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Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
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To the Director:

On behalf of the Association of Government Accountants (AGA), the Financial Management Standards Board (FMSB) is pleased to submit comments to the International Public Sector Accounting Standards Board (IPSASB) on the Exposure Draft (ED) entitled "Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities, Phase 1". With more than 15,000 members, the AGA is a leading United States organization supporting the careers and professional development of government finance professionals working in the federal, state and local governments as well as the private sector and academia.

We strongly support the efforts by the International Public Sector Accounting Standards Board (IPSASB) in developing this Conceptual Framework.

Both U.S. standard setting bodies for this community, the Federal Accounting Standards Advisory Board (FASAB) and the Governmental Accounting Standards Board (GASB) have issued Concept statements for their particular public sectors which are appropriately tailored for the unique elements of their respective constituents. This draft Concept Statement incorporates many of the strengths of these documents but has the opportunity to provide a global strategic direction that may enhance the usefulness of all public sector financial reporting.

We have noted that Phase 4 of this project is expected to evaluate how to present financial and non-financial information in General Purpose Financial Reports (GPFRs). However, we believe Phase 1 of the framework project provides a better opportunity to emphasize that the GPFRs should provide users with information on historical financial performance as well as current financial performance and condition. Financial statements by themselves (even comparative financial statements) provide a limited snapshot of the public sector entity, which is insufficient to effectively evaluate its performance and meet the needs of the users. We recommend that IPSASB should note in Phase 1 that public sector entity financial reports are generally more useful when historical financial performance information (along with historical operating performance information and prospective operating plans) accompanies the financial statements.

We were pleased to see the issuance of the IPSASB exposure draft on Key Characteristics of the Public Sector with Potential Implications for Financial Reporting and we believe the inclusion of such a discussion in a conceptual framework would support the specific objectives as well as introduce certain unique concepts that are discussed in more detail in this document.



Specific Matters for Comment

1. Role, authority and scope of the Conceptual Framework

We agree with the general role, authority and scope of the Conceptual Framework. The document acknowledges the broad differences in public entities and the operating environments in which they operate and the framework is effectively high-level. Many of the explicit statements in the exposure draft are appropriate and were also a fundamental implicit foundation for U.S. federal, state and local standard setting bodies. As noted above, we support the recognition of the other elements of the GPFR beyond the financial statements.

2. Objectives of financial reporting by public sector entities and the primary users of GPFRs of public sector entities and their information needs.

As noted above in General Comments, we believe it would be valuable to include here a discussion of the structural and operating differences that drive the differences in objectives for financial reporting, as was done in FASAB and GASB Concept Statements. While their standards address the unique elements of each broad type of public sector, we believe certain characteristics of all governmental entities (e.g., the significance of non-exchange transactions, focus on performance outcomes and the regulatory role of government, etc.) are fundamental to these objectives and should be addressed here. Such an introduction would allow for a better understanding of certain concepts introduced later on in the framework. Its omission was notable in our review of this document.

Users of general purpose financial reports (ED ¶ 2.3 – ¶ 2.6). We support the deliberate classification by IPSASB of the users of GPFRs as “service recipients and their representatives” and “resource providers and their representatives”. Both constituencies should be considered in public sector financial reporting but this grouping better highlights the differences in their information needs.

Information Needs of Service Recipients and Resource Providers (ED ¶ 2.7 – ¶ 2.13). We found this section somewhat confusing and the IPSASB should consider reorganizing this section.

- ¶ 2.9 further defines “resource providers”. We believe this should be included with the discussion on the definitions in the section “Users of General Purpose Financial Statements” (ED ¶ 2.3 – ¶ 2.5).
- It is unclear why the accountability needs for service recipients and service providers are grouped together under a subcaption. We believe these should be discussed respectively in conjunction with ED ¶ 2.8 and 2.11.
- ¶ 2.12 includes a further definition of voluntary and involuntary resource providers. The definitional components of the section should be discussed in the “Users of General Purpose Financial Statements” section (ED ¶ 2.3 – ¶ 2.5).

Information Provided by General Purpose Financial Reports (ED ¶ 2.14 – ¶ 2.25). As a point of reference, the FASAB’s Concept Statement No.1 categorizes the objectives of federal financial reporting as:

- Budgetary Integrity
- Operating Performance
- Stewardship
- Systems and Control

The IPSASB categorizations are generally consistent with those of FASAB. However, we believe there are certain clarifications or areas of emphasis that would make the setting of specific standards more effective.

Financial Position, Financial Performance and Cash Flows (¶ 2.15 - ¶ 2.18). In general, we believe that IPSASB should emphasize the need for GPFRs to put the current financial statements in their proper historical context to ensure the relevance of the information to the users.

We concur with the statements in this section as they relate to the current financial presentation but we believe the IPSASB could emphasize that the financial statements provide the most relevant information on the current financial position and condition, and that they should be reviewed in context with historical information and information on future service delivery objectives.

Service Delivery Achievement (¶2.21). As discussed above, we believe it is critical for effective GPFRs to provide information on historical as well as current service delivery achievements (SDAs) along with their related cost information. Discussions of SDAs should be aligned with the mission and goals of the entity. Historical SDA information should be provided at a summary level and only for the most relevant and significant SDAs, as context for the assessment of the current SDAs and future service delivery objectives.

Although discussed in ¶ 2.25, we believe that ¶ 2.21 is a better place to discuss that SDAs should be reasonably representative of the overall financial performance of the entity.

Prospective financial and non-financial information (¶ 2.22 - ¶ 2.23). We concur with the statements made by IPSASB in ¶ 2.22 and ¶ 2.23. The current discussions in the United States over the nation’s ability to fund future service delivery activities illustrate how prospective financial information may serve as the most relevant component of a GPFR for many users.

Narrative reports (¶ 2.24 - ¶ 2.25). We appreciate IPSASB’s discussion of how narrative reports can supplement financial statements in providing information to users for accountability and decision-making purposes. We believe it would be helpful to distinguish the reporting of objectively presented information (SDAs, cost information, etc.) from the reporting of more subjective views and analysis from entity management.

Other sources of information (§ 2.26). We believe IPSASB should also recognize the role that a concise “Citizen’s Report” or other abbreviated financial and performance report can serve in meeting the needs of users.

We note that IPSASB has not addressed two objectives outlined by FASAB categorized as “stewardship” and “systems and control”. We believe these objectives are relevant to all public sector entities and should also be recognized by the IPSASB. We suggest these elements be combined with budgetary compliance under a broader “stewardship” section addressed by IPSASB and considered in future phases of this project.

3. Qualitative characteristics of, and constraints on, information included in GPFs of public sector entities

- a. Should “faithful representation” rather than “reliability” be used in the Conceptual Framework to describe the qualitative characteristic that is satisfied when the depiction is complete, neutral, and free from material error?

We believe that the term “faithful representation” is better than “reliability”. There are instances when balances, analyses, performance data or forecasts can be “reliable”, but may not be a “faithful representation” of the matter they intend to portray. The latter implies that it is reported in the proper context, showing how that data impacts the entity’s performance, condition or future plans.

- b. Should materiality be classified as a constraint on information that is included in GPFs or as an entity-specific component of relevance?

We believe materiality is appropriately classified as a constraint on information. We believe that IPSASB should also consider discussing the qualitative characteristics of the GPFs themselves, such as readability, conciseness, structure and integration. Overall, GPFs should contain information that is considered “useful” by readers.

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.

The FASAB is currently considering whether certain principles can be applied to define a “core” versus “non-core” component of a government, in determining whether an entity requires consolidation. These principles are:

- Is the entity included in the budget?
- Does the government have a majority ownership interest?
- Does the government exercise control with expected benefits or risk of loss?

The application of these specific (or any) principles to all situations is likely to be very subjective and problematic. We found the emphasis by IPSASB on the “authority and capacity to direct the activities of other entities” may result in quasi-governmental self-funded commissions and boards arguing against their consolidation. Supplemental principles or contributing factors that should be considered may be needed.

We believe IPSASB may also need to consider stating that GPFs should adequately disclose “implicit financial or control relationships” with entities that are not within the group reporting entity. The concept of “intergovernmental dependence” is unique within the public sector, but the impact on the reliability of financial reporting is not. Such explicit relationships in the commercial sector, usually through inadequately disclosed loan guarantees, have resulted in unexpected and significant changes to an entity’s financial condition, impacting their usefulness to readers. The existence of “implicit” relationships and intergovernmental dependence requires more guidance under a concept statement, due to their subjective nature.

We appreciate the opportunity to comment on this document and would be pleased to discuss this letter with you at your convenience. A majority of members approved the issuance of this letter. If you have questions concerning the comments in this letter, please contact me at cpaesp@att.net.

Sincerely,



Eric S. Berman, CPA, Chair
AGA Financial Management Standards

Board

cc: Lisa Casias, CPA
AGA National President

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Financial Management Standards Board**

July 2010 – June 2011

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