decision making and citizens mostly have low or no use of GPRS's.

### 2. Specific comments concerning role and authority of the Conceptual Framework and scope of GPFRs;

We agree with the proposed view of role and authority of the Conceptual Framework.

The requirements for financial reporting in Denmark are already targeted towards information needs of the users and are consistent with the objectives for financial reporting. We can therefore on a general level support the proposed view regarding the scope of GPFRs. Even though the Danish model differs regarding users of GPFRs, we will address this in the following section (3) of our comment paper.

### 3. Specific comments concerning objectives of financial reporting by public sector entities and the primary users of GPFRs of public sector entities and their information needs;

In Denmark the primary recipients of the GPFR are defined as the ministries, the treasury and The Audit of the State Account. In Denmark the Audit refers directly to the parliament, and represents their interests.

The Danish view is, that the GPFR should primarily focus on recipients within the government and legislature (parliament). In a democracy the governmental

agencies/institutions are primarily accountable to legislature, which represents both the service recipients and the resource providers in general.

Furthermore it may be difficult to conceive the relevant information for both service recipients and service providers within the same framework. Instead it might be a more fruitful approach to let agencies/institutions produce supplemental and more targeted information for such groups if relevant.

#### **4. Specific comments concerning qualitative characteristics of, and constraints on, information included in GPFRs of public sector entities.**

In Denmark, the purpose of the GPFR is to provide an accurate picture of reporting entity's financial and operational results. This means that the annual report should explain the goal achievement, resource usage, assets and liabilities. To strengthen performance management, the main focus of the GPFR is public objectives and financial information.

The proposed qualitative characteristics of information included in GPFRs are more explicitly defined than those in the guidance on GPFRs in Denmark, but at the same time they are identical to the criteria for information included in the Danish GPFRs.

IPSASB proposes that the non-financial elements deserve great emphasis in the GPFRs. This is an approach Denmark applauds.

We therefore agree in IPSASB's general definition of the GPFR (3.1)

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

Furthermore IPSASB describes that 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. (3.41)

This is identical with definitions used by private sector standards (IASB). We suggest IPSASB identical to IASB, rank the qualitative characteristics, as a pragmatic approach when identifying GPFR- information.

A new trend when presenting financial information is that relevance is weighted higher than other qualitative characteristics. This causes a conflict with the

qualitative characteristic reliability, as relevant information not always is reliable. We therefore agree that the qualitative characteristic; faithful representation, should be used, rather than reliability.

**5. 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.**

*Reporting entity*

In Denmark, a public sector reporting entity is a state entity with administrative responsibility for one or several appropriations in the state budget. This definition is similar to the presented considerations about the reporting entity's legal or organizational independence, with which we agree.

*A group reporting entity*

In Denmark we undertake group reporting for the whole state. This means we view the state as a group reporting entity. At present time the group reporting is a totalization of the financial information across all reporting state entities.

We're considering whether we should enhance our group reporting in two ways;

1. Consolidation of the state group financial information.
2. Undertake group reporting for already defined group entities within the state.

The main reason we haven't undertaken nor dismissed either of the two ways is that we have to perform an analysis regarding, whether the extra information actually would benefit to decision-making.

If we were to implement group reporting, our view of group reporting entities is mainly identical to IPSASBs statement in paragraph 4.11. We therefore generally agree with IPSASB definitions of group entities.