



Accounting Standards Board

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The Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
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Dear Stephenie,

COMMENTS ON PHASE I, II AND III OF THE IPSASB'S CONCEPTUAL FRAMEWORK PROJECT

We welcome the opportunity to provide comments on Phases I, II and III of the IPSASB's conceptual framework project. Overall, we are supportive of the project as we believe it makes significant strides in strengthening transparency and accountability in public sector financial reporting.

Enclosed are our comments on:

- The Exposure Draft on Phase I – *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Role, Authority, and Scope; Objectives and Users; Qualitative Characteristics; and Reporting Entity.*
- The Consultation Paper on Phase II – *Elements and Recognition.*
- The Consultation Paper on Phase III - *Measurement of Assets and Liabilities.*

This comment letter has been prepared by the Secretariat and does not necessarily reflect the views of the ASB Board. In formulating the comments outlined in this letter, the Secretariat has consulted a variety of stakeholders in the South African public sector, including auditors, preparers, professional bodies and academia.

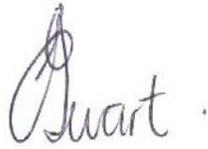
As acknowledged in the various documents issued for comment, it may be necessary for the IPSASB to issue a complete Framework for comment once the various phases are complete. Based on the final outcome of the Framework, the views expressed in this letter may be subject to change.

Just as financial statements on their own may not provide sufficient information for accountability and decision-making under the accrual basis of accounting, the statement of receipts and revenues along with disclosures may not provide sufficient information under the cash basis of accounting. We therefore recommend that the IPSASB consider developing a separate Framework for the cash basis of accounting as this would be useful to supplement existing information either required or disclosed under the Cash Basis IPSAS.

Board Members: Ms K Bromfield, Mr R Cottrell (Chairperson), Mr V Jack, Ms CJ Kujenga, Mr K Kumar,
Mr T Makwetu, Mr F Nomvalo, Mr G Paul, Mr I Sehoole, Mr V Smith
Chief Executive Officer: Ms E Swart

Please feel free to contact me should you require clarification on any of our comments.

Yours sincerely

A handwritten signature in black ink, appearing to read "Erna Swart". The signature is written in a cursive style with a large, stylized initial "E".

Erna Swart

Chief Executive Officer

Phase I – Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Role, Authority, and Scope; Objectives and Users; Qualitative Characteristics; and Reporting Entity

A	Responses to specific matters for comment	
	<p>The IPSASB would particularly value comments on whether you agree with the:</p> <ol style="list-style-type: none"> 1. Role, authority and scope of the Conceptual Framework; 2. Objectives of financial reporting by public sector entities and the primary users of GPFs of public sector entities and their information needs; 3. Qualitative characteristics of, and constraints on, information included in GPFs of public sector entities. In particular, whether: <ol style="list-style-type: none"> (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 GPFs or as an entity-specific component of relevance; and 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. 	
	Question 1	Role, authority and scope of the Conceptual Framework
		We agree with the role and authority of the Conceptual Framework.
		<i>Scope</i>
		<p>While we agree that the scope of the Framework should be “general purpose financial reports” rather than just “general purpose financial statements”, we question what is meant by “general purpose financial reports”. In this context, we question how:</p> <ul style="list-style-type: none"> • GPFs will be identified from the variety of information produced by governments and public sector entities, i.e. what is the delineation between “general purpose financial reports” and other general purpose reports that may be prepared for similar users. • Use of the term “financial” reports reconciles with, for example, the provision of non-financial information such as reports on performance measures. <p>We suggest that, in order to clarify the scope, as well as what is meant by “financial”, “general purpose financial reports” should be limited to information that enhances, complements or supplements the financial statements. This could be explained by elaborating on the purpose of some of the financial reports already identified in the proposed Framework, for example:</p> <ul style="list-style-type: none"> • Reporting on the long term sustainability of public finances provides information about assets and liabilities that may not fully meet the recognition criteria for inclusion in the statement of financial position. • Reporting on performance measures (including reporting on inputs, outputs and outcomes) provides information about the how resources were expended during the year.

		<p>While it could be argued that other information, inter alia, reporting on environmental sustainability, human resources and governance is important for accountability and decision-making, it extends beyond the scope and mandate of an accounting standard-setter. However, just because these aspects may be outside the scope of the IPSASB's mandate, does not mean that these aspects should not form part of "government reports" broadly. To this end, it may be useful for the IPSASB to liaise or collaborate with other bodies to develop reporting requirements for these areas. It would therefore be useful for the conceptual framework to note that:</p> <ul style="list-style-type: none"> • A variety of information may be necessary to meet users' needs regarding accountability and decision-making. These can broadly be referred to as "government reports". • The IPSASB's mandate is to provide information that enhances, complements or supplements the financial statements. This information is provided in a "general purpose financial report". • Other international or local bodies may provide guidance on the reporting of other information that forms part of "government reports". (Also see comments on "interaction with other reporting initiatives") <p>A proposed diagram outlining the boundaries between the various reports is included at Annexure A.</p>
		<p><i>Application of the Framework to reports other than GPFRs</i></p>
		<p>Although the Framework only applies to GPFRs, it may be useful to acknowledge in the Framework that, while it has been developed with specific users and objectives in mind, it may be suitable for the preparation of other reports.</p>
		<p><i>Status of IPSASs prescribing requirements for "general purpose financial reports"</i></p>
		<p>The Framework does not deal with how the form and content of general purpose financial reports will be prescribed, nor does it deal with whether the preparation of general purpose financial reports will be mandatory or not.</p> <p>While we accept that this is not an issue that should be addressed in the Framework, we note that it would be preferable if the preparation of these general purpose financial reports is encouraged rather than required. If the preparation of these reports is mandatory, it may make the compliance with IPSASs onerous. This may also hinder the adoption of IPSASs in countries, particularly where financial reporting is not well developed. It is preferable if decisions about whether a particular GPFR is mandatory be left to individual jurisdictions.</p>
		<p><i>Interaction with other reporting initiatives</i></p>
		<p>It is unclear from the Framework, as currently drafted, whether there is an overlap in scope with integrated reporting. If "general purpose financial reports" include reporting on, for example, human resources, governance and environmental sustainability, there may well be a overlap and possible duplication of reporting initiatives.</p> <p>As integrated reporting is gaining momentum worldwide, it may be useful to clarify how the Framework (in particular GPFRs) and integrated reporting interact.</p>

	Question 2	Objectives of financial reporting by public sector entities and the primary users of GPFRs of public sector entities and their information needs
		<p>We agree with the objectives of financial reporting as being the reporting of information that is useful for accountability and decision-making.</p> <p>We also agree with the users of general purpose financial reports as being service providers, service recipients and their representatives.</p> <p>Paragraphs 2.14 to 2.26 outline the information provided by general purpose financial reports. In reading the Phase II Consultation Paper, it is noted that “inter-generational equity” may be a key factor in considering an entity’s performance. As the concept of current taxpayers paying for the current services received is an important consideration in the public sector, we believe that a discussion should be included in this section. The discussion should explain that inter-generational accounting can be as simple as analysing whether current taxpayers paid for the services they received in that period, or at a more complex level, calculating whether the benefit to be received by future generations is or is not equivalent to the benefit received by current taxpayers.</p> <p>In addition to the concept of inter-generational equity, we are of the view that the following aspects could be strengthened or emphasised in the discussions in 2.14 to 2.26 could include the following aspects:</p> <ul style="list-style-type: none"> • GPFRs can or should provide information about a variety of time horizons, i.e. short, medium and long term. The provision of information about the different time horizons means that the information can be used to assess a number of issues, e.g. liquidity (short term), decisions about policies and future performance (medium term) and sustainability (long-term). • GPFRs should provide information about an entity’s compliance with laws and regulations.
	Question 3	<p>Qualitative characteristics of, and constraints on, information included in GPFRs of public sector entities. In particular, whether:</p> <p>(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</p> <p>(b) Materiality should be classified as a constraint on information that is included in GPFRs or as an entity-specific component of relevance.</p>
		<p>In response to:</p> <ul style="list-style-type: none"> • Part (a), we agree that “faithful representation” is more appropriate than “reliability” as “reliability” may imply a specific threshold for when information is reliable or not. “Faithful representation” is a better indication of the judgement that should be applied in preparing and presenting information. We consider that if an item is faithfully represented in the GPFRs, it should also be reliable. The Framework as currently drafted refers to “free from material error”. It is unclear whether “reliability” is implicit in “free from material error”. If yes, it might be useful to note this in the Framework. It should also be noted that “reliability” is an audit assertion in the International

		<p>Standards on Auditing, and it may therefore be necessary to acknowledge how reliability from an audit perspective relates to “faithful representation” in the Framework.</p> <ul style="list-style-type: none"> Part (b) we are of the view that all three constraints, cost-benefit, materiality and trade-offs between the QCs should be considered by the IPSASB in developing requirements for GPFSs and GPFRs, but should also be considered by preparers in applying the requirements at a standards-level. We are of the view that consideration of the constraints at a standard-setting level would result in only relevant information being provided for accountability and decision-making. We are of the view that because there are strong inter-relationships between the constraints, all three should be considered at both a standard-setting and application level. It is however critical that, in applying the constraints, sufficient consideration is given to all the qualitative characteristics.
		<p>Apart from the responses to (a) and (b) above, we agree with the qualitative characteristics and constraints on information. We do however note the following:</p>
		<p><i>Understandability</i></p>
		<p>While the same information may be relevant to a wide group of users, the volume, detail and complexity of the information may need to be tailored to make information understandable to certain user groups. For example, it may be appropriate to produce concise, simple information to ensure that citizens are able to understand information included in the GPFRs (e.g. the preparation of a citizens’ guide to the financial results). It may therefore be important to acknowledge that while a certain level of user is assumed in formulating requirements for GPFRs and GPFSs, it may be necessary to present information in different ways to ensure that the information is understandable to specific user groups. This acknowledgment may be included in the section or phase of the Framework dealing with “presentation”.</p>
		<p><i>Cost-benefit</i></p>
		<p>The Consultation Paper notes the following:</p> <ul style="list-style-type: none"> “Assessing whether the benefits of providing information justify the related costs is often a matter of judgement, because it is often not possible to identify and/or quantify all the costs or benefits of information included in GPFRSs”. [Paragraph 3.34] “The application of cost-benefit constraint involves assessing whether the benefits of reporting information are likely to justify the costs incurred to provide and use the information”. [Paragraph 3.38] <p>As governments and public sector entities act in the public interest, the measurement of “benefit” may be theoretical and subjective. Where the IPSASB believes that it should require certain GPFRSs (or individual requirements within GPFRSs) because it is in the public interest and contributes to the objectives of financial reporting, it may be necessary to forego a cost-benefit analysis.</p> <p>To ensure that the pronouncements issued by the IPSASB (and requirements in individual</p>

		pronouncements) are not constantly questioned on the basis of empirical evidence regarding costs and benefits, it may be important to acknowledge that certain decisions may be made because they are in the public interest and further the objectives of financial reporting.
		<i>Distinction between qualitative characteristics and constraints</i>
		It would be useful to include a discussion on the interaction between the qualitative characteristics and constraints, including why such a distinction is necessary.
	Question 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
		<i>Identifying a reporting entity</i>
		<p>While we agree with the discussion and need for a principle on the identification of a reporting entity, we are however concerned that the current drafting may result in onerous reporting requirements if GPFRs can be prepared for an organization, program, or identifiable activity. We therefore suggest that this section should emphasise that:</p> <ul style="list-style-type: none"> • Where legislation requires an entity to prepare GPFRs, that entity is regarded as a reporting entity. • Where legislation does not specify whether GPFRs should be prepared for such an organization, program, or identifiable activity; or such an organization, program or identifiable activity is not included within the GPFRs of another reporting entity, then an entity applies the principle in section 4, i.e. it assesses whether users exist for such information, including whether any of the factors in paragraph 4.4. indicate that users are likely to exist. <p>We question whether the preparation of GPFRs in the absence of a legal requirement is done on a voluntary basis. If it is not voluntary, would this imply non-compliance with IPSASs? How would this be enforced?</p>
		<i>Identifying a group reporting entity</i>
		We are of the view that the identification of a group reporting entity is a standards-level rather than a conceptual framework issue.
B. Other matters		
		<i>Application of conceptual framework and IPSASs to Government Business Enterprises</i>
		<p>In the context of the scope of the conceptual framework being expanded to general purpose financial reporting, we question whether some of this information may be useful in exercising accountability and decision-making in Government Business Enterprises. For example presenting performance information and information on long term fiscal sustainability may be useful in assessing the performance and viability of GBEs.</p> <p>While we note that the application of IPSASs or IFRSs by GBEs may be jurisdictional, we would suggest that the IPSASB consider the application of the Framework generally to GBEs.</p>

In our discussions, we also questioned whether GBEs should be applying IFRSs or IPSASs. Currently, GBEs do not apply IPSASs because they are deemed to operate to generate a profit. We contend that because GBEs potentially have the same users as other public sector entities, and prepare financial reports to meet the same objectives, a case could be made for them to apply IPSASs rather than IFRSs.

Annexure A

