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Re : Comments on IPSAS Conceptual Framework

Reference

BZ/2009/ 274 M

Dear Ms Fox,

Thank you for giving us the opportunity to send comments on the proposal Consultation Paper 'Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities'. We give our comment on behalf of the Ministry of Finance of The Netherlands. Our comments are both from the perspective of financial reporting of the central government as from the perspective of financial reporting of other entities in Public Sector fully or partly financed by the government.

To start with we appreciate the effort of the IPSAS Board very much to improve accounting standards for the public sector. Till this moment the IPSASB has worked only on individual standards. The concept Conceptual Framework gives us a fundamental view of the IPSAS Board on accounting.

Preliminary View 2 – General Purpose Financial Reports

The IPSAS Board stated that GPFR's 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. Unfortunately, we can not agree with this view. The most important purposes of financial reports in public sector in our opinion is to provide politicians (i.e. House of Representatives, Council of Ministers) with relevant information in order to make (allocation) decisions and the accountability to parliament. This democratic process is the basic principle in all public sector regulation. The democratic legitimation of this usergroup makes them the first user

of Financial Statements of the Government and quango's. Therefore our conclusion is that financial reports of governments and government agencies and quango's should have a specific focus on this democratic process and thus politicians as primary usergroup. Based on the democratic character of this process this must be transparent for all citizens of a country. Therefore special purpose accounting standards are not sufficient and so this must be a point in general purpose accounting standards.

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In respect to our point of decision-making and accountability there is in the public sector a close relationship between the budget and the annual report. In the preliminary views of the Conceptual Framework this relation has not been made. Appropriation of the expenditures by parliament takes place based on the budget. This power of the purse is essential. At the end of the budget process parliament need information about the realization of the budget. There is also a lack of accounting guidance which is also useful for the budget. This relationship is not related to the use of accrual or cash-commitment accounting.

Accounting Standards for government entities which are made only for the annual report are in our view less useful than standards which can be used both to prepare the budget and the annual report. The reason for this is that users need the comparison between the forecasts of the expenditures in budget and the accounts on the same basis. The lack of the legislative position of the budget in the public sector in the IPSAS conceptual framework makes annual reports based on such accounting standards less useful, understandable and comparable with the budget.

Preliminary View 3: The Users

As stated before we see the discussion of the primary users as very essential. The Consultation Paper identifies a wide range of users who are of an equal level. In our opinion the politicians are the primary user group and not only 'a major user'. However, in the view of the consultation document Parliament is acting in roles as representatives of recipients of services or of providers or resources etc. This undervalues the role and position of democratic chosen politicians which have strong legislative and supervisory competences. They are not acting in the interests of specific groups but have to act in the interest of the community as a whole.

We appreciate if the IPSAS Board has a broad discussion on this fundamental question. This will have also consequences for other preliminary views.

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Preliminary view 4: The Objectives of Financial Reporting

Allocation decisions in public sector are primary made by the democratic authorities as the national parliament and local councils. This decision process takes place based on the budget and should not be realized by the annual report. Allocation of resources and other political decisions should be the primary objective of public sector accounting standards for government and government financed and/or owned entities. This point of view is essential. The lack of this point in the IPSAS framework therefore conspicuous.

As a result of the statement above and our view on Preliminary views 2 and 3 the objectives should be classified. Decision-making by the politicians and accountability by the acting Ministers to the parliament are in our opinion the primary objectives. Other objectives which can also be achieved together should be classified as secondary.

Preliminary view 5: The Scope of Financial Reporting

In preliminary view the IPSAS Board stated that the scope of financial reporting should also encompass prospective financial and other information about the reporting entity's future service delivery activities and objectives, and the resources necessary to support those activities. From our view this is a businesslike accounting rule. Prospective information in public sector is primary included into the budget and not in the annual report.

Regularity is an essential value in public sector. A statement of the board about the regularity of expenditures and receipts should be included in public sector entities annual report. We suggest adding this type of information to the scope of financial reporting.

Preliminary view 7: The Qualitative Characteristics of Information Included in GPFRs

As stated on our comment at Preliminary view 5, regularity is a basic characteristic in the public sector. Politicians and other users need information and assurance about regularity. Ministers should be accountable for the regularity of their expenditures and receipts.

Preliminary view 8: Characteristics of a Reporting Entity

As stated above the budget process in public sector is in our view the starting point for the discussion. Government and those who are fully or partly financed by the government should have this point as primary objective of their accounting and reporting standards. Therefore key characteristic of the entity must focus on relation between the budget process of the parliament or other democratic institutions and this entity. Moreover the users who are dependent on general purpose financial reports are in our view secondary.

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Preliminary View 9: Composition of a Group Reporting Entity

In preliminary view 9 the IPSAS Board stated that a group reporting entity consists of the government and other entities when specified conditions are met. We do not agree with those criteria. The specific conditions of the IPSAS Board to consolidate are, in our opinion, businesslike conditions. Privatization and creation of autonomous-administrative-authorities (quango's) has specific purposes. One of them is the existence of a several chosen level of independence or autonomy to the government itself. This institutional organization of the public sector is possible in respect with the legislation. Consolidation of the accounts of such organizations to one whole of government financial statement does not correspond with this legislation. Furthermore all annual reports of public sector entities are public or should be public. So that's not an argument to consolidate to the government statement of accounts. A third argument for not consolidating is the complexity and understandability of consolidated accounts. Consolidation creates an aggregated type of information which is difficult to understand. Comparability is also not an argument for consolidation of accounts. In the European Union the ESA 95 accounting rules are sufficient to compare government accounts. In this accounting rules consolidation of different type of companies is for that reason forbidden (e.g. banking companies). Furthermore the organization of the public sector (institutions) in different countries makes it impossible to compare government accounts without specified context.

We suggest to set up accounting standards with respect to government specific character in stead of translating the business accounting (e.g. IFRS) to the public sector. For example ESR 95 gives sufficient and clear guidance for consolidation in public sector.

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Closing reflections

A more fundamental consideration in respect to the IPSAS Framework and IPSAS Standards is that of legitimacy. In our view the parliament is responsible for making and authorizing accounting standards. In the IPSAS Board constitution the absence of authorized government officials is in our opinion a fundamental gap in the standard setting process. Strategic and political considerations as set above are not taken in account when only accounting specialists are making the accounting standards.

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We hope that our comments are useful and we are willing to answer further questions and we look forward to a discussion,

Yours Sincerely,

A handwritten signature in blue ink that reads "Helmer Vossers". The signature is written in a cursive style with a horizontal line underlining the name.

Mr. W.J. Vossers
Director Budget Affairs