

Finance

Comptroller's Division

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Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street West, 6th Floor
Toronto, Ontario
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Dear Sir/Madam:

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

Thank you for the opportunity to comment on Exposure Draft 1 - Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities.

The Manitoba Government supports your initiative to develop a conceptual framework which can be applied in developing future International Public Sector Accounting Standards (IPSAS) for General Purpose Financial Statements (GPFS). We are also pleased to see many of the key areas you are proposing are consistent with the conceptual framework of the Public Sector Accounting Board (PSAB) of Canada.

Role and Authority of the Conceptual Framework

We agree with IPSASB's view that the Conceptual Framework should be used as guidance in dealing with financial reporting issues not specifically dealt with in IPSASs. We recommend that in the event there is no standard, that an entity should adopt standards that are consistent with this conceptual framework.

After the Conceptual Framework is issued IPSASB should review any circumstances where an apparent conflict exists between an IPSAS and the Conceptual Framework. When necessary the existing IPSAS should be amended through IPSASB's due process.

Scope of Conceptual Framework

General Purpose Financial Reports (GPFR) of public sector entities include, but are more comprehensive than, financial statements including their notes. They can report information about the past, present, and the future that is useful to users, including financial and non-financial quantitative and qualitative information about the achievement of financial and service delivery objectives in the current reporting period, and anticipated future service delivery activities and resource needs.

We strongly disagree with IPSASB's inclusion of GPFR within the scope of the Conceptual Framework. This would allow IPSASB to develop IPSAS for the presentation of non-financial information. The additional information that a jurisdiction wishes to provide to its users will vary significantly between jurisdictions. We feel strongly that the choice of non-financial information to present should be left to the discretion of each reporting jurisdiction. Only general purpose financial statements (GPFS) should be included within the scope of the Conceptual Framework.

The remainder of the exposure draft makes reference to GPFR. Any further comments we have on the exposure draft assumes that the scope of the conceptual framework only extends to GPFS.

The Users of GPFS

We agree with you that the Conceptual Framework must focus on the common information needs of users. We agree with IPSASB that users come from various perspectives. IPSASB has identified some of the users as:

- Recipient of services or their representatives;
- Providers of resources or their representatives; and
- Lenders, creditors and donors.

However we feel that your view does not clearly identify the public as the major user of GPFS. The primary users should be identified as the general public and their representatives. Secondary users can be identified but they should not drive the objectives of GPFS.

Objectives of Financial Reporting

We agree with your view that the objective of GPFS is to provide information to the users. The primary purpose of the information is to:

1. Evaluate the government's management of its financial resources in the accounting period; and
2. Assess whether the resources were managed within the legislated limits.

To some extent the information from GPFR can be useful for making decisions about the effectiveness and efficiency of service delivery and future resource allocations. However this should not be included as an objective of GPFS. The overriding objective objectives of GPFS should be grounded in providing information to users on the accountability of the government.

The Qualitative Characteristics of Information Included in GPFRs

We agree with IPSASB's views on the qualitative characteristics of financial information:

- Relevance
- Faithful representation
- Understandability
- Timeliness
- Comparability
- Verifiability

The qualitative characteristics above are consistent with PSAB. We are not concerned that reliability has been left out. The characteristics of faithful representation and verifiability, combined together, provide users with reliable financial information.

We agree with IPSASB's that materiality and cost-benefit are both constraints on information included in GPFS. We also agree that there needs to be a proper balance between characteristics when preparing GPFS. Typical qualitative characteristic trade-offs would include relevance and faithful representation, or timeliness and verifiability.

We agree that the quality of non-financial information would improve if the qualitative characteristics were applied to GPFR. However governments should decide on how they want to present information on service delivery achievements. The relevance and timeliness of this information is paramount and usually maximized at the expense of verifiability. The lack of verifiability makes it impossible to audit the information in GPFR.

The Reporting Entity and Group Reporting Entity

We agree with IPSASB's view that it is not the function of the Conceptual Framework to identify which public sector entities, programs or activities should be identified as a reporting entity. Public sector entities or activities that are to prepare GPFS will be specified in legislation, regulation or authoritative bodies with knowledge of the characteristics of public sector entities in their jurisdiction, and the likely information needs of users. Some public sector entities may also voluntarily elect to prepare GPFS.

IPSASB's views on the group reporting entity are largely consistent with the standards of PSAB. The government reporting group should include the entities the government has the authority and capacity to direct its activities for the benefit of the government. The government may also be exposed to a financial burden from the activities of the entity it has the authority and capacity to direct.

What is missing from IPSASB's conceptual framework is the differentiation the authority and capacity to direct the activities of an entity and regulatory authority. This distinction is especially significant to federations like Canada where the responsibilities of the two levels of government are constitutionally assigned.

The Federal Government often provides conditional funding and sets national standards for services which are Provincial responsibilities under the constitution. Health care would be an example. The Federal Government can establish the regulatory framework under which the Provincial health care programs operate. Under IPSASB it could be argued that the Federal Government should consolidate the health services of the Provinces. In fact the Federal Government does not have the authority and capacity to direct the health services of the Provinces. The Provinces still make their own decisions on health care but within the Federal Government's regulatory framework.

Other Comments

We would again like to express our concerns regarding the proposed scope of this document. We like to emphasize that the type and extent of information on service delivery performance should be at the government's discretion. This type of information is highly subjective and is based on assumptions and estimates. Including this information within the scope of the conceptual framework will expose the information to the same level of assurance as a GPFS. This will create significant issues for governments as well as the audit community.

We would like to again thank you for the opportunity to comment on this issue.

Yours truly,

Betty-Anne Pratt, CA
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Province of Manitoba