



**Chief Executives Board
for Coordination**

**Conseil des chefs de secrétariat
des organismes des Nations Unies
pour la coordination**

**Submission on the Consultation Paper of the Conceptual Framework
Phase 4: *Presentation in General Purpose Financial Reports***

31 May 2012

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

Conceptual Framework Consultation Paper Phase 4

1 Thank you for the opportunity to comment on the Consultation Paper: *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Presentation in General Purpose Financial Reports*.

United Nations System Task Force on Accounting Standards

2 The United Nations System Task Force on Accounting Standards (Task Force) appreciates the work that the IPSASB is carrying out in developing accounting standards for public sector entities, including international organizations such as those making up the United Nations system. The Task Force is an inter-agency group consisting of directors of accounting, chief accountants and chief financial officers from United Nations System organizations. The comments below represent the views of Members of the Task Force. The individual organizations that provided comments on this submission and concurred with its submission to the IPSASB are listed in Appendix 1. Where an individual organization disagreed with a particular recommendation but agreed to the recommendation going forward to the IPSASB, this has been noted against the individual responses in Appendix 2.

General Comments

The Task Force has the following general comments on the Consultation Paper (CP):

- (a) The position of the Task Force on reporting non-financial information in the GPFRs remains unchanged as previously discussed in the Task Force's submission on the CP on Reporting Service Performance Information provided to the IPSASB recently as well as in the submission on CF-ED1 prepared in 2011 and in the submission on the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities prepared in 2009. IPSAS Board should not prescribe the content or format of non-financial information to be reported. Governing bodies set requirements and presentation parameters for non-financial information reported by public sector organizations.
- (b) The Task Force realizes that this CP is a first step in an attempt to issue guidance in a new area which was not previously addressed by other standard-setters; hence there is a scope for improvement of the CP, as follows:
 - By reducing repetitive cross references between ideas/concepts which have been presented in the paper and maintaining references only when they are necessary for supporting the discussion, to avoid duplication and confusion and to improve logical flow of concepts. This applies both to flow of the discussion and to formulation of specific matters for comment (SMC).
 - By developing each new idea fully by providing a supporting discussion. At this point the discussion often stops shortly after introducing an idea and in some cases the CP appears to call for respondents to develop a newly introduced idea by including open-ended questions in the SMC. Even in cases where the CP includes more specific questions it might be premature for respondents to form an opinion if an idea to which the question relates was not sufficiently explained.
 - By supporting theoretical concepts with a more robust discussion of practical applications of the proposed approach and all of its elements, including but not limited to an overall cost-benefit analysis as well as a brief overview of benefits of introducing / complying with each proposed concept / idea. Perhaps the Board may consider results of the cost-benefit analysis carried out by jurisdictions whose experience was reviewed in preparing the CP. Discussion of main advantages of the proposed approach would strengthen the focus of the CP.

Many of the issues identified above are reflected in the detailed comments of the Task Force attached as Appendix 2. Taking into account structural issues identified above and in light of the IPSASB's pioneering the area of presentation of information in the GPFRs, the Board might consider re-exposing this CP after introducing necessary improvements. The feedback received on this CP may assist in identifying issues which need to be further developed as well as possible reformulation of questions before re-exposure.

- (c) Presentation is a difficult area for introduction of definitive rules beyond what is already included in the IPSAS standards; this should be acknowledged by the CP. It would be very useful if the CP included a discussion on flexibility (if any) in terms of compliance with the proposed presentation approach for a reporting entity. Many reporting entities may fully comply with the standards and the Conceptual Framework in preparing the GPFSs but may find it onerous to comply with the presentation approach proposed by the CP for information included in the GPFRs other than the GPFSs. The Task Force suggests that this issue is addressed before the CP progresses to the Exposure Draft. The Task Force also proposes that the Phase 4 of the Conceptual Framework acknowledges a prominent role of a reporting entity in making decisions on presentation of information in the GPFRs.
- (d) Other documents issued by the IPSASB also address presentation of financial statements and other information, as follows:

- IPSAS 1, *Presentation of Financial Statements*, outlines in paragraph 1:

*The objective of this Standard is to prescribe **the manner in which general purpose financial statements should be presented** to ensure comparability both with the entity's financial statements of previous periods and with the financial statements of other entities. To achieve this objective, **this Standard sets out overall considerations for the presentation of financial statements, guidance for their structure, and minimum requirements for the content of financial statements prepared under the accrual basis of accounting.***

- The CP, *Reporting Service Performance Information*, states in Section 5, paragraphs 5.1 to 5.23:

*The previous section (Section 4) discusses the dimensions of service performance information and associated issues. **This section describes how these dimensions of service performance can be recognized as components and presented in a GPFR.***

The research identified that ***although no two jurisdictions have identical service performance reporting presentation frameworks that are required or encouraged to be followed within GPFRs, there are similarities in the presentation of service performance information reported. The similar service performance information components identified within these frameworks include:***

(a) Information on the scope of the service performance information reported;

(b) Information on the public sector entity's objectives;

(c) Information on the achievement of objectives; and

(d) Narrative discussion of the achievement of objectives.

- The Exposure Draft 47, *Financial Statement Discussion and Analysis*, identifies in paragraph 1:

The objective of this Standard is to prescribe the manner in which financial statement discussion and analysis should be prepared and presented. To achieve this objective, this Standard sets out overall considerations for the guidance for its structure, minimum requirements for the content and presentation to allow entities to prepare financial statement discussion and analysis for their specific circumstances to assist users to understand financial statements.

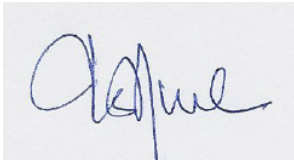
The Task Force therefore suggests that, before progressing to the Exposure Draft stage, the CP addresses the issue of potentially overlapping authority of the presentation approach developed by Phase 4 of the Conceptual Framework and other pronouncements of the IPSASB, many of which are also at the development stage (and hence their scope is not yet finalized).

Specific Matters for Comments

4 Our detailed comments on the specific matters for comment identified in the Consultation Paper are attached as Appendix 2.

5 Should you have any queries on our comments, please contact Ms. Dinara Alieva, Financial Analyst, System-wide IPSAS Project Team at alievad@un.org.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Chandramouli Ramanathan', is displayed on a light gray rectangular background.

Chandramouli Ramanathan

Deputy Controller, United Nations &
Chair, Task Force on Accounting Standards

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APPENDIX 1: UNITED NATIONS SYSTEM TASK FORCE ON ACCOUNTING STANDARDS

Task Force Members from the following organizations reviewed this submission and concurred with its contents.

Organisation	Agree (Disagree)
1. FAO	Agree
2. IAEA	Agree
3. ICAO	Agree
4. ILO	Agree
5. IMO	Agree
6. ITU	Agree
7. PAHO	Agree
8. UN	Agree
9. UNDP	Agree
10. UNESCO	Agree
11. UNFPA	Agree
12. UNHCR	Agree
13. UNICEF	Agree
14. UNIDO	Agree
15. UNOPS	Agree
16. UNRWA	Agree
17. UPU	Agree
18. WFP	Agree
19. WHO	Agree
20. WIPO	Agree
21. WMO	Agree
22. WTO (Tourism)	Agree
23. UNWomen	Agree

APPENDIX 2: CONCEPTUAL FRAMEWORK FOR GENERAL PURPOSE FINANCIAL REPORTING BY PUBLIC SECTOR ENTITIES: PRESENTATION IN GENERAL PURPOSE FINANCIAL REPORTS

In response to the IPSASB's request for comments on these Specific Matters please find below comments of the Task Force:

Specific Matter for Comment 1

With respect to the descriptions of “presentation”, “display”, “disclosure”, “core information”, and “supporting information”, and the proposed relationships between these terms:

- (a) Do you agree that the proposed descriptions and relationships are appropriate and adequate?
- (b) Do you agree that identification of core and supporting information for GPFs should be made at a standards level rather than as part of the Conceptual Framework?

Response:

- (a)
 - Presentation is defined by this CP as “*the selection, location and organization of information that is displayed and disclosed in the GPFs to meet the objectives of financial reporting, needs of users, and QCs*”. This definition seems to imply that objectives of financial reporting, needs of users and qualitative characteristics (QCs) are three separate dimensions. At the same time CF—ED1 proposes that the objectives of financial reporting are to provide information about the entity that is *useful to users* for accountability and decision-making purposes. Also, IPSAS 1, in its Appendix 1, recognizes that QCs “are the attributes that make the information provided in financial statements *useful to users*”. Meeting the needs of users is a main goal of financial reporting; whereas objectives of financial reporting are derivatives and QC are attributes of the main goal. The Task Force therefore recommends that the proposed definition of presentation is amended by centering on meeting needs of users and by either removing references to objectives of financial reporting and QCs entirely or by reclassifying them as supporting/secondary objectives. The objectives of financial reporting, needs of users and QCs are also interchangeably used in other paragraphs of Section 2 of the CP; these references may need to reviewed and streamlined before the document progresses to the Exposure Draft.
 - The Task Force is of the view that the proposed model of the relationship between ‘display and disclosure’ and ‘core and supporting information’ should be explained more clearly in general, and more particularly in relation to the difference between display and disclosure of other

information included in the GPFRs (i.e. not GPFSSs). For example, paragraph 2.8 the CP states that display and disclosure do not differ based on the specific presentation techniques used. However the paragraph then goes on to explain that whereas the difference between display and disclosure in financial statements is determined by location, the display of other information is linked to presentation technique (which should be aligned with information needs, etc.). This linkage is not explained further in the document and the CP contains no references to any other criteria which can be used in distinguishing between display and disclosure of other information presented in the GPFRs. The diagram A, which was included in the CP to demonstrate the inter-relationship between presentation, display, and disclosure, also does not identify the difference between display and disclosure of information other than financial statements.

(b)

- The IPSAS standards apply to GPFSSs and do not cover all information presented in the GPFRs. For example, the CP refers to reporting service performance information and reporting on the long-term sustainability of a public sector entity's finances as examples of 'more comprehensive scope' information which will be included in the GPFRs. However, the CP on reporting service performance information will become a part of the Conceptual Framework (i.e. not a standard) and the IPSASB's publication on the long-term sustainability of a public sector entity's finances was issued as a recommended practice guideline (i.e. not a standard). It is apparent that most of other information included in the GPFRs is also highly unlikely to be covered by standards, for example, some elements of budgetary information or information on activities and operations of the reporting entity. Thus it is not clear how core and supporting information for GPFRs can be identified at a standards level when standards only cover GPFSSs and do not apply to other information presented in the GPFRs. The Task Force recommends expanding the discussion and further clarifying this matter before soliciting feedback.
- Echoing the statement/recommendation included in the general comment (c) above the Task Force believes that the reporting entity should retain a prominent role in identifying core and supporting information to be presented in the GPFRs, including information other than the financial statements.

Specific Matter for Comment 2

With respect to the IPSASB's approach to presentation of information:

- (a) Do you agree with the development of presentation concepts that can be adopted for the more comprehensive scope of GPFs including, but not restricted to, financial statements?
- (b) Do you agree with the approach of (i) focusing on user needs to identify presentation objectives, (ii) application of the qualitative characteristics (QCs) to presentation decisions, and (iii) separate presentation concepts?

Response:

- (a) The Task Force considers this question as non-essential for the following reasons:
 - a. It is not supported by a discussion of alternative approach(es) which can be followed if presentation concepts are not developed since the concepts were presented as an integral part of the proposed presentation approach; and
 - b. It does not present an analysis of an impact of not developing the presentation concepts on the quality of the GPFs' presentation as well as on the objectives of Phase 4 of the Conceptual Framework.
 - c. Section 6 of this CP is dedicated to development of presentation concepts and addresses them at a detailed level. Therefore the purpose of Specific Matters for Comment (SMC) 2(a) above which presents an option of not agreeing to developing of the presentation concepts is not clear. It appears that a significant amount of time was devoted to developing the concepts and respondents are requested to provide detailed feedback on the result of this analysis in SMCs 4 and 5.

The Task Force suggests that this question is revisited after the above concerns are addressed.

- (b) The Task Force finds it difficult to commit to a decision about an approach which is at the stage of theoretical discussion. It would be most helpful if the IPSAS Board could expand this high level discussion to cover practical examples and overview of benefits arising from compliance with the proposed approach. This discussion could include the Board's views and any studies undertaken to assess a magnitude of improvement in the quality of GPFs' presentation if the proposed approach is followed. Any change in reporting financial information brings with it implementation costs for a reporting entity, especially if it calls for an

additional analysis and/or an expanded scope. In order to support such a change, the reporting entities need to have a clear understanding of risks, costs and benefits associated with it. The best place to address this area would be in the reissued CP.

Specific Matter for Comment 3

This CP discusses the importance of developing presentation objectives as part of standard setting.

- (a) Do you agree that presentation objectives should be developed?
- (b) If so, in your view, should they be developed at a standards level, or as part of the Conceptual Framework?

Response:

(a) The Task Force suggests that this decision is left to the reporting entities. Use of presentation objectives can be encouraged, but if a reporting entity is able to meet needs of users of the GPFRs by following a different presentation approach (which may not include formulation of specific presentation objectives) it should be recognized as equally acceptable.

(b)

- The Task Force notes that the CP appears to have a very definitive position on this issue as it repeatedly states in paragraphs 3.4, 4.2 and 4.5 that “the development of presentation objectives is a task at the standard setting level, rather than at the Conceptual Framework level”. It is not clear why the SMC 3 includes an open-ended question on this issue, especially since the above quoted position is not supported by any discussion and the CP does not include references to any alternative approach(es). In the absence of the discussion on this subject in the CP, to answer this question the respondents would need to carry out their own analysis in order to evaluate the validity of the position outlined, including identification of alternative approach(es). This is not typical of the IPSASB’s papers, which usually contain a comprehensive review of each question included in the SMC, especially when the Board leans towards a certain decision. The Task Force therefore suggests that this issue is revisited after a more comprehensive review is provided in the CP.
- The Task Force’s preliminary position on this issue is that IPSAS standards address GPFs and do not apply to other information included in the GPFRs. Therefore the standards may set out presentation objectives for the financial statements and accompanying notes, but not for other information (service performance information, information on the long-term sustainability of finances, budget information, etc.). The Task Force is of the view that reporting entity should have a leading role in making

presentation related decisions, including formulation of presentation objectives, if any. This is especially relevant to other information reported in the GPFs as the scope and focus of this information is unique to each reporting entity.

Specific Matter for Comment 4

This CP proposes three presentation concepts. Please provide your views on these concepts, in particular whether:

- (a) Any of these concepts should be excluded from the Conceptual Framework; and
- (b) The description of each concept could be improved and, if so, indicate how.

Response:

- (a)
 - The Task Force is of the opinion that the presentation concepts should be proposed as guidance as opposed to the final set of concepts allowing reporting entities to customize focus of information presented in their GPFs.
 - The Task Force has an alternative suggestion on the hierarchy of the presentation concepts. Concept 1 (WHAT information needs to be shown) includes sub-concept of timeliness of information (WHEN information should be shown). It appears logical to use the same approach with concept 2 (WHERE information should be located) by including it as a sub-concept of concept 3 (HOW information should be organized), since location is not a common critical concept applicable to all categories of information in the GPFs. As previously mentioned in the response to the SMC 1(b), paragraph 2.8 the CP implies that location is critical to presentation of information in the financial statements and notes thereto and is less important for other information reported in the GPFs. For example, once information for GPFs is classified between core and supporting, its location is pre-determined, as depicted by the diagram in paragraph 2.15 of the CP (on the face of a financial statement for core information or in the notes for supporting information). Other information included in the GPFs, however, is not subject to the rules of location regardless of whether it is considered as core or supporting. Therefore it might be concluded that WHERE concept is not common/critical enough to be classified as a leading presentation concept alongside of WHAT and HOW. In addition, concept 3 already includes many elements of concept 2, which would make integration of the latter easier.
- (b) Concept 1 appears to focus only on financial statements and notes thereto and needs to be expanded to provide guidance on other information reported in the GPFs. SMC 1(b) proposes that identification of core and supporting information for GPFs should be made at a standards level rather than as part of the Conceptual Framework. At the same time, paragraph 6.17 under Concept 2 suggests that presentation techniques relevant to this concept could include development of criteria to distinguish between core and supporting information

within a particular GPFR information area. It would be useful if the relationship between these somewhat conflicting statements was clarified. The Task Force supports the view that reporting entities should retain a prerogative of identifying core and supporting information based on guidance provided by the CP.

Specific Matter for Comment 5

In addition to the three concepts proposed in Section 6, please provide your views on:

- (a) Whether there are further concepts that should be included in the Conceptual Framework; and
- (b) What those further concepts should be.

Response:

No comment.

Specific Matter for Comment 6

Each presentation concept refers to the possibility of developing criteria to determine the presentation techniques to be used in setting accounting standards. Please provide:

- (a) Your views on whether it would be useful and workable for the IPSASB to apply such techniques; and
- (b) Any suggestions you have for developing these techniques.

Response:

- (a) Question 6(a) is not clear. IPSASB usually develops and promulgates concepts whereas IPSAS-compliant reporting entities apply them. Thus a clarification on how IPSASB might “apply such techniques” (a quote from question 6(a)) would assist in understanding the question and formulating a response.
- (b) The Task Force would support the initiative of developing the techniques, which might help to address the following two issues simultaneously:
 - further streamlining and increasing comparability of presentation in the GPFRs; and
 - practical guidance for future implementers of the Phase 4 concepts of the Conceptual Framework (CF), which at this point are more theoretical than other concepts of the CF. This is further complicated by the fact that presentation of information is a very difficult area to be effectively regulated.

However the Task Force strongly believes that any guidance on presentation of non-financial information can only be developed as optional. Implementation of the approach to presentation of information in the GPFRs, including identification of presentation objectives, application of the QC and use of separate presentation concepts and

designated techniques to present information, if made compulsory, will limit flexibility of reporting entities to comply with expectation and presentation requirements established by their governing bodies. It may also result in significantly higher compliance costs as reporting entities might have to produce two sets of annual financial reports – one to comply with IPSAS and the other to comply with expectations and requirements of their governing bodies – just to remain IPSAS-compliant. The Task Force is of the opinion that the superior goal of the IPSASB is to promulgate standards which will enhance quality of financial reporting rather than to develop new concepts to the extent that IPSAS-compliance becomes a separate goal from issuance of annual financial reports which are useful and meaningful for organization’s stakeholders in terms of content and format.