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30 April 2012

Ms Stephenie Fox
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CANADA

Dear Stephenie

IPSASB Consultation Paper Reporting Service Performance Information

The Australian Accounting Standards Board (AASB) is pleased to provide its comments on the above named Consultation Paper (CP). The AASB supports the primary objective of the International Public Sector Accounting Standards Board's (IPSASB's) project to present a principles-based approach to developing a consistent framework for reporting service performance information by public sector entities, a framework which focuses on meeting the needs of users. The AASB also supports the development of principles of service performance reporting that are consistent with the Conceptual Framework being developed by the IPSASB.

The AASB commends the IPSASB for identifying some useful ideas in the CP about reporting service performance information. However, the AASB recommends that instead of providing a list of types of service performance information that could be reported, the IPSASB consider establishing principles that can be applied in determining what service performance information should be reported in general purpose financial reports to meet the common information needs of users.

The AASB has identified specific issues for the IPSASB's consideration regarding the proposals in the CP, and made recommendations for addressing them, relating to:

- (a) an articulation of the meaning of service performance reporting;
- (b) the scope of service performance reporting;
- (c) the consistency between the CP and the emerging IPSASB Conceptual Framework;
- (d) the capacity to continue to provide services and sustainability of services;
- (e) the use of standardised terminology and working definitions; and
- (f) indicators of service performance.

The AASB's comments relating to the above-mentioned matters are set out in Appendix A.

The AASB's responses to the preliminary views and specific matters for comment in the CP are set out in Appendix B.

Additional AASB staff comments on the CP are set out in Appendix C.

If you have any queries regarding matters in this submission, please contact me or Mischa Ginns (mginns@aab.gov.au).

Yours sincerely

A handwritten signature in black ink that reads "K. M. Stevenson". The signature is written in a cursive style with a large, stylized initial "K".

Kevin Stevenson
Chairman and CEO

APPENDIX A

AASB specific comments relating to the proposals in the CP

(a) Articulating the meaning of service performance reporting

The AASB considers that the CP does not sufficiently describe service performance reporting, particularly in paragraphs 1.3 and 4.5 of the CP which provide an explanation of service performance reporting and list the types of service performance information that the IPSASB considers necessary to meet the needs of users respectively. The IPSASB could consider an approach similar to the approach the AASB is taking in its Service Performance Reporting project, that is, to discern the meaning of service performance reporting by establishing principles based on the following aspects (which seem to underlie the standardised terminology in paragraph 3.3 of the CP):

- a) the objectives of an entity;
- b) obtaining¹ and using resources;
- c) providing outputs;
- d) achieving outcomes; and
- e) an entity's ability to continue to provide goods and services (i.e. sustainability).

The AASB considers this approach could draw out relevant information about an entity's performance in providing goods and services, which may help establish boundaries for the types of service performance information that should be reported in general purpose financial reports.

(b) Scope of service performance reporting

The CP does not define the service performance information that belongs within the scope of general purpose financial reporting. Paragraph 4.3 of the CP reiterates the proposal in the IPSASB Conceptual Framework Exposure Draft 1 *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Role, Authority and Scope; Objectives and Users; Qualitative Characteristics; and Reporting Entity* (CF-ED 1) that the scope of general purpose financial reporting should evolve in response to users' information needs. Consistent with its comments in its submission to the IPSASB on CF-ED 1, the AASB considers this basis to be too broad for determining the scope of service performance information that belongs within general purpose financial reporting.

The AASB acknowledges the challenges in establishing these boundaries. In its project on Service Performance Reporting, the AASB has established some parameters identified in the Conceptual Framework to aid in its future work on this topic within the context of general purpose financial reporting. In relation to performance information, which includes service performance information, the parameters are:

- (i) the target of analysis (i.e. the entity); and

¹ The AASB acknowledges that 'obtaining' resources may not be a relevant term for some public sector entities because resources may not always be related to matters within the entity's influence and may be driven by appropriation processes.

- (ii) the objective of reporting (i.e. to provide information that meets the common information needs of users for making decisions about an entity that involve the allocation of scarce resources).

A parameter for particularly constraining information about service performance within general purpose financial reporting is ‘the information about the entity’s performance in providing goods and services’ that relates to an entity’s performance against its specified objectives.

(c) Consistency between the CP and the emerging IPSASB Conceptual Framework

There seems to be an inconsistency between paragraph 1.3 of the CP and paragraph 1.6 of the CF–ED 1. Paragraph 1.3 of the CP says “... reporting of performance information about services being provided is *necessary* to meet the objectives of financial reporting by public sector entities” [emphasis added], which appears to be inconsistent with paragraph 1.6 of CF–ED 1, which suggests that service performance information is not necessary – it says general purpose financial reports “... *can* report ... financial and non-financial quantitative and qualitative information about the achievement of financial and service delivery objectives ...” [emphasis added]. Furthermore, the AASB notes that paragraph 2.14 of the CF–ED 1, which says “GPFs will also *need to* provide financial and non-financial information about ... service delivery activities, achievements or outcomes during the reporting period...” (i.e. service performance information) in order to respond to the information needs of users [emphasis added] seems to be inconsistent with paragraph 1.6 of the CF–ED 1.

Although the problem arises from CF–ED 1, the AASB considers the inconsistency between the CP and one part of CF–ED 1 might undermine the significance of the case for reporting service performance information.

(d) Capacity to continue to provide services and sustainability of services

The service performance information the CP says is necessary to meet the needs of users focuses on the past delivery of services and its past consequences. The AASB considers service performance to be part of a broader notion of performance that includes the past delivery of services and its past consequences as well as the extent to which the entity’s past activities will enable the entity to meet its objectives in the future. This broader information would include, for example, the capacity to continue to provide services and the change in that capacity during the reporting period (e.g. whether an entity’s service delivery activities eroded its asset base and reduced its ability to continue to provide goods and services) and sustaining the future delivery of goods and services (e.g. the entity’s performance in obtaining resources enabling the entity to deliver goods and services in the future). The AASB recommends that the IPSASB consider acknowledging in its guidance that assessing service performance requires consideration of information about the various aspects of performance.

In this regard, the CP suggests that information about sustainability of services would be useful to users. In particular, paragraphs 1.2 and 4.4 of the CP suggest that information that is useful to users may include information about the entity’s anticipated future service delivery activities, objectives and resource needs. However, the CP does not include principles to apply in determining which information would assist users to assess the sustainability of services; nor does it mention that meaningful assessments of service

performance involve assessing resource consequences of the entity's service delivery activities. A possible principle the IPSASB could consider for reporting on sustainability of the entity is an assessment by management of the resources available and the estimated resources required to continue to meet the needs of recipients of services.

(e) Use of standardised terminology and working definitions

The AASB supports the development of standardised service performance information terminology and generally supports the terms listed in Table A on page 14 of the CP. However, the AASB is concerned that some of the working definitions are ambiguous and some of the examples do not provide suitable illustrations of the related working definitions. The AASB considers it essential to have clear definitions and examples to assist in developing coherent principles of service performance reporting. The AASB's concerns and recommendations regarding the working definitions and examples provided in Table A on page 14 of the CP are discussed in Preliminary View 2 of Appendix B.

(f) Indicators of service performance

The AASB supports the IPSASB's view in paragraph 2.3 of the CP that relevant indicators of services may differ between public sector entities and the IPSASB's intention not to identify specific indicators of service performance within the framework. Nonetheless, the AASB recommends the IPSASB consider establishing some principles that can be applied in identifying specific indicators of service performance appropriate to a particular entity. A possible principle for identifying specific indicators of service performance could be based on those indicators that management uses to assess the entity's service performance and to determine whether the entity has met its objectives.

Paragraphs 4.5(b) and 5.15 identify inputs, outputs, outcomes, efficiency and effectiveness as service performance indicators. The AASB considers all of these aspects relevant to reporting service performance information. However, the AASB is of the view that inputs, outputs and outcomes (i.e. indicators of service performance) are different in nature from efficiency and effectiveness (which are qualities for assessing an entity's performance). The IPSASB could consider establishing a hierarchy to assist entities in firstly identifying indicators of performance and then assessing the entity's performance against those indicators.

The AASB considers paragraph 4.5(b) of the CP that says information about "... service recipient perception or experience ..." is necessary to meet the needs of users, to be establishing rules rather than principles-based guidance. The AASB considers this to be inconsistent with the objective of the IPSASB's project to use a principles-based approach to develop a consistent framework for reporting service performance information. It is also inconsistent with paragraph 4.11, which says "Outputs and outcome indicators may include service recipient perceptions or experiences", which implies that this information is not necessary. Furthermore, it conflicts with paragraph 2.3 of the CP that says the IPSASB does not intend to identify specific indicators of service performance within the framework.

The AASB notes that the CP does not explicitly address measurement considerations regarding the indicators of service performance. The AASB encourages the IPSASB to be mindful of the linkages between the measurement concepts in its emerging Conceptual Framework and measurement considerations relating to service performance information.

APPENDIX B

AASB's comments on the Preliminary Views and Specific Matters for Comment in the CP

Preliminary View 1

The reporting of service performance information is necessary to meet the objectives of financial reporting (accountability and decision-making) as proposed in the CF–ED 1.

The AASB considers certain service performance information about an entity necessary to meet the objectives of general purpose financial reporting. That is, performance information that:

- (a) relates to the entity;
- (b) meets the common information needs of users for making decisions about an entity that involve the allocation of scarce resources; and
- (c) is about the entity's performance in providing goods and services' and in achieving its objectives.

Preliminary View 2

Developing a standardised service performance information terminology for the reporting of service performance information is appropriate, and should include the seven terms and working definitions in Table A on page 14.

The AASB supports the development of standardised service performance information terminology and generally supports the terms listed in Table A on page 14 of the CP. However, it considers some of the working definitions to be ambiguous and some of the examples as not providing suitable illustrations of the related working definitions. The AASB recommends the IPSASB establish clear definitions and examples to assist in developing coherent principles of service performance reporting. The AASB's concerns and suggestions regarding the working definitions and examples provided in Table A on page 14 of the CP are discussed below.

Objective

The working definition of 'objective' refers to 'result', and paragraph 5.20 of the CP refers to 'results' on four occasions. It is not clear what is meant by 'result' and 'results'. These terms could refer to target(s)/goals or actual outputs/outcomes. Therefore, it is difficult to differentiate the working definition of 'objective' from the working definitions of 'outputs' and 'outcomes'. The AASB suggests amending or clarifying the references to 'result' and 'results' in the CP.

The example provided for an 'objective' in Table A of the CP seems to include two objectives – “to improve the health of infants” and “reducing the percentage who contract measles”, the latter being more specific than the former objective. The AASB considers both these objectives important and that they should not be used in a single example to explain the term 'objective'. Furthermore, the IPSASB could consider establishing a principle for determining the specificity of objectives that entities should report.

In contrast, paragraph 5.11 of the CP distinguishes entity-wide objectives and the objectives of the entity's specific services. The AASB supports this distinction but suggests another term, such as 'mission', be considered to describe entity-wide objectives. This would avoid potential confusion about the meaning of 'objective' in various references to 'objective(s)' in the CP. Accordingly, the IPSASB could consider adding a working definition of 'mission' to Table A.

In Table A, the example of 'outcomes' only illustrates the second aspect of the example of an 'objective' given in that table (i.e. the reduction in the percentage of infants who contract measles). The AASB considers it unclear why the example of 'outcomes' only considers one of the aspects illustrated in the example of an 'objective'.

Paragraph 5.24(a) refers to 'expectations'. It is not clear whether this term means 'objectives' or something different. The AASB suggests amending or clarifying the reference to 'expectations'.

Inputs

The AASB has a number of concerns about the definition of 'inputs', noted below.

The working definition of 'inputs' refers to "... the resources of a reporting entity used to produce outputs..." This working definition does not consider the resources that are available to an entity that might become inputs. The AASB considers resources that are available to an entity an important concept in the context of service performance that should be included in one of the working definitions. This is consistent with the AASB's view that service performance is part of a broader notion of performance that not only includes the past delivery of services and its past consequences but includes the extent to which the entity's activities will enable the entity to meet its objectives in the future.

The AASB considers the reference to 'produce outputs' in the working definition of 'inputs' implies some form of production, which might not necessarily be the case. The AASB suggests amending the reference to 'produce outputs' to 'provide outputs'. In addition, the example of 'inputs' refers to 'expenditure' and the example of 'efficiency indicators' refers to 'cost'. Although service performance information can be expressed in cash terms, the AASB recommends the examples also be expressed in accrual terms, such as 'expense'.

The AASB considers it unclear whether the working definition of 'inputs', being the "resources ... used" includes all resources consumed, whether consumed directly or indirectly in the entity's service delivery activities. For example, should the costs of activities undertaken to obtain resources be added to the measure (e.g. cost) of consumption of resources acquired and used to provide the outputs in question (for example, inoculations for measles)? The AASB also considers it unclear whether the above-mentioned reference to "resources ... used" includes the consumption of long lived assets, for example, the depreciation of property, plant and equipment. This is because there is no limitation in the working definition's reference to 'resources'. For these reasons, the AASB recommends that the IPSASB consider clarifying the meaning of "resources used".

Another example of an issue potentially affecting the application of the working definition of 'inputs' is the criteria for allocating costs to particular outputs, when the entity provides

a variety of outputs. For example, should those costs include a portion of overheads and, if so, which overheads should be allocated? The AASB recommends that the IPSASB consider providing guidance on this issue.

The working definitions of ‘inputs’ and ‘outputs’ refer to ‘delivering its objectives’. The AASB does not consider using ‘delivering’ appropriate to describe an entity’s attempts to achieve its objectives, and therefore recommends the use of an alternative term such as ‘striving to achieve its objectives’ in the definition of ‘inputs’ and ‘outputs’.

Outputs

The working definition of ‘outputs’ refers to ‘including transfers to others’. It is not clear what is meant by this. The AASB does not consider this phrase necessary and therefore recommends that the IPSASB consider deleting it or clarifying its meaning outside the definition.

Performance indicators

The AASB considers that the example provided to illustrate ‘effectiveness indicators’ does not appropriately illustrate the working definition of ‘effectiveness indicators’ (i.e. the relationship between outputs and outcomes). Instead, it illustrates the output (the percentage of infants inoculated for measles) and its relationship to the inoculated infants who contracted measles, which is not the outcome (i.e. the reduction in the percentage of infants who contracted measles). Furthermore, the illustrated effectiveness indicator excludes the percentage of infants who were not inoculated and contracted measles. Excluding such a cohort provides no insight into the effectiveness of the targeting of the output (i.e. its quality) and can be misleading. The AASB recommends that the IPSASB consider using examples that directly illustrate the relationship between the output and the outcome.

The working definitions of ‘performance indicators’, ‘efficiency indicators’ and ‘effectiveness indicators’ refer to ‘measures’, which implies quantification of the relationship between inputs to outputs and outputs to outcomes. The AASB considers that quantification of these relationships may not be relevant in all situations. An alternative word that could be used instead of ‘measures’ is ‘attributes’.

Preliminary View 3

Components of service performance information to be reported are (a) information on the scope of the service performance information reported, (b) information on the public sector entity’s objectives, (c) information on the achievement of objectives, and (d) narrative discussion of the achievement of objectives.

The AASB considers the components of service performance information identified to be reported would provide useful information to meet the common information needs of users. However, the AASB recommends that the IPSASB consider establishing principles that could be applied in determining the service performance information that should be reported in general purpose financial reports to meet the common information needs of users rather than providing a list of types of service performance information that could be reported.

Paragraph 5.1 of the CP says “This section describes how these *dimensions* of service performance can be recognised as *components* and presented in a GPFR” [emphasis added]. Paragraph 5.2 of the CP lists the common information components identified in research. The CP does not describe how the ‘dimensions’ (in Section 4 of the CP) relate to the components (in Section 5 of the CP). To some degree, these ‘components’ and ‘dimensions’ overlap, and it is difficult to identify their relationship and the purpose of those two classification schemes. For example, the AASB considers that the last three ‘components’ listed in paragraph 5.2 relate at least to the first ‘dimension’ in paragraph 4.5; however, it is unclear how the first component that addresses the scope of the service performance information reported relates to the other ‘dimensions’ in Section 4 of the CP. Furthermore, consistent with its comments on Specific Matter for Comment 4 below, the AASB finds the label used for the “how” dimension difficult to associate with the underlying phenomenon it purports to describe. In paragraph 4.5(c), the AASB considers only “factors that influence results” could possibly be read as relating to the “how” dimension and, even then, “how” seems an imprecise term for those factors.

Preliminary View 4

The qualitative characteristics of information and pervasive constraints on the information that is currently included in GPFs of public sector entities also apply to service performance information.

The AASB agrees that the same qualitative characteristics of, and constraints on, information included in general purpose financial reports of public sector entities should apply to reporting of service performance information.

Specific Matter for Comment 1

Should the IPSASB consider issuing (a) non-authoritative guidance for those public sector entities that choose to report service performance information, (b) authoritative guidance requiring public sector entities that choose to issue a service performance report to apply the guidance, or (c) authoritative guidance requiring public sector entities to report service performance information?

The AASB acknowledges that there might be practical considerations that affect the IPSASB’s decision on whether to issue authoritative guidance – for example, given the relatively undeveloped practice of disclosing service performance information, the IPSASB might consider it appropriate to allow a level of experimentation that might otherwise be discouraged by authoritative guidance in the short- to medium-term. However, if the IPSASB considers service performance information necessary to meet the objectives of general purpose financial reporting, it should eventually issue authoritative principles-level guidance requiring public sector entities to report service performance information that falls within the scope of general purpose financial reporting.

Specific Matter for Comment 2

Do you agree that this project should not identify specific indicators of service performance?

The AASB supports the view expressed in paragraph 2.3 of the CP that the relevant indicators of services may differ between public sector entities and that the IPSASB does not intend to identify specific indicators of service performance within its service

performance framework. However, the AASB recommends the IPSASB consider establishing some principles that can be applied by an entity in identifying specific indicators of service performance appropriate to its circumstances. A possible principle that the IPSASB could consider is indicators based on the factors the entity's management uses to assess the entity's service performance and to determine whether the entity has met its objectives.

Specific Matter for Comment 3

Should service performance information included in GPFs be prepared for the same reporting entity as for general purpose financial statements (GPFs)?

The AASB is of the view that service performance information included in general purpose financial reports should be prepared for the same reporting entity as for general purpose financial statements – at a disaggregated level where appropriate.

Specific Matter for Comment 4

This CP identifies four dimensions of service performance information that are necessary to meet the needs of users. These are:

- (a) Information on the public sector entity's objectives, including the need or demand for these objectives to be achieved (the "why" dimension);
- (b) Input, output, outcome, efficiency, and effectiveness indicators, including service recipient perception or experience information (the "what" dimension);
- (c) Comparisons of actual performance to projected (or targeted) results, including information on the factors that influence results (the "how" dimension); and
- (d) Time-oriented information, including comparisons of actual results over time and to milestones (the "when" dimension).

Do you agree with these dimensions of service performance information? Are there dimensions that should be added or deleted?

As noted in its comments on Preliminary View 3, the AASB considers it is unclear how the four dimensions identified in Section 4 of the CP relate to the components of service performance information in Section 5 of the CP. There appears to be a significant overlap in the information required in Sections 4 and 5. The AASB recommends that the IPSASB consider combining Sections 4 and 5 and providing one set of principles that could be applied in determining the service performance information that should be reported in general purpose financial reports to meet the common information needs of users.

The AASB generally agrees with the first two dimensions in paragraph 4.5 of the CP (i.e. the "why" and "what" dimensions). However, in relation to the "how" and "when" dimensions, which require a comparison of actual performance to projected (or targeted) results and the time-oriented information, including comparisons of actual results over time and to milestones respectively, the AASB considers it unclear how these dimensions are achieved by providing the above-mentioned information. The "how" dimension also refers to 'projected (or targeted) results' and the "when" dimension refers to 'milestones'. The AASB considers it unclear how the wording used to describe these two dimensions is meant to differ from each other.

Specific Matter for Comment 5

Should service performance information be reported (a) as part of the GPFR that is currently issued (for example, an annual financial report) but not part of the GPFSs, (b) in a separately issued GPFR, or (c) in both a separately issued GPFR and as part of the currently issued GPFR?

The AASB is of the view that entities should have the choice of reporting service performance information in:

- (a) both a separately issued general purpose financial report and as part of the currently issued general purpose financial report; or
- (b) the general purpose financial report that is currently issued.

In relation to option (a) in the Specific Matter for Comment, the AASB is not concerned whether service performance information included in a general purpose financial report is presented in the financial statements. We note that some service performance information (e.g. efficiency indicators) is already commonly included in general purpose financial statements, which illustrates the relatively unimportant nature of the distinction between general purpose financial reports and general purpose financial statements in relation to reporting service performance information. Moreover, it indicates that it would be inappropriate to limit the reporting of service performance information to separately issued general purpose financial reports.

The AASB considers it unnecessary to specify which forms of general purpose financial reports should provide service performance information. The AASB is of the view that the IPSASB should consider focusing on the information that belongs within the discipline of general purpose financial reporting, rather than on which types of general purpose financial reports should include that information.

APPENDIX C

Additional AASB’s staff comments on the CP

AASB staff have some additional comments for the IPSASB to consider in developing a framework for reporting service performance information. They are:

| Paragraphs | Comment |
|----------------------|---|
| Paragraph 1.6 | The second sentence says “... service performance information in GPFs is necessary to fulfil their duty to (a) be publicly accountable for financial resources...” It is not clear why it is necessary to emphasise ‘financial’ resources. We think financial and non-financial information (even though the distinction between these two types of information is unimportant) would be equally relevant in this context and therefore suggest removing ‘financial’ from the second sentence in paragraph 1.6 of the CP. |
| Paragraph 4.3 | The second sentence refers to ‘financial information needs of users identified in CF–ED 1’, whereas paragraphs 2.7-2.11 of the CF–ED 1 refer to ‘information needs’, without explicitly drawing a distinction between financial and non-financial information needs of users. We suggest removing ‘financial’ from the second sentence of paragraph 4.3 of the CP. |
| Paragraph 4.5(b) | Paragraph 4.5(b) of the CP says information about “Input, output, outcome, efficiency and effectiveness indicators ...” is necessary to meet the needs of users. We think this could be read as all information, rather than some information, about inputs, outputs, outcomes, efficiency and effectiveness indicators being necessary to meet the needs of users. |
| Paragraph 4.9 | Paragraph 4.9 says “information on the need or demand for services may not be available, or may not be reliable, because service recipients may be expressing a need for a service without placing it into an appropriate context”. It is not clear what is meant by ‘appropriate context’. We think further guidance on what is meant by this phrase would be useful. |
| Paragraph 5.19 | We suggest clarifying that a narrative discussion of the indirect consequences of the services provided should only be those consequences that are identifiable. We also think further guidance on what is meant by ‘intended and unintended indirect consequences’ would be useful. |
| Paragraphs 5.24-5.33 | Paragraphs 5.24-5.33 include some commentary on the qualitative characteristics identified in Section 6 of the CP. We think some of this commentary is repetitive and could be reduced. Any relevant commentary about the qualitative characteristics could be relocated to Section 6 of the CP. |
| Paragraph 5.24(d) | Paragraph 5.24(d) refers to information that can be ‘verified’. We agree that verifiability of some service performance information may be a challenge. We think that some service performance information, even if not verifiable, can be useful to users and should be reported. |

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| Paragraph 5.27 | Paragraph 5.27 refers to ‘entities or organisational units’. We think this distinction is confusing and should be removed. |
| Paragraph 5.28 | We suggest changing the sentence ‘Users are primarily interested in how inputs and outputs are used to achieve desired outcomes.’ to ‘Users are primarily interested in how inputs are used to provide outputs and achieve desired outcomes.’ |
| Paragraph 6.8 | The last sentence of paragraph 6.8 says “... for service performance information to be relevant, it must also be timely and understandable.” We think this suggests that the qualitative characteristic ‘relevance’ encapsulates ‘timeliness’ and ‘understandability’. This would be inconsistent with the CF-ED 1, which identifies ‘timeliness’ and ‘understandability’ as separate qualitative characteristics to ‘relevance’. We suggest amending the reference to ‘relevant’ in the last sentence of paragraph 6.8 to ‘useful’. |
| Paragraph 6.9 | It is not clear what is meant by the last sentence in paragraph 6.9 “there may be a point beyond which some trade-offs between the qualitative characteristics would not be considered acceptable.” We suggest that the IPSASB explains the meaning of this sentence. |