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Comments on Consultation Paper “Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities”

The Swedish National Financial Management Authority (ESV) appreciates the opportunity to comment on the Consultation Paper “Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities”.

ESV is the government agency responsible for financial management and development of GAAP in the Swedish central government. Full accrual accounting was introduced in 1993 and we hope that our experience will be a contribution in your work with various accounting issues.

Overall Opinion

Our overall opinion is that we support the overall conclusions in the Consultation Paper. We have some remarks and completing questions on a few issues, but no real objections.

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.

Our Comment:

We find these statements to be the only working view when it comes to existing standards on the same time as the framework can be of use to solve other accounting problems.

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.

Our Comment:

We believe that the broader view on the concept of GPFRs compared to financial statements is wise. That is true especially when it comes to prospective information, where budgets and like documents can be great sources of financial information. In that perspective our view is that that the annual report with financial statements in most public sector entities that are not dependent on a market basically are not to be prospective in nature. Only if there are no published budget documents to rely on we believe that specific prospective data may be relevant in the annual report.

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.

Our Comment:

The view seems relevant to us. We believe that it is relevant to see the primary recipient (as we interpret the concept legislature) of the annual report as the major user. That is the Parliament, the Government, the municipal councils etc.

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.

Our Comment:

We strongly support the deviation from the objectives set out in IASBs work. Of particular importance is the emphasis put on accountability. As already pointed out we do not believe in a prospective objective but as in exceptional cases and as historic material for calculations and forecasting.

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.

Our Comment:

As already said we do not see the last issue as relevant for the annual report possibly with the exception for when the entity's future operations are mostly dependant on external financing and not on appropriations in a budget. In a broader sense of financial information we find the scope relevant as a whole.

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.

Our Comment:

We agree with the view and can also see that there may be differences in scope among entities and jurisdictions.

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

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 achieving an appropriate balance between the qualitative characteristics.

Our Comment:

The characteristics seem relevant in our opinion. We observe that there is no priority suggested between them as is done in the IASB framework. That may mean less guidance from the framework when it comes to choose between accounting and reporting alternatives for specific issues. In practice that might result in allowing a choice among different alternatives to handle a specific situation. There however in reality may be different priorities among the characteristics. In Sweden for example comparability may be more important when it comes to the municipalities, that are much alike in tasks and organization, than it is for the central state level that differs more between jurisdictions.

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 on GPFRRs 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.

Our Comment:

The delimitation of the reporting entity is crucial. There may be strong interconnections between entities in the public sector and it is important to define the separate entities also from that point of view.

The central government is often responsible for the central organisation in itself as an entity but also for the economy as a whole. A means for the state may be contributions and other transfers to other parts of the economy, sometimes used for investments. Contributions from others to the state operations or investments may also exist.

It is of importance that there is a clear delimitation of which elements are parts of the financial statements and which are effects from the state operations on the economy.

There might for example be a need to a control element in those issues.

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)

Our Comment:

We agree with this view.

These comments have been prepared by Claes-Göran Gustavsson and Curt Johansson.

Yours sincerely,

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