

*International Public Sector Accounting Standards
Board*

Conceptual Framework for
General Purpose Financial
Reporting by Public Sector
Entities:
Presentation in General
Purpose Financial Reports

REQUEST FOR COMMENTS

The International Public Sector Accounting Standards Board (IPSASB), an independent standard-setting body within the International Federation of Accountants (IFAC), approved for publication in January 2012 this Conceptual Framework Consultation Paper, *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Presentation in General Purpose Financial Reports*.

The proposals in this Consultation Paper may be modified in light of comments received before being issued in final form. **Comments are requested by May 31, 2012.** Respondents are asked to submit their comments **electronically** through the IFAC website (www.ifac.org), using the "Submit a Comment" link on the Exposure Drafts and Consultation Papers page. Please note that first-time users must register to use this feature. All comments will be considered a matter of public record and will ultimately be posted on the IFAC website.

Although IFAC prefers that comments be submitted electronically, e-mail may be sent to stepheniefox@ifac.org. Comments can also be faxed to the attention of the IPSASB Technical Director at +1 (416) 204-3412, or mailed to:

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Copies of this Consultation Paper may be downloaded free-of-charge from the IFAC website at www.ifac.org.

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Background to the Conceptual Framework

The *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (the Conceptual Framework) will establish and make explicit the concepts that are to be applied in developing International Public Sector Accounting Standards (IPSASs) and other documents that provide guidance on information included in general purpose financial reports (GPFRs).

IPSASs are developed to apply across countries and jurisdictions with different political systems, different forms of government and different institutional and administrative arrangements for the delivery of services to constituents. The International Public Sector Accounting Standards Board (IPSASB) recognizes the diversity of forms of government, social and cultural traditions, and service delivery mechanisms that exist in the many jurisdictions that may adopt IPSASs. In developing this Conceptual Framework, the IPSASB has attempted to respond to and embrace that diversity.

The Accrual Basis of Accounting

This Consultation Paper (CP) deals with concepts that apply to general purpose financial reporting (hereafter referred to as financial reporting) under the accrual basis of accounting.

Under the accrual basis of accounting, transactions and other events are recognized in financial statements when they occur (and not only when cash or its equivalent is received or paid). Therefore, the transactions and events are recorded in the accounting records and recognized in the financial statements of the periods to which they relate.

Financial statements prepared under the accrual basis of accounting inform users of those statements of past transactions involving the payment and receipt of cash during the reporting period, obligations to pay cash or sacrifice other resources of the entity in the future and the resources of the entity at the reporting date. Therefore, they provide information about past transactions and other events that is more useful to users for accountability purposes and as input for decision making than is information provided by the cash basis or other bases of accounting and financial reporting.

Project Development

The IPSASB is developing the Conceptual Framework with input from an advisory panel comprising a number of national standard setters and similar organizations with a role in establishing financial reporting requirements for governments and other public sector entities in their jurisdictions. Earlier drafts of this CP have benefited greatly from comments received from the advisory panel.

The purpose of the IPSASB's Conceptual Framework project is to develop concepts, definitions and principles that:

- Respond to the objectives, environment and circumstances of governments and other public sector entities; and therefore
- Are appropriate to guide the development of IPSASs and other documents dealing with financial reporting by public sector entities.

Many of the IPSASs currently on issue are based on International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB), to the extent that the requirements of those IFRSs are relevant to the public sector. The IPSASB's strategy also includes maintaining the alignment of IPSASs with IFRSs where appropriate for the public sector.

The IASB has a joint project with the Financial Accounting Standards Board (FASB) of the USA to develop an improved Conceptual Framework for private sector business entities. Currently this project is paused until the IASB concludes its agenda consultation about its future work plan. Developments relating to the IASB's Conceptual Framework are being closely monitored. However, development of the IPSASB's Conceptual Framework is not an IFRS convergence project, and the purpose of the IPSASB's project is not to interpret the application of the IASB Framework to the public sector.

The concepts underlying statistical financial reporting models, and the potential for convergence with them, are also being considered by the IPSASB in developing its Conceptual Framework. The IPSASB is committed to minimizing divergence from the statistical financial reporting models where appropriate.

Consultation Papers and Exposure Drafts

Although all the components of the Conceptual Framework are interconnected, the Conceptual Framework project is being developed in phases. The components of the Conceptual Framework have been grouped as follows, and are being considered in the following sequence:

Phase 1—the scope of financial reporting, the objectives of financial reporting and users of GPFRs, the qualitative characteristics (QCs) of information included in GPFRs, and the reporting entity;

Phase 2—the definition and recognition of the “elements” of financial statements;

Phase 3—consideration of the measurement basis (or bases) that may validly be adopted for the elements that are recognized in the financial statements; and

Phase 4—consideration of the concepts that should be adopted in deciding how to present financial and non-financial information in GPFRs.

The project initially involves the development and issue for comment of CPs that draw out key issues and explore the ways in which those issues could be dealt with. The CP dealing with Phase 1 was issued in September 2008¹. CPs dealing with Phase 2 and Phase 3, and the Exposure Draft (ED) dealing with Phase 1 were issued in December 2010². The IPSASB commenced its consideration of the responses to these documents in September 2011.

The IPSASB intends to issue EDs dealing with each of Phases 2, 3 and 4 of the Conceptual Framework after it has completed its consideration of responses to the CPs dealing with those Phases. The process for developing the finalized Conceptual Framework will be determined in light of the responses received to the CPs and EDs. The IPSASB will not make a decision on whether to issue an umbrella or integrated ED of the full Conceptual Framework until work on the individual Phases is further advanced.

¹ Consultation Paper, *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: The Objectives of Financial Reporting; The Scope of Financial Reporting; The Qualitative Characteristics of Information Included in General Purpose Financial Reports; The Reporting Entity*.

² Consultation Paper, *Elements and Recognition in Financial Statements* (CF—CP2—Elements), Consultation Paper, *Measurement of Assets and Liabilities in Financial Statements* (CF—CP3—Measurement), and Conceptual Framework Exposure Draft 1 (CF—ED1), *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Role, Authority, and Scope; Objectives and Users; Qualitative Characteristics; and Reporting Entity*.

Objective of the Consultation Paper

This CP, *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Presentation in General Purpose Financial Reports*, sets out the specific matters on which comments are requested. The IPSASB has not provided preliminary views on the issues so as to get the widest possible consultation. Respondents may choose to address all or just some selected matters, and are welcome to comment on any other matter they think the IPSASB should consider in forming its views.

Guide for Respondents

The IPSASB welcomes comments on all of the matters discussed in this CP. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, and contain a clear rationale, including reasons for agreeing or disagreeing. If you disagree, please provide alternative proposals.

The Specific Matters for Comment requested in the CP are provided below.

Specific Matter for Comment 1 (See paragraphs 2.1 to 2.18)

With respect to the descriptions of “presentation”, “display”, “disclosure”, “core information”, and “supporting information”, and the proposed relationships between these terms:

- (a) Do you agree that the proposed descriptions and relationships are appropriate and adequate?
- (b) Do you agree that identification of core and supporting information for GPFRs should be made at a standards level rather than as part of the Conceptual Framework?

Specific Matter for Comment 2 (See paragraphs 3.1 to 3.12)

With respect to the IPSASB’s approach to presentation of information:

- (a) Do you agree with the development of presentation concepts that can be adopted for the more comprehensive scope of GPFRs including, but not restricted to, financial statements?
- (b) Do you agree with the approach of (i) focusing on user needs to identify presentation objectives, (ii) application of the qualitative characteristics (QCs) to presentation decisions, and (iii) separate presentation concepts?

Specific Matter for Comment 3 (See paragraphs 4.1 to 4.5)

This CP discusses the importance of developing presentation objectives as part of standard setting.

- (a) Do you agree that presentation objectives should be developed?
- (b) If so, in your view, should they be developed at a standards level, or as part of the Conceptual Framework?

Specific Matter for Comment 4 (See paragraphs 6.1 to 6.27)

This CP proposes three presentation concepts. Please provide your views on these concepts, in particular whether:

- (a) Any of these concepts should be excluded from the Conceptual Framework; and
- (b) The description of each concept could be improved and, if so, indicate how.

Specific Matter for Comment 5 *(See paragraphs 6.1 to 6.27)*

In addition to the three concepts proposed in Section 6, please provide your views on:

- (a) Whether there are further concepts that should be included in the Conceptual Framework; and
- (b) What those further concepts should be.

Specific Matter for Comment 6 *(See paragraphs 6.12, 6.17, 6.24, and 6.27)*

Each presentation concept refers to the possibility of developing criteria to determine the presentation techniques to be used in setting accounting standards. Please provide:

- (a) Your views on whether it would be useful and workable for the IPSASB to apply such techniques;
and
- (b) Any suggestions you have for developing these techniques.

Executive Summary

This Consultation Paper (CP) explores concepts applicable to presentation of information in the GPFRs of public sector entities, including General Purpose Financial Statements (GPFSS). It begins, in Section 1, by explaining the relevance of the first three phases of the IPSASB's Conceptual Framework project. Phase 1 is particularly relevant, because Phase 1's proposals with respect to users' information needs and the qualitative characteristics (QCs) are central to the approach to presentation of information described in this paper.

Next, Section 2 describes what is meant by "presentation". Presentation is the selection, location and organization of information that is displayed and disclosed in the GPFRs to meet the objectives of financial reporting, needs of users, and QCs. Presentation covers both "display" and "disclosure" of information. Display relates to "core information", which is central to achievement of user needs and should be shown prominently. Disclosure of core information is not a substitute for its display. Disclosure applies to the provision of "supporting information". Supporting information provides detail related to the core information, makes core information more useful, and is equal in importance to core information.

Section 3 describes the three perspectives that the IPSASB considered in developing its approach to the presentation of information, then provides a brief overview of that approach. The approach involves: (1) recognition that identification of user needs focused objectives for information areas is central to presentation; (2) application of the QCs to presentation decisions; and, (3) application of separate presentation concepts. The following three sections then provide further explanation of each part of this approach. Section 4 focuses on user needs and presentation objectives. Section 5 sets out three presentation decisions and describes the application of the QCs to those decisions. Section 6 describes three presentation concepts, derived from the application of the QCs and the constraints on information to the presentation decisions. The three presentation concepts are:

1. Select information that meets user needs, satisfies the cost-benefit test, and is sufficiently timely;
2. Locate information to meet user needs; and,
3. Organize information to make important relationships clear and support comparability.

These presentation concepts are intended to guide the development of presentation requirements within pronouncements issued by the IPSASB, and to guide preparers as they consider aspects of financial reporting not addressed within pronouncements. As explained in Section 3, these three presentation concepts would be applied in combination with (a) the identification of user needs focused presentation objectives, and (b) application of the QCs to presentation decisions.

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1. Introduction

1.1 This Consultation Paper (CP) is the first step in the development of Phase 4 of the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*. It explores presentation concepts that could be adopted for public sector General Purpose Financial Reports (individually, a GPFR, and collectively, GPFRs) including General Purpose Financial Statements (GPFSSs, hereafter financial statements). It considers presentation within the context of the more comprehensive scope for general purpose financial reporting that has been proposed in Phase 1. This introduction begins with a brief overview of the CP, and then explains the relevance of the first three phases of the Conceptual Framework for presentation, followed by a brief consideration of the impact of new technology on presentation in GPFRs.

Overview of CP

1.2 Section 2 describes what is meant by presentation. The meaning of presentation, underpins the discussion of presentation concepts. Section 3 describes the three perspectives that the IPSASB considered in developing its approach to the presentation of information, and provides a brief overview of that approach. The approach involves: (1) recognition that identification of user needs focused objectives for information areas is central to presentation; (2) application of the qualitative characteristics (QCs) to presentation decisions; and, (3) application of separate presentation concepts. The following three sections, Sections 4, 5 and 6, then provide further detail and explanation for each part of this approach.

Relevance of Work Done in Phase 1 of Conceptual Framework

1.3 This CP is intended to be read within the context established in 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—ED1). CF—ED1 proposes that GPFRs of public sector entities include, but are more comprehensive than, financial statements, including their notes. CF—ED1 also proposes that the objectives of financial reporting are to provide information about the entity that is useful to users for accountability and decision-making purposes. Presentation of information in GPFRs should support those objectives. Presentation also relates to the user needs proposed in Phase 1.

1.4 With respect to user needs, CF—ED1 outlines the information that the primary users of GPFRs will need for accountability and decision-making purposes. For example, information needs of service recipients and their representatives include information as input to assessments of such matters as whether:

- The entity is using resources economically, efficiently, effectively and as intended, and whether such use is in their interests;
- The range, volume and cost of services provided during the reporting period, and the amounts and sources of their cost recoveries, are appropriate; and
- Current levels of taxes or other charges are sufficient to maintain the volume and quality of services currently provided.

- 1.5 A fuller discussion of (a) information needed by the primary users of GPFRs, and (b) information provided in GPFRs to meet user needs, is contained in paragraphs 2.7 to 2.25 of CF—ED1. That coverage is reproduced in Appendix A.
- 1.6 Information should be presented so as to meet the QCs and constraints articulated in Phase 1. The QCs are relevance, faithful representation, understandability, timeliness, comparability, and verifiability. The descriptions of these six QCs in CF—ED1 are provided in Appendix B. Each of the QCs is integral to, and works with, the other QCs to ensure that reported information is useful for achieving the objectives of financial reporting. However, in practice, all QCs may not be fully achieved, and a balance or trade-off between certain of them may be necessary. CF—ED1 further notes that the extent to which the QCs can be achieved may differ depending on the degree of uncertainty and subjective assessment or opinion involved in compiling financial and non-financial information. Materiality, cost-benefit, and achievement of an appropriate balance between the QCs are pervasive constraints on information included in GPFRs.

Relevance of Work Done in Phase 2 Elements and Phase 3 Measurement

- 1.7 Phase 2—Elements and Recognition and Phase 3—Measurement of the IPSASB's conceptual framework project cover the definition, recognition, and measurement of the elements reported in the financial statements. In December 2010 CPs were issued for each Phase. Consultation Paper, *Elements and Recognition in Financial Statements*:
- Comments on the boundary between elements and presentation, noting that subclassifications within an element, and aggregations or combinations of elements, are issues for presentation rather than matters discussed within that CP;
 - Proposes that disclosure of information in the notes to the financial statements does not compensate for a failure to recognize items that meet the definitions and specified recognition criteria of elements;
 - Proposes that certain types of note disclosures with respect to recognized items can enhance information for decision making and accountability;
 - Proposes that notes can provide further detail about recognized items; and
 - Notes that how elements are defined can impact on what needs to be presented on the faces of the different financial statements.
- 1.8 The Consultation Paper, *Measurement of Assets and Liabilities in Financial Statements* states that proper presentation and disclosure can ensure that the measurement bases used and the amounts reported on each basis are clear.

Impact of New Technology

- 1.9 During development of this CP the IPSASB considered how new technology, designed to allow users to access data at different levels to suit their individual needs, could impact on presentation in GPFRs. Internet based tools potentially provide more scope than traditional, hardcopy formats to drill down from standardized summary presentation of information into more detailed underlying data. The approach to presentation of information described in this CP aims to be at a high-enough level to remain relevant and support the development of appropriate presentation requirements within the context of changing information technology.

2. Meaning of Presentation, Display, and Disclosure

Presentation

- 2.1 This section explores what is meant by presentation in GPFRs, and illustrates the relationship between presentation, display, and disclosure. These issues have been addressed from a conceptual perspective by only a few standard setters, and the concepts developed have generally only focused on the financial statements and note disclosures. There are several projects being conducted — by the IASB, national standard setters, and others — that relate to presentation, including projects on integrated reporting, note disclosures, and effective communication of financial information³. The IPSASB is monitoring the progress of these projects. However, given the scope and objectives of these projects the IPSASB believes that it can progress this project without waiting for these other projects to be finalized.
- 2.2 In the context of financial statements, presentation has been viewed, in some jurisdictions, as addressing information reported on the face of a statement, while disclosure addresses information that is reported in the notes. Because this CP is considering presentation in the broader context of both GPFRs that include financial statements and other GPFRs, that terminology needs to be modified. Presentation is therefore described in this CP as the selection, location and organization of information that is displayed and disclosed in the GPFRs to meet the objectives of financial reporting, needs of users, and QCs.
- 2.3 This description of presentation also contrasts with the meaning of “fair presentation” with respect to financial statements. *IPSAS 1, Presentation of Financial Statements*, states that:
- “Fair presentation requires the faithful representation of the effects of transactions, other events, and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue, and expenses set out in IPSASs. The application of IPSASs, with additional disclosures when necessary, is presumed to result in financial statements that achieve a fair presentation.”
- 2.4 This CP does not address all the issues encompassed by fair presentation. The recognition and measurement of elements, for example, are covered in Phases 2 and 3 of the Conceptual Framework, and discussed in the CPs issued in December 2010.

Display and Disclosure

- 2.5 Presentation covers both display and disclosure of information. In considering display and disclosure this CP distinguishes between core information and supporting information.

Display and Core Information

- 2.6 Core information highlights key messages related to an information area⁴ and so is central to meeting the objectives of financial reporting and user needs. When developing presentation

³ For example, the Financial Accounting Standards Board's (FASB's) *Disclosures* project, the Federal Accounting Standards Advisory Board's *Concepts – The Financial Report* project, the International Integrated Reporting Council's project on integrated reporting, and the European Financial Reporting Advisory Group's *Disclosures Framework* project. Phase E of the IASB/FASB conceptual framework project will address presentation and disclosure.

⁴ An “information area” is either a GPFR or a major subsection within a GPFR. Examples of information areas include service performance information, information on the long-term sustainability of an entity's finances, financial statements, and financial statement discussion and analysis.

requirements for a particular GPFR information area, it is important to identify (a) what core information would need to be displayed, (b) where the information should be displayed, and (c) how it should be organized. Where core information has been identified it should be displayed prominently, using appropriate presentation techniques. Core information should be kept to an understandable level, so that users can focus on that information and not be distracted by an excess of detail that could obscure the key messages that core information is intended to show. But core information should also be sufficient to effectively communicate the key messages related to an information area.

- 2.7 For the financial statements, display applies to the information shown on the face of a statement. For information included in GPFRs but outside the financial statements, display refers to the ways in which core information is shown, such that the presentation provides an overview appropriate to (a) meeting the needs of users, and (b) the characteristics of the information shown. Examples of possible presentation techniques for this information include the use of lists (for example, lists of critical indicators), tables, statements, and graphs.
- 2.8 Display and disclosure – disclosure is discussed below – do not differ based on the specific presentation techniques used. For financial statements the difference is about information location: on the face of a financial statement or in the notes. For other information areas the presentation technique(s) used to more prominently display core information would be aligned with the information needs and presentation objectives of that area and reviewed against the QCs and presentation concepts.
- 2.9 For information to achieve the QCs, all core information should be displayed. Disclosure is not a substitute for display of core information.

Example: Accruals and cash

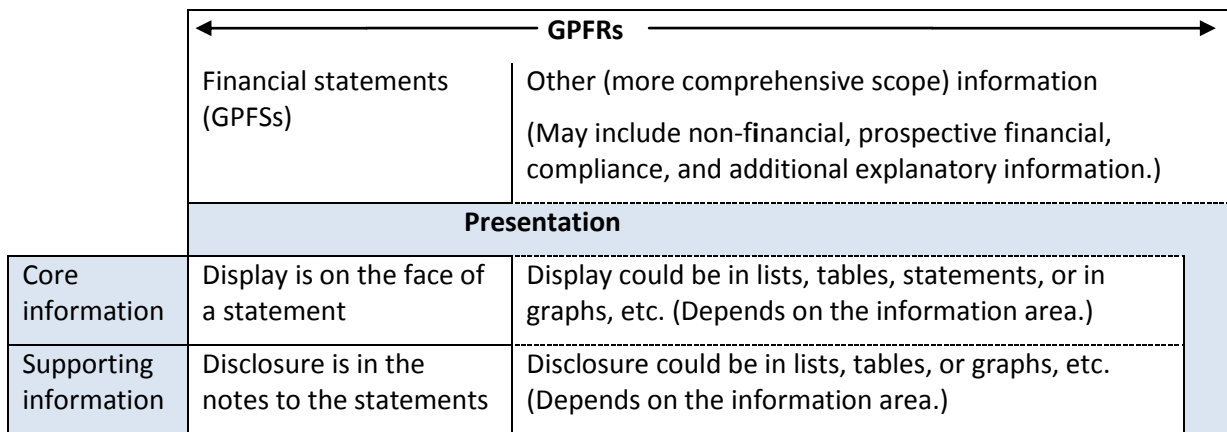
- 2.10 The set of information produced for accrual-based financial statements is comprehensively different from that produced for cash-based statements. One aspect of that difference relates to information location and the identification of core and supporting information. Note disclosure of accrual information (for example, accrual-based values for assets and liabilities) as supporting information in cash-based statements does not equate to display of accruals information on the face of the financial statements. Decisions about where information is shown (and how it is organized) are equally important to presentation as decisions about what information is shown.

Disclosure and Supporting Information

- 2.11 Supporting information makes core information more useful. It does this by providing detail that will help users to understand the core information, including (a) the core information's basis, such as applicable policies, methodology, (b) disaggregations of core information, (c) items that share many but not all of the characteristics of core information, and (d) information that could affect users' evaluation of core information. Two examples of supporting information within the context of two different information areas are:
- Information on the *methodologies* used to produce information on the *long-term sustainability of public finances*; and
 - Information about the *scope* of service performance information reported, when reporting *service performance information*.

- 2.12 For financial statements, disclosure of supporting information provides elaborations of items displayed on the face of a financial statement, but may also provide other types of supporting, non-core information. For example, information about items such as contingent liabilities, that are not recognized but are still relevant, or other types of information, for example segment information, are necessary to fully understand the core financial information displayed on the faces of the financial statements, meet user needs, and achieve the objectives of GPFRs.
- 2.13 Supporting information is as important as core information, but its role means that it should not be presented as prominently as core information. Similarly to core information, presentation techniques for supporting information include the use of lists, tables, statements, and graphs.
- 2.14 It is possible that not all GPFR information areas will have both core information and supporting information.
- 2.15 Diagram A below shows the interrelationships between presentation, display, and disclosure.

Diagram A: Presentation, Display, and Disclosure



Identification of Core and Supporting Information

- 2.16 Identification of specific core and supporting information is done at the standards level, for a particular topic or information area, applying the descriptions above for core information and supporting information, rather than through development of a single set of criteria or characteristics for application across all GPFRs. The identification of core and supporting information is inextricably linked. Such identification will be considered, by the IPSASB and/or preparers, when they apply the approach to presentation of information that is set out in Section 3.
- 2.17 Standards level identification of core and supporting information could involve, for a particular information area, the development of: (a) classification principles appropriate to that area; (b) a list of broad types of information that should be provided as core or supporting information; or, (c) a list of specific core information that all preparers must provide for that area. Those presentation objectives applicable to an information area would guide the identification of core and supporting information by both standard setters and preparers. Presentation objectives, discussed further in Sections 3 and 4, are based on the needs of users.
- 2.18 The relationship between the QCs and the presentation decisions that flow from the description of presentation above is discussed in more detail in Section 5 below.

Alternative View – Core and Supporting Information

- 2.19 Some do not agree with the distinction between core information and supporting information for GPFRs. They do not believe that display is synonymous with core information or that disclosure is synonymous with supporting information. An alternative to the proposal would be to develop an approach where core information would be separately defined from display and supporting information would be separately defined from disclosures, based on the premise that either core or supporting information could be displayed or disclosed. An example of one approach based on this alternative view is described in the following paragraph.
- 2.20 Core information could be viewed as any information that is essential (for example, for communicating financial position and financial performance, service performance, or financial condition) to users of that information. Although those that support this view agree that disclosure is not a substitute for display (for example, in a financial statement), they believe that notes have a clear and demonstrable relationship to the display information to which they relate and that such notes are essential to a user's understanding of that information. As such, the notes also should be considered core information. In this approach, supporting information could be viewed as information that places the core information in an appropriate operational, economic, or historical context. As such, supporting information could be presented in the form of display (for example, in certain jurisdictions, a combining financial statement that provides additional detail that places the consolidated financial statement in context) or disclosure (for example, note disclosures that provide additional context to supporting information that is displayed). Based on this approach, the substance of the information (that is, whether the information is essential) would influence the classification of either core or supporting information versus the form (that is, display and disclosure) of that information.

Specific Matter for Comment 1 (See paragraphs 2.1 to 2.18)

With respect to the descriptions of “presentation”, “display”, “disclosure”, “core information”, and “supporting information”, and the proposed relationships between these terms:

- (a) Do you agree that the proposed descriptions and relationships are appropriate and adequate?
- (b) Do you agree that identification of core and supporting information for GPFRs should be made at a standards level rather than as part of the Conceptual Framework?

3. **IPSASB Approach to Presentation of Information**

- 3.1 This section provides an overview of the IPSASB's approach to presentation of information, and describes how that approach was developed. This approach has been developed to address presentation within the context of the more comprehensive scope for general purpose financial reporting proposed in Phase 1. GPFRs include financial statements, but also include reporting on topics such as service performance information, information on the long-term sustainability of public finances, and budget information.
- 3.2 Consistent with the IPSASB's view that the content and structure of GPFRs are standards-level concerns, this CP does not address the specification of, for example, (a) a set of GPFRs that an entity should prepare to meet the objectives of financial reporting, (b) the types of information that should be included in different GPFRs, (c) a list of financial statements, or (d) the broad content of financial statements.
- 3.3 The IPSASB's approach to presentation of information involves:
1. Focusing on user needs to identify presentation objectives;
 2. Application of the QCs to presentation decisions; and
 3. Application of separate presentation concepts.
- 3.4 This approach was developed through:
- Review of: (a) other standard setters' work on presentation concepts, (b) the implicit concepts underlying IPSASB and other standard setters' presentation-related pronouncements, and (c) communication principles;
 - Consideration of the types of concepts needed to address presentation decisions, including application of the QCs and constraints; and
 - Consideration of three different perspectives on presentation concepts.
- 3.5 With respect to the last point, each one of the three perspectives was found to have something to contribute to presentation concepts, as discussed below.

(i) Focus on User Needs to Identify Presentation Objectives

- 3.6 A presentation perspective that focuses on user needs takes the view that the objectives of the information presented should be clearly identified in order for presentation requirements to be developed. Applying this perspective, presentation concepts could consist of presentation objectives, which would operationalize the two objectives — to provide information useful for accountability and decision-making — from Phase 1 of the Conceptual Framework.
- 3.7 The perspective that user needs are critical to presentation decisions is valuable. However, the evolving scope of GPFRs and the dynamic nature of the relationship between user needs and the information necessary to fulfill such needs argue against identification of specific presentation objectives for application across all GPFRs and inclusion in the Conceptual Framework. Therefore, the approach to presentation of information adopted in this CP has the development of presentation objectives as a task at the standard setting level, rather than at the Conceptual Framework level, in order to guide the development of presentation requirements and preparers' presentation decisions. Presentation objectives are discussed further in Section 4 below.

(ii) Application of QCs

- 3.8 A second perspective on presentation concepts is that the QCs address the fundamental considerations relevant to the development of requirements for presentation. From this perspective QCs could guide presentation requirements and practice without interpretation, and the direct application of the QCs could be viewed as more reliable than use of an intermediate set of presentation concepts.
- 3.9 Relevance and faithful representation, for example, apply to decisions about what information should be presented. Relevance requires that information selected for presentation should be capable of making a difference in achieving financial reporting objectives and should have confirmatory value and/or predictive value. Faithful representation requires that information be complete. All information necessary for faithful representation of a phenomenon should be provided. At the same time, information should be neutral, i.e. selected and presented without bias.
- 3.10 Application of the QCs augments application of presentation concepts and forms part of the approach to presentation of information described in this CP. How the QCs relate to presentation decisions is further discussed in Section 5 below.

(iii) Presentation Concepts

- 3.11 A third perspective is that there is scope for separate presentation concepts that identify general, high-level principles applicable specifically to presentation. These concepts would highlight issues of particular importance to presentation. This perspective acknowledges that the descriptions of the QCs, although very important for presentation, are not focused on presentation issues. Separate presentation concepts that are consistent with the QCs, but whose descriptions focus on presentation, arguably are needed to fill a gap between the QCs and presentation, and to operationalize the QCs' application to presentation.
- 3.12 The IPSASB has taken this perspective in developing the three presentation concepts described in Section 6 below. These concepts were developed through application of the QCs and the constraints on information to presentation decisions. They would be applied to presentation in combination with presentation objectives and the QCs.
- 3.13 The next three sections further discuss and describe each of the three aspects of this approach to the presentation of information. As stated above, Section 4 discusses presentation objectives; Section 5 describes how the QCs relate to presentation decisions; and, Section 6 describes three presentation concepts, showing how these are related to the presentation decisions and the QCs.

Specific Matter for Comment 2 (See paragraphs 3.1 to 3.12)

With respect to the IPSASB's approach to presentation of information:

- (a) Do you agree with the development of presentation concepts that can be adopted for the more comprehensive scope for GPFs including, but not restricted to, financial statements?
- (b) Do you agree with the approach of (i) focusing on user needs to identify presentation objectives, (ii) application of the qualitative characteristics (QCs) to presentation decisions, and (iii) separate presentation concepts?

4. Identification of Presentation Objectives

- 4.1 This section discusses the identification of presentation objectives, based on user needs, to guide development of standards level presentation requirements and preparers' presentation decisions.

Presentation Objectives Consistent with Financial Reporting Objectives

- 4.2 Presentation objectives would be consistent with, but more specific than, the two over-arching financial reporting objectives of accountability and decision-making proposed in CF—ED1. Presentation objectives would operationalize the accountability and decision-making objectives, and be specific enough to guide presentation decisions for a particular information area. As explained in Section 3, the development of presentation objectives is a task at the standard setting level, rather than at the Conceptual Framework level.

Presentation Objectives Based on User Needs

- 4.3 Presentation objectives would be based on user needs. CF—ED1 has described some of the assessments for which the primary users of GPFRs will need information. CF—ED1 explains, for example, that users want information to support assessments of whether:

- Resources are being used economically, efficiently, effectively and as intended, and whether such use is in their interests;
- The range, volume and cost of services provided during the reporting period, and the amounts and sources of their cost recoveries, are appropriate;
- Current levels of taxes or other charges are sufficient to maintain the volume and quality of services currently provided;
- The entity is achieving the objectives established as the justification for the resources raised during the reporting period;
- Current operations were funded from resources raised in the current period from taxpayers or from borrowings or other sources; and
- The entity is likely to need additional (or less) resources in the future, and the likely sources of those resources.

Example: Illustrative Presentation Objectives

- 4.4 Three examples of possible presentation objectives, for three different information areas, are provided below:

1. *Financial statement information:*

Objective: To provide information that is useful to evaluate the entity's ability to finance its activities and to meet its liabilities and commitments.

2. *Service performance information:*

Objective: To provide information that is useful to assess whether the range, volume and cost of services provided during the reporting period, and the amounts and sources of their cost recoveries, are appropriate.

3. *Information on the long-term sustainability of finances:*

Objective: To provide information that is useful to assess the ability of entities to meet debt servicing obligations and the extent to which they can maintain current policies and meet current and future obligations related to entitlement programs, without raising taxes and contributions or increasing debt to unsustainable levels.

- 4.5 These three objectives are illustrative only. They do not attempt to cover all (or any) of the presentation objectives that could be identified for these three information areas. As stated above, the development of presentation objectives is a task at the standard setting level, rather than at the Conceptual Framework level, in order to guide the development of presentation requirements and preparers' presentation decisions.

Specific Matter for Comment 3 (See paragraphs 4.1 to 4.5)

This CP discusses the importance of developing presentation objectives as part of standard setting.

- (a) Do you agree that presentation objectives should be developed?
- (b) If so, in your view, should they be developed at a standards level, or as part of the Conceptual Framework?

5. Relationship of the QCs to Presentation Decisions

- 5.1 This section (a) describes the three types of presentation decisions to which presentation concepts apply; and, (b) shows how the QCs are related to those decisions.
- 5.2 Presentation concepts need to apply to presentation decisions. There are three broad types of presentation decisions (decision types). These are decisions about:
- *What* information needs to be shown. For example, decisions about:
 - What information items (particular statements, notes, sets of supporting information, other items) should be included in GPFRs; and,
 - At the level of an individual item in GPFRs such as a statement, what particular line items, comparatives, totals, subtotals, explanations, and supporting schedules are needed to achieve that item's purpose.
 - *Where* information should be located. For example, decisions about:
 - Whether information should be located in a particular statement or located in a particular GPFR; and,
 - Whether information should be displayed on the face, or disclosed in the notes (in the case of presentation involving statements).
 - *How* information should be organized. For example, decisions about:
 - The use of a statement to show information (as opposed to narrative, a table, or a graph); and
 - A statement's overall structure (including decisions on the number and type of columns to include, number and ordering of line items, and the use of titles and headings.)
- 5.3 For example, twenty different items of information may be identified for inclusion in a particular GPFR. That decision relates to *what* information is presented. Of those items, six may be identified as core information that should be displayed prominently (for example, on the face of a statement) and the other fourteen items may be identified as supporting information that should be disclosed less prominently (for example, in related notes). That decision relates to *where* information is presented. Of the six items reported prominently, it may be decided that the items should be arranged in tabular form, with three items per column and the items in each column following a particular sequence within the column. That decision relates to *how* information is *organized*.
- 5.4 Application of the QCs to presentation decisions forms one part of the IPSASB's approach to presentation of information. Table 1 on the following page illustrates how the QCs relate to the three types of presentation decision.

Table 1: Qualitative Characteristics and the Three Types of Presentation Decisions

Qualitative characteristic	Presentation Decision Types		
	What information is shown	Where information is shown	How information is organized
Relevance	Information that is (a) capable of making a difference in achieving financial reporting objectives and meeting user needs and thus (b) has confirmatory value, predictive value, or both.	When more information is identified as relevant the need to consider whether information needs to be located in different places increases. Relevance is important when distinguishing between core information and supporting information.	The more information identified as relevant, the greater the potential need to consider the best way to organize information.
Timeliness	Information that is timely enough to be useful.	Information's location can facilitate timeliness.	No impact.
Verifiability	When reporting certain types of information include: <ul style="list-style-type: none"> - Assumptions that underlie the information, - Methodologies adopted in compiling it, and - Factors that support other information reported. 	The extent to which information can be verified and the ways in which different types of information are verified may impact on where information is shown.	The inclusion of information such as disclosure of methodologies and assumptions is likely to have implications with respect to how information should be organized.
Understandability	Understandability impacts in combination with relevance. For users to understand information there must be sufficient relevant information to meet the objectives of financial reporting and user needs.	Locate information in a manner that responds to the needs and knowledge base of users, and to the nature of the information presented. Understandability is important when distinguishing between core information and supporting information.	Organize information in a manner that responds to the needs and knowledge base of users, and to the nature of the information presented. Present information in a manner that is readily understandable by users. Classify, characterize and present information clearly and concisely.

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	Presentation Decision Types		
Qualitative characteristic	What information is shown	Where information is shown	How information is organized
Faithful representation	<p><i>Complete:</i> Include all information necessary for faithful representation of the phenomenon.</p> <p><i>Neutral:</i> Select information without bias.</p>	<p><i>Neutral:</i> Locate without bias.</p>	<p><i>Neutral:</i> Organize without bias.</p>
Comparability	<p>Changes to information shown over time impact on comparability. Comparability indicates a need for supporting information, to allow users to make an informed assessment of comparability and core information (e.g. comparatives for financial statements).</p>	<p>Organize so that like items look alike, and different items look different.</p>	<p>Organize so that like items look alike, and different items look different.</p>

6. Presentation Concepts

- 6.1 This section proposes three presentation concepts to guide presentation decisions for GPFRs. The concepts have been developed through applying the QCs and constraints on information to the presentation decisions described in Section 5. Table 2 below summarizes the relationships between the three presentation decisions, the presentation concepts, and the QCs and constraints from which the concepts are derived.

Table 2: Presentation Decisions, Presentation Concepts, the QCs and Constraints

Presentation Decision	Presentation Concept	QCs and Constraints
<i>What information needs to be shown</i>	1. Select information that meets user needs, satisfies the cost-benefit test, and is sufficiently timely ⁵	Relevance, timeliness, verifiability, understandability, faithful representation, comparability, balance between the QCs and materiality
<i>Where information should be located</i>	2. Locate information to meet user needs	Relevance, timeliness, verifiability, understandability, faithful representation, and comparability
<i>How information should be organized</i>	3. Organize information to make important relationships clear and support comparability	Relevance, verifiability, understandability, faithful representation, and comparability

- 6.2 The presentation concept descriptions below are accompanied by illustrative presentation techniques, which suggest ways to implement the concepts. These techniques are *not* part of the concepts. They are not a comprehensive list of all possible techniques. Presentation techniques would be chosen to ensure that information is presented in a way that is likely to meet the needs of users and achieve the objectives of financial information (i.e., being useful for accountability and decision making), while also achieving the QCs and taking account of information constraints. The techniques used in one information area could be different from those in another area.

Concept 1: Select information that meets user needs, satisfies the cost-benefit test, and is sufficiently timely

Select information that meets user needs

- 6.3 This concept involves selection of information that meets user needs, in order to achieve GPFR objectives and the presentation objectives identified for an information area. There should be sufficient information, with all required information reviewed to ensure that it contributes to meeting user needs and objectives. Preparers should take the same care when exercising their professional judgment as they comply with International Public Sector Accounting Standards (IPSASs), ensuring that sufficient information is provided to meet user needs, achieve GPFR objectives and achieve presentation objectives identified for an information area. When providing information over and above that required by IPSASs, preparers should critically review information they propose to provide to check that it contributes to meeting user needs.

⁵ The three presentation concepts are numbered for ease of reference. The numbering does not imply a hierarchy of importance.

6.4 The following list illustrates the main types of information that could be selected. The list is not exhaustive.

Information types for user needs

- Actual amounts for the current year;
- Comparatives (for example, prior year amounts, budgets or target);
- Appropriate line items and components of line items;
- Information useful to identify trends with predictive value;
- Information on how key measures have been prepared, including significant accounting policies and/or methodologies for preparing information;
- Judgments, reasons, assumptions, models or inputs;
- Risks and factors impacting on measurement uncertainty, including sources of estimation uncertainty and sensitivity analysis disclosures;
- Information on the reliability of qualitative information, including any limits to that reliability; and,
- Disclosures related to alternative measurement options for phenomena reported in the statements.

6.5 Information selection involves decisions about the appropriate level of detail. To reach the right level of detail involves information prioritization and summarization. In some situations totals must be disaggregated to ensure that the QCs of relevance and faithful representation are met. In other situations it will be important for simpler summaries of very detailed information to be displayed—aggregations—so that information will be understandable, while still providing sufficient detailed supporting information to achieve the QCs of relevance and faithful representation.

Information that satisfies the cost-benefit test

6.6 When considering information selection, the benefits of information should justify its costs. Determination of benefits involves identification of information that is useful to users of GPFRs for accountability and decision-making purposes. Information is material if its omission or misstatement could influence the discharge of accountability by the entity, or the decisions that users make on the basis of the entity's GPFRs prepared for that reporting period. Information in GPFRs achieves its value by reducing the likelihood that users are either uninformed or misinformed.

6.7 The value of information can also be viewed as arising from its predictive and feedback value. The expected value of information can be determined as being equal to its value in reducing expected opportunity losses. In such a formula, the expected opportunity losses are represented by the chance of being misinformed multiplied by the cost of being misinformed. The expected costs that information generates include (a) the costs of its preparation, (b) the costs of assurance, and (c) the costs of the effort required of users to comprehend its meaning.

6.8 It may be possible to derive a measure of the value of information by considering the extent to which information reduces the chance of being uninformed or misinformed and their cost. But assessing whether the benefits of providing information justify the related costs is often a matter of

judgment, because it is often not possible to identify and/or quantify all the costs or benefits of information included in GPFRs.

- 6.9 Information costs are incurred by both information preparers and users. For preparers the costs of providing information include (a) the costs of collecting and processing the information, (b) the costs of verifying it and/or presenting the assumptions and methodologies that support it, and (c) the costs of disseminating it. Users incur the costs of analysis and interpretation. Omission of useful information also imposes costs. Ultimately information costs are borne by (a) resource providers, who provide the resources that preparers use to produce information, and (b) service recipients, because resources that would otherwise be available for service delivery must instead be used to meet the costs of providing information for financial reports.
- 6.10 In developing disclosure and display requirements in pronouncements, a focus on presentation of information whose benefits justify the costs is likely to enhance the relevance and, by avoiding unnecessary clutter, the understandability of the information. In assessing the benefits of individual items of information it will be important to consider how each item could impact on the overall view presented and the characteristics of the information presented. Items that may appear to have little benefit when viewed in isolation could have much greater benefits when viewed as contributing to the whole set of information presented.

Information that is sufficiently timely

- 6.11 Information needs to be presented on a sufficiently timely basis to help users to (a) hold management accountable, and (b) inform decisions. Timeliness includes both the need to provide information on a sufficiently frequent basis to allow the compilation and review of trend information important for accountability and decision making, and soon enough after the events upon which information is reported to be useful for accountability and decision making. Relevance, faithful representation, comparability, and understandability are all reduced if information is not provided with sufficient timeliness.

Presentation techniques

- 6.12 Presentation techniques relevant to Concept 1 could include:
- Decisions about which line items, comparatives, totals, subtotals, explanations, and supporting schedules should be displayed or disclosed;
 - Criteria for selection of different types of information (core, summary, quantitative, narrative, indicators, graphs, and tables, etc) within different information areas;
 - Requirements in pronouncements with respect to GPFRs' timing and frequency; and
 - Limits on the type of information required to be reported in GPFRs, where this could impact on the timeliness of the information.

Concept 2: Locate information to meet user needs

- 6.13 Information location impacts on information's relevance, timeliness, verifiability, understandability, faithful representation, and comparability. Location may be used to (a) convey the relative importance of information and its connections with other items of information, and (b) convey the nature of information, and (c) link different items of information that contribute together towards achievement of a particular user need or presentation objective.

- 6.14 Decisions about where information is located have the potential to either exaggerate or under-emphasize the importance of information, which biases the information and impacts negatively on faithful representation. Such decisions need to indicate the relative importance of the information presented so that faithful representation is achieved. Section 2 distinguishes between core and supporting information. Information location is one important way to signal to users that information is either core information or supporting information.
- 6.15 Information location can provide users with important signals about information's verifiability. If one set of information has been verified using a set of techniques or standards that is different from that applied to verify another set of information, then this can be signaled by locating the two sets of information in different places. For example, the type of verification applicable to information in financial statements may differ from that for narrative information, service information or information on the sustainability of an entity's finances.
- 6.16 The following information differences could be important, when considering whether information should be separated into different locations, in order to communicate its different nature. Information may be presented differently because it is:
- Core information that should be displayed or supporting information that should be disclosed;
 - Narrative or quantitative;
 - A standardized, externally imposed selection or an entity specific, management controlled selection⁶; or
 - Financial or non-financial.

Presentation techniques

- 6.17 Presentation techniques relevant to this concept could include:
- Development of criteria to distinguish between core and supporting information within a particular GPFR information area; and
 - Development of criteria to guide the location of different types of information into (a) separate GPFRs, (b) distinct information areas, (c) different statements, or (d) sections and subsections within an information area or GPFR.

Concept 3: Organize information to make important relationships clear and support comparability

Organize to make important relationships clear

- 6.18 This concept involves consideration of ways that presentation can clarify important relationships between information in different places, whether different parts within a GPFR, or different GPFRs. Presentation should help to ensure that key messages are understandable without further explanation or information. Presentation that clearly identifies important relationships is likely to enhance the extent to which a GPFR (a) achieves financial reporting objectives, (b) embodies the QCs, and (c) achieves presentation objectives that are specific to a particular information area.

⁶ For example, the content of the financial statements is more standardized than the content of financial statement discussion and analysis, which is much more under management control in terms of the selection of entity specific information. But this is a matter of degree, with both involving some level of management judgment and selection if information is to reflect entity specifics.

Information about relationships that is presented in GPFRs, the way that information is organized, and where it is located should ensure that users are informed about important relationships between reported information.

- 6.19 Linking related information helps users to find information important for faithful representation, understandability, and verifiability. Some information is more understandable when organized into graphs, charts, or tables. Other information may be presented more effectively in narrative form.
- 6.20 Before starting to consider presentation techniques related to this concept, an important relationship that warrants highlighting must exist. Then a technique is chosen that will be appropriate to the particular circumstances. Important relationships include those of:
- Enhancement;
 - Similarity; and
 - Shared purpose.
- 6.21 *Enhancement*: Information in one place in a GPFR may be enhanced through information provided elsewhere. For example, note disclosures in the financial statements provide enhancing supporting information, which is related to core information displayed on the face of the statements through the use of cross-referencing. Tables and graphs may be used to enhance the understanding of narrative information. Links to information reported outside the GPFRs, for example budget or statistical information, may enhance the understandability of information reported inside GPFRs.
- 6.22 *Similarity*: A relationship of similarity exists where information reported in one place is based on information reported elsewhere in the GPFRs, and either has not been adjusted or has had relatively minor adjustments. For example, if service performance information includes the cost of services, or the value of assets deployed in different services, then it may be helpful to show how those totals relate to expenses and assets reported in the financial statements. Another example is the relationship between the total expenses reported against budget and total expenses reported in the statement of financial performance. A reconciliation between the two different amounts can enhance users' understanding of both amounts.
- 6.23 *Shared purpose*: A relationship of shared purpose exists where information reported in different places contributes to a shared purpose. An example of such a situation is that of different statements and disclosures providing information needed for accountability for services provided. Information about (a) the actual and budgeted cost of different services, (b) financial and non-financial resources used in the provision of different services, and (c) actual, budgeted, and expected future provision of different services in narrative form may be included in different places. To make the relationship between the information in different places clear, it may be appropriate to use presentation techniques such as common headings and referencing.

Presentation techniques

- 6.24 Presentation techniques relevant to making important relationships clear could include the use of:
- Narrative, tables, graphs, charts, or other organizational approaches for different types of information;
 - Consistent labeling, including referencing, and ordering of items across different parts of a GPFR;

- Layering of information, through the display of core information, followed by disclosure of more detailed breakdowns and supporting information in other parts of a GPFR;
- Standardized sequences and structures across different statements (to support the identification of related information); and
- Reconciliations between different numerical totals in different parts of a GPFR.

6.25 The list of possible techniques above is only illustrative. Other techniques may be more appropriate given particular circumstances.

Support comparability

6.26 This concept also emphasizes the importance of presentation for comparability. Presentation is of particular importance to comparability, because users' ability to compare information heavily depends on the way that information is presented. If the selected information and its location and organization change from year to year for the same reporting entity, comparisons become very difficult. Similarly, if different reporting entities present information in different ways, inter-entity comparisons become difficult. Presentation should facilitate comparisons and make clear when like items are like and when unlike items are unlike.

Presentation techniques

6.27 Presentation techniques relevant to the comparability aspect of this concept include the establishment of requirements that ensure that there will be:

- A linkage between supporting information and core information so that users can determine whether information is reported on a consistent basis from period to period and can be compared meaningfully with information from previous periods for the same reporting entity or with information presented by other reporting entities;
- Disaggregation of information into the same subsets from year to year; and
- Display or disclosure of information in the same locations from year to year, using the same structure, headings, and location cues.

Specific Matter for Comment 4 *(See paragraphs 6.1 to 6.27)*

This CP proposes three presentation concepts. Please provide your views on these concepts, in particular whether:

- (a) Any of these concepts should be excluded from the Conceptual Framework; and
- (b) The description of each concept could be improved and, if so, how.

Specific Matter for Comment 5 *(See paragraphs 6.1 to 6.27)*

Given the three concepts proposed, please provide your views on:

- (a) Whether there are further concepts that should be included in the Conceptual Framework; and
- (b) What those further concepts should be.

Specific Matter for Comment 6 *(See paragraphs 6.12, 6.17, 6.24, and 6.27)*

Each presentation concept refers to the possibility of developing criteria to determine the presentation techniques to be used in setting accounting standards. Please provide:

- (a) Your views on whether it would be useful and workable for the IPSASB to apply such techniques; and
- (b) Any suggestions you have for developing these techniques.

Appendix A: CF—ED1 Information Needs of the Primary Users of GPFRs and Information Provided by GPFRs

The information included in this Appendix is extracted from CF—ED1. It covers paragraphs 2.7 to 2.25 of that document.

Information Needs of Service Recipients and Resource Providers

- A1. Service recipients include taxpayers and other members of the community that benefit from the services provided by the government or other public sector entity, whether as a result of exchange or non-exchange transactions.
- A2. For accountability and decision-making purposes, service recipients and their representatives will require information as input to assessments of such matters as whether:
- The entity is using resources economically, efficiently, effectively and as intended, and whether such use is in their interests;
 - The range, volume and cost of services provided during the reporting period, and the amounts and sources of their cost recoveries, are appropriate; and
 - Current levels of taxes or other charges are sufficient to maintain the volume and quality of services currently provided.
- They will also require information about the entity's anticipated future service delivery activities and objectives, and the amounts and sources of cost recoveries necessary to support those activities.
- A3. Resource providers include "involuntary resource providers" such as taxpayers, and "voluntary resource providers" such as lenders, donors, suppliers, fee-for-service consumers and employees.
- A4. For accountability and decision-making purposes, resource providers and their representatives will require information as input to assessments of such matters as whether the entity:
- Is achieving the objectives established as the justification for the resources raised during the reporting period;
 - Funded current operations from funds raised in the current period from taxpayers or from borrowings or other sources; and
 - Is likely to need additional (or less) resources in the future, and the likely sources of those resources.
- A5. Lenders and creditors will require information as input to assessments of the liquidity of the entity and to confirm that the amount and timing of repayment will be as agreed. Donors will require information to support assessments of whether the entity is using resources economically, efficiently, effectively and as intended. They will also need information about the entity's anticipated future service delivery activities and resource needs. In most cases, governments that provide resources to international governmental organizations are dependent on GPFRs of those organizations for information for accountability and decision-making purposes.

Accountability and Decision Making

- A6. Service recipients and resource providers will require information for accountability purposes and as input for making decisions. For example:
- Lenders, creditors, donors and others that provide resources on a voluntary basis, including in an exchange transaction, make decisions about whether to provide resources to support the current and future activities of the government or other public sector entity. In some circumstances, members of the legislature or similar representative body who depend on GPFRs for the information they need, can make or influence decisions about the service delivery objectives of government departments, agencies or programs and the resources allocated to support their achievement; and
 - Taxpayers do not usually provide funds to the government or other public sector entity on a voluntary basis or as a result of an exchange transaction. In addition, in many cases, they do not have the discretion to choose whether or not to accept the goods and services provided by a public sector entity or to choose an alternative service provider. Consequently, they have little direct or immediate capacity to make decisions about whether to provide resources to the government, the resources to be allocated for the provision of services by a public sector entity or whether to purchase or consume the services provided. However, they can make decisions about their voting preferences, and representations they make to elected officials or other representative bodies—these decisions may have resource allocation consequences for certain public sector entities.
- A7. Information provided in GPFRs for accountability purposes will contribute to, and inform, decision making. For example, information about the costs, efficiency and effectiveness of past service delivery activities, the amount and sources of cost recovery, and the resources available to support future activities will be necessary for the discharge of accountability. This information will also be useful for decision making by some users of GPFRs, including decisions that donors and other financial supporters make about providing resources to the entity.

Information Provided by General Purpose Financial Reports

- A8. To respond to the information needs of users, GPFRs will need to provide information about the financial position of the government or other public sector entity as at the reporting date and its financial performance, cash flows, and changes in net assets during the reporting period. GPFRs will also need to provide financial and non-financial information about such matters as the government's or other public sector entity's:
- Service delivery activities, achievements or outcomes during the reporting period, including whether resources have been used economically, efficiently, and effectively, and in accordance with approved budgets and other authority that justified the raising and use of those resources; and
 - Plans and objectives for service delivery in the future, including the anticipated amount and sources of the resources needed to support those plans and objectives.

Financial Position, Financial Performance and Cash Flows

- A9. Information about the financial position of a government or other public sector entity will enable users to identify the resources of the entity that can be used to provide particular services in future periods and claims to those resources at the reporting date. This will provide information useful as input to assessments of such matters as:
- The extent to which management has discharged its responsibilities for safekeeping and managing the resources of the entity;
 - The extent to which resources are available to support future service delivery objectives; and
 - The amounts and timing of future cash flows necessary to service and repay existing claims to the entity's resources.
- A10. Information about the financial performance of a government or other public sector entity will inform assessments of matters such as whether the entity has acquired resources economically, and used them efficiently and effectively to achieve its service delivery objectives. Information about the costs of service delivery and the amounts and sources of cost recovery during the reporting period will enable users to determine whether operating costs were recovered from, for example, taxes, user charges, contributions and transfers or were financed by increasing the level of indebtedness of the entity.
- A11. The financial performance of public sector entities will not be fully or adequately reflected in any measure of their financial result (whether described as "surplus or deficit," "profit or loss," or by other terms). Rather, assessments of their financial performance will involve analysis of such matters as:
- The purposes for which resources were used during the reporting period;
 - The costs, efficiency and effectiveness of service delivery during the reporting period; and
 - Changes during the reporting period in the amount and composition of the resources that are available for the provision of services in the future and claims to those resources.
- A12. Information about the cash flows of a government or other public sector entity contributes to assessments of financial performance and the entity's liquidity and solvency. It indicates how the entity raised and used cash during the period, including its borrowing and repayment of borrowing and its acquisition and sale of, for example, property, plant, and equipment. It also identifies the cash received from, for example, taxes and investments and the cash transfers made to, and received from, other governments, government agencies or international organizations. Information about cash flows can also support assessments of the entity's compliance with spending mandates expressed in cash flow terms, and inform assessments of the likely amounts and sources of cash inflows needed in future periods to support service delivery objectives.

Compliance with the Budget

- A13. Governments and other public sector entities are accountable to constituents for their use of the resources raised from them, or raised or provided on their behalf. The approved budget of a government or other public sector entity reflects the financial characteristics of the entity's plans for

the forthcoming period. It is used to justify the raising of monies from taxpayers and other resource providers, and establishes the authority for expenditure of public monies.

- A14. Information that assists users in assessing the entity's compliance with legally adopted or approved budgets, and its adherence to relevant legislation or other authority governing the raising and use of public monies, is included in GPFs. Such information is necessary for the discharge of a government's (or other entity's) accountability to its constituents, and will inform decision making.

Service Delivery Achievements

- A15. Reporting non-financial as well as financial information about service delivery activities, achievements or outcomes during the reporting period will provide input to assessments of the economy, efficiency, and effectiveness of the entity's operations. Reporting this information is necessary for a government or other public sector entity to discharge its obligation to be accountable—that is, to account for, and justify the use of, the financial resources raised from, or on behalf of, constituents. Decisions that donors make about the allocation of resources to particular entities and programs are also made, at least in part, in response to information about service delivery achievements during the reporting period, and future service delivery objectives.

Prospective Financial and Non-financial Information

- A16. Decisions made by a government or other public sector entity in a particular period about programs for delivering and funding services in the future can have significant consequences for:
- Constituents who will be dependent on those services in the future; and
 - Current and future generations of taxpayers and other involuntary resource providers who will provide the taxes and levies to fund the planned service delivery activities and related financial commitments.
- A17. Information about the entity's anticipated future service delivery activities and objectives, their likely impact on the future resource needs of the entity, and the likely sources of funding for such resources, will be necessary as input to any assessment of the ability of the government or other public sector entity to meet its service delivery and financial commitments in the future. The disclosure of such information in GPFs will enhance the accountability of the entity and provide additional information useful for decision-making purposes.

Narrative Reports

- A18. Narrative reports can provide additional information about the major factors underlying the financial and service delivery performance of the entity during the reporting period. They can also outline the assumptions that underpin expectations about, and factors that are likely to influence, the entity's future performance. This will assist users to better understand and place in context the financial and non-financial information included in GPFs, and enhance the role of GPFs in providing information useful for accountability and decision-making purposes.
- A19. In some cases, quantitative measures of the outputs and outcomes of the entity's service delivery activities during the period and anticipated activities in future periods will provide relevant information about the achievement of these service delivery objectives—for example, information

about the cost, volume, and frequency of service delivery, and the relationship of services provided to the resource base of the entity. In other cases, the achievement of service delivery objectives may need to be communicated by an explanation of the quality of particular services provided or the outcome of certain programs.

Appendix B: CF—ED1 The Qualitative Characteristics of, and Constraints on, Information Included in GPFRs

The information included in this Appendix is extracted from CF—ED1. It covers paragraphs 3.1 to 3.41 of that document.

- B1. GPFRs present financial and non-financial information about economic or other phenomena. The qualitative characteristics of information included in GPFRs are the attributes that make that information useful to users and support the achievement of the objectives of financial reporting. The objectives of financial reporting are to provide information useful for accountability and decision-making purposes.
- B2. The qualitative characteristics of information included in GPFRs of public sector entities are relevance, faithful representation, understandability, timeliness, comparability, and verifiability.
- B3. Materiality, cost-benefit, and achieving an appropriate balance between the qualitative characteristics are pervasive constraints on information included in GPFRs.
- B4. Each of the qualitative characteristics is integral to, and works with, the other characteristics to provide in GPFRs information useful for achieving the objectives of financial reporting. However, in practice, all qualitative characteristics may not be fully achieved, and a balance or trade-off between certain of them may be necessary.
- B5. The qualitative characteristics apply to all financial and non-financial information reported in GPFRs, including historic and prospective information, and explanatory material or other discussion and analysis reporting. However, the extent to which the qualitative characteristics can be achieved may differ depending on the degree of uncertainty and subjective assessment or opinion involved in compiling the financial and non-financial information. The need for additional guidance on interpreting and applying the qualitative characteristics to information that extends the scope of financial reporting beyond financial statements including their notes will be considered in the development of any IPSASs and other pronouncements of the IPSASB that deal with such matters.

Relevance

- B6. Financial and non-financial information is relevant if it is capable of making a difference in achieving the objectives of financial reporting. Financial and non-financial information is capable of making a difference when it has confirmatory value, predictive value, or both. It may be capable of making a difference, and thus be relevant, even if some users choose not to take advantage of it or are already aware of it.
- B7. Financial and non-financial information has confirmatory value if it confirms or changes past (or present) expectations. For example, information will be relevant for accountability and decision-making purposes if it confirms expectations about such matters as the extent to which managers have discharged their responsibilities for the efficient and effective use of resources, the achievement of specified service delivery objectives, and compliance with relevant budgetary, legislative and other requirements.

- B8. GPFRs may present information about an entity's anticipated future service delivery activities, objectives and costs, and the amount and sources of the resources that are intended to be allocated to providing services in the future. Such future oriented information will have predictive value and be relevant for accountability and decision making purposes. Information about economic and other phenomena that exist or have already occurred can also have predictive value in helping form expectations about the future. For example, information that confirms or disproves past expectations can reinforce or change expectations about financial results and service delivery outcomes that may occur in the future.
- B9. The confirmatory and predictive roles of information are interrelated—for example, information about the current level and structure of an entity's resources and claims to them helps users to confirm the outcome of resource management strategies during the period, and to predict an entity's ability to respond to changing circumstances and anticipated future service delivery needs. The same information helps to confirm or correct users' past expectations and predictions about the entity's ability to respond to such changes. It also helps to confirm or correct prospective financial information included in previous GPFRs.

Faithful Representation

- B10. To be useful in financial reporting, information must be a faithful representation of the economic and other phenomena that it purports to represent. Faithful representation is attained when the depiction of the phenomenon is complete, neutral, and free from material error. Information that faithfully represents an economic or other phenomenon depicts the substance of the underlying transaction, other event, activity or circumstance—which is not necessarily always the same as its legal form.
- B11. In practice, it may not be possible to know or confirm whether information presented in GPFRs is fully complete, neutral, and free from material error. However, information should be as complete, neutral, and free from material error as is possible.
- B12. A depiction of an economic or other phenomenon is complete if it includes all information that is necessary for faithful representation of the phenomenon that it purports to depict. An omission of some information can cause the representation to be false or misleading, and thus not useful to users of GPFRs. For example, a complete depiction of the item "plant and equipment" in GPFRs will include a numeric representation of the aggregate amount of plant and equipment together with other quantitative, descriptive and explanatory material necessary to faithfully represent that class of assets. In some cases, this may include the disclosure of information about such matters as the major classes of plant and equipment, factors that have affected their use in the past or might impact on their use in the future, and the basis and process for determining their numeric representation. Similarly, prospective financial and nonfinancial information, and information about the achievement of service delivery objectives and outcomes, included in GPFRs need to be presented with the key assumptions that underlie that information, and any explanations that are necessary to ensure that its depiction is complete and useful to users.
- B13. Neutrality in financial reporting is the absence of bias. It means that the selection and presentation of financial and non-financial information is not made with the intention of attaining a particular predetermined result—for example, to influence in a particular way users' assessment of the

discharge of accountability by the entity or a decision or judgment that is to be made, or to induce particular behavior.

- B14. Neutral information faithfully represents the economic and other phenomena that it purports to represent. However, to require information included in GPFRs to be neutral does not mean that it is not without purpose or that it will not influence behavior. Relevance is a qualitative characteristic and, by definition, relevant information is capable of influencing users' assessments and decisions.
- B15. The economic and other phenomena represented in GPFRs generally occur under conditions of uncertainty. Information included in GPFRs will therefore often include estimates that incorporate management's judgment. To faithfully represent an economic or other phenomenon, an estimate must be based on appropriate inputs, and each input must reflect the best available information. Caution needs to be exercised when dealing with uncertainty. It may sometimes be necessary to explicitly disclose the degree of uncertainty in financial and non-financial information to faithfully represent economic and other phenomena.
- B16. Free from material error does not mean complete accuracy in all respects. Free from material error means there are no errors or omissions that are individually or collectively material in the description of the phenomenon, and the process used to produce the reported information has been applied as described. In some cases, it may be possible to determine the accuracy of some information included in GPFRs—for example, the amount of a cash transfer to another level of government, volume of services delivered or the price paid for the acquisition of plant and equipment. However, in other cases it may not—for example, the accuracy of an estimate of the value or cost of an item or the effectiveness of a service delivery program may not be able to be determined. In these cases, the estimate will be free from material error if the amount is clearly described as an estimate, the nature and limitations of the estimation process are explained, and no material errors have been identified in selecting and applying an appropriate process for developing the estimate.

Understandability

- B17. Understandability is the quality of information that enables users to comprehend its meaning. GPFRs of public sector entities should present information in a manner that responds to the needs and knowledge base of users, and to the nature of the information presented. For example, explanations of financial and non-financial information and narrative reporting of achievements and expectations should be written in plain language, and presented in a manner that is readily understandable by users. Understandability is enhanced when information is classified, characterized, and presented clearly and concisely. Comparability also can enhance understandability.
- B18. Users of GPFRs are assumed to have a reasonable knowledge of the entity's activities and the environment in which it operates, to be able and prepared to read GPFRs, and to review and analyze the information presented with reasonable diligence. Some economic and other phenomena are particularly complex and difficult to represent in GPFRs, and some users may need to seek the aid of an advisor to assist in their understanding of them. All efforts should be undertaken to represent economic and other phenomena included in GPFRs in a manner that is understandable to a wide range of users. However, information should not be excluded from

GPFs solely because it may be too complex or difficult for some users to understand without assistance.

Timeliness

- B19. Timeliness means having information available for users before it loses its capacity to be useful for accountability and decision-making purposes. Having relevant information available sooner can enhance its usefulness as input to assessments of accountability and its capacity to inform and influence decisions that need to be made. A lack of timeliness can render information less useful.
- B20. Some items of information may continue to be useful long after the reporting period or reporting date. For example, for accountability and decision-making purposes, users of GPFs may need to assess trends in the financial and service delivery performance of the entity and its compliance with budgets over a number of reporting periods. In addition, the outcome and effects of some service delivery programs may not be determinable until future periods—this may occur in respect of programs intended to, for example, enhance the economic well-being of constituents, reduce the incidence of a particular disease, or increase literacy levels of certain age groups.

Comparability

- B21. Comparability is the quality of information that enables users to identify similarities in, and differences between, two sets of phenomena. Comparability is not a quality of an individual item of information, but rather a quality of the relationship between two or more items of information.
- B22. Comparability differs from consistency. Consistency refers to the use of the same accounting policies and procedures, either from period to period within an entity or in a single period across more than one entity. Comparability is the goal, and consistency helps in achieving that goal.
- B23. Comparability also differs from uniformity. For information to be comparable, like things must look alike, and different things must look different. An over-emphasis on uniformity may reduce comparability by making unlike things look alike. Comparability of information in GPFs is not enhanced by making unlike things look alike, any more than it is by making like things look different.
- B24. Information about the entity's financial position, financial performance, compliance, service delivery achievements, and its future plans is necessary for accountability purposes and useful as input for decision-making purposes. The usefulness of such information is enhanced if it can be compared with, for example:
- The budget of the entity for the reporting period, or prospective financial and non-financial information previously presented for that reporting period or reporting date;
 - Similar information about the same entity for some other period or some other point in time; and
 - Similar information about other entities (for example, public sector entities providing similar services in different jurisdictions).
- B25. Consistent application of accounting policies to prospective financial and non-financial information and actual outcomes will enhance the usefulness of any comparison of projected and actual

results. Comparability with other entities may be less significant for narrative reporting of management's perception or opinion of the factors underlying the entity's current performance.

Verifiability

- B26. Verifiability is the quality of information that helps assure users that information in GPFRs faithfully represents the phenomena that it purports to represent. Supportability is sometimes used to describe this quality when applied in respect of explanatory information and prospective financial and non-financial quantitative information disclosed in GPFRs—that is, the quality of information that helps assure users that explanatory or prospective financial and non-financial quantitative information faithfully represents the phenomena that it purports to represent. Whether referred to as verifiability or supportability, the characteristic implies that different knowledgeable and independent observers could reach general consensus, although not necessarily complete agreement, that either:
- The information represents the phenomena that it purports to represent without material error or bias; or
 - An appropriate recognition, measurement, or representation method has been applied without material error or bias.
- B27. To be verifiable, information need not be a single point estimate. A range of possible amounts and the related probabilities also can be verified.
- B28. Verification may be direct or indirect. With direct verification, an amount or other representation is itself verified, such as by (a) counting cash, (b) checking records of service response times or records of patients treated, (c) observing marketable securities and their quoted prices, or (d) confirming that the factors identified as influencing past service delivery performance were present and operated with the effect identified. With indirect verification, the amount or other representation is verified by checking the inputs and recalculating the outputs using the same accounting convention or methodology. An example is verifying the carrying amount of inventory by checking the inputs (quantities and costs) and recalculating the ending inventory using the same cost flow assumption (for example, average cost or first-in-first-out).
- B29. The quality of verifiability (or supportability if such term is used to describe this characteristic) is not an absolute—some information may be more or less capable of verification than other information. However, the more verifiable is the information included in GPFRs, the more it will assure users that the information faithfully represents the phenomena that it purports to represent.
- B30. GPFRs of public sector entities may include financial and other quantitative information and explanations about (a) key influences on the entity's performance during the period, (b) the anticipated future effects or outcomes of service delivery programs undertaken during the reporting period, and (c) prospective financial and non-financial information. It may not be possible to verify the accuracy of all quantitative representations and explanations of such information until a future period, if at all.
- B31. To help assure users that prospective financial and non-financial quantitative information and explanations included in GPFRs faithfully represents the phenomena that they purport to represent,

the assumptions that underlie the information disclosed, the methodologies adopted in compiling it, and the factors and circumstances that support any opinions expressed or disclosures made should be transparent. This will enable users to form judgments about the appropriateness of those assumptions and the method of compilation, measurement, representation and interpretation of the information.

Constraints on Information Included in General Purpose Financial Reports

Materiality

- B32. Information is material if its omission or misstatement could influence the discharge of accountability by the entity, or the decisions that users make on the basis of the entity's GPFRs prepared for that reporting period. Materiality depends on both the nature and amount of the item judged in the particular circumstances of each entity. GPFRs may encompass qualitative and quantitative information about service delivery achievements during the reporting period, and expectations about service delivery and financial outcomes in the future. Consequently, it is not possible to specify a uniform quantitative threshold at which a particular type of information becomes material.
- B33. Assessments of materiality will be made in the context of the legislative, institutional and operating environment within which the entity operates and, in respect of prospective financial and non-financial information, the preparer's knowledge and expectations about the future. Disclosure of information about compliance or non-compliance with legislation, regulation or other authority may be material because of its nature—irrespective of the magnitude of any amounts involved. In determining whether an item is material in these circumstances, consideration will be given to such matters as the nature, legality, sensitivity and consequences of past or anticipated transactions and events, the parties involved in any such transactions and the circumstances giving rise to them.

Cost-Benefit

- B34. Financial reporting imposes costs. The benefits of financial reporting should justify those costs. Assessing whether the benefits of providing information justify the related costs is often a matter of judgment, because it is often not possible to identify and/or quantify all the costs or benefits of information included in GPFRs.
- B35. The costs of providing information include the costs of collecting and processing the information, the costs of verifying it and/or presenting the assumptions and methodologies that support it, and the costs of disseminating it. Users incur the costs of analysis and interpretation. Omission of useful information also imposes costs, including the costs that users incur to obtain needed information from other sources and the costs that result from making decisions using incomplete data provided by GPFRs.
- B36. Preparers expend the majority of the effort to provide information in GPFRs. However, service recipients and resource providers ultimately bear the cost of those efforts—because resources are redirected from service delivery activities to preparation of information for inclusion in GPFRs.
- B37. Users reap the majority of benefits from the information provided by GPFRs. However, information prepared for GPFRs may also be used internally by management and result in better management

decision making. The disclosure of information in GPFRs consistent with the concepts identified in this Conceptual Framework and IPSASs derived from them will enhance and reinforce perceptions of the transparency of reporting by governments and other public sector entities and contribute to the more accurate pricing of public sector debt. Therefore, public sector entities may also benefit in a number of ways from the information provided by GPFRs.

- B38. Application of the cost-benefit constraint involves assessing whether the benefits of reporting information are likely to justify the costs incurred to provide and use the information. When making this assessment, it is necessary to consider whether one or more qualitative characteristics might be sacrificed to some degree to reduce cost.
- B39. In developing IPSASs, the IPSASB considers information from preparers, users, academics, and others about the expected nature and quantity of the benefits and costs of the proposed requirements. Disclosure and other requirements which result in the presentation of information useful to users of GPFRs for accountability and decision-making purposes and satisfy the qualitative characteristics are prescribed by IPSASs unless the costs of compliance with those requirements are assessed by the IPSASB to be greater than their benefits.

Balance Between the Qualitative Characteristics

- B40. The qualitative characteristics work together in different ways to contribute to the usefulness of information. For example, neither a depiction that faithfully represents an irrelevant phenomenon, nor a depiction that unfaithfully represents a relevant phenomenon, results in useful information. Similarly, to be relevant, information must be timely and understandable.
- B41. In some cases, a balancing or trade-off between qualitative characteristics may be necessary to achieve the objectives of financial reporting. The relative importance of the qualitative characteristics in each situation is a matter of professional judgment. The aim is to achieve an appropriate balance among the characteristics in order to meet the objectives of financial reporting.



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