

Dear Sir,

**IPSASB Consultation Paper on
Conceptual Framework for General Purpose Financial Reporting by Public Sector
Entities**

In response to the above Consultation Paper issued in September 2008, the Treasury of the Hong Kong Special Administrative Region (HKSAR) Government would like to provide comments in the file attached.

Yours faithfully,

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Chief Treasury Accountant
for Director of Accounting Services

**Consultation Paper 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 GPF
The Reporting Entity

IPSASB Preliminary View 1 - The Authority of the IPSASB Framework

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.

We share in general with the principle and approach set out in Preliminary View 1. We would however like to add that the development of the IPSASB Framework should take into account the unique characteristics of public sector financial reporting vis-à-vis those of the private sector, such as the non-profit/social policy objectives of governments, relevance and significance of the matching concept between revenue and costs, recognition and measurement of community assets (e.g. heritage assets and natural resources) unique to the public sector, and the different institutional and check and balance arrangements for delivering public services.

IPSASB Preliminary View 2 - General Purpose Financial Reports (GPFs)

GPFs 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.

We share that GPFs should be intended to meet the common information needs of users.

As set out in paragraph 1.13 of the Consultation Paper, GPFs may comprise – (a) general purpose financial statements that present financial information about past transactions and other events; (b) prospective financial and other information; and (c) non-financial

information about the achievement of the entity's service delivery objectives. While item (a) is about the reporting of historical financial information, item (b) is more of a forecast as it can encompass "anticipated future financial consequences of past transactions and other events, including consequences that are not reflected in the financial statements. It can also encompass information about transactions and other events and activities that have not yet occurred, but may, or are anticipated to, occur in the future consistent with existing government programs, policies, and initiatives." We believe that the reporting of prospective financial information and non-financial information about the achievement of the entity's service delivery objectives needs to be considered in pragmatic light in terms of the usefulness and significance of the information, and understandability by users of the information as well as consistency with private sector entities in the meaning of the term financial reporting.

On paragraph 1.17 of the Consultation Paper, we support that differential reporting requirements should be developed and customised for application by different public sector entities.

IPSASB Preliminary View 3 - The Users of GPFs

As a mechanism for focusing on their common information needs, the potential users of GPFs 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 GPFs. 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.

We reckon that the legislature should be the major user of GPFs and suggest that regulators should also be included as one of the interested parties. To formulate a framework serving all of the users of GPFs, we consider it necessary to identify common interests of various user groups with specific information needs.

IPSASB Preliminary View 4 - The Objectives of Financial Reporting

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

IPSASB Preliminary View 5 - The Scope of Financial Reporting

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.

Please see our response to Preliminary View 2 above regarding the scope of information to be reported in GPFRs. We consider that the GPFRs should be developed on an incremental and progressive basis and should be kept as simple and easy to understand by general users of the financial statements as a beginning.

IPSASB Preliminary View 6 - Evolution of the Scope of Financial Reporting

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

We agree that the scope of financial reporting should be kept under regular review.

IPSASB Preliminary View 7 - The Qualitative Characteristics of Information Included in GPFs

The qualitative characteristics of information included in GPFs 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.

We agree in general with the list of qualitative characteristics set out in Preliminary View 7, but consider that the traditional prudence concept should be revisited as an essential component of faithful representation in view of the fiduciary and stewardship duties of governments. Under the prudence concept, anticipated revenues and profits are not recognised until they have been realised in the form of cash or other assets for which the ultimate cash value can be assessed with reasonable certainty. However, provision should be made for all known expenses and losses whether the amount of these is known with certainty or is a best estimate based the information available.

IPSASB Preliminary View 8 - Characteristics of a Reporting Entity

The key characteristic of a reporting entity is the existence of users who are dependant on GPFRs 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.

IPSASB Preliminary View 9 - The Composition of a Group Reporting Entity

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).

We share the view in paragraph 5.35 of the Consultation Paper that IPSASs will need to respond to operational and implementation issues that may arise in applying IPSASs in different jurisdictions. We consider that flexibilities should be built in to cater for application across jurisdictions that adopt different forms of government and different institutional and check and balance arrangements for delivering public services. The qualitative characteristics of relevance and understandability as well as the constraints should be taken into account in establishing the composition of a group reporting entity.

For instance, the Government of the Hong Kong Special Administrative Region provides funding to voluntary organisations, which also rely on other sources of income (e.g. donations), to provide services to the public. In such cases, the Government’s involvement is just the purchaser of services. Those voluntary organizations are thus not part of the consolidation in Government’s accounts, and the funding provided is accounted for by way of the government grants/subventions given.