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Ontario

August 31, 2011

Ms. Stephanie Fox
Technical Director
International Public Accounting Standards Board
International Federation of Accountants
277 Wellington Street West
Toronto ON M5V 3H2

Dear Ms. Fox:

Thank you for the opportunity to comment on the International Public Sector Accounting Board's Exposure Draft "Key Characteristics of the Public Sector with Potential Implications for Financial Reporting".

In June 2011, we provided our responses to other related documents integral to the development of the IPSASB's conceptual framework. Key issues raised in those responses highlight and reinforce the concerns we have identified in this response. The scope of the conceptual framework should be limited to general purpose financial statements (GPFS) and should reflect the nature of the public sector, ensuring that the needs of primary users are met. In this regard, Ontario does not support a sector neutral approach to developing accounting standards (i.e. based on private sector standards) for the public sector.

As stated in our previous responses to IPSASB's various conceptual framework documents, it is important that the conceptual framework and accounting standards for the public sector acknowledge and reflect the public's expectations for transparency and accountability reporting by the government. This is fundamentally different from what a shareholder or a lender would expect of a commercial enterprise and is why a sector neutral approach is not appropriate in the context of establishing public sector accounting standards.

...2

Public sector general purpose financial statements are viewed by the public as a key element of the accountability reporting cycle. The importance of the Budget as described in section 3 of the Exposure Draft is critical, yet appears to be virtually ignored in section 2.3 of the Exposure Draft which describes matters of interest to users of public sector financial reports. This critical point needs to be further assessed and addressed within the conceptual framework.

This Exposure Draft provides useful identification and background on key characteristics of the public sector and identifies some potential implications of those key characteristics for general purpose financial reporting. However, the fundamental objectives of public sector accountability reporting should be based on the key characteristics of the public sector which is not adequately reflected in the IPSASB's related conceptual framework documents exposed in December 2010. It is recommended that IPSASB re-expose phase 1 of the conceptual framework document to fully incorporate the impact of key characteristics of the public sector, and incorporate these additional considerations in the development of Exposure Drafts for phase 2 and 3 of the framework.

In addition, IPSASB's suggestion that public sector financial reports might provide users with information to assess value for money (per section 2.3) may create an expectation gap. Specifically, the Exposure Draft suggests that users may be relying upon financial statements to assess whether the entity has provided its services in an efficient and effective manner. However, the nature and extent of performance related information on efficiency and effectiveness of government services is not a consideration that is typically associated with government financial statement reporting. The information contained in historical financial statements is not generally considered the appropriate tool for users to assess efficiency and effectiveness of policy decisions. While some jurisdictions may provide performance related information in their annual reports, such information is not standardized and/or more likely to be provided to the public through different means.

The Province of Ontario believes that the scope for accounting standards should be focused only on supporting general purpose financial statements that meet the informational needs of the public for historical financial information. In Canada, general purpose financial statements are a cornerstone in achieving effective accountability reporting to the public on the use of taxpayer money. A single conceptual framework would not be able to effectively support all the varying objectives of general purpose financial reporting as currently suggested by the IPSASB conceptual framework documents, without compromising on the guidance for high quality general purpose financial statements.

While user needs of government financial reports may go beyond the GPFS and include non-financial and prospective information, the over-riding purpose served by the GPFS in the public sector is to allow the public (and the legislature acting on their behalf) to gauge performance against the Budget. In Ontario, future-oriented financial information is provided through the government's Budget document which is generally prepared on the same basis as the government's historical financial statements to enhance transparency and accountability of reporting. However, this is not necessarily the situation in all jurisdictions. As governments are sovereign, the Exposure Draft should note that governments retain their sovereign right and decision-making authority on the budgeting and/or financial reporting basis that best meet the public's need for information. This would support broader acceptance of IPSASB by governments.

Ontario's responses on the specific matters for comment requested in the Exposure Draft are attached.

Thank you for the opportunity to comment on the Exposure Draft and we look forward to updates on IPSASB's continuing conceptual framework development efforts.

Yours sincerely,

Murray Lindo
ADM and Provincial Controller (Acting)
Office of the Provincial Controller Division

Attachment

c. Peter Wallace, Deputy Minister of Finance
Greg Orencsak, Associate Deputy Minister

APPENDIX

Comments from Ontario on Exposure Draft: Key Characteristics of the Public Sector with Potential Implications for Financial Reporting

Specific Matters for Comment

1. **Do you agree that this document provides useful background information on the key characteristics of the public sector and identifies some potential implications of those key characteristics for financial reporting? If not, please indicate how you would modify the document.**

   This document provides useful background information on the key characteristics of the public sector and identifies some potential implications of those key characteristics for financial reporting. However, there is a need to emphasize the over-riding key role that general purpose financial statements play in the accountability reporting cycle in the public sector. In addition, Ontario has significant concerns relating to the proposed expansion of the scope of accounting standards beyond standards for general purpose financial statements (historical-cost based financial statements). The broad scope as suggested by the Exposure Draft would dilute the value of the conceptual framework and relevance of public sector financial reports in meeting user needs.

   Ontario acknowledges that users of public sector financial reports may benefit from information beyond the historical cost based financial statements; however, given the diverse delivery of services, most users look for information from other sources than the GPFS on specific government activities such as program reporting. GPFS prepared based on standards set by authoritative accounting standard setting authorities should not be expected to meet this subgroup of users' needs.

   To the extent that information on particular activities or transactions needs to be provided on an alternate basis of measurement to meet users' performance or service related information needs, such information would not typically be provided through general purpose financial statements. For example, historical cost is appropriate in GPFS as it supports the accountability measurement for use of funds in the cash flow statement and depreciation based on historical costs to allocate the consumption of the asset investment for delivery of services. However, asset management reporting may need information on replacement cost or some other basis that would not be appropriate in the audited financial statements. User needs, as it relates to program reporting, can be very specific to a jurisdiction or type of program. IPSASB should allow each jurisdiction to determine specific user needs and produce relevant non-financial, performance and forward-looking reporting in accordance with government's own accountability framework. Being sovereign, all governments would reserve the right on when and how to provide public reporting on programs that best meets public accountability reporting objectives. For example, in addition to summary financial statements, Ontario issues other key fiscal documents

including the budget, mid-year economic statement, and detailed schedule of payments to provide to the public and other users with information on government activities. Governments must weigh the cost of producing public reports with the number of users looking for particular information. This is something that can change over time and in nature based on evolving needs or specific events.

With regards to the key characteristics that may have implications to the definitions and measurement of assets, it is Ontario's view that the measurement basis should be considered together with the recognition criteria to determine whether certain unique power or right of government meets the definition of an asset, thus being included in the government financial statements. Also, the measurement basis should reflect the nature of the public sector assets. Ontario agrees that the primary reason for holding tangible capital assets is to deliver services to the public rather than to generate positive cash flow. Most assets have limited market value due to their specialized nature but are essential to government operations and the value provided to the public. Therefore, market valuation would not be appropriate measurement basis. We agree that a measurement basis other than the market value best supports transparency and accountability reporting of the public sector. Specifically, a single measurement basis of historical cost with limited application of another basis should be adopted by the IPSASB.

2. **Do you agree that this document should be included as part of the IPSASB's literature? If you agree, where do you think the material in this document should be located:**
   (a) As part of the Conceptual Framework;
   (b) As a separate section of the *Handbook of International Public Sector Accounting Pronouncements*; or
   (c) Elsewhere with some other status – please specify?

Ontario agrees that the concepts of this document should be included in the IPSASB's literature, and in particular, as part of the conceptual framework.

The material in this document is an important basis to develop and interpret the conceptual framework and therefore would be best integrated into the specific conceptual framework documents and the supporting Basis of Conclusion documents.