



31 March 2009

Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street West
Toronto, Ontario M5V 3H2

Dear Sir or Madam:

Thank you for the opportunity to comment on the International Public Sector Accounting Standards Board (IPSASB) Consultation paper - Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities. I am responding on behalf of the Office of the Auditor General of Canada.

The consultation paper presents several preliminary views establishing the concepts that are to be applied in developing IPSASs and other documents that provide guidance on information included in general purpose financial reports (GPFRs). We have reviewed the consultation paper and we offer the following for your consideration.

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.

We agree with this view. This is similar to current Canadian public sector standards framework.

Preliminary View 2 - General Purpose Financial Reports (GPFRs) (following 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.

We agree with this view and congratulate the Board on developing a framework that will apply to both financial as well as non-financial performance information. Given however, that the scope of GPFRs goes well beyond “financial” reports, we encourage the Board to consider a name that better reflects this scope. For example, the term might more appropriately be “General Purpose Performance Reports”. Related consequential changes would also be necessary throughout the consultation paper..

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.

We agree with this view.

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.

We agree with this view.

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.

We agree with this view, with one suggested addition. The fourth bullet above refers to the "entity's achievement of its service delivery objectives". Governments and government organizations often have objectives that extend well beyond narrow "service delivering objectives". In our view, this preliminary view should be expanded to also require reporting about these broader public policy objectives.

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

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

We agree with this view and would offer the following comments for your consideration.

Paragraph 3.21 of the Consultation paper makes the following statement: "IPSASB's Preliminary View 5 reflects a potentially broad scope for financial reporting – a scope that allows financial reporting to evolve in response to users' information needs. However, acknowledging that reporting financial and non-financial information about the past, present, or future may be within the scope of financial reporting does not mean that it is inevitable that an IPSAS will be developed to direct reporting on the matter".

We hold the view that this latter statement undermines the influence IPSASB could exercise in the future and would not recommend it be noted in future documents; our preference is for IPSASB to remove this comment from the discussion.

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.

We are in agreement with this view.

The consultation paper outlines that the IPSASB characteristics differ from those of the IASB framework. The difference comes from the introduction by the IASB of categories of characteristics.

- Fundamental: relevance and faithful representation
- Enhancing: comparability, verifiability, timeliness, and understandability
- Pervasive constraints: materiality and cost

We don't think it is useful for IPSASB to segregate the characteristics the same way the IASB did. The important point is in our view to agree on what the characteristics are.

We also agree with the definition of faithful representation.

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 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 organizational structure or arrangement.

While we agree with the concepts in this preliminary view, we suggest the order should be reversed. And while we agree that this preliminary view should refer to users who are dependant on the information, we suggest that “the existence of users” not be described as a “key characteristic” of a reporting entity”.

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).

We agree with this view.

I hope these comments are of assistance to you as you complete this project. If you should have any questions relating to this response, please contact me at (613) 995-3708.

Yours sincerely,

John Wiersema, FCA
Deputy Auditor General