Advisory Committee for the Standardisation of Public Accounts

The Chairman

Paris, le 15 june 2011

<u>Purpose</u>: response from the French Court of Auditors to the exposure draft and consultation documents from the IPSAS Board relative to phases I, II and III of the conceptual framework.

The present document is the response from the French Court of Auditors and all French jurisdictions to the exposure draft and consultation documents from the IPSAS Board relative to phases I, II and III of the conceptual framework.

Composed of members of the Court of Auditors and of regional and local chambers of auditors, the advisory committee of financial jurisdictions for the standardisation of public accounts is drafting the opinions of the latter over questions of accounting standardisation relative to three areas of public sector administration (the State, Regional and Local Government, and Social Security). The committee is preparing the positions that will be held by the representatives of financial jurisdictions on the various standardisation boards.

Financial jurisdictions have read with great interest the consultation documents proposed by the IPSAS Board, which raise key questions over the goals and content of financial statements from public-sector bodies.

As for the key question of choice of accounting model, we are not in favour of giving preference to the flow model as opposed to the balance-sheet model in the public sector. Neither are we in favour of a highly extensive view of the balance-sheet model, which could, for example, result in the accounting of liabilities prior to the advent of a legal obligation.

Rather than oppose two "pure" models, which may seen sterile in some respects, the principle of coherence must prevail: flows and heritage are two important aspects of financial information for public sector bodies, as is sustainability. A "mixed" model that reconciles all these requirements should be sought. The keystone lies with the presentation, in the balance sheet, of all rights and obligations, with all financial statements ensuring high consistency between variations in the amount of rights and obligations and the expenses and income given in the income statement.

The replies to the three consultation documents from the IPSAS Board that are forwarding to you are compatible with this said "mixed" model.

Christian BABUSIAUX

Response to the exposure draft from the IPSAS Board

"Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Role, Authority and Scope; Objectives and Users; Qualitative Characteristics; and Reporting Entity"
(Phase I)

I. *"Role, Authority and Scope of the Conceptual Framework"*

I.A *"Authority of the Conceptual Framework"* (par. 1.2 & BC1.1 to BC 1.3)

The understanding is that the authority of the conceptual framework is no greater than that of IPSAS standards, but is seen on the one hand as an aid to draft these standards, and on the other as a guide for persons preparing accounts when no specific standard is available for treating a particular item as and when financial statements are drawn up. Additionally, a review of existing standards will be made after the adoption of the present framework to eliminate potential sticking points.

In principle, the French Court of Auditors has no objection but would like to recall its stance on the previous project (see letter of 31 March, 2009). Taking as an example the conceptual framework of accounting standards for the French State (if, exceptionally, the application of a rule proves improper and does not give a true image, exemption shall be made to the rule and the said exemption must be mentioned and explained in the appendix along with its effect on accounts), the Court felt that general principles should be placed above standards and that this should be clearly stated in the conceptual framework. The Court stands by this position.

I.B *"Scope of Financial Reporting"* (par.1.5 to 1.7 and BC 1.5 to 1.9)

The scope of the project is to consider that the framework of *"General Purpose Financial Reporting by Public Sectors Entities"(GPFR)* should be broader than financial statements in the strict sense of the term (including appendix notes), even though the said statements will always be the core of financial information. According to the draft, they may comprise information about the past, present and future, deemed to be useful for users and including information that is financial or non-financial, quantitative or qualitative, etc.

Concerning this, in principle, broad perimeter, the French Court of Auditors has no objection in essence, as it willingly agrees that financial information clearly extends beyond accounting statements, a stance supported by the situation in France today (budget execution, performance reports, forward stability programme in the frame of the EU...).

Nevertheless, it feels that any new move forward by the IPSAS Board in this field cannot be placed on the same level as accounting standards. In this respect, it seeks elucidation as to paragraph 1.7, second sentence and BC.1.8: it must be stated clearly that sections 2 and 3 of the conceptual framework *(definition, recognition and measurement)* and in the future section 4 covering the presentation of reporting statements, are relevant only for the drawing up of standards governing actual financial statements, and that the drafting of new ways forward for the rest (e.g.: sustainability reports) will come under a different rationale. The last sentence of paragraph 3.5 mentioned further on must be clarified in this respect.

I.C *"Applicability of the Conceptual Framework" (§ 1.8 and BC 1.10)*

The proposed wide field poses no problem to the French Court of Auditors: it relates to public sector entities, excluding public-area companies in the competitive sector (GBEs). It should be specified that in France, the basic social security systems (in the sense of community legislation) come under the public sector: even if run by entities with a different status, they are governed by the annual vote for the law financing social security.

No conclusions should be drawn from this paragraph concerning the drawing up of consolidated accounts (see further on).

II. *"Objectives of Financial reporting and Users of General Purpose Financial Reports"*

II.A *"Users of General Purpose Financial Reports"* (§ 2.4, 2.5, BC 2.4, BC 2.7)

The understanding is that, for the IPSAS Board, the prime users of financial information are the beneficiaries of services and the bringers of resources and their representatives that may be Parliaments or deliberating assemblies (2.4 and BC 2.4). If citizens are recognised as prime users of financial statements, it is because they are suppliers of resources and beneficiaries of services (2.5), but there are others.

This approach is acceptable only with several reservations:

- the conceptual framework cannot ignore reality: in a democratic State, where governing officials are required to report to citizens or to their representatives, national rules (or rules of the European Union) always comprise obligations in this respect for different public entities, even though they may take different forms: consequently, the first sentence of § 2.4, "*...who do not possess the authority to require a public sector entity to disclose the information they need for accountability and decision-making purposes*" makes no sense. Financial information for general purposes may of course by complemented for more specific needs (2.6) but it is not a category in its own right. As a general rule, it will be included in documents due to the representatives of tax-paying citizens/beneficiaries of services (State, local government) or to representatives of public contributors (public establishments, social security organisations);

- it is therefore a moot point – putting it mildly – to imply that parliaments (or other deliberating assemblies) should have special needs for financial information that might lead to their requesting special statements (BC2.8). When you opt for an approach to GPFR as broad as the present draft exposure, you cannot then leave people thinking that it might, by nature, be inadequate;

- the bottom line is that under these conditions, GPFR must be for both citizen/tax-payers/service beneficiaries and their legitimate representatives, giving information that may be diverse in nature but always consistent in itself. In this respect, we may consider that actual financial statements, prepared according to observed lawful accounting principles (and subjected to an obligation of certification by the competent national institution) may or should be complemented by receipt/expense budget execution statements, giving simple information about the year's budget balance, by performance reports or the equivalent thereof of more specific interest to such and such a category of citizen, and even by documents of sustainability. These statements must be usable by other persons, such as lenders, for example, and also by public contributors when dealing with statements from public organisations of all types. Lastly, they must be consistent with the State's national accounts;

- this principle of general consistency should be clearly asserted under 2.4 and BC 2.4 and in the conclusion after 2.13. It implies very exacting standards regarding actual financial statements and all supplemental documents.

II.B *"Information Provided by General Purpose Financial Reports"*

For paragraphs 2.19 and 2.20 (information re budget execution), 2.21 (*service delivery achievements*) 2.22 and 2.23 (prospective information), the Court of Auditors refers back to what was said under I.B and also to the above paragraph and the principle of consistency.

Additionally and regarding more particularly sustainability (2.23), it also refers back to its reply of 26 April, 2010, to the consultation document from the IPSAS Board relative to information about the long-term financial sustainability of public finances. The Court emphasised that several conceptions might exist on this topic and suggested using the terms "items of sustainability", placed either in the notes to accounts or in an ad hoc report kept separate from actual financial statements, or, if relevant or if it exists, in the executive management report.

III. *"Qualitative Characteristics of, and Constraints on, Information included in General Purpose Financial Reports"*

III-A Qualitative characteristics

Paragraph 3.2 gives the list of qualitative characteristics of information included in GPRF: relevance, faithful representation, understandability, timeliness, comparability and verifiability. The understanding is that all these qualities are to be placed on the same level, that they inter-combine and complement each other with no scale of priority (3.4 and 3.40 and 3.41; BC 3.29) and that they are designed to cover all forms of financial reporting (3.5).

Firstly, this calls for two general comments:

- even though they interlap, these qualities are different to those attributed to financial statements in the strict sense of the terms by the standard IPSAS 1 (appendix), which are "understandability", "relevance", "reliability" (a quality that includes "faithful representation", "substance over form", "neutrality", "caution", "completeness") and comparability (see further on). The opinion of the Court of Auditors is that the qualitative characteristics proposed in the conceptual framework must not lead to any degradation of the exacting standard of those listed under IPSAS 1;

- secondly, the qualitative characteristics of the draft conceptual framework, when examining their definition given in the following paragraphs, appear in reality to have full scope only when tying in with other forms of GPFR, aside from financial statements in the strict sense of the term. But, in this respect, 3.5 suggests future developments to specify or to interpret these qualitative characteristics on the occasion of the creation of standards or ways forwards for the said other forms of GPFR. This is not entirely satisfactory and undermines the thoroughness of the present draft.

Some of these qualitative characteristics call for a number of observations:

- relevance (3.6 & BC 3.5):

In substance, the definition overlaps with that of IPSAS 1 and poses no problem, but the first sentence of the two cited paragraphs is not easily understandable.

- faithful representation (3.10 to 3.16 and BC 3.8 to BC 3.17) :

This supposes, in particular, exhaustiveness (BC 3.9), neutrality and absence of significant error (3.14, 3.16 and BC 3.9), but the draft turns these into relative concepts owing to the broad nature of the items of financial reporting it focuses upon (most notably prospective information). This must not lead to any undermining of the exacting requirements made upon financial statements in the strict sense of the term (see above).

Regarding the link with the term "reliability" employed by IPSAS 1 (BC 3.10 to BC 3.13), the framework draft considers that the term faithful representation poses fewer problems of interpretation and is broader to designate a globally faithful image of the economic phenomena we wish to depict. The Court of Auditors regrets the replacement of the more thorough conception used in IPSAS 1.

Furthermore, and still with this same characteristic, the question is raised over the attributes of substance superior to form and of caution (BC 3.14 to BC 3.17). It is explained (3.15) that substance superior to form is a component of faithful representation. For caution, the draft says that this is an attribute of neutrality (3.17), itself included under faithful representation. In this respect, the Court of Auditors reiterates its robust attachment to the principle of caution, which figures hardly at all in the body of the draft (only 3.14 states that "caution will need to be exercised when dealing with uncertainty") as a component of faithful representation. However, this principle is key when looking to evaluate the liabilities and assets of a public entity, all the more so when examining sustainability.

In keeping with the preferred option of a "balance-sheet" model or, at the very least, a "mixed model" making it possible to retrace rights and obligation over and above flows (cf. introduction and the response from the Court of Auditors to the IPSAS N°2 consultation document for the conceptual framework), it would appear essential to retain the principle of caution. Paragraph 3.15 should be reinforced in this respect, and the same should apply to 3.16 on the question of estimations.

- understandability (3.17 & 3.18 and BC 3.18 to 3.20): no problem in principle
- timeliness (3.19 & 3.20 and BC 3.18 to BC 3.20): ditto
- comparability (3.21 to 3.25 and BC 3. 23 and 3.24): ditto
- credibility or verifiability (3.26 to 3.31 and BC 3.25 to 3.27):

The Court of Auditors observes that the draft is very hard pushed to define this characteristic (which is confused with "supportability") as acknowledged under BC 3.26. In fact, the understanding is that this is operative only for financial information other than financial statements in the strict sense of the term (3.26 and 3.31). It should be necessary to clarify the exact scope of this characteristic, the appeal of which lies only with non-accounting information.

III-B "*Constraints on Information Included in General Purpose Financial Reports*"

The Court of Auditors has no observation to make as to the two constraints recognised in the production of financial information, namely significativity and cost-to-profit ratio (3.32 to 3.39 and BC 3.30 to 3.37).

IV. "*The Reporting Entity and Group Reporting Entity*"

The general definition (§4.1) of the public entity obligated to GPRF, or of the group of entities, raises no problem. The understanding is that to ascertain the basic entity obliged to present financial reporting, we refer to the requirements of national legislation (4.5, 4.6 & BC 4.2).

It is however regrettable that the draft does not envision more clearly than it currently does the necessity of there existing at least one financial report for a State (distinguishing between Federal State and federated states, if necessary) considered in its entirety, over and above financial reporting that might be made by ministries or agencies. This can be an intermediary stage before the production of consolidated financial statements over a wider scope. It is a condition for comparability for national States.

Concerning the "Group Reporting Entity", the draft envisages different forms of control for entities to be consolidated or combined into a whole (4.8, 4.11 and 4.12). But BC 4.11 is clearer by referring, for a government for example, to all entities "*whose activities it can direct for its benefits, including those which expose it to a financial burden or loss*". This definition is more ambitious than that of control given by the present IPSAS 6 and seems more closely linked to the notion of advantages and risks than to the current definition of control (cf. on this point the response from the Court of Auditors to consultation document N°2).

The Court of Auditors understands that to take this further, IPSAS standards will need to meet the problems of implementation raised in this area by the differences in legislation from one country to the next (4.13). This means that the conceptual framework does not judge the tricky issues of perimeter (BC 4.17) and technique (consolidation or combination, BC 4.18) and thus relates back to standards to be defined or reviewed on this point.

The Court of Auditors considers this approach to be one of caution at the present stage but will be vigilant at the standard-setting stage to ensure that the specifics of national legislations are recognized (BC 4.19 to 4.21). Here, the Court of Auditors wish to dwell on the importance of national legislation, in democratic States, endeavouring to define the relevant level for the production of financial statements, done so according to the needs of users represented by national parliaments. The adopted approach will need to be pragmatic and reasonable.

Finally, in this particular area we cannot ignore the requirements of the EU for EURO zone States, which for the production of their stability programme, practice a form of data consolidation for national accounts.

Response to the exposure draft from the IPSAS Board

"Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Elements and Recognition in Financial Statements"
(Phase II)

Introduction

This consultation document from the IPSAS Board is strategic in that it concerns a conceptual discussion of the fundamental contents of financial statements from a public entity.

There are two directly opposed cardinal models on this subject:

- a so-called "flow" model in which fiscal year expenses and income and the "financial performance"[1] of a public entity are measured, essentially based on flows of cash without however these flows being totally blended;
- a so-called "resources and obligations" model where the fiscal year expenses and income are charged more directly against variations in assets and liabilities.

This fundamental discussion is picked up on under point 11 of the IPSAS Board document. Nevertheless, it is proposed to address this question in the introduction to the draft response and to then complete the text with short answers to the 19 questions posed in the IPSAS consultation document.

Flow Model and the Resources & Obligations Model

The public sector entities likely to apply IPSAS and the conceptual framework thereof currently being drawn up belong to the public administration sector in the sense of national accounting:

- Central government;
- Regional and local government;
- Social security.

Presentation of the current context in France: accounting systems for Central Government, Social Security and Regional and Local Government

In France, general accounting for Central Government is, through the organic law relative to the Bill of Finance, separate from budgetary accounting: general accounting must be kept according to the rules that apply to business firms, subject to the specific features of the State; budgetary accounting is kept according to the principle of cash office for receipts and according to the principles of engagement and cash office for expenditures.

[1] Under IPSAS standards, the income statement is referred to as "statement of financial performance" and is presented like the income statement for a business firm (income – expenses = profit), as opposed to the table for ascertaining the fiscal year balance for the French State, resulting from the difference between net regal income and net expenses. In this respect, the "French-style" income statement is very similar to that of the US Federal Government.

Expenses are not directly connectable to income, and likewise expenditures are not connectable to receipts. The rules applicable to operators (agencies) controlled by the State are different and the ongoing issue is to harmonise these rules with State rules.

Concerning Social Security, the context is different. Budgetary accounting does not exist and accounts are kept according to observed rights within the limit of the distribution model. The general principle is effectively one of connection of allowances and sums due for a given year with allocated contributions and taxes expected for that same year. Imbalances between expenses and income produce a financial debt, borne by an ad hoc structure on the occasion of transfers operated by law.

Contrary to the system practiced by the State, items of long-term visibility regarding Social Security (retirement commitments with citizen contributors, for example) are not accounted for in the balance sheet. Neither do they figure in the notes. They are partly presented in other documents that are separate from accounts. One of the major issues in France today is to have these items figuring in the notes to the accounts of the Social Security system. In any case, the rationale is different to that seen in models used by insurers.

Lastly, regional and local governments are administered with a "budget-accounting" system that comprises a presentation of accounts in two sections, operations and investment. Certain calculated expenses (allowances for depreciation or certain allowances for provisions, for example) are neutralised. The balance sheet is of limited significance and notes to financial statements are very sketchy. From this viewpoint, the general accounts of regional and local government offices are subjected to budgetary constraints.

The conceptual framework applicable to public-sector entities must take on board all encountered specifics and not be frozen on one extreme model rather than another. It must be able to evolve in different contexts, identify the decisive factors of applicable rules, and the principles of organisation and their convergence.

<u>A issue to be taken into account: transparency of information</u>

Amongst other effects, the recent financial crisis fuelled the growth of the public debt in a good number of countries.

As countries are increasingly turning directly to the financial markets to finance their spending, by-passing intermediaries in the process, the transparency of their long term costs and commitments has become a crucial factor. Investors are reasoning more and more in terms of stocks, less and less in flows, as seen with the recent examples of certain countries from the euro zone and their financing difficulties, due in part to serious questions hanging over the sustainability of their public finances.

<u>The drawbacks of an approach based on a single model</u>

While the flow model is confined to information given as to incoming and outgoing cash for the fiscal year, and to the due and payable, with possibly information as to long-term commitments and/or non financial performance (income indicators), we may feel that it delivers data that, *on the face of it*, is more limited than the resources and obligations model, based on notions of assets and liabilities, as currently defined by IPSAS and IFRS standards.

From this, the flow model may be considered as being insufficient to report, on its own, the faithful representation of an entity's financial situation, whether public or private.

The resources and obligations model (balance sheet) gives information as to the entity's real patrimonial situation via both the balance sheet and notes thereto, and the income statement. The necessary supplemental data is provided in documents relative to sustainability. In a very extensive version, the understandability of accounts stemming from this model may be affected.

We might, in theory, conceive of a "dual" model, in which expenses and income reported in the income statement would be close to the cash office, with a balance sheet and note retracing rights and obligations in a more extended way. However, articulation between the two documents would not be easy and, importantly, not immediately understandable by a section of readers who are now accustomed to the IFRS and IPSAS model of resources and obligations.

Rather than opposition between two "pure" models, which in certain respects appears sterile, the principle of consistency must prevail: flows and patrimony are two important aspects of financial information from public entities, as is sustainability. A "mixed" model reconciling all these requirements, must be sought. The keystone of this lies with the presentation, in the balance sheet, of all rights and obligations, over and above their sole annual variation, and solid consistency between variations in the amount of these rights and obligations and expenses and income in the income statement.

All of the replies from the Court of Auditors to the three consultation documents from the IPSAS Board are compatible with such a "mixed" model.

<u>Specific Matter for Comment 1</u>

(a) Should the definition of an asset cover all of the following types of benefits—those in the form of:
(i) Service potential;
(ii) Net cash inflows; and
(iii) Unconditional rights to receive resources?

(b) What term should be used in the definition of an asset:
(i) Economic benefits and service potential; or
(ii) Economic benefits?

Answer to items (a) and (b):
Considering the specificity of each public entity and their evolution in both a business and a non-business environment, the description of assets must take into account the different forms of economic benefits, including benefits in the form of service potential.

From the outset, the notion of unconditional rights to receive resources makes it possible to account for certain assets specific to Governments, such as assets pertaining to sovereignty (namely the right to collect taxes, intangible assets deriving from granted concessions…), but these "theoretical" assets cannot be recorded in the accounts as long as their measurement remains inaccurate. In most countries, this leads to a recognition of tax claims to be recovered over one and the same fiscal year, which situation is consonant with the fact that, every year, Parliament votes an authorisation to collect taxes with projections of the amounts covered by this authorisation.

Equally cf. answer to Question No. 4.

<u>Specific Matter for Comment 2</u>

(a) Which approach do you believe should be used to associate an asset with a specific entity:

(i) Control;

(ii) Risks and rewards; or

(iii) Access to rights, including the right to restrict or deny others' access to rights?

(b) Does an entity's enforceable claim to benefits or ability to deny, restrict, or otherwise regulate others' access link a resource to a specific entity?

(c) Are there additional requirements necessary to establish a link between the entity and an asset?

Answer:

The right to deny access to a third party may be exercised effectively, where it is considered independently, in recognising massive volumes of assets, given that public entities legislate and adopt regulatory instruments to regulate a large number of sectors.

The term "control" presently used in the "IPSAS" standards may be misleading, given that different definitions are provided for both tangible and intangible assets, on the one hand, and stock holdings (specific description of control of an entity by another), on the other hand.

The notion of control makes it possible to address situations specific to public entities (concessions, for instance), but the notion of risks and advantages seems more generic and encompassing for categories of assets.

More particularly, the notion of risk is very appropriate when talking about the fact that a public entity cannot directly benefit from the economic advantages of an asset, or even benefit partially from it, whereas it actually bears the (financial) risks related thereto. A perfect illustration is provided by the "collective assets", that are managed by public entities for the benefit of the community and not for their own benefit, such as non-conceded roads, court houses, prisons, police stations, and even military assets, that do not generate (barring exceptions) any economic advantages, and whose service potential is not directed specifically to the entity, but rather to the citizens, to households, businesses and other public or private organisations. From a certain standpoint, it is not (or not only) the public entity that *benefits* from the service potential of these assets, even though it is the guarantor (custodian).

Therefore, the two approaches are complementary.

<u>Specific Matter for Comment 3</u>

Is it sufficient to state that an asset is a "present" resource, or must there be a past event that occurs?

Answer:
The notion of "present resource" is fundamentally linked to the existence of a past event, irrespective of the nature thereof. As a result, mentioning the need to identify a past event leading to the existence of an asset seems unnecessary, but the symmetry with the definition chosen for liabilities should result in this definition being retained for the two items (assets and liabilities).

Specific Matter for Comment 4
Recognition and measurement criteria aside, are public sector entity rights and powers, such as those associated with the power to tax and levy fees, inherent assets of a public sector entity, are they assets only when those powers are exercised, or is there an intermediate event that is more appropriate?

Answer:
The power to levy taxes or to award operating permits of public property (radio frequency spectrum, for instance) are inherent rights of public sector entities. They generate resources and therefore meet the most generic definition of assets. The fact that the measurement of these assets is very often only possible at the time of exercising these rights should not lead to them being excluded in principle from the scope of assets. Generally, these rights are exercised pursuant to a specific legal instrument (such as the annual finance law that authorises the Government to levy taxes for one fiscal year only), but the rights thus generated may extend beyond the current fiscal year.

According to a possible approach, these assets should only be recognised at the time when the entities concerned are exercising the rights, and not from the outset simply by virtue of their existence. Whatever the case, however, there is need to ascertain the reliability of assessments of the amounts considered.

Specific Matter for Comment 5
(a) Are there any additional characteristics that have not been identified that you believe are essential to the development of an asset definition?
(b) Are there other relevant issues, and particularly unique public sector considerations, that the IPSASB needs to consider in determining the concept of assets?

Answer:
No.

Specific Matter for Comment 6
(a) Should the definition of a liability cover all of the following types of obligations?
(i) Obligations to transfer benefits, defined as cash and other assets, and the provision of goods and services in the future.
(ii) Unconditional obligations, including unconditional obligations to stand ready to insure against loss (risk protection).
(iii) Performance obligations.
(iv) Obligations to provide access to or forego future resources.
(b) Is the requirement for a settlement date an essential characteristic of a liability?

Answer:

(a) In view of what has been mentioned in the introduction (preference for a mixed model), a highly restrictive definition of liabilities does not seem suitable for public sector entities, except for those that operate specifically based on the categorisation model.
Obligations to transfer assets (monetary or not), to deliver goods and services in future, unconditional obligations, performance obligations and obligations to grant access to future resources should not be excluded, initially, from the definition of liabilities, subject to them falling under legally established obligations, which is not always the case for obligations to deliver services in future.
Furthermore, the obligation needs to emanate from a likely or unquestionable generation of resources, and the measurement of the said obligation must be reliable. With regard to performance obligations, the resource generation may not systematically emanate from a disbursement, but rather from the provision of resources to a third party.
By the term legal obligation, the Court of Auditors refers to an obligation defined in a legislative, regulatory or contractual instrument, or even by agreement, with a third party clearly identified as the "beneficiary" of the said obligation.

(b) Specification of the due date is not an essential characteristic for liabilities (case of risk provisions, for instance, for which the due date is not systematically stated).

<u>Specific Matter for Comment 7:</u>

(a) Should the ability to identify a specific party(ies) outside the reporting entity to whom the entity is obligated be considered an essential characteristic in defining a liability, or be part of the supplementary discussion?

(b) Do you agree that the absence of a realistic alternative to avoid the obligation is an essential characteristic of a liability?

(c) Which of the three approaches identified in paragraph 3.28 do you support in determining whether an entity has or has not a realistic alternative to avoid the obligation?

Answer:

(a) Yes, the identification of a third party is fundamental in the recognition of a liability. However, this should not hinder a statistical measurement for some categories of liabilities (provisions, for instance), even where the third party is known.

(b) No, given that this may lead to the recognition of liabilities for which the legal obligation is not clearly established (for instance, recognition of all future expenses in the form of liabilities).

(c) Cf. answer to Question 10 hereinafter.

<u>Specific Matter for Comment 8:</u>

Is it sufficient to state that a liability is a "present" obligation, or must there be a past event that occurs?

Answer:

A past event must systematically be identified (or identifiable) for an obligation and, hence a liability, to be recognised.

<u>Specific Matter for Comment 9:</u>

(a) Recognition and measurement criteria aside, are public sector entity obligations such as those associated with its duties and responsibilities as a government, perpetual obligations, obligations only when they are enforceable claims, or is there an appropriate intermediate event that is more appropriate?
(b) Is the enforceability of an obligation an essential characteristic of a liability?
(c) Should the definition of a liability include an assumption about the role that sovereign power plays, such as by reference to the legal position at the reporting date?

Answer:

(a) The legal character or an obligation must be a determining criterion, which implies that a case-by-case analysis should be carried out in situations where several requirements ought to be fulfilled for an obligation to give rise to a payment (case of social benefits). For instance, fulfilment of all requirements should not be a criterion for the recognition of a liability, given that statistical analyses based on background data can be used to adjust the amount of the liability in view of the probability of a resource generation.
(b) No. For instance, a claims provision ought to be recognised once a legal action is instituted against the entity, and prior to the pronouncement of the provisional or final decision by the court.
(c) Yes, liabilities ought to be recognised pursuant to the laws in force at the closing of the fiscal year.

<u>Specific Matter for Comment 10:</u>
(a) Are there any additional characteristics that have not been identified that you believe are essential to the development of a liability definition?
(b) Are there other relevant issues, and particularly unique public sector considerations, that the IPSASB needs to consider in determining the concept of liabilities?

Answer:
The legal character of an obligation is an essential factor.

<u>Specific Matter for Comment 11:</u>
(a) Should revenues and expenses be determined by identifying which inflows and outflows are "applicable to" the current period (derived from a revenue and expense-led approach), or by changes in net assets, defined as resources and obligations, "during" the current period (derived from an asset and liability-led approach)?
(b) What arguments do you consider most important in coming to your decision on the preferred approach?

Answer:
The answer to this key point is provided in the introduction. To the Court of Auditors, the revenues and expenses for the fiscal year are generated by fluctuations in the assets and liabilities of the entity. Even though all the asset and liability fluctuations do not systematically lead to the recognition of a revenue or an expense (for instance, a rise in an asset item measured at its market value should not invariably be translated into a revenue for the fiscal year), it seems inappropriate to reverse the line of conduct and make use of inflows and outflows for the fiscal year to draw up the balance sheet.

Specific Matter for Comment 12:
(a) Should transactions with residual/equity interests be excluded from revenues and expenses?
(b) Should the definitions of revenue and expense be limited to specific types of activities associated with operations, however described?

Answer:

(a) This aspect mostly concerns the consolidated accounts rather than the individual accounts of the entity. For the State, one cannot clearly identify what can be considered as transactions generating revenues or expenses emanating from minority interests or residual equity items.
(b) To answer this question, there is need to specify what would be considered as "activities" that may not subsequently generate revenues and expenses.

Specific Matter for Comment 13:
(a) Are there any additional characteristics that have not been identified that you believe are essential to the development of definitions of revenues and expenses?
(b) Are there other relevant issues, and particularly unique public sector considerations, that the IPSASB needs to consider in determining the definitions of revenues and expenses?

Answer:

(a) No.
(b) No.

Specific Matter for Comment 14:
(a) Do deferrals need to be identified on the statement of financial position in some way?
(b) If yes, which approach do you consider the most appropriate? Deferred outflows and deferred inflows should be:
(i) Defined as separate elements;
(ii) Included as sub-components of assets and liabilities; or
(iii) Included as sub-components of net assets/net liabilities.
(c) If defined as separate elements, are the definitions of a deferred outflow and deferred inflow as set out in paragraph 5.8 appropriate and complete?

Answer:

(a) Yes.
(b) These items ought to be considered as assets and liabilities following the preference for the balance sheet approach retained by the Court of Auditors.

Specific Matter for Comment 15:
(a) Do you consider net assets/net liabilities to be a residual amount, a residual interest, or an ownership interest?
(b) Should the concept of ownership interests, such as those that relate to minority or noncontrolling interests in a GBE, be incorporated in the element definition?

(c) Are there other relevant issues, and particularly unique public sector considerations, that the IPSASB needs to consider in determining the concept of net assets/net liabilities?

Answer:

(a) The answer will depend on the nature of the entity. For a centralised State, the difference between assets and liabilities will be a residual amount, considering the lack of recognition of sovereignty assets. For other public entities, it may refer to a proprietary interest.

(b) Yes, for the entities concerned.

(c) No.

<u>Specific Matter for Comment 16:</u>

(a) Should transactions with residual/equity interests be defined as separate elements?

(b) If defined as separate elements, what characteristics would you consider essential to their definition?

Answer:

This aspect does not seem to be clearly specified in the consultation paper. Where it refers to segregating the recognition of transactions provided by the shareholder Government, including to entities that do not have the status of a joint stock company (such as public institutions), it would definitely seem relevant to make provision for recognition in the form of capital investments.

<u>Specific Matter for Comment 17:</u>

(a) Should recognition criteria address evidence uncertainty by requiring evidence thresholds; or by requiring a neutral judgement whether an element exists at the reporting date based on an assessment of all available evidence; or by basing the approach on the measurement attribute?

(b) If you support the threshold approach or its use in a situational approach, do you agree that there should be a uniform threshold for both assets and liabilities? If so, what should it be? If not, what threshold is reasonable for asset recognition and for liability recognition?

Answer:

(a) The recognition of an asset and a liability should only be carried out where its measurement is reliable.

<u>Specific Matter for Comment 18:</u>

Do you support the use of the same criteria for derecognition as for initial recognition?

Answer:

Yes.

<u>Specific Matter for Comment 19:</u>

Should the recognition criteria be an integral part of the element definitions, or separate and distinct requirements?

Answer:

The recognition criteria should be separated from item definitions, in a manner to make the standards much clearer.

Reply to IPSAS Board Exposure Draft

"Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Measurement of Assets and Liabilities in Financial Statements"
(Phase III)

<u>Specific Matter for Comment 1:</u>
Should the role of the Framework be to identify factors that are relevant in selecting a measurement basis for particular assets and liabilities in specific circumstances, rather than specify a single measurement basis or combination of bases?

Answer:
The answer will be determined by the views one has of the financial statements of the public entity. In the Court's opinion, these financial statements must first and foremost provide a faithful account of the situation of its assets, including revenues and expenses generated by the fluctuation in assets and liabilities that account for the said situation.

Consequently, it considers that, within the conceptual framework, it would be appropriate to identify the salient factors in order to work out suitable methods to measure the different assets and liabilities of the public sector, rather than identifying a particular method for a specific category of assets or liabilities.

As a result, it reckons that the selection in principle of a single valuation method or a single valuation approach must be ruled out.

<u>Specific Matter for Comment 2:</u>
If, in your view the Framework should specify a measurement basis or combination of bases (or approach in the case of deprival value), which should that be?

Single Measurement Bases
(a) Historical cost.
(b) Market value.
(c) Replacement cost.

Combinations of Bases/Approach
(d) Deprival value.
(e) Historical cost and market value.
(e) Historical cost and market value.
(g) Historical cost, replacement cost, and market value.

Others
(h) Another measurement basis or combination of bases/approach.

Please explain why you support a particular measurement basis or combination of measurement bases/approach and your reasons for rejecting alternatives.

Answer:

In keeping with the answer to Point No. 1, the Court feels there is a need for the conceptual framework to retain the most flexible combination of methods possible, combining historical cost, replacement cost and market value, to take into account the very broad diversity, and sometimes, the specificity, of the assets and liabilities to be measured in the public entities. This specificity may derive from the lack of acquisition cost, the absence of a market, the inherent nature of the asset or liability, or the indefinite character of the subsequent holding period of the asset or liability by the public entity. In the conceptual framework, the selection of any of the methods to measure any of the assets or liabilities will be determined by the salient factors identified in the introduction.

As it stands, the Court considers that within the conceptual framework, there is no need to formally establish a hierarchy amongst methods that address different problems. It reckons that, as concerns significant assets or liabilities, where there is a market value, but which market value it does not consider the most salient measurement method, provision should be made to present this as an appendix with a view to properly informing the reader of the financial statements. This applies especially to financial liabilities and expenses.

<u>Specific Matter for Comment 3:</u>
The Consultation Paper discusses the following measurement bases: historical cost, market value, and replacement cost. It also discusses the deprival value concept which does not describe a single measurement basis, but rather a means by which a basis may be selected that is relevant to the circumstances. Value in use and net selling price are discussed in the context of the deprival value model.

In your view, is this discussion complete, balanced and fair? If not, please indicate what in your view is missing or in what respects you consider the discussion does not draw out the strengths and weaknesses of the various bases (or approach in the case of deprival value).

Answer:
According to the Court, the respective strengths and weaknesses of the different asset and liability measurement methods are presented in a comprehensive, fair and balanced manner in the paper.

This notwithstanding, the Court equally points out, in view of the presentation of the deprival value approach, that the said approach is not too relevant to liabilities. It should therefore be discarded as a single and holistic approach within the conceptual framework.

<u>Specific Matter for Comment 4:</u>
In your view, should:
(a) The effect of an entity's own credit risk be reflected in the measurement of liabilities at initial recognition; and
(b) The effect of changes in own credit risk be reflected when liabilities are subsequently remeasured?

Answer:

a) The Court reckons that the own credit risk should not be dissociated from the other measurement items in the initial recognition of a financial liability.

From the outset, the Court shares the view that an objective measurement of own credit risk would be difficult to carry out and would not meet the reliability criterion.

Secondly, a vast quantity of the financial liabilities of public entities, especially Governments, is made up of borrowings, for which the most relevant measurement basis is the amortised cost. Whereas this measurement method requires that the liabilities should be recorded at their fair value at the time of their initial recognition, which value represents the value of the consideration received and includes the effect of the entity's own credit risk. Consequently, the neutralisation of the latter item will be inconsistent with the measurement of the said liabilities at the fair value of the consideration received in their initial recognition.

b) The Court equally feels that a differentiation ought to be established between liabilities measured at the market value and liabilities measure using the other possible measurement bases, namely historical cost, cost of fulfilment, assumption price, cost of release.

For liabilities measured using a basis other than the market value, the Court considers that own credit risk fluctuations should not affect the financial statements. The main reason for this is the paradox that may arise from a consideration of these fluctuations and the interpretation difficulties that user of the financial statements may equally encounter. As recalled in the consultation paper (Appendix A § A6), a decline in the entity's credit risk would actually help it to post a profit where such an option is retained.

As concerns the liabilities measured at the market value, the Court considers that there is no need to recommend a "restatement" of the own credit risk fluctuation included in the market price. On the one hand, such a restatement will encounter the same difficulties mentioned above as concerns obtaining reliable and objective information. On the other hand, such a method would not help to measure the instruments concerned at their comprehensive market value when recognising them subsequently.

<u>Specific Matter for Comment 5:</u>
In your view, where assets are not restricted in use and therefore may be sold for an alternative use, should the measurement reported in the statement of financial position reflect:
(a) Only the service potential relating to the existing use; or
(b) Include the incremental value relating to its possible sale for an alternative use?

Answer:
The conceptual framework should help to ensure the consistency of the normative system based on a simple idea: provide an account as faithful as possible of the situation of the public entity's assets at the closing of the accounts, i.e. when recording the rights and obligations generated over the fiscal year at their relevant value based on their use/consumption at that selfsame time.

In this regard, changing a measurement method based on a projected, expected or scheduled change in the use of an asset should be ruled out.

Where an initial decision is made, whereas the accounts are yet to be closed, to embark on the plan to transfer a significant asset, following a subsequent implementation timetable, it will be most appropriate to include as an appendix an assessment of the proceeds expected from the projected transfer.

Advisory Committee for the Standardisation of Public Accounts
The Chairman
Paris, Ie 15june 2011
Purpose: response from the French Court of Auditors to the exposure draft and consultation documents from the IPSAS Board relative to phases I, II and III of the conceptual framework.
The present document is the response from the French Court of Auditors and all French jurisdictions to the exposure draft and consultation documents from the IPSAS Board relative to phases I, II and III of the conceptual framework.
Composed of members of the Court of Auditors and of regional and local chambers of auditors, the advisory committee of financial jurisdictions for the standardisation of public accounts is drafting the opinions of the latter over questions of accounting standardisation relative to three areas of public sector administration (the State, Regional and Local Goverument, and Social Security). The committee is preparing the positions that will be held by the representatives of financial jurisdictions on the various standardisation boards.
Financial jurisdictions have read with great interest the consultation documents proposed by the IPSAS Board, which raise key questions over the goals and content of financial statements from public-sector bodies.
As for the key question of choice of accounting model, we are not in favour of giving preference to the flow model as opposed to the balance-sheet model in the public sector. Neither are we in favour of a highly extensive view of the balance-sheet model, which could, for example, result in the accounting of liabilities prior to the advent of a legal obligation. Rather than oppose two "pure" models, which may seen sterile in some respects, the principle of coherence must prevail: flows and heritage are two important aspects of financial information for public sector bodies, as is sustainability. A "mixed" model that reconciles all these requirements should be sought. The keystone lies with the presentation, in the balance sheet, of all rights and obligations, with all financial statements ensuring high consistency
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between variations in the amount of rights and obligations and the expenses and income given in the income statement
The replies to the three consultation documents from the IPSAS Board that are forwarding to you are compatible with this said "mixed" model.
Christian **BABUSIAUX**

Response to the exposure draft from the IPSAS Board
"Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Role, Authority and Scope; Objectives and Users; Qualitative Characteristics; and Reporting Entity"
(phase I)
I. "Role, Authority and Scope of the Conceptual Framework"
LA *"Authority of the Conceptual Framework!'* (par. 1.2 & BCl.1 to BC 1.3)
The understanding is that the authority of the conceptual framework is no greater than that of lPSAS standards, but is seen on the one hand as an aid to draft these standards, and on the other as a guide for persons preparing accounts when no specific standard is available for treating a particular item as and when financial statements are drawn up. Additionally, a review of existing standards will be made after the adoption of the present framework to eliminate potential sticking points.
In principle, the French Court of Auditors has no objection but would like to recall its stance

on the previous project (see letter of 31 March, 2009). Taking as an example the conceptual framework of accounting standards for the French State (if, exceptionally, the application of a rule proves improper and does not give a true image, exemption shall be made to the rule and the said exemption must be mentioned and explained in the appendix along with its effect on accounts), the Court felt that general principles should be placed above standards and that this should be clearly stated in the conceptual framework. The Court stands by this position.

I.B *"Scope of Financial Reporting'* (par.1.5 to 1.7 and BC 1.5 to 1.9)

The scope of the project is to consider that the framework of *"General Purpose Financial Reporting by Public Sectors Entities"(GPFR)* should be broader than financial statements in the strict sense of the term (including appendix notes), even though the said statements will always be the core of financial information. According to the draft, they may comprise information about the past, present and future, deemed to be useful for users and including information that is financial or non-financial, quantitative or qualitative, etc.

Concerning this, in principle, broad perimeter, the French Court of Auditors has no objection in essence, as it willingly agrees that financial information clearly extends beyond accounting statements, a stance supported by the situation in France today (budget execution, performance reports, forward stability programme in the frame of the ED ...).

Nevertheless, it feels that any new move forward by the IPSAS Board in this field cannot be placed on the same level as accounting standards. In this respect, it seeks elucidation as to paragraph 1.7, second sentence and BC.1.8: it must be stated clearly that sections 2 and 3 of 4-t.. ~ ...,. ~_". "".....+.,,, 1 . h..-. ~eTTT""' -K' *(detinition recoenition and measurementi* and in t"h"", -h~tu...a.
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4 covering the presentation of reporting statements, are relevant only for the drawing up of
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standards governing actual financial statements, and that the drafting of new ways forward for the rest (e.g.: sustainability reports) will come under a different rationale. The last sentence of paragraph 3.5 mentioned further on must be clarified in this respect.

I.C *"Applicability of the Conceptual Framework"* (§ *1.8 and BC 1.10)*

The proposed wide field poses no problem to the French Court of Auditors: it relates to public sector entities, excluding public-area companies in the competitive sector (GBEs). It should be specified that in France, the basic social security systems (in the sense of community legislation) come under the public sector: even if run by entities with a different status, they are governed by the annual vote for the law financing social security.

No conclusions should be drawn from this paragraph concerning the drawing up of consolidated accounts (see further on).

II. *"Objectives of Financial reporting and Users of General Purpose Financial Reports"*

II.A *"Users of General Purpose Financial Reports"* (§ 2.4, 2.5, BC 2.4, BC 2.7)

The understanding is that, for the IPSAS Board, the prime users of financial information are the beneficiaries of services and the bringers of resources and their representatives that may be Parliaments or deliberating assemblies (2.4 and BC 2.4). If citizens are recognised as prime users of financial statements, it is because they are suppliers of resources and beneficiaries of services (2.5), but there are others.

This approach is acceptable only with several reservations:

the conceptual framework cannot ignore reality: in a democratic State, where governing officials are required to report to citizens or to their representatives, national rules (or rules of the European Union) always comprise obligations in this respect for different public entities, even though they may take different forms: consequently, the first sentence of § 2.4, " *...who do not possess the authority to* *require a public sector entity to disclose the information they need for accountability and decision-making purposes"* makes no sense. Financial information for general purposes may of course by complemented for more specific needs (2.6) but it is not a category in its own right. As a general rule, it will be included in documents due to the representatives of tax-paying citizensl beneficiaries of services (State, local government) or to representatives of public contributors (public establishments, social security organisations);

it is therefore a moot point - putting it mildly - to imply that parliaments (or other deliberating assemblies) should have special needs for financial information that might lead to their requesting special statements (BC2.S). When you opt for an approach to GPFR as broad as the present draft exposure, you cannot then leave people thinking that it might, by nature, be inadequate;

4

the bottom line is that under these conditions, GPFR must be for both citizen/taxpayers/ service beneficiaries and their legitimate representatives, giving information that may be diverse in nature but always consistent in itself. In this respect, we may consider that actual financial statements, prepared according to observed lawful accounting principles (and subjected to an obligation of certification by the competent national institution) mayor should be complemented by receipt/expense budget execution statements, giving simple information about the year's budget balance, by performance reports or the equivalent thereof of more specific interest to such and such a category of citizen, and even by documents of sustainability. These statements must be usable by other persons, such as lenders, for example, and also by public contributors when dealing with statements from public organisations of all types. Lastly, they must be consistent with the State's national accounts;

this principle of general consistency should be clearly asserted under 2.4 and BC 2.4 and in the conclusion after 2.13. It implies very exacting standards regarding actual financial statements and all supplemental documents.

n.B *"Information Provided by General Purpose Financial Reports"*

For paragraphs 2.19 and 2.20 (information re budget execution), 2.21 *(service delivery achievements)* 2.22 and 2.23 (prospective information), the Court of Auditors refers back to what was said under I.B and also to the above paragraph and the principle of consistency. Additionally and regarding more particularly sustainability (2.23), it also refers back to its reply of 26 April, 2010, to the consultation document from the IPSAS Board relative to information about the long-term financial sustainability of public finances. The Court emphasised that several conceptions might exist on this topic and suggested using the terms "items of sustainability", placed either in the notes to accounts or in an ad hoc report kept separate from actual financial statements, or, if relevant or if it exists, in the executive management report.

III. *"Qualitative Characteristics of, and Constraints on, Information included in General Purpose Financial Reports"*

III-A Qualitative characteristics

Paragraph 3.2 gives the list of qualitative characteristics of information included in GPRF: relevance, faithful representation, understandability, timeliness, comparability and verifiability. The understanding is that all these qualities are to be placed on the same level, that they inter-combine and complement each other with no scale ofpriority (3.4 and 3.40 and 3.41; BC 3.29) and that they are designed to cover all forms of financial reporting (3.5).

Firstly, this calls for two general comments:

even though they interlap, these qualities are different to those attributed to financial **statements in L1.e strict sense** of the **terms by the standard IPSAS 1 (appendix),** which are "understandability", "relevance", "reliability" (a quality that includes "faithful

representation", "substance over form", "neutrality", "caution", "completeness") and comparability (see furtber on). The opinion of the Court of Auditors is that the qualitative characteristics proposed in the conceptual framework must not lead to any degradation of the exacting standard of those listed under IPSAS 1;
secondly, the qualitative characteristics of the draft conceptual framework, when examining their definition given in the following paragraphs, appear in reality to have full scope only when tying in with other forms of GPFR, aside from financial statements in the strict sense of the term, But, in this respect, 3.5 suggests future developments to specify or to interpret these qualitative characteristics on the occasion of the creation of standards or ways forwards for the said other forms of GPFR. This is not entirely satisfactory and undermines the thoroughness of the present draft.
Some of these qualitative characteristics call for a number of observations:
- relevance (3.6 & BC 3.5):
In substance, the definition overlaps with that of IPSAS 1 and poses no problem, but the first sentence of the two cited paragraphs is not easily understandable.
- faithful representation (3.10 to 3.16 and BC 3.8 to BC 3.17) :
This supposes, in particular, exhaustiveness (BC 3.9), neutrality and absence of significant error (3.14, 3.16 and BC 3.9), but the draft turns these into relative concepts owing to the broad nature of the items of financial reporting it focuses upon (most notably prospective information). This must not lead to any undermining of the exacting requirements made upon financial statements in the strict sense of the term (see above).
Regarding the link with the term "reliability" employed by IPSAS 1 (BC 3.10 to BC 3.13), the framework draft considers that the term faithful representation poses fewer problems of interpretation and is broader to designate a globally faithful image of the economic phenomena we wish to depict. The Court of Auditors regrets the replacement of the more thorough conception used in IPSAS 1.
Furthermore, and still with this same characteristic, the question is raised over the attributes of substance superior to form and of caution (BC 3.14 to BC 3.17). It is explained (3.15) that substance superior to form is a component of faithful representation. For caution, the draft says that this is an attribute of neutrality (3.17), itself included under faithful representation. In this respect, the Court of Auditors reiterates its robust attachment to the principle of caution, which figures hardly at all in the body of the draft (only 3.14 states that "caution will need to be exercised when dealing with uncertainty") as a component of faithful representation. However, this principle is key when looking to evaluate the liabilities and assets of a public entity, all the more so when examining sustainability.
In keeping with the preferred option of a "balance-sheet" model or, at the very least, a "mixed model" making it possible to retrace rights and obligation over and above flows (cf. introduction and the response from the Court of Auditors to the IPSAS N°2 consultation document for the conceptual framework), it would appear essential to retain the principle of

caution. Paragraph 3.15 should be reiuforced in this respect, and the same should apply to 3.16 on the question of estimations.
understandability (3.17 & 3.18 and BC 3.18 to 3.20): no problem in principle

timeliness (3.19 & 3.20 and BC 3.18 to BC 3.20): ditto
comparability (3.21 to 3.25 and BC 3. 23 and 3.24): ditto
credibility or verifiability (3.26 to 3.31 and BC 3.25 to 3.27):
The Court of Auditors observes that the draft is very hard pushed to define this characteristic (which is confused with "supportability") as acknowledged under BC 3.26. In fact, the understanding is that this is operative only for financial information other than financial statements in the strict sense of the term (3.26 and 3.31). It should be necessary to clarify the exact scope of this characteristic, the appeal of which lies only with non-accounting information.

III-B *"Constraints on Information Included in General Purpose Financial Reports"*

The Court of Auditors has no observation to make as to the two constraints recognised in the production of financial information, namely significativity and cost-to-profit ratio (3.32 to 3.39 and BC 3.30 to 3.37).

IV. *"The Reporting Entity and Group Reporting Entity"*

The general definition (§4.1) of the public entity obligated to GPRF, or of the group of entities, raises no problem. The understanding is that to ascertain the basic entity obliged to present financial reporting, we refer to the requirements of national legislation (4.5, 4.6 & BC 4.2).

It is however regrettable that the draft does not envision more clearly than it currently does the necessity of there existing at least one financial report for a State (distinguishing between Federal State and federated states, if necessary) considered in its entirety, over and above financial reporting that might be made by ministries or agencies. This can be an intermediary stage before the production of consolidated financial statements over a wider scope. It is a condition for comparability for national States.

Concerning the "Group Reporting Entity", the draft envisages different forms of control for entities to be consolidated or combined into a whole (4.8, 4.11 and 4.12). But BC 4.11 is clearer by referring, for a government for example, to all entities *"whose activities it can direct for its benefits, including those which expose it to a financial burden or loss"*. This definition is more ambitious than that of control given by the present IPSAS 6 and seems more closely linked to the notion of advantages and risks than to the current definition of control (cf on this point the response from the Court of Auditors to consultation document *W2).*

The Court of Auditors understands that to take this further, IPSAS standards will need to meet the problems of implementation raised in this area by the differences in legislation from one country to the next (4.13). This means that the conceptual framework does not judge the tricky issues of perimeter (Be 4.17) and technique (consolidation or combination, BC 4.18) and thus relates back to standards to be defined or reviewed on this point.

The Court of Auditors considers this approach to be one of caution at the present stage but will be vigilant at the standard-setting stage to ensure that the specifics of national legislations are recognized (BC 4.19 to 4.21). Here, the Court of Auditors wish to dwell on the importance of national legislation, in democratic States, endeavouring to define the relevant level for the production of financial statements, done so according to the needs of users represented by national parliaments. The adopted approach will need to be pragmatic and reasonable.

Finally, in this particular area we caonot ignore the requirements of the ED for EURO zone States, which for the production of their stability programme, practice a form of data consolidation for national accounts.