

Submission: Conceptual Framework Consultation Paper No.1

27 March 2009

Ms Stephenie Fox
Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
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Toronto Ontario Canada M5V 3H2

Dear Ms Fox

Conceptual Framework Consultation Paper No.1

1 Thank you for the opportunity to comment on *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: The Objectives of Financial Reporting, The Scope of Financial Reporting, The Qualitative Characteristics of Information Included in General Purpose Financial Reports, The Reporting Entity* (Consultation Paper No.1).

United Nations System Task Force on Accounting Standards

2 These comments represent the views of Members of the Task Force on Accounting Standards (the Task Force). The Task Force is an inter-agency group consisting of directors of accounting, chief accountants and chief financial officers from United Nations System organizations. The individual organizations that provided comment on this submission and concurred with its submission to the International Public Sector Accounting Standards Board (IPSASB) are listed in Appendix 1. Where an individual organization disagreed with a particular recommendation, but agreed to the recommendation going forward to the IPSASB, this has been noted against the individual recommendation.

Importance of the Framework and this Consultation Paper

3 The development of the IPSASB's Conceptual Framework is an important IPSASB initiative, which the Task Force supports as having the potential to generate significant benefits in terms of the IPSASB's effectiveness and credibility. A conceptual framework that provides clear parameters and clear conceptual drivers for IPSAS developments will also benefit IPSASB stakeholders, including United Nations System organizations, as they move to report according to IPSAS. This is because development of a conceptual framework should result in improvements in the quality of the resulting standards and improve the predictability of changes to standards over time, thereby

reducing compliance costs. Within this project, Consultation Paper No.1 is a major achievement addressing, as it does, a set of fundamental concepts.

Overview of Comments

4 Generally, the Task Force agrees with the preliminary views expressed, although clarifications and amendments are proposed on several issues. In one case, Preliminary View 9, the Task Force considers that the View expressed is insufficiently clear and therefore disagrees with that View. For Preliminary View 5, organizations disagree with the wider scope proposed in the Framework.

‘International governmental organizations’ are public sector entities

5 One issue of particular importance to United Nations System organizations is whether the Framework takes the position that international governmental organizations, such as those making up the United Nations system, are ‘public sector entities.’ This issue arises in paragraph 1.8 of Consultation Paper No.1, where the implicit view is that international governmental organizations are *not* public sector entities. The Task Force’s view is that international governmental organizations are public sector entities and the Framework should make this clear.

Comments on Preliminary Views

6 Our detailed comments on this issue and the proposed Preliminary Views are attached as Appendix 2.

7 Should you have any queries on this submission, please contact Ms Gwenda Jensen, Accounting Standards Specialist at jensen4@un.org.

Yours Sincerely

Mr Jayantilal Karia

Director, Accounts Division of the United Nations

Chairman, Task Force on Accounting Standards

APPENDIX 1: UNITED NATIONS SYSTEM TASK FORCE ON ACCOUNTING STANDARDS

Task Force Members from the following organizations reviewed this submission and concurred with its contents:

Organization	Agree (Disagree)¹
FAO	Agree
IAEA	Agree
ICAO	Agree (Except for PV 8 & 9)
ILO	Agree
IMO	Agree
ITC	Agree
ITU	Agree
PAHO	Agree
UN	Agree
UNDP	Agree
UNESCO	Agree
UNFPA	Agree
UNHCR	Agree (Except for PV 8 & 9)
UNICEF	Agree
UNIDO	Agree
UNOPS	Agree
UNRWA	Agree
WFP	Agree
WHO	Agree
WIPO	Agree
WMO	Agree
WTO (Tourism)	Agree

¹ This table will be completed when Task Force comments on the draft Submission have been received.

APPENDIX 2: CONCEPTUAL FRAMEWORK CONSULTATION PAPER NO.1 PRELIMINARY VIEWS

International Governmental Organizations as Public Sector Entities

1.1 Paragraphs 1.8 to 1.9 provide a discussion of the applicability of the Framework. Paragraph 1.8 states that:

The IPSASB Framework is being developed for general purpose financial reporting by public sector entities other than Government Business Enterprises (GBEs). Therefore, it applies to GPFRs of national, state/provincial, and local governments, and to a wide range of other public sector entities. These include government ministries, departments, programs, boards, commissions, agencies, public sector social security funds, trusts, and statutory authorities. The IPSASB Framework also applies to other entities, including international governmental organizations, that prepare GPFRs in accordance with IPSASs. [Paragraph 1.8, emphasis added.]

1.2 In this paragraph international governmental organizations are *not* ‘public sector entities’, but ‘other entities.’ According to paragraph 1.8 the Framework applies to international governmental organizations because they prepare GPFRs in accordance with IPSASs rather than because they are public sector entities. The Task Force’s view is that international governmental organizations are public sector entities and the Framework should make this clear.

1.3 Although international governmental organizations are not part of a particular national public sector, they are public sector in nature. The services they provide are for the public good. International governmental organizations are created by governments, funded by governments, and accountable to governments. The majority of the funds they receive are public funds. Generally international governmental organizations are audited by government auditors – Supreme Audit Institutions (SAIs). On the basis that international governmental organizations rely on public funds, the International Organization of Supreme Audit Institutions (INTOSAI) has a firm policy that all international governmental organizations should be audited by SAIs.

1.4 The Task Force’s view is that international governmental organizations are public sector entities and the Framework should make this clear.

Preliminary View 1 - The Authority of the IPSASB Framework (following paragraph 1.7) The IPSASB Framework will not establish new authoritative requirements for financial reporting by public sector entities that adopt IPSASs, nor will it override the requirements of existing IPSASs.

In selecting accounting policies to deal with circumstances not dealt with in IPSASs or other guidance issued by the IPSASB, public sector entities will refer to, and consider the applicability of, the definitions, recognition criteria, measurement principles, and other concepts identified in the IPSASB Framework.

Agree

1.5 *Further comment:* The Task Force agrees with this view. The authority described is consistent with that of conceptual frameworks developed by national standard setters and the authority proposed by the International Accounting Standards Board (IASB) and Financial Accounting Standards Board (FASB) in their joint conceptual framework

project. We support the view that public sector entities should refer to the Framework when selecting accounting policies to address circumstances not dealt with in IPSASs or other guidance issued by the IPSASB. If this is approved as part of the final version of the Framework, we note that an amendment to paragraph 14 of *IPSAS 3 Accounting Policies, Changes in Accounting Estimates and Errors* will be required in order to include the Framework in the set of documents that should be referred to when developing accounting policies for issues not addressed by Standards.

Preliminary View 2 - General Purpose Financial Reports (GPFRs) (paragraph 1.15)

GPFRs are financial reports intended to meet the common information needs of a potentially wide range of users who are unable to demand the preparation of financial reports tailored to meet their specific information needs.

Agree

Preliminary View 3 - The Users of GPFRs (following paragraph 2.7)

As a mechanism for focusing on their common information needs, the potential users of GPFRs of public sector entities are identified as:

- recipients of services or their representatives;
- providers of resources or their representatives; and
- other parties, including special interest groups and their representatives.

The legislature is a major user of GPFRs. It acts in the interest of members of the community, whether as recipients of services, providers of resources, or citizens with an interest in, or need for, particular services or activities.

Agree

3.1 *Further comment:* The Task Force agrees with identification of a wider group of users than that identified by the IASB for standards that apply to private sector for-profit reporting entities. An important aspect of United Nations System organizations' accountability reporting is reporting to Member States on compliance with approved budgets and on the use of donated funds. The Framework should make clear that resource providers include the wide group of resource providers listed in paragraph 2.6, bullet point (2), which covers *inter alia* donors, lenders and tax payers.

Preliminary View 4- The Objectives of Financial Reporting (following paragraph 2.22)

The objectives of financial reporting by public sector entities are to provide information about the reporting entity useful to users of GPFRs for:

- accountability purposes; and
- making resource allocation, political and social decisions.

Agree

Preliminary View 5 - The Scope of Financial Reporting (following paragraph 3.18)

The scope of financial reporting encompasses the provision of financial and non-financial information about:

- economic resources of the reporting entity at the reporting date and claims to those resources;

- the effect of transactions, other events, and activities that change the economic resources of the reporting entity and claims to those resources during the reporting period, including cash inflows and outflows and financial performance;
- the reporting entity's compliance with relevant legislation or regulation and legally adopted or approved budgets used to justify the raising of monies from taxpayers and ratepayers;
- the reporting entity's achievement of its service delivery objectives; and
- prospective financial and other information about the reporting entity's future service delivery activities and objectives, and the resources necessary to support those activities.

It also encompasses explanatory material about: (a) the major factors underlying the financial performance of the entity, the achievement of its service delivery and other objectives and the factors which are likely to influence its performance in the future; and (b) the assumptions underlying and major uncertainties affecting the information included in GPFRs.

Disagree

5.1 *Further comment:* We disagree with the Framework allowing the IPSASB to consider a wider set of reporting than just the primary financial statements. IPSAS and the Board should focus on requirements with respect to the financial statements and financial activities. The Board should not set standards for non-financial information such as reporting on services or 'results' and programme delivery. Governing Bodies are best placed to identify non-financial reporting requirements.

Preliminary View 6 - Evolution of the Scope of Financial Reporting (paragraph 3.22)

The scope of financial reporting should evolve in response to users' information needs, consistent with the objectives of financial reporting.

Agree

Preliminary View 7 - The Qualitative Characteristics of Information Included in GPFRs (following paragraph 4.40)

The qualitative characteristics of information included in GPFRs of public sector entities are:

- relevance, which encompasses confirmatory value, predictive value, or both;
- faithful representation, which is attained when depiction of economic or other phenomena is complete, neutral, and free from material error;
- understandability;
- timeliness;
- comparability; and
- verifiability (including supportability).

Constraints on financial reporting are materiality, cost, and achieving an appropriate balance between the qualitative characteristics.

Agree

7.1 *Further comment:* The IPSASB Framework should include some guidance on the relative importance of the qualitative characteristics.

Preliminary View 8 - Characteristics of a Reporting Entity (following paragraph 5.10)

The key characteristic of a reporting entity is the existence of users who are dependant on GPFs of the entity for information for accountability purposes, and for making resource allocation, political, and social decisions.

A public sector reporting entity may be an entity with a separate legal identity or other organisational structure or arrangement.

Agree

Preliminary View 9 – The Composition of a Group Reporting Entity (following paragraph 5.35)

A group reporting entity will comprise the government (or other public sector entity) and other entities when the government (or other public sector entity):

- has the power to govern the strategic financing and operating policies of the other entities (a “power criterion”); and
- can benefit from the activities of the other entities, or is exposed to a financial burden that can arise as a result of the operations or actions of those entities; and can use its power to increase, maintain, or protect the amount of those benefits, or maintain, reduce, or otherwise influence the financial burden that may arise as a result of the operations or actions of those entities (a “benefit or financial burden/loss” criterion).

Disagree

9.1 We do not consider that this preliminary view provides a clear enough description of the concepts that the IPSASB will apply when considering the composition of a group reporting entity. The language used is unclear and overly focused on ‘governments’ rather than public sector entities. We encourage the Board to consider ways to make the concepts that the Board will apply when developing standards in this important area clearer.

9.2 Two specific issues in terms of the wording used in the consultation paper and Preliminary View 9 are:

- The term ‘reporting entity’ should be used rather than ‘government (or other public sector entity)’, because this makes more sense logically and avoids the implications that this issue is mainly one that affects governments and/or that government public sector entities have some higher importance for this discussion than other non-government public sector entities. The issue of determining what entities fall within a reporting entity’s boundaries is relevant to all public sector entities. Even those reporting entities restricted by legislation or regulation from creating relationships involving subsidiaries should be apply the relevant standards in order to ensure that their relationships with other entities do not require consolidation.
- The word ‘strategic’ has different meanings for native English speakers coming from different backgrounds. Strategy is sometimes used to mean the big picture overall plan and at other times a specific goal or specific tactic to use to reach a goal. One option to consider is to avoid its use within this context, given the variation in accepted meanings. Alternatively, we recommend that ‘strategic’ (and strategy) be clearly defined in terms of the meaning in this context.