

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

Exposure Draft

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

Consultation Paper

- Elements and Recognition in Financial Statements

Consultation Paper

- Measurement of Assets and Liabilities in Financial Statements

responses to exposure draft and consultation papers

15 June 2011

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Our ref: Responses/1106159 SC0161-163

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CANADA
Submitted electronically
15 June 2010

Dear Stephenie Fox

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

Exposure Draft: Role, Authority and Scope; Objectives and Users; Qualitative Characteristics; and Reporting Entity

Consultation Paper: Elements and Recognition in Financial Statements

Consultation Paper: Measurement of Assets and Liabilities in Financial Statements

CIPFA is pleased to present its responses to these three consultations, which have been reviewed by CIPFA's Accounting and Auditing Standards Panel.

General comment

CIPFA strongly supports IPSASB's programme which helpfully develops public sector specific IPSASs on matters which are unique to the sector, and IFRS converged IPSASs on matters which are relevant to both private and public sectors. The conceptual work will inform the development of standards in future and we support the objective of achieving an optimum balance between maintaining comparability between sectors and addressing sector specific issues.

CIPFA therefore welcomes the continuing development of IPSASB's important work in developing a conceptual framework for public sector financial reporting, which will be helpful both where IPSASs are developed for circumstances covered by IFRS, and when dealing with sector specific matters. The importance of this work is particularly clear given developments in IFRS which may make it more difficult to apply those standards or the IASB conceptual framework directly to the circumstances of public sector entities. Because this work is so important, it is vital that the development of the framework is rigorous and is followed up by standards developed in an equally rigorous manner, supported through transparent consultation.

In the Board's previous consultation UK stakeholders expressed reservations about the widening of scope beyond matters which have traditionally been included in public sector financial reporting. CIPFA welcomes the current Exposure Draft's explanation of the way in which the Board approach the evolution of wider scope reporting. In particular we welcome the acknowledgement that IPSASB may address wider reporting needs through non-authoritative guidance. Even so, we would note that the Board has limited resources, and is committed to a substantial workload in completing development of the Conceptual Framework and more mainstream development such as an IPSAS on Entity Combinations

and 'maintenance' of converged IPSAS, such as Financial Instruments, where the relevant IFRS are undergoing substantial change. Given this we would urge caution in pursuing development of wider reporting beyond those topics, such as Long Term Fiscal Sustainability, which the Board has included in its work plan after specific consultation on the Board's agenda.

Specific Matters for Comment

CIPFA responses to the Specific Matters on which IPSASB would particularly value comment are provided for each of the three consultations, attached at Annexes A to C.

I hope this is a helpful contribution to the finalisation of IPSASB guidance. If you have any questions about this response, please contact Steven Cain (e: steven.cain@cipfa.org.uk, t: +44(0)20 7543 5794).

Yours sincerely
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CIPFA responses to the Specific Matters on which IPSASB would particularly value comment

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

Specific Matters for Comment
1. Role, authority and scope of the Conceptual Framework
<p>CIPFA agrees with</p> <ul style="list-style-type: none">- the role and authority of the Conceptual Framework set out in the Exposure Draft- the scope of financial reporting as set out in the Exposure Draft. <p>In line with previous comments on Preliminary View 1 and Preliminary View 5 of the 2008 Consultation Paper, in which all UK stakeholders expressed reservations about the widening of scope, CIPFA welcomes the explanation of the way in which the Board approach the evolution of wider scope reporting, and in particular we welcome the acknowledgement that IPSASB may address wider reporting needs through non-authoritative guidance.</p>
2. Objectives of financial reporting by public sector entities and the primary users of GPFs of public sector entities and their information needs;
<p>In line with the comments on Preliminary View 4 of the 2008 Consultation Paper, CIPFA agrees with the objectives as set out in the Exposure Draft.</p>

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;

In line with the comments on Preliminary View 7 of the 2008 Consultation Paper, CIPFA agrees with the proposed qualitative characteristics and constraints on financial reporting.

We therefore support the use of 'faithful representation': in this case we agree that the advantages of alignment are greater than the improvements that would be secured by IPSASB using "reliability". We note that the Exposure Draft does not include the distinction between 'fundamental' and 'enhancing' characteristics which is made in the IASB Conceptual Framework. We suggest that this issue is revisited in the light of the development of other areas of the Conceptual Framework such as Presentation.

In the response to IPSASB's 2008 Consultation Paper, we also supported the classification of materiality as a constraint while asking for additional discussion of context. Additional discussion of the contextual aspects of materiality is provided in the ED and this is very helpful.

The articulation of materiality as a constraint is in line with the similar proposal in the IASB/FASB joint Exposure Draft issued in 2008, which echoed the then current FASB Concepts Statement. As noted at Appendix 3A of IPSASB CF ED 1, the IASB in September 2010 published a revised chapter on Qualitative Characteristics which articulated materiality as an entity specific component of Relevance, and moved this material from the 'constraints' discussion to the section on fundamental qualitative characteristics. FASB made similar changes in their Concepts Statement No. 8.

We would agree with the suggestion that materiality is an entity specific component of relevance, but we would note that perhaps a key aspect of how it is applied to standard setting is when considering constraints on financial reporting, particularly the cost-benefit constraint.

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 Exposure Draft has restructured the material in the Consultation Paper, taking the view that certain matters should be dealt with at standards level. Comment on entity definition was provided in respect of Preliminary View 8, and particularly in Preliminary View 9 of the 2008 Consultation Paper where UK stakeholders including CIPFA were concerned that additional flexibility would be needed. We are content with the proposals in the Exposure Draft.