

Finance

Comptroller's Division

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

Dear Sir/Madam:

Re: Consultation Paper – Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities

Thank you for the opportunity to comment on your consultation paper - Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities – Phase 1.

The Manitoba Government supports your initiative to develop a conceptual framework, which will establish concepts that can be applied in developing future International Public Sector Accounting Standards (IPSAS) for General Purpose Financial Statements. We are also pleased to see that many of the key areas you are proposing are consistent with the Public Sector Accounting Standard Board (PSAB) conceptual framework that Canadian Governments apply.

In response to your document, we will first provide our comments on the preliminary views you have included on the nine key issues. We will then include any additional comments we have, which have not already been captured in these points, at the end of this document.

Preliminary View 1 – The Authority of the IPSASB Framework

We agree with this preliminary view and we also note that it is consistent with PSABs Conceptual Framework. However, to ensure that in the future there is no confusion regarding how users of these standards should be applying this authoritative guidance, we would recommend you specifically define your primary source of generally accepted accounting principles and clearly identify that in the event there is no standard, that an entity should adopt standards that are consistent with this conceptual framework.

Preliminary View 2 – General Purpose Financial Reports (GPFRs) and Preliminary View 5 – The Scope of Financial Reporting

We strongly disagree with both of these preliminary views. By defining the scope of the conceptual framework to include both financial and non-financial information, IPSASB appears to be going beyond its mandate, which is to issue International Public Sector Accounting Standards for the preparation of general purpose financial statements (GPFS). Under this proposed view, IPSASB would be able to develop International Public Sector Accounting Standards (IPSAS) for the presentation of prospective and non-financial information as standards that must be followed. The additional information that a jurisdiction wishes to provide to its users will vary significantly between jurisdictions and therefore, we feel strongly that that the decision of what prospective information to produce, should be left to the discretion of each reporting jurisdiction.

IPSASB's preliminary view is also not consistent with the International Accounting Standards Board (IASB) framework, which only deals with financial statements. In fact, the IASB conceptual framework specifically indicates that it is concerned with general purpose financial statements and these financial statements **do not** include such items as reports by directors, statements by the chairman, discussion and analysis by management and similar items that may be included in a financial or annual report.

We acknowledge that the remainder of this consultation paper makes reference to GPFR; however because we feel strongly that this is not appropriate, any references we make related to the preliminary views assumes this framework will only relate to GPFS.

Preliminary View 3 – The Users of GPFRs

We agree with your view that the framework must focus on the common information needs of the users and we agree that users may come from different and several perspectives at once, which you have defined as:

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

However, we feel that your preliminary view does not clearly identify the public as the major user of GPFS. As well, the legislature has been included, together with others, as a representative of the public in its various forms. We feel that IPSASB should clarify that the legislature is not a major user; it only represents the public the as the primary user, and should not itself be described as a major user.

Preliminary View 4 – The Objectives of Financial Reporting

IPSASB's preliminary view is that objectives of financial reporting are to provide information about the entity that is useful to the users for both:

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

We agree that the over-riding objective of government financial reporting is to support public accountability, and that financial reporting standards should support fair reporting of the economic substance of historical transactions. However, we do not agree that resource allocation or political and social decisions should be based on GPFS.

To effectively support accountability reporting, public sector accounting standards need to present the economic substance of transactions. While it is acknowledged that governments base fiscal policy decisions on information available through many sources, including special purpose reports, it should also be acknowledged that accounting standards can have an impact on government fiscal policy decision making.

While supporting the accountability reporting objective may indirectly influence political or social decisions in the broadest context (e.g. impact of financial results on public voting decisions), these decisions are usually made once every three or four years depending on the electoral structure of the entity being reported upon and are not a direct objective of financial reporting objectives. Therefore, we do not support an extension of the accountability reporting objectives to include making of political or social decisions.

Preliminary View 6 – Evolution of the Scope of Financial Reporting

We agree with the preliminary view that financial reporting should evolve; however, we would preface this view with the fact that any change to financial reporting should only be in response to the needs of the major users.

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

We agree with the qualitative characteristics included in this preliminary view, which are consistent with those included in PSAB's Conceptual Framework.

Preliminary View 8 – Characteristics of a Reporting Entity and Preliminary View 9 – The Composition of a Group Reporting Entity

We disagree with both of these preliminary views from IPSASB's, related to the reporting entity. We feel that IPSASB has made the definition of the characteristics of the reporting entity too broad, by stating that the key characteristic of a reporting entity is the existence of users who are dependant on GPFR for accountability purposes, and for making resource decisions. This could result in entities, which simply deliver a service on behalf of government, being included in the reporting entity.

Though the criteria for control are similar between PSAB and IPSASB, there are constitutional references that are in opposition to PSAB and in Canada, are outside of the discretion of the various levels of government. Due to the unique constitutional framework in Canada, this could affect all levels of government reporting and could result in additional consolidations (i.e. Provinces into Federal, municipalities into Province).

For example, the definition of control being proposed by IPSASB appears to be much broader than in PSAB. For example:

- PSAB currently defines government as *“the elected and appointed policy-makers and administrators who together perform the executive function and are the preparers of financial statements.”*
- The Joint Working Group position defines government as *“as a socio-economic entity separate from the individuals, elected to govern the jurisdiction and continuing to exist beyond the term of any particular elected administration.”*

Both of these definitions assume that the constitutional structure of Canada defines the provinces/municipal governments etc. as being independent from their immediately senior government entity.

However, the IPSASB proposed definition of control states: *“The existence of separate statutory or constitutional authority and operational autonomy does not, of itself, preclude these separate entities from being included within the whole of government group reporting entity.”* Therefore, under IPSASB, each level of government in Canada would have to consider whether it “controls” a level of government below it.

While recognizing that counter-arguments exist, issues such as broad policy setting through federal legislation, for example, covering health care together with federal funding specifically for health care; other social and economic sector federal support; equalization payments; legislative obligations and practices in supporting municipal governments etc., would have to be considered. Other considerations could be determining if a more senior government benefits from the implementation of policy by a less senior level of government, is it exposed to financial burdens from those operations and can it use its powers to influence the financial burden etc.

Other Comments

We have no additional comments on the remainder of the proposal; however we would again like to emphasize that we have significant concerns regarding the proposed scope of this document.

We would again like to emphasize that the type and extent of information that a Government would want to report related to their efficiency, effectiveness, compliance and service delivery achievements should be at their discretion. This information is highly subjective and is based on assumptions and proposals. Including these in standards will subject this information to the same level of audit as other historical financial information, which will likely create significant issues for governments as well as the audit community.

We would like to again thank you for the opportunity to comment on this issue.

Yours truly,

Betty-Anne Pratt, CA
Provincial Comptroller
Province of Manitoba