

20 June 2011

Ms Stephenie Fox
The Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street West
Toronto
Ontario M5V 3H2
CANADA

Submitted to: www.ifac.org

Dear Stephenie

Conceptual Framework Exposure Draft 1: Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities:

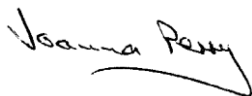
- **Role, Authority and Scope;**
- **Objectives and Users;**
- **Qualitative Characteristics; and**
- **Reporting Entity.**

The Financial Reporting Standards Board (FRSB) of the New Zealand Institute of Chartered Accountants is pleased to submit its comments on the IPSASB's Exposure Draft.

These comments are set out in an Appendix to this letter.

If you have any queries or require clarification of any matters in this submission, please contact Joanne Scott (joanne.scott@nzica.com) in the first instance, or me.

Yours sincerely



Joanna Perry
Chairman – Financial Reporting Standards Board

E: joannaperry@xtra.co.nz
Tower Building
50 Customhouse Quay
PO Box 11342
Wellington 6142
New Zealand

Appendix – FRSB comments on the Exposure Draft Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities:

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

Specific Matter for Comment 1

Role, authority and scope of the Conceptual Framework

Paragraph 1.5 of the ED states that “The scope of financial reporting will evolve in response to users’ information needs, consistent with the objectives of financial reporting.” We accept that there will continue to be developments in financial reporting and acknowledge that this statement is a pragmatic approach to the issue. However, we think it is critical that Phase 1 of the Conceptual Framework project look more closely at the boundaries of financial reporting and specify a starting point.

In our comment letter on the IPSASB's Consultation Paper *Reporting on the Long-Term Sustainability of Public Finances* (LTFS) we stated that we do not feel that there is currently general agreement amongst financial reporting standards setters and users about the respective boundaries of general purpose financial reporting and reporting on LTFS. We have reservations about whether all of the information presently included in current (and possibly future) LTFS reporting falls within the scope of general purpose financial reporting.

Paragraph 2.19 of the ED states “Information that assists users in assessing the entity’s compliance with legally adopted or approved budgets, and its adherence to relevant legislation or other authority governing the raising and use of public monies, is included in GPFRs.” Although we agree that budget to actual comparisons provide useful information within the context of historical financial statements, we think it would be helpful if the IPSASB considered the broader issue of whether budget reports fall within the definition of a general purpose financial report.

We therefore recommend that the scope be more specified than in the current ED to assist users in differentiating between general purpose financial reports, and other financial and non-financial reports. The FRSB considers that clarifying the scope is a fundamental feature of the Conceptual Framework.

Specific Matter for Comment 2

Objectives of financial reporting by public sector entities and the primary users of GPFRs of public sector entities and their information needs.

In our submission on the Consultation Paper that preceded this ED we expressed the view that information provided for accountability purposes is a component of decision-useful information. We remain of that view. The overarching objective of financial reporting should be to provide the primary users of financial reports with decision-useful information comprising both:

- (a) information regarding the stewardship of an entity’s management to hold management accountable; and
- (b) information for making resource allocation decisions.

We agree that information for accountability purposes is an important component of the information that should be provided in financial reports. However, we consider that there is no point in reporting information to discharge accountability if that information is not also decision-useful.

We are concerned that having accountability as a separate objective could inadvertently broaden the boundaries of financial reporting. There are many forms of reporting in which entities demonstrate their accountability for the use or preservation of resources. The question

that the Framework needs to address is what types of accountability information have a legitimate place in general purpose financial reports.

Specific Matter for Comment 3

Qualitative characteristics of, and constraints on, information included in GPFRs 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 GPFRs or as an entity-specific component of relevance.

In respect of (a) we support the use of faithful representation as a qualitative characteristic. We support the use of this term in the IASB Framework, the use of consistent terminology in the IPSASB’s Framework and note the IPSASB’s consideration of the matters outlined in the Basis for Conclusions (paragraphs 3.10 to 3.13).

In respect of (b) we consider that the IPSASB Framework should treat materiality as an entity-specific aspect of relevance, rather than as a constraint on reporting useful information. We are not clear as to how the concept of materiality as a constraint will be operationalised (i) in the standard setting process and (ii) in conjunction with the concepts of relevance, faithful representation and understandability.

Paragraph 3.1 of the ED states “GPFRs present financial and non-financial information about economic or other phenomena.” If the reference to “other phenomena” is retained, we consider that the Framework should explain what is meant by that term as the purpose of this phrase is not clear to us.

Specific Matter for Comment 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.

When we commented on the Consultation paper that preceded this Exposure Draft we recommended that application of the “power” and “benefit or financial burden/loss” criteria be dealt with at a standards level. We remain of this view and encourage the IPSASB to keep the Framework discussion of such criteria at a broad level.

Paragraph BC4.10 of the Exposure Draft states that “the IPSASB determined that the Conceptual Framework should identify the circumstances that justify inclusion of an entity or activity within a public sector group reporting entity, without designating those circumstances as reflecting a “control,” “accountability,” “oversight,” or some other basis.” Given the proposed criteria for determining a group reporting entity (being the authority and capacity to direct the activities of one or more entities so as to benefit from the activities of those entities and exposure to a financial burden or loss) we consider that the IPSASB Framework should acknowledge that these criteria are consistent with the notion of control used in many jurisdictions.