

Comments on the proposals in the Consultation Paper (September 2008) Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities.

The Swedish Council for Municipal Accounting (Rådet för kommunal redovisning) is the standard-setting body for municipal accounting in Sweden. The council has a board that is responsible for the governance of the organisation. An expert committee prepare and assist the board regarding questions about accounting standards and generally accepted accounting principles. To assist the board and the expert committee there is a secretariat responsible for the day-to-day business.

The consultation paper has been discussed in the expert committee. In general the expert committee is very positive towards the proposals in the Consultation paper. However, there are some questions we would like to raise. For example regarding the Report Entity, the Swedish standard-setter has a different view and approach.

Preliminary View 1 – the Authority of the IPSASB Framework

We assume that the framework will be guiding in the work of revising the existing IPSASs and that the conflicts between the framework and IPSASs therefore will decrease in the future. Maybe this should be pointed out.

Preliminary View 2 – General Purpose Financial Reports

Approved.

Preliminary View 3 – The users of GPFRs

Approved. However, it should be pointed out that there was a discussion about the definition and meaning of the wording “their representatives”.

Preliminary View 4 – The Objectives of Financial Reporting

Approved.

Preliminary View 5 – The Scope of Financial Reporting

Approved.

Preliminary View 6 – Evolution of the Scope of Financial Reporting

Approved.

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

In general in line with SCMA's view. Considering the conditions for the municipal sector we would like to stress the importance of comparability and relevance which encompasses confirmatory value.

Preliminary View 8 – Characteristics of a Reporting Entity

Approved.

Preliminary View 9 – The Composition of a Group Reporting Entity

The first part of the "benefit or financial burden/loss" criterion is in line with our view. However, the definition of the "power" criterion, that also is reflected in the last part of the "benefit or financial burden/loss" criterion, and the reference to the IASB ED "Objective and Qualitative Characteristics" gives the impression of the fact that the Composition of the Group Reporting Entity is based on a decision-making approach instead of an accountability approach that is based on the purpose and responsibility of public sector organisations.

We do not believe that a decision-making approach based on the concept of control and full consolidation method is appropriate. Surplus and earnings are not a goal in the public sector; the goal is rather to offer services to the citizens.

Instead we argue for proportional consolidation based on the purchase method. An argument for the use of proportional consolidation is the fact that municipalities to a great extent, at least in Sweden, use jointly owned corporations, where size and use of services reflect equity interest, in order to run different operations. The need for information in order to estimate ROA or similar earning measurements is not of importance as surplus and earnings are not a goal in the public sector but it is rather information about the cost for service delivery that is of importance for accountability purposes. Hence, comparability and the reflection of costs for services delivered call for a consolidated reporting based on proportional consolidation according to the purchase method. This method will also facilitate comparison between municipalities with different organizational solutions.

According to the Swedish standard about consolidated reporting, companies should be included in the consolidated reporting if the municipality directly or indirectly has a material/significant influence. A rule of thumb is that the municipality should control 20% of the number of votes. However, according to the standard, there are situations when the number of votes comes short of 20% but the ownership involves a materially economic commitment for the municipality. In these cases the company should be included in the consolidated reporting. There could also be situations where legal aspects limit or impeditment the municipality to exercise its influence. In these cases the company should not be included in the consolidated reporting.

To sum up: In general we are very positive towards the proposals in the Consultation paper. The shift from a decision-making approach towards an accountability approach is very good. The accountability approach is much more in line with the objectives and the conditions for the public sector. However, the accountability approach must be reflected in the whole framework including the Composition of the Group Reporting Entity.

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