

March 18, 2009

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**Re: Comments on Consultation Paper - Conceptual Framework for
General Purpose Financial Reporting by Public Sector Entities – Phase 1**

Thank you for providing us with opportunity to comment on this very important topic. The Consultation Paper is comprehensive and well written.

The Public Sector Accounting Board (PSAB) staff support the nine preliminary views included in this Consultation Paper. We found these views consistent with the conceptual framework of the Public Sector Accounting Handbook and the Statement of Recommended Practices issued by PSAB regarding reporting of supplementary information beyond that presented in financial statements. Please find our comments on the specific preliminary views in the attached. Note that these comments are views of PSAB staff and not those of the PSAB.

We look forward to commenting on consultation paper of other phases of the IPSASB Conceptual Framework in the near future.

Yours truly,



Tim Beauchamp
Director
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Appendix: Comments On Specific Preliminary Views

Preliminary View 1 (PV 1) – The Authority of the IPSASB Framework

The IPSASB Framework will not establish new authoritative requirements for financial reporting by public sector entities that adopt IPSASs, nor will it override the requirements of existing IPSASs.

In selecting accounting policies to deal with circumstances not dealt with in IPSASs or other guidance issued by the IPSASB, public sector entities will refer to, and consider the applicability of, the definitions, recognition criteria, measurement principles, and other concepts identified in the IPSASB Framework.

Agree. This view is consistent with the conceptual framework of the Public Sector Accounting (PSA) Handbook.

Preliminary View 2 (PV 2) – General Purpose Financial Reports (GPFs)

GPFs are financial reports intended to meet the common information needs of a potentially wide range of users who are unable to demand the preparation of financial reports tailored to meet their specific information needs.

Agree. The conceptual framework in the PSA Handbook shares a similar view that government financial statements are general purpose statements that are designed to meet the common information needs of a variety of external users.

Preliminary View 3 (PV 3) – The Users of GPFs

As a mechanism for focusing on their common information needs, the potential users of GPFs of public sector entities are identified as:

- recipients of services or their representatives;
- providers of resources or their representatives; and
- other parties, including special interest groups and their representatives.

The legislature is a major user of GPFs. It acts in the interest of members of the community, whether as recipients of services, providers of resources, or citizens with an interest in, or need for, particular services or activities.

Agree. The users identified in the conceptual framework of the PSA Handbook in PS 1000 included users that fall into the first two groups of users in PV 3. Other external users including parties to which the entity has made a commitment (for example, a partner in a joint initiative), and key intermediaries such as advocacy groups and media are also identified as

users of public performance reports in Statement of Recommended Practice 2 (SORP-2), *Public Performance Reporting*, issued by the PSAB. The PSA Handbook shares the view of PV 3 that legislators, as elected representatives of the public, are primary users of government financial statements. Unlike legislators with the ruling party, the opposition party legislators may not be in a position to demand other information.

Preliminary View 4 (PV 4) – The Objectives of Financial Reporting

The objectives of financial reporting by public sector entities are to provide information about the reporting entity useful to users of GPFs for:

- accountability purposes; and
- making resource allocation, political and social decisions.

Agree. The conceptual framework of the PSA Handbook shares the same objectives of accountability and useful for decision making.

Preliminary View 5 (PV 5) – The Scope of Financial Reporting

The scope of financial reporting encompasses the provision of financial and non-financial information about:

- economic resources of the reporting entity at the reporting date and claims to those resources;
- the effect of transactions, other events, and activities that change the economic resources of the reporting entity and claims to those resources during the reporting period, including cash inflows and outflows and financial performance;
- the reporting entity's compliance with relevant legislation or regulation and legally adopted or approved budgets used to justify the raising of monies from taxpayers and ratepayers;
- the reporting entity's achievement of its service delivery objectives; and
- prospective financial and other information about the reporting entity's future service delivery activities and objectives, and the resources necessary to support those activities.

It also encompasses explanatory material about: (a) the major factors underlying the financial performance of the entity, the achievement of its service delivery and other objectives and the factors which are likely to influence its performance in the future; and (b) the assumptions underlying and major uncertainties affecting the information included in GPFs.

Agree. The scope of the PSA Handbook is limited to general purpose government financial statements. The first three types of information listed in PV 5 are fundamental information of government financial statements and are within the scope of the PSA Handbook and its conceptual framework.

PSAB also issued Statements of Recommended Practice (SORPs) with respect to reporting of supplementary information beyond that presented in financial statements. For example, reporting on government financial conditions, and financial and non-financial performance. The fourth type of information listed in PV 5 is within the scope of SORPs.

The current PSA Handbook or SORPs do not deal with future-oriented financial information (FOFI). Comparison of actual to planned financial and non-financial results is required for government financial statements and recommended for public performance reports. Guidance on preparation of FOFI that would result in meaningful comparison between actual and planned results would be useful. Currently, Canadian governments who prepare FOFI rely on the guidance issued by the Canadian Accounting Standards Board (AcSB) Section 4250, *Future-Oriented Financial Information*.

The explanatory material included in PV 5 is consistent with SORPs issued by PSAB on *Financial Statement Discussion and Analysis* and *Public Performance Reports*, as well as Section 4250 issued by the AcSB.

Preliminary View 6 (PV 6) – Evolution of the Scope of Financial Reporting

The scope of financial reporting should evolve in response to users' information needs, consistent with the objectives of financial reporting.

Agree. The conceptual framework in the PSA Handbook also acknowledges the evolutionary nature of financial reporting and accounting standards and recognizes that revision would be required to reflect changes in conditions.

We agree IPSASB's views that "information presented in financial statements and their notes remains at the core of financial reporting" (paragraph 3.22), and that users' needs for other financial and non-financial information should not be ignored as financial reporting evolves. PSAB has strived to balance the needs for standards for government financial statements and guidance for supplementary information outside the financial statements in setting priorities in its technical agenda.

Preliminary View 7 (PV 7) – The Qualitative Characteristics of Information Included in GPFRs

The qualitative characteristics of information included in GPFRs of public sector entities are:

- relevance, which encompasses confirmatory value, predictive value, or both;
- faithful representation, which is attained when depiction of economic or other phenomena is complete, neutral, and free from material error;
- understandability;
- timeliness;

- comparability; and
- verifiability (including supportability).

Constraints on financial reporting are materiality, cost, and achieving an appropriate balance between the qualitative characteristics.

Agree. Though PSAB has taken a different approach in grouping and classifying qualitative characteristics, the qualitative characteristics and constraints listed in PV 7 are all included in the conceptual framework of the PSA Handbook. They are included as a qualitative characteristic, a component of a qualitative characteristic or a stand alone component of the conceptual framework. The qualitative characteristics included in the conceptual framework of PSA Handbook are also included in each of the SORPs for other financial and non-financial information.

Preliminary View 8 (PV 8) – Characteristics of a Reporting Entity

The key characteristic of a reporting entity is the existence of users who are dependant on GPFRs of the entity for information for accountability purposes, and for making resource allocation, political, and social decisions.

A public sector reporting entity may be an entity with a separate legal identity or other organisational structure or arrangement.

Agree. The key characteristic of a reporting entity proposed in PV 8 provides a logical and reasonable guideline that allows for exercise of professional judgment. Logically, there is no reason to prepare a GPFR if no one is interested in it or needs it. When a reporting entity does not have a separate legal identity, the challenge is in choosing a boundary such that the GPFR of that reporting entity would provide meaningful information for accountability and decision making purposes. Given the wide range of administrative structure in different jurisdictions, we agree that public sector reporting entities should not be limited to those with a separate legal identity.

Preliminary View 9 (PV 9) –The Composition of a Group Reporting Entity

A group reporting entity will comprise the government (or other public sector entity) and other entities when the government (or other public sector entity):

- has the power to govern the strategic financing and operating policies of the other entities (a “power criterion”); and
- can benefit from the activities of the other entities, or is exposed to a financial burden that can arise as a result of the operations or actions of those entities; and can use its power to increase, maintain, or protect the amount of those benefits, or maintain, reduce, or otherwise influence the financial burden that may arise as a result of the operations or actions of those entities (a “benefit or financial burden/loss” criterion).

Agree. This is consistent with how PSAB defines the government reporting entity. The “power” and “benefit or financial burden/loss” criteria are similar to PSAB’s definition of control, which determines whether an entity should be included in the government reporting entity. We found the guideline and examples included in paragraphs 5.33 and 5.34 helpful in applying these criteria.