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The Technical Director  
International Public Sector Accounting Standards Board  
International Federation of Accountants  
545 Fifth Avenue, 14th Floor  
New York, New York 10017  
United States of America  
Email: [EDComments@ifac.org](mailto:EDComments@ifac.org)  
Fax: +1 (212) 286-9570

Dear Stephenie

**SUBMISSION ON CONCEPTUAL FRAMEWORK FOR GENERAL PURPOSE FINANCIAL REPORTING BY PUBLIC SECTOR ENTITIES**

We welcome the opportunity to comment on the consultation paper on *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*, issued by the International Public Sector Accounting Standards Board (IPSASB).

We believe this initiative will lead to significant improvements in financial reporting by the public sector.

In compiling our comments, the Accounting Standards Board, the official accounting standard setter for the public sector in South Africa, consulted widely with our stakeholders.

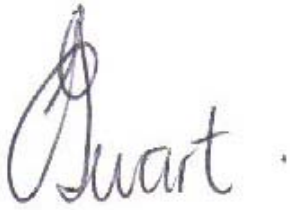
Our response is structured as follows:

- Comments on Preliminary Views, and
- Other comments on aspects not specifically dealt with in the Preliminary Views.

Please feel free to contact me should you wish to discuss any of our comments.

Board Members: Ms K Bromfield, Mr R Cottrell (Chairperson), Mr V Jack, Ms CJ Kujenga,  
Mr K Kumar, Mr T Makwetu, Mr F Nomvalo, Mr G Paul, Mr I Sehoole  
Chief Executive Officer: Ms E Swart

Yours sincerely

A handwritten signature in black ink, appearing to read "Erna Swart". The signature is written in a cursive style with a large initial "E" and a period at the end.

Erna Swart

Chief Executive Officer

## Comments on Preliminary Views

### ***Preliminary View 1 - The Authority of the IPSASB Framework (following paragraph 1.7)***

*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.*

We do not understand the reference to new in the question. We understand the authority of the IPSASB Framework to be the starting block against which any new IPSASs need to be measured to ensure consistency and, in the absence of an IPSAS or other guidance issued by the IPSASB, the source for formulating appropriate accounting policies.

We support the view that the IPSASB Framework will not establish new authoritative requirements, but believe the IPSASs that have been issued at the date that the IPSASB Framework is issued, need to be reviewed to ensure that the requirements in existing IPSASs are not in conflict. Where there are conflicts the IPSASs should be revised following the normal due process.

### ***Preliminary View 2 - General Purpose Financial Reports (GPFRs) (following paragraph 1.15)***

*GPFRs 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.*

We agree. We think it is useful to distinguish GPFRs from Special Purpose Reports.

### ***Preliminary View 3 - The Users of GPFRs (following paragraph 2.7)***

*As a mechanism for focusing on their common information needs, the potential users of GPFRs 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 GPFRs. 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.*

We agree that there is a wide range of users of GPFRs.

We believe that the needs of those users vary depending on the nature of the report. While recipients of services might be more interested in the achievement of the service delivery objectives, providers of resources may be more interested in how those resources were used.

Recipients of services may be more interested in the information presented in, for example, performance information, while providers of resources may be more interested in the traditional financial statements.

Accordingly, we place more weight on the information needs of users of services and the providers of resources. We believe that the information needs of the third group of users, i.e. other interested parties, are diverse. Consequently to the extent that the third group of users require information which are not also required by the users of services and providers of resources, this would be regarded as special purpose information.

Different IPSASs may need to place more emphasis on one group above the other depending on the objective of that IPSAS, but in order to qualify as GPFRs, the information to be presented in accordance with an IPSAS must meet the needs of more than one user. If, however, one group is elevated above another group, a review of existing IPSASs may be needed, for example, IPSAS 22, Disclosure of Information about the General Government Sector, appear to meet the needs of only one user group.

We believe employees should be listed specifically as a provider of resources in paragraph 2.6.

***Preliminary View 4- The Objectives of Financial Reporting (following paragraph 2.22)***

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

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

We support these objectives, but believe that there may be a different emphasis in meeting the objectives in different reports of the GPFRs. Resource allocation may be demonstrated in the financial statements, while the report on achievement of service delivery objectives, may demonstrate accountability. All the reports need not demonstrate achievement of both objectives.

***Preliminary View 5 - The Scope of Financial Reporting (following paragraph 3.18)***

*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 GPFRs.*

In our opinion, one of the public sector's fundamental differences with the private sector is its responsibility for all resources, and not only economic resources. Different government departments and agencies may have responsibility for specific natural resources, such as air and water quality or utilisation of mineral resources. Their financial statements may be limited to the economic activity, while the other components of GPFRs may need to look wider at all the resources under their control. Accordingly, we believe this section should refer to resources broadly.

To make the conceptual framework operational, the elements can be used to limit the inclusion of resources either in financial statements or general purpose financial reports. The qualitative characteristics will be used to ensure that reporting on the wider concept of resources is appropriate.

***Preliminary View 6 - Evolution of the Scope of Financial Reporting (following paragraph 3.22)***

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

We support the view that the scope of financial reporting will evolve over time. The evolution of financial reporting supports the notion of not limiting the scope of financial reporting to economic resources only.

***Preliminary View 7 - The Qualitative Characteristics of Information Included in GPFRs (following paragraph 4.40)***

*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.*

We support the qualitative characteristics as defined. We believe that IPSASB should record the public sector specific reasons if they want to deviate from the qualitative characteristics determined by the IASB. If the IPSASB do not record the reasons, aspects of the existing converged IPSASs may be questioned. This justification should be based on the premise that the IPSASB's conceptual framework differs from the IASB's conceptual framework in the following areas:

- The scope of the IPSASB's Framework encompasses General Purpose Financial Reporting while the IASB's Framework focuses on General Purpose Financial Statements.
- Additional users of financial information exist in the public sector.

IPSASB also need to acknowledge that the nature of a report in a GPFR may emphasise some qualitative characteristics more than others. For example, management commentary is presented through the eyes of management. It may be deemed not to be neutral, which could result in the characteristic of faithful representation being questioned.

In the public sector, legislation may require the disclosure of information, even though the qualitative characteristics for financial reporting have not been met. For example, information may be required to be disclosed in the financial statements by legislation even though it is not material for financial reporting purposes. This needs to be acknowledged in the section on the qualitative characteristics of financial reporting.

***Preliminary View 8 - Characteristics of a Reporting Entity (following paragraph 5.10)***

*The key characteristic of a reporting entity is the existence of users who are dependant (sic) 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.*

The existence of users should not be the only criterion to determine whether there is a separate reporting entity. We believe that a set of activities, comprising transactions and other events, must also exist and that reporting on those activities is required because of the existence of users of information about that activity.

***Preliminary View 9 – The Composition of a Group Reporting Entity (following paragraph 5.35)***

*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).*

We agree with this view to determining a group reporting entity, or economic entity as referred to in IPSAS 6. We do however question the use of the word “govern” as it could be read to include “to regulate”. Consequently we would propose using “to direct” which is in line with the IASB’s proposed definition of control in ED 10 on Consolidated Financial Statements: “A reporting entity controls another entity when the reporting entity has the power to direct the activities of that other entity to generate returns for the reporting entity.” Another alternative could be “to control”.

We would also consider whether the terms “benefit” and “financial burden” should be aligned with the IASB’s notion of “results”.

**Other issues****Applicability: Government Business Enterprises**

Section 1.8 -1.9 states simply that the framework will apply to all public sector entities other than Government Business Enterprises (GBEs). As reflected in the minutes of the Zurich meeting a number of issues with regards to GBEs need to be resolved, including who sets standards for GBEs, whether the definition should be aligned with those used by the System of National Accounts or in GFS, the profit objective of standards set by the IASB versus a full cost recovery basis adopted by many GBEs, amongst others. We do not think the applicability of the framework should be determined until clarity about GBEs and the appropriate reporting model have been obtained.