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By email to: edcomments@ifac.org

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Dear Stephenie Fox,

We are pleased to be able to present the comments from the Dutch Local Government Accounting Standards Board (Commissie BBV) on the IPSASB Consultation Paper regarding the Conceptual Framework.

Introduction

In the Netherlands most governments and non-profit-entities prepare and issue their financial budgets as a public document. The financial statements legally will be prepared in accordance with those public financial budgets. So in the Netherlands the IPSASB Conceptual Framework will also have to apply to these public financial budgets.

Most of the information for making resource allocation, political and social decisions are disclosed in these financial budgets and most of these decisions are primarily made by changing and/or approving the financial budgets. For democratic decision-making regarding resource allocation considering political and social aspects the financial budget is just as important as the financial statements or the GPFs. In our opinion a public financial budget is a typical characteristic of the financial reporting by public sector entities.

In the Netherlands the formal decision-making on the financial budget and the financial statements is reserved to the elected representatives of the citizens or constituents, including recipients of services, providers of resources and other special interest groups. The information needs of these elected representatives are leading like the information that is decision-useful to the capital providers (IASB-framework).

Relationship with the IASB Conceptual Framework project

We welcome the work which the IPSASB is carrying out on developing a conceptual framework. This will provide a more complete context for the conceptual work which the Board has already progressed on issues such as Non-Exchange Transactions and Social Policy Obligations. We agree with IPSASB that the public sector Framework should not simply interpret the IASB framework. It is very important to broaden the IPSASB's research to cover matters characteristic for the financial budgeting and reporting by public sector entities.

Focus and scope of the public sector framework

We agree that the primary focus of the IPSASB Conceptual Framework should be on public sector entities which operate, at least in part, for the benefit of the public. Those government bodies which operate purely for profit can use private sector focussed conceptual frameworks with little or no adaptation.

We also agree that it is very important to broaden the framework to cover matters which go beyond the current focus on financial statements. The Board has already made proposals on financial reporting on social benefits, and has proposed a project on long-term fiscal sustainability reporting. While it remains to be seen whether standards or other internationally applicable guidance can be developed in these areas, these are important issues which should be properly explored.

Responses to the Request for Comment

Hereby we give our responses to the request for comment on the IPSASB Preliminary Views:

IPSASB Preliminary View 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.

We agree. The IPSASB Framework will be the starting point for developing all new standards, and for the interpretation of standards in circumstance not dealt with in IPSASs. However, it should not override the requirements of standards which have already been issued. This is particularly clear for standards developed after the framework has been established, but should also apply to those developed beforehand. The appropriate way to change financial reporting standards is by following due process.

IPSASB Preliminary View 2 - General Purpose Financial Reports (GPFRs)

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 with this proposal, but we note that considering cost and materiality of financial reporting (Preliminary View 7) will limit the information reported in GPFRs.

IPSASB Preliminary View 3 - The Users of GPFRs

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 these are helpful and appropriate groupings, but the reported information primarily will have to be appropriate understandable to the advisors of these groups (par. 4.20 and 4.21). So the information needs of these (elected) representatives of the groups will be leading.

It is also important to consider the role of the legislature, including the elected council(s), acting in the interest of all users. In representative democracies there are many who consider that the primary user group is the electorate and the elected representatives, and that the elective process should in general persuade the legislature (council) to act in their interest. We recognize that the IPSASB framing may be helpful in covering other forms of government.

IPSASB Preliminary View 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 GPFRs for:

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

We strongly agree with the inclusion of accountability and decision usefulness objectives. But it is important to recognize the limitations of financial reporting, and we agree that financial reporting cannot be expected to provide all the information which users might require for accountability purposes.

In particular, while we consider that economic, efficient and effective use of resources is a key concern of public sector managers and accountants, it is less clear that this lends itself to a standardised reporting treatment. We note that in the Netherlands many jurisdictions approach these issues through assessment, oversight bodies and audit courts rather than by standardized reporting.

IPSASB Preliminary View 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.

We agree with the proposed scope. Many of these matters are already part of the public sector financial reporting landscape.

We also agree that information presented in financial statements and their notes should remain at the core of financial reporting. In our opinion this includes the public financial budgets and we ask for more attention in considering matters relating those government budgets. In the Netherlands the governmental decision-making mostly concerns the allocation of budgets.

There are also implications for the types of audit and assurance regimes that can be applied to **non**-financial reporting.

IPSASB Preliminary View 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.

We agree that the scope of financial reporting should evolve in response to information needs of the skilled advisors or representatives of the user groups.

IPSASB Preliminary View 7 - The Qualitative Characteristics of Information Included in GPFs

The qualitative characteristics of information included in GPFs 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 the balance between the qualitative characteristics.

We agree with the proposed qualitative characteristics and constraints on financial reporting.

But we note that because of the freedom of (local) political decision-making alternative accounting methods for the same phenomenon should be permitted and are more important than comparability between (local) governments (par. 4.27).

IPSASB Preliminary View 8 – Characteristics of a Reporting Entity

The key characteristic of a reporting entity is the existence of users who are dependant on GPFs 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 organizational structure or arrangement.

We agree with the above analysis. It provides sufficient flexibility to accommodate the many approaches which governments may use to organize their activities, which also often reflects a view that they often define functional or organizational boundaries specifically to support accountability to government and other stakeholders, and to inform funding and other decisions.

But considering the costs of separated information will limit the non-legal reporting to some user groups.

IPSASB Preliminary View 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).

We agree that this is a sensible approach on the basis of which to develop guidance for group entities, although in practice we would note that some jurisdictions will require financial reports to be produced for group entities on a basis more akin to that set out in Preliminary View 8, to support accountability and decision making.

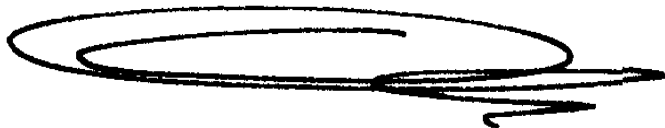
Considering the specific matter of whole of government entities, we accept that the control based approach is more applicable, although again, in practice some flexibility may be required in practice. In the Netherlands the legal control of the state and the local government is laid down in the constitution and this will also influence the control based approach.

Because of required European economic statistical information (emu) the financial (budget) information of some Dutch governmental entities is accumulated. However, this legally required statistical use of financial information will not be considered as an indication of a group reporting entity.

We hope this comment is a helpful contribution to the development of the IPSASB Conceptual Framework.

Sincerely

Dutch Local Government Accounting Standards Board (Commissie BBV)



Willem G.J. Wijntjes
Chairman