

Memo

30. august 2011
ØKO/str

Comments to the Exposure Draft: “Key Characteristics of the Public Sector with Potential Implications for Financial Reporting”

Below, the comments from the Danish Agency for governmental management are divided into a general comments and a some specific comments regarding the conceptual framework exposure draft.

I. General comments

The Danish Government Accounts Council agrees that the document – in general - provides basic background information to the key characteristics of the public sector and is a useful tool in the overall setup of the accounting standard of the public sector.

Ad. ”Specific Matter for Comment 1”

As mentioned above we generally agree to the statement - that the document provides useful background information on the key characteristics of the public sector and secondly that it identifies some potential implications of those key characteristics for financial reporting!

Ad. ”Specific Matter for Comment 2”

It is our opinion that this document should be included as part of the IPSASB’s literature and that it preferable should be located as a part of the Conceptual Framework (a).

We consider that the paper identifies, and provides a general overview of, some of the main characteristics of the public sector that distinguish it from the private sector and therefore have potential implications on the development of a conceptual framework that reflects public sector circumstances, and accounting standard setting for the public sector. Further more we agree with the view, that the paper not is intended to provide an exhaustive listing of all the areas concerning the basic characteristics of the public sector.

II. Specific comments

Ad. 1.3 - concerning the general definition of the “The public sector”.

In the Danish system the ”Government Business Enterprises (GBEs)” - known as public corporations - are considering to be basically operating on market conditions and are as a consequence not covered by the state regulatory framework but follow the private sector accounting rules.

The public sector should not include the private not-for-profit sector, even though this sector - as mentioned - does share many of the same characteristics of the public sector. However not for profit entities, which operate under government license, are primarily financed by government and can not be sold according to the law - in Denmark covered by the state regulatory framework.

Ad. 1.5 - concerning the fact that there is numerous of areas where the transactions, events and other economic phenomena that occur in the public sector are the same as those in the private sector.

In such cases the concepts that should be applied to determine appropriate financial reporting will probably resemble those in the private sector. On the other hand, this does not preclude conceptual perspectives that differ from those in the private sector and in some cases significantly.

Ad. 2.3 - concerning the broader information needs for users of financial reports of public sector entities than users of financial reports of private sector entities

In general the users of financial reports of public sector entities have a broader information needs than users of financial reports of private sector entities, where key issues are the return to investors and the ability to meet obligations to creditors. For the public sector the principles first and foremost should serve to assess the resource and target fulfilment.

Ad. 2.5 – 2.6 - concerning tax raising powers.

In this connection we find cause to note, that we in “the Danish system” do not include public sector rights as those associated with the power to pay tax in our financial statements. In the same way we do not include public sector entity obligations such as those associated with its duties and responsibilities as a government.

Ad. 3.1 – concerning the Importance of the Budget

In Denmark the licensing system and the connected budget is the central tool to the economic management of public sector entities - and the reporting of the financial results will relate to the original budget.

Ad. 3.1 – continued – a proposed addition to the text – see below

“Most governments and other public sector entities prepare annual financial budgets covering areas such as revenue and capital spending. Entities may also develop budgets covering longer time scales and possibly also shorter time periods (eg quarterly budgets etc. used for monitoring and internal control)”. This has special relevance to situations, where the respective entities have an ongoing focus on internal budgetary control in a context with financial management.

Ad. 5.2 - concerning whether items considered to be of a national and local heritage meet the definition of an asset and the recognition criteria for assets

In this context we consider it important to note, that the main aim not should be to calculate what the state or respective entity is worth. The balance should not necessarily include a valuation of all national property, the national heritage assets such as castles, historical buildings, monuments and works of art. It is important that the assets are recognized in order to be able to define and measure the cost of preserving, monitoring and providing public access, but the economic value does not present any meaningful information. Only assets that contribute to the entities output – should in principles contribute to the state of balance.