

June 7, 2011

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

**Re: PSAB Staff Comments on Exposure Draft (CF-ED1)
“Conceptual Framework for General Purpose Financial Reporting by
Public Sector Entities:**

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

Thank you for the opportunity to provide input on the proposals in this Exposure Draft (CF-ED1). We would like to express our support for the concepts set out in CF-ED1, although we do raise some issues for the consideration of the IPSASB below.

Responses to the Specific Matters for Comment in CF-ED1 are set out in Appendix A to this letter. Additional comments about CF-ED1 by paragraph are provided in Appendix B. As well, we wish to draw the attention of the IPSASB to the following issues:

- (i) Implications of Accountability as an Objective of Public Sector Financial Reporting

The case for accountability as an overriding objective for public sector financial reporting must be made and it must be made strongly. Accountability must be described, its importance explained and supported and its implications for public sector financial reporting set out for scrutiny. The text of CF-ED1 does not do this now. Yet the inclusion of compelling text on accountability is fundamental to crafting a conceptual framework that is tailored to the needs of the users of public sector financial reports. A similar weakness downplays accountability in the current Canadian framework and it will be addressed in PSAB’s current project, *Concepts Underlying Financial Performance*.

Accountability is greater than stewardship. Accountability is the obligation of a public sector entity to account for its activities, accept responsibility for them, and to disclose the results in a transparent manner. It also includes the responsibility for and stewardship of, public money and other entrusted public resources.

The nature of accountability as a financial reporting objective in the public sector and its implications for financial reporting needed to be explored in more detail and given a higher profile in the IPSASB conceptual framework.

(ii) Integration of Key Characteristics of the Public Sector

The key characteristics of the public sector are the primary reason that the IPSASB chose to do its own conceptual framework project rather than leveraging and converging with the evolving IASB-FASB private sector conceptual framework. Unique aspects of the public sector are mentioned in the Phase 1 ED but their implications are not simply and fully set out. The “Key Characteristics of the Public Sector” Exposure Draft approved by the IPSASB at its March 2011 meeting is a critical, overarching umbrella document that needs to be explicitly linked to all phases of the framework. It is important that Phase 1 content not be finalized until such cross-references are incorporated. The key characteristics document should be the touchstone document in the CIA¹ parts of the IPSASB’s timetable for the conceptual framework.

(iii) Appendices to each section

The Introduction to the framework indicates that this is not a convergence project but does not explain why references to the IASB framework and statistical bases are included in the appendices. The appendices may give the wrong impression about the influence they may have in the development of the IPSASB framework.

In lieu of the appendices, to properly reflect the relationship between the IPSASB framework and the IASB-FASB framework and the statistical bases, we recommend that links to the relevant documents (without IPSASB summarization) be provided in the “Project Development” section of the Introduction to the framework where the IASB framework and statistical bases of financial reporting are referred to.

(iv) Relevance should include “accountability value”

In the Canadian Public Sector Accounting (PSA) Handbook, we define information to be relevant if it has predictive, feedback (i.e., confirmatory) and accountability value. Even though the IPSASB ED states that the objectives of financial reporting are to provide information useful for accountability and decision-making purposes, we still believe that accountability value must also be separately articulated in the description of “relevance” in the

¹ As defined in the IPSASB Conceptual Framework Timetable, CIA means: “consider issues arising from other phases of the project”. It is scheduled to occur in June 2012 (Phase 1) and Dec 2012 (Phases 2-4).

qualitative characteristics. The PSA Handbook describes accountability value as follows:

Accountability value

Information that helps users assess a government's stewardship of the resources entrusted to it, including how resources have been applied and consumed in providing services, has accountability value. Information in government financial statements must be presented in a manner that assists in discharging this accountability. To provide accountability value, financial statements should reflect the nature and dimensions of financial position and performance that are characteristic of and appropriate to the unique nature of government. Accountability value is enhanced when financial statements identify the financial objectives and targets normally established by formal process and measure actual achievements against those financial objectives and targets. The accountability value of the information in the financial statements is also enhanced when the financial and non-financial performance information disclosed elsewhere in the Public Accounts, annual report or other report of the government can be related to the information in financial statements.

We ask that the IPSASB give consideration to the inclusion of "accountability value" in the more detailed description of relevance that includes the elaborations on predictive and confirmatory value. We believe accountability value needs to be a specifically articulated check on whether information considered for inclusion in GPFs and GPFRs should be included in the report. One of the key uses of information in the public sector is for demonstrating accountability. The idea of accountability value currently seems to be subsumed under confirmatory value in paragraph 3.7 and we do not believe that this is appropriate.

(v) **Cost-benefit assessment to be made by the IPSASB**

Paragraphs 3.39 and BC 3.1 (as well as other paragraphs) indicate that the IPSASB will consider the cost-benefit of standards as they are developed and only include those for which compliance will not cost more than expected benefits realized. We are concerned with the implication that this constraint will only be tested up front in finalizing a standard. The PSA Handbook considers this constraint to apply for standard setters in developing standards and for preparers in considering disclosures beyond that required by GAAP. The relevant paragraph is as follows:

.22 The benefits expected to arise from providing information in financial statements should exceed the cost of doing so. This constraint also applies to the development of accounting standards by the Board. It is also a consideration when preparing financial statements in accordance with those standards (for example, in considering disclosure of information beyond that required by the standards). The Board recognizes that the benefits and costs may accrue to different parties and that the evaluation of the nature and amount of benefits and costs is substantially a judgmental process.

We would ask that the IPSASB explicitly consider broadening the application of the cost-benefit constraint as described above.

We appreciate the opportunity to comment on this Exposure Draft. It is the critical first piece of an international public sector conceptual framework. We are very supportive of your conceptual framework initiative and wish you success in integrating this piece of the framework with the other phases and the key characteristics document.

Please note that these comments are the views of PSAB staff and not those of the Public Sector Accounting Board (PSAB). In addition, the comments made in this response are generally consistent with the existing conceptual framework in the Public Sector Accounting (PSA) Handbook. PSAB has initiated a project to review the concepts underlying financial performance in that framework and may be in a position to share developments in that project with the IPSASB in the future.

Sincerely,



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Principal
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Appendix A
Responses to Specific Matters for Comment

1. Do you agree with the role, authority and scope of the Conceptual Framework?

Yes - with two provisos.

- (i) Paragraph 1.2, last sentence: This sentence states, *“In some cases, an IPSAS may identify circumstances in which the definitions and other concepts in this Conceptual Framework have authoritative status.”* We do not feel that this statement is accurate.

The IPSASs have authoritative status. They will be developed within the boundaries of the new conceptual framework. Thus, except as may be indicated in an individual IPSAS, all IPSASs issued will be consistent with the conceptual framework. Individual IPSASs cannot grant authoritative status to concepts (while other IPSASs may not grant such status?). Rather, the authoritative (standards level) IPSASs will bring to life the concepts and indicate how they apply to particular financial statement items. It would be the IPSASB’s prerogative to make an exception at the standards level that conflicts with the conceptual framework.

The IPSASs are GAAP. The concepts in the framework should likely not be part of GAAP but should be used as the basis for developing conceptually sound, theoretically consistent GAAP.

- (ii) Paragraphs 1.5 and BC 1.6: What are “operating characteristics of public sector entities”? Are these the same as key characteristics set out in the new ED, *Key Characteristics of the Public Sector*? If they are not, then this phrase needs to be defined as these “operating” characteristics would seem to have a significant impact on the scope of financial reporting. Operating characteristics generally exclude financing characteristics, such as the fact there is no “owner” for many public sector entities in the same sense that there would be for a private sector corporation. So should financing characteristics also be mentioned? If “operating characteristics” are the same as the key characteristics, then these two paragraphs are examples of places where links to this umbrella document might be made. Either clarity or consistency in terminology is required.

2. Do you agree with the objectives of financial reporting by public sector entities and the primary users of GPFs of public sector entities and their information needs?

Yes - with two provisos.

- (i) See Issue (i) on page 1 of this response. The nature of accountability as a financial reporting objective in the public sector and its implications for financial reporting needed to be explored in more detail and given a higher profile in the IPSASB conceptual framework.
- (ii) A matrix linking the users' needs set out in paragraphs 2.7-2.13 to how/where they would be met in/by GPFs would be useful once all of the pieces of the framework are put together.

3. Do you agree with the qualitative characteristics of, and constraints on, information included in GPFs of public sector entities? In particular, do you agree that:

- (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?

Yes - we agree.

- (b) materiality should be classified as a constraint on information that is included in GPFs or as an entity-specific component of relevance?

Yes - we agree.

4. Do you agree with 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?

We agree with the basis on which a public sector reporting entity and a public sector group reporting entity are identified - i.e., a key characteristic of a reporting entity is the existence of service recipients and resource providers who are dependent on GPFs prepared in respect of the entity for the information they need for accountability and decision-making purposes. We like the explicit link to accountability and decision-making purposes in paragraphs 4.2 and 4.3.

We agree with the high level basis upon which an entity should be included in a group reporting entity - i.e., when a public sector entity A has the authority and capacity to direct the activities of

another entity B so as to benefit from the activities of entity B or so as to be exposed to a financial burden or loss as a result of the activities of entity B, then entity B would form part of the group reporting entity of public sector entity A.

However, we do believe that the two principles of directing the activities and benefiting from activities/being exposed to loss from activities of another entity should be articulated as more of a principle in paragraph 4.7. It is only the further articulation of these principles in the basis for conclusions part of the document that makes the intent of the IPSASB clear.

We also agree that specific application of these principles should be done at the standards level.

Appendix B

Detailed PSAB Staff Comments on the Exposure Draft

Paragraph BC 1.1, 2nd sentence

Has a decision been reached that the IPSASB will issue “standards” (IPSASs) for reporting beyond the financial statements? Or will some other form of authoritative pronouncement be issued (e.g., “Recommended Practice Guidelines”)? This sentence may have to be updated.

Paragraph BC 1.3, 1st sentence

This paragraph (and paragraph BC 3.2) has implications for the IPSASB GAAP hierarchy, yet it is in a Basis for Conclusions document. The current hierarchy is in IPSAS 3. We suggest that a revised hierarchy that references the new conceptual framework be a separate but companion document to the framework when it is issued by the IPSASB.

Paragraph BC 1.3, 2nd sentence

See Specific Matter for Comment #1 (i) above. Also, since the framework will replace the Roadmap in being the reference for standard setting, then the wording should likely be changed from “may also” to “will also” or “are likely to”.

Paragraph BC 1.4

The framework is focused on GPFs so reference to special purpose financial reports in the framework may be confusing. We suggest that this paragraph be removed. However, if it is retained, a new last sentence should be added to put this paragraph in context as follows:

However, neither the concepts set out in this Conceptual Framework nor the IPSASs are developed specifically for application to special purpose financial reports.

Paragraph BC 1.7, last sentence under bullets

Consider changing to: “... of the IPSASB will continue to focus primarily on responding ~~respond~~ to users’”

Paragraph BC 1.9, 2nd sentence

The meaning of this sentence is not clear.

Appendices 1A and 1B

We are not sure what these two appendices really add. They are factual but require the reader to draw inferences about differences at a high level, with little knowledge. We recommend their deletion even if the other appendices in the document are retained as these two in particular do not seem helpful. To be helpful, they would need to be more comprehensive and as the IPSASB conceptual framework project is not an IFRS convergence project, additional detail is unlikely to be appropriate. It is possible to draw some high level conclusions as to differences between the proposals and the IASB/statistical bases from the appendices to the other sections of the ED so it may make sense to retain the other appendices. However, please see the concern raised in issue (iii) in the covering letter.

Paragraphs 2.13 and 2.16, costs and cost recovery

Cost and cost recovery information can only be provided in GPFs (and likely also GPFRs) at a summary level. Thus the accountability and decision-making value of such information is not as high as when that information is provided and evaluated at a program level. However, the inclusion of high level cost and cost recovery information in GPFs (and GPFRs) will in most cases mean that the high level information will be audited. The provision of assurance on the information provided in GPFs (and GPFRs) adds to its credibility and plays a role in ensuring that the more detailed information included in an entity's accounting system is more accurate and credible too.

There are a few places in the ED, including paragraphs 2.13 and 2.16 where we think the accountability and decision-making value of having high level cost and cost recovery information in GPFs and GPFRs may be overstated.

Paragraph 3.24, 3rd bullet

Add at the end “for the same reporting period”

Paragraph BC 3.24, last sentence

This seems like a policy statement for the development of standards. Is this stated elsewhere for the ongoing consideration of the IPSASB in setting standards or just in this basis for conclusions part of the ED?

Paragraph BC 3.29

The first bullet point and the first half of the second bullet point are reasons that support why the qualitative characteristics should not be distinguished between “fundamental” and “enhancing”. The second half of the second bullet point and the third bullet point are examples of either

the second reason or perhaps a third reason - that qualitative characteristics are interrelated or interdependent.

Based on the above observation, we recommend removing “,for example” at the end of the first paragraph. As the second half of the second bullet point and the third bullet point are examples, they should be clearly identified as such under the related reasons 2 or 3 (if added). It should read:

In developing the qualitative characteristics the IPSASB considered whether some characteristics should be identified as fundamental and others identified as enhancing. The IPSASB also considered whether the order of application of the characteristics should be identified and/or explained. The IPSASB is of the view that such an approach should not be adopted because, ~~for example:~~

- Matters identified as “fundamental” may be perceived to be more important than those identified as “enhancing”, even if this distinction is not intended in the case of the qualitative characteristics. As a result, there may be unintended consequences of identifying some qualitative characteristics as fundamental and others as enhancing;
- All the qualitative characteristics are important. The relative importance of a particular qualitative characteristic in different circumstances is a matter of professional judgment. As such, it is not appropriate to identify certain qualitative characteristics as always being fundamental and others as having only an enhancing or supporting role, or to specify the sequence of their application, no matter what information is being considered for inclusion in GPFs, and irrespective of the circumstances of the entity and its environment.
- Qualitative characteristics are interrelated or interdependent. For example: ~~in addition,~~
 - ~~It~~ is questionable whether information that is not understandable or is provided so long after the event as not to be useful to users for accountability and decision making purposes could be considered as relevant information - therefore, these characteristics are themselves fundamental to the achievement of the objectives of financial reporting; ~~and,~~
 - GPFs of public sector entities may encompass historic and prospective information about financial performance and the achievement of service delivery objectives over a number of reporting periods. This provides necessary input to assessments of trends in service delivery activities and resources committed thereto - for such trend data, reporting on a consistent basis may be as important as, and cannot be separated from, faithful representation of the information.

Paragraph BC 3.33, 2nd sentence

What financial reporting requirements would be imposed by “the operation of this Conceptual Framework”? What does “the operation of this Conceptual Framework” mean?