



Government of Newfoundland and Labrador  
Department of Finance  
Office of the Comptroller General

June 15, 2011

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

Dear Ms. Fox:

**Re: IPSASB CF-ED1-Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities (Phase I)**

I offer the following comments to IPSASB on the Conceptual Framework Exposure Draft CF-ED1-*Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* on behalf of the Provincial Government of Newfoundland and Labrador.

**General Comments**

While it is recognized that significant differences that exist across countries and jurisdictions create challenges in developing an international conceptual framework, it is none the less that the foundational concepts and principles of such a framework must allow a government to provide financial reporting that reflects jurisdictional attributes and constitutional structures. In this respect, if a conceptual framework develops principles that do not appreciate unique characteristics or legislative structures across governments and its government organizations, it will not provide financial information that is useful and informative for the primary user.

In relation to CF-ED1, we have concerns with the extension of the scope to areas beyond the financial statements and the proposal relating to the basis in which a public sector reporting entity is identified and the circumstances in which an entity should be included in a group reporting entity. We previously provided these concerns to IPSASB (April 14, 2009) in comment to the consultation paper during that phase of the project. These particular proposals are not supported as they do not appear to respect the unique constitutional framework here in Canada and intends to provide guidance in reporting areas that should remain within the authority of individual jurisdictions. These concerns are detailed below in relation to specific matters for comment. Further, it is to be noted that our concerns are to be reiterated in relation to continuing reference within the consultation papers of Phase II and III of the Conceptual Framework project.

## **Role, Authority and Scope**

While it is agreed that the scope of the framework should be determined by the information needs of the primary user and the objectives of financial reporting, IPSASB's proposal to extend the scope beyond the financial statements, to report on information that includes non-financial information is not supported. Extending the scope is beyond the "Terms of Reference" of the IPSASB (authority to issue standards to be applied by members of the profession in the preparation of general purpose financial statements of public sector entities). Further, such an extension to the scope extends guidance in areas that are outside the profession's expertise in certain circumstances (non-financial performance and service delivery outcomes). It is our position that guidance in such areas should be left at the discretion of the individual reporting jurisdictions which may have their own legislative and/or regulatory reporting requirements on matters such as non-financial performance.

## **Objectives and Users**

It is agreed that the objectives should provide information that is useful to the users which support accountability and decision-making. However, in extending the scope beyond financial statements, these objectives are to be applied in many areas of financial reporting of a government that may already be subject to certain objectives or guidance. Hence, it is not seen as appropriate that the conceptual framework of an accounting standards board should be the authoritative guidance in reporting outside of the financial statements.

While in essence, the ED proposes users to be the public and their representatives, it is questioned as to why it is necessary to split the public into two groups: service recipients and resource providers. The proposal to include the legislature (or similar body) in the capacity as representatives of the interests of service recipients and resource providers is similar to the concept within the current PSAB conceptual framework. It is understood that the public does receive services and are resource providers as well as the beneficial owners of public money; however, tailoring this group into components with different information needs is not seen as necessary in relation to preparing general purpose financial statements and therefore is not supported.

## **Qualitative Characteristics**

The proposed qualitative characteristics are generally supported; they are similar to the characteristics within the current PSAB conceptual framework, with some variation in the organization of certain concepts. However, we provide the following comments.

Conservatism has been excluded from the IPSASB's proposed conceptual framework. This has long been a characteristic of reliability within Canadian conceptual frameworks; it should be recognized in the IPSASB's conceptual framework as its use under conditions of uncertainty affects neutrality of financial statements in an acceptable manner in our profession.

Per IPSASB's proposal, the concept of faithful representation has been used instead of reliability. However, it notes that faithful representation is achieved when a transaction or event is presented based on substance over form and it is complete, neutral and free from material error. Therefore, it appears that the concepts upon which reliability are based are still given consideration in determining the faithful representation of financial statements. While it is not a significant concern if reliability is replaced with faithful representation, such a change in terminology is not seen as necessary in developing an international conceptual framework.

In response to requested comment, it is our position that materiality is viewed to be more appropriate as a constraint on information than an entity-specific component of relevance. It is perception within the accounting profession in Canada that materiality is a matter of professional judgment and a consideration in determining if an event or transaction should be subject to public sector accounting standards and guidelines. In this regard, it is our view that it should be considered in relation to all qualitative characteristics and not just from the perspective of relevance. It should be given the same consideration as cost-benefit in relation to determining if an event or transaction would be considered significant by the primary users of financial statements in making assessments and judgments.

Further, the concern with the extension of the scope beyond the financial statements is reiterated in relation to its reference in the discussion of the various qualitative characteristics. Application of the qualitative characteristics in relation to the proposed scope is seen as problematic especially from an audit perspective.

### **Public Sector Reporting Entity**

Another concern is 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. The proposals in this ED do not adequately address our concern, as a senior government, that was identified in response to the consultation paper. While it is understood that the proposals reflect an approach that may allow flexibility in dealing with the diverse needs from an international perspective; it remains too broad and is subject to interpretation which does not provide adequate assurance that the constitutional framework within Canada will be protected. The PSA Standards support the reporting of federal, provincial, territorial and local governments as separate financial reporting entities. In this respect, there continues to be concern that under the proposed international framework, of the possibility of a senior government reporting entity (provincial government) having to include a local government (municipalities) in preparing consolidated financial statements.

In particular, IPSASBs current proposal to only identify circumstances and principles for inclusion of an entity or activity within a public sector group reporting entity rather than defining a potential base (e.g. control, accountability) is an approach that is broad; it can lead to many interpretations in defining a reporting group. Further, to replace the concept of the "power criterion", previously proposed in the consultation paper, with the "authority and capacity to direct" only adds to the confusion in defining a reporting entity.

In addition, the proposals include “the existence of users who are dependent on general purpose financial reports (GPFRs) for information about the activities of particular governmental organizations, programs or other identifiable activities for accountability or decision-making purposes” as a key characteristic of a reporting entity. It is our position that this creates additional uncertainty in our ability to protect our constitutional framework within the financial reporting requirements being proposed from an international perspective.

While, it appears that the proposed guidance may allow for consideration of institutional and operational differences among jurisdictions per paragraph 4.13; it is suggested that a separate standard be developed. A separate standard would allow consideration or preservation of particular circumstances of jurisdictions in developing the authoritative requirements that give effect to the principles in the framework. It may be appropriate to include wording similar to the PSA Standards which state that “The standards are intended to apply to the financial statements of the federal, provincial, territorial and local governments. Each of these governments is a separate financial reporting entity and would be excluded from the financial reporting of any other government.”

Thank you for the opportunity to provide my comments on this issue. If you require further information, please contact myself or Carmalea Gillingham, Accounting Research Specialist, at (709) 729-4049.

Yours truly,



**RONALD A. WILLIAMS, CA**  
**Comptroller General of Finance**

cc: Terry Paddon, Deputy Minister of Finance