

**THE CONCEPTUAL FRAMEWORK FOR GENERAL
PURPOSE FINANCIAL REPORTING BY PUBLIC SECTOR
ENTITIES**

History of the Conceptual Framework

Chapters 1–4 of the *Conceptual Framework* were issued in January 2013.

THE CONCEPTUAL FRAMEWORK FOR GENERAL PURPOSE FINANCIAL REPORTING BY PUBLIC SECTOR ENTITIES

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Introduction

The *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (the Conceptual Framework) establishes and makes explicit the concepts that are to be applied in developing International Public Sector Accounting Standards (IPSASs) and Recommended Practice Guidelines (RPGs) applicable to the preparation and presentation of general purpose financial reports (GPFs) of public sector entities.

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

The Conceptual Framework deals with concepts that apply to general purpose financial reporting (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, the resources of the entity at the reporting date and changes in those obligations and resources during the reporting period. 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 or financial reporting.

The Conceptual Framework: Chapters 1–4

The IPSASB is currently in the process of developing the Conceptual Framework. Although all the components of the Conceptual Framework are interconnected, the Conceptual Framework project is being developed in phases. Phase 1 has now been completed. It comprises Chapters 1–4 of the Conceptual Framework. These Chapters deal with:

- Chapter 1: Role and Authority of the Conceptual Framework
- Chapter 2: Objectives and Users of General Purpose Financial Reporting

- Chapter 3: Qualitative Characteristics
- Chapter 4: Reporting Entity

The other Phases of the Framework being developed deal with:

- Phase 2—The definition and recognition of the elements of financial statements
- Phase 3—The measurement of the elements that are recognized in the financial statements
- Phase 4—The presentation of information in general purpose financial reports

**CHAPTER 1: ROLE AND AUTHORITY OF THE
CONCEPTUAL FRAMEWORK**

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Chapter 1: Role and Authority of the Conceptual Framework

Role of the Conceptual Framework

- 1.1 The *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (the Conceptual Framework) establishes the concepts that underpin general purpose financial reporting (financial reporting) by public sector entities that adopt the accrual basis of accounting. The International Public Sector Accounting Standards Board (IPSASB) will apply these concepts in developing International Public Sector Accounting Standards (IPSASs) and Recommended Practice Guidelines (RPGs) applicable to the preparation and presentation of general purpose financial reports (GPFs) of public sector entities.

Authority of the Conceptual Framework

- 1.2 The Conceptual Framework does not establish authoritative requirements for financial reporting by public sector entities that adopt IPSASs, nor does it override the requirements of IPSASs or RPGs. Authoritative requirements relating to the recognition, measurement and presentation of transactions and other events and activities that are reported in GPFs are specified in IPSASs.
- 1.3 The Conceptual Framework can provide guidance in dealing with financial reporting issues not dealt with by IPSASs or RPGs. In these circumstances, preparers and others can refer to and consider the applicability of the definitions, recognition criteria, measurement principles, and other concepts identified in the Conceptual Framework.

General Purpose Financial Reports

- 1.4 GPFs are a central component of, and support and enhance, transparent financial reporting by governments and other public sector entities. GPFs are financial reports intended to meet the information needs of users who are unable to require the preparation of financial reports tailored to meet their specific information needs.
- 1.5 Some users of financial information may have the authority to require the preparation of reports tailored to meet their specific information needs. While such parties may find the information provided by GPFs useful for their purposes, GPFs are not developed to specifically respond to their particular information needs.
- 1.6 GPFs are likely to comprise multiple reports, each responding more directly to certain aspects of the objectives of financial reporting and matters included within the scope of financial reporting. GPFs encompass financial statements including their notes (hereafter referred to as financial statements, unless specified otherwise), and the presentation of information that enhances, complements and supplements the financial statements.

- 1.7 The scope of financial reporting establishes the boundary around the transactions, other events and activities that may be reported in GPFs. The scope of financial reporting is determined by the information needs of the primary users of GPFs and the objectives of financial reporting. The factors that determine what may be encompassed within the scope of financial reporting are outlined in the following Chapter of the Conceptual Framework. (See Chapter 2: *Objectives and Users of General Purpose Financial Reporting*.)

Applicability of the Conceptual Framework

- 1.8 The Conceptual Framework applies to financial reporting by public sector entities that apply IPSASs. Therefore, it applies to GPFs of national, state/provincial and local governments. It also applies to a wide range of other public sector entities including:
- Government ministries, departments, programs, boards, commissions, agencies;
 - Public sector social security funds, trusts, and statutory authorities; and
 - International governmental organizations.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, the Conceptual Framework.

Role and Authority of the Conceptual Framework

- BC1.1 The Conceptual Framework identifies the concepts that the IPSASB will apply in developing IPSASs and RPGs intended to assist preparers and others in dealing with financial reporting issues. IPSASs specify authoritative requirements. IPSASs and RPGs are developed after application of a due process which provides the opportunity for interested parties to provide input on the specific requirements proposed, including their compatibility with current practices in different jurisdictions.
- BC1.2 The Conceptual Framework underpins the development of IPSASs. Therefore, it has relevance for all entities that apply IPSASs. GPFRs prepared at the whole-of-government level in accordance with IPSASs may also consolidate all governmental entities whether or not those entities have complied with IPSASs in their GPFRs.

Special Purpose Financial Reports

- BC1.3 Standard setters often describe as “special purpose financial reports” those financial reports prepared to respond to the requirements of users that have the authority to require the preparation of financial reports that disclose the information they need for their particular purposes. The IPSASB is aware that the requirements of IPSASs have been (and may continue to be) applied effectively and usefully in the preparation of some special purpose financial reports.

General Purpose Financial Reports

- BC1.4 The Conceptual Framework acknowledges that, to respond to user’s information needs, GPFRs may include information that enhances, complements, and supplements the financial statements. Therefore, the Conceptual Framework reflects a scope for financial reporting that is more comprehensive than that encompassed by financial statements. The following Chapter of this Framework (Chapter 2: *Objectives and Users of General Purpose Financial Reporting*) identifies the objectives of financial reporting and the primary users of GPFRs. It also outlines the consequences of the primary users’ likely information needs for what may be encompassed within the scope of financial reporting.

**CHAPTER 2: OBJECTIVES AND USERS OF GENERAL
PURPOSE FINANCIAL REPORTING**

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Chapter 2: Objectives and Users of General Purpose Financial Reporting

Objectives of Financial Reporting

- 2.1 The objectives of financial reporting by public sector entities are to provide information about the entity that is useful to users of GPFRs for accountability purposes and for decision-making purposes (hereafter referred to as “useful for accountability and decision-making purposes”).
- 2.2 Financial reporting is not an end in itself. Its purpose is to provide information useful to users of GPFRs. The objectives of financial reporting are therefore determined by reference to the users of GPFRs, and their information needs.

Users of General Purpose Financial Reports

- 2.3 Governments and other public sector entities raise resources from taxpayers, donors, lenders and other resource providers for use in the provision of services to citizens and other service recipients. These entities are accountable for their management and use of resources to those that provide them with resources, and to those that depend on them to use those resources to deliver necessary services. Those that provide the resources and receive, or expect to receive, the services also require information as input for decision-making purposes.
- 2.4 Consequently, GPFRs of public sector entities are developed primarily to respond to the information needs of service recipients and resource providers who do not possess the authority to require a public sector entity to disclose the information they need for accountability and decision-making purposes. The legislature (or similar body) and members of parliament (or a similar representative body) are also primary users of GPFRs, and make extensive and ongoing use of GPFRs when acting in their capacity as representatives of the interests of service recipients and resource providers. Therefore, for the purposes of the Conceptual Framework, the primary users of GPFRs are service recipients and their representatives and resource providers and their representatives (hereafter referred to as service recipients and resource providers, unless identified otherwise).
- 2.5 Citizens receive services from, and provide resources to, the government and other public sector entities. Therefore, citizens are primary users of GPFRs. Some service recipients and some resource providers that rely on GPFRs for the information they need for accountability and decision-making purposes may not be citizens—for example, residents who pay taxes and/or receive benefits but are not citizens; multilateral or bilateral donor agencies and many lenders and corporations that provide resources to, and transact with, a government; and those that fund, and/or benefit from, the services provided by international governmental organizations. In most cases, governments that provide resources to international governmental organizations are dependent

on GPFs of those organizations for information for accountability and decision-making purposes.

- 2.6 GPFs prepared to respond to the information needs of service recipients and resource providers for accountability and decision-making purposes may also provide information useful to other parties and for other purposes. For example, government statisticians, analysts, the media, financial advisors, public interest and lobby groups and others may find the information provided by GPFs useful for their own purposes. Organizations that have the authority to require the preparation of financial reports tailored to meet their own specific information needs may also use the information provided by GPFs for their own purposes—for example, regulatory and oversight bodies, audit institutions, subcommittees of the legislature or other governing body, central agencies and budget controllers, entity management, rating agencies and, in some cases, lending institutions and providers of development and other assistance. While these other parties may find the information provided by GPFs useful, they are not the primary users of GPFs. Therefore, GPFs are not developed to specifically respond to their particular information needs.

Accountability and Decision Making

- 2.7 The primary function of governments and other public sector entities is to provide services that enhance or maintain the well-being of citizens and other eligible residents. Those services include, for example, welfare programs and policing, public education, national security and defense services. In most cases, these services are provided as a result of a non-exchange transaction¹ and in a non-competitive environment.
- 2.8 Governments and other public sector entities are accountable to those that provide them with resources, and to those that depend on them to use those resources to deliver services during the reporting period and over the longer term. The discharge of accountability obligations requires the provision of information about the entity's management of the resources entrusted to it for the delivery of services to constituents and others, and its compliance with legislation, regulation, or other authority that governs its service delivery and other operations. Given the way in which the services provided by public sector entities are funded (primarily by taxation revenues or other non-exchange transactions) and the dependency of service recipients on the provision of those services over the long term, the discharge of accountability obligations will also require the provision of information about such matters as the entity's service delivery achievements during the reporting period, and its capacity to continue to provide services in future periods.

¹ Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value to another entity in exchange. Non-exchange transactions are transactions in which an entity receives value from another entity without directly giving approximately equal value in exchange.

- 2.9 Service recipients and resource providers will also require information 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 GPFs 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 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 particular public sector entity or whether to purchase or consume the services provided. However, service recipients and resource providers 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.
- 2.10 Information provided in GPFs 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 users of GPFs, including decisions that donors and other financial supporters make about providing resources to the entity.

Information Needs of Service Recipients and Resource Providers

- 2.11 For accountability and decision-making purposes, service recipients and resource providers will need information that supports the assessments of such matters as:
- The performance of the entity during the reporting period in, for example:
 - Meeting its service delivery and other operating and financial objectives;

- Managing the resources it is responsible for; and
- Complying with relevant budgetary, legislative, and other authority regulating the raising and use of resources;
- The liquidity (for example, ability to meet current obligations) and solvency (for example, ability to meet obligations over the long term) of the entity;
- The sustainability of the entity's service delivery and other operations over the long term, and changes therein as a result of the activities of the entity during the reporting period including, for example:
 - The capacity of the entity to continue to fund its activities and to meet its operational objectives in the future (its financial capacity), including the likely sources of funding and the extent to which the entity is dependent on, and therefore vulnerable to, funding or demand pressures outside its control; and
 - The physical and other resources currently available to support the provision of services in future periods (its operational capacity); and
- The capacity of the entity to adapt to changing circumstances, whether changes in demographics or changes in domestic or global economic conditions which are likely to impact the nature or composition of the activities it undertakes and the services it provides.

2.12 The information service recipients and resource providers need for these purposes is likely to overlap in many respects. For example, service recipients 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 interest;
- The range, volume and cost of services provided during the reporting period are appropriate, and the amounts and sources of their cost recoveries; and
- Current levels of taxes or other resources raised are sufficient to maintain the volume and quality of services currently provided.

Service recipients will also require information about the consequences of decisions made, and activities undertaken, by the entity during the reporting period on the resources available to support the provision of services in future periods, the entity's anticipated future service delivery activities and objectives, and the amounts and sources of cost recoveries necessary to support those activities.

2.13 Resource providers 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.

Lenders and creditors will require information as input to assessments of the liquidity of the entity and, therefore, whether 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 require information about the entity's anticipated future service delivery activities and resource needs.

Information Provided by General Purpose Financial Reports

Financial Position, Financial Performance and Cash Flows

- 2.14 Information about the financial position of a government or other public sector entity will enable users to identify the resources of the entity 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 activities, and changes during the reporting period in the amount and composition of those resources and claims to those resources; and
 - The amounts and timing of future cash flows necessary to service and repay existing claims to the entity's resources.
- 2.15 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 assist 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.
- 2.16 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.

- 2.17 Information about financial position, financial performance and cash flows are typically presented in financial statements. To assist users to better understand, interpret and place in context the information presented in the financial statements, GPFs may also provide financial and non-financial information that enhances, complements and supplements the financial statements, including information about such matters as the government's or other public sector entity's:
- Compliance with approved budgets and other authority governing its operations;
 - Service delivery activities and achievements during the reporting period; and
 - Expectations regarding service delivery and other activities in future periods, and the long term consequences of decisions made and activities undertaken during the reporting period, including those that may impact expectations about the future.

This information may be presented in the notes to the financial statements or in separate reports included in GPFs.

Budget Information and Compliance with Legislation or Other Authority Governing the Raising and Use of Resources

- 2.18 Typically, a government or other public sector entity prepares, approves and makes publicly available an annual budget. The approved budget provides interested parties with financial information about the entity's operational plans for the forthcoming period, its capital needs and, often, its service delivery objectives and expectations. It is used to justify the raising of resources from taxpayers and other resource providers, and establishes the authority for expenditure of resources.
- 2.19 Some resources to support the activities of public sector entities may be received from donors, lenders or as a result of exchange transactions. However, resources to support the activities of public sector entities are predominantly provided in non-exchange transactions by taxpayers and others, consistent with the expectations reflected in an approved budget.
- 2.20 GPFs provide information about the financial results (whether described as "surplus or deficit," "profit or loss," or by other terms), performance and cash

flows of the entity during the reporting period, its assets and liabilities at the reporting date and the change therein during the reporting period, and its service delivery achievements.

- 2.21 The inclusion within GPFRs of information that assists users in assessing the extent to which revenues, expenses, cash flows and financial results of the entity comply with the estimates reflected in approved budgets, and the entity's adherence to relevant legislation or other authority governing the raising and use of resources, is important in determining how well a public sector entity has met its financial objectives. Such information is necessary for the discharge of a government's or other public sector entity's accountability to its constituents, enhances the assessment of the financial performance of the entity and will inform decision making.

Service Delivery Achievements

- 2.22 The primary objective of governments and most public sector entities is to provide needed services to constituents. Consequently, the financial performance of governments and most public sector entities will not be fully or adequately reflected in any measure of financial results. Therefore, their financial results will need to be assessed in the context of the achievement of service delivery objectives.
- 2.23 In some cases, quantitative measures of the outputs and outcomes of the entity's service delivery activities during the reporting period will provide relevant information about the achievement of 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.
- 2.24 Reporting non-financial as well as financial information about service delivery activities, achievements and/or outcomes during the reporting period will provide input to assessments of the economy, efficiency, and effectiveness of the entity's operations. Reporting such 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 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

- 2.25 Given the longevity of governments and many government programs, the financial consequences of many decisions made in the reporting period may

only become clear many years into the future. Financial statements which present information about financial position at a point in time and financial performance and cash flows over the reporting period will then need to be assessed in the context of the long term.

- 2.26 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.
- 2.27 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 GPFRs will support assessments of the sustainability of service delivery by a government or other public sector entity, enhance the accountability of the entity and provide additional information useful for decision-making purposes.

Explanatory Information

- 2.28 Information about the major factors underlying the financial and service delivery performance of the entity during the reporting period and the assumptions that underpin expectations about, and factors that are likely to influence, the entity's future performance may be presented in GPFRs in notes to the financial statements or in separate reports. Such information will assist users to better understand and place in context the financial and non-financial information included in GPFRs, and enhance the role of GPFRs in providing information useful for accountability and decision-making purposes.

Financial Statements and Information that Enhances, Complements and Supplements the Financial Statements

- 2.29 The scope of financial reporting establishes the boundary around the transactions, other events and activities that may be reported in GPFRs. To respond to the information needs of users, the Conceptual Framework reflects a scope for financial reporting that is more comprehensive than that encompassed by financial statements. It provides for the presentation within GPFRs of additional information that enhances, complements, and supplements those statements.
- 2.30 While the Conceptual Framework reflects a scope of financial reporting that is more comprehensive than that encompassed by financial statements,

information presented in financial statements remains at the core of financial reporting. How the elements of financial statements are defined, recognized and measured, and forms of presentation and communication that might be adopted for information included within GPFRs, is considered in other components of the Conceptual Framework and in the development of individual IPSASs or RPGs, as appropriate.

Other Sources of Information

- 2.31 GPFRs play a significant role in communicating information necessary to support the discharge of a government's or other public sector entity's obligation to be accountable, as well as providing information useful as input for decision-making purposes. However, it is unlikely that GPFRs will provide all the information users need for accountability and decision-making purposes. For example, while comparison of actual with budget information for the reporting period may be included in GPFRs, the budgets and financial forecasts issued by governments provide more detailed financial and non-financial information about the financial characteristics of the plans of governments and other public sector entities over the short and medium terms. Governments and independent agencies also issue reports on the need for, and sustainability of, existing service delivery initiatives and anticipated economic conditions and changes in the jurisdiction's demographics over the medium and longer term that will influence budgets and service delivery needs in the future. Consequently, service recipients and resource providers may also need to consider information from other sources, including reports on current and anticipated economic conditions, government budgets and forecasts, and information about government policy initiatives not reported in GPFRs.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, the Conceptual Framework.

Primary User Groups

BC2.1 In developing the Conceptual Framework, the IPSASB sought views on whether the Conceptual Framework should identify the primary users of GPFs. Many respondents to the initial Consultation Paper² expressed the view that the Framework should identify the primary users of GPFs, and the IPSASB should focus on the information needs of those primary users in developing IPSASs. The IPSASB was persuaded by these views.

Identifying the Primary User Groups

BC2.2 Conceptual Framework Exposure Draft 1, *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Role, Authority and Scope; Objectives and Users; Qualitative Characteristics; and Reporting Entity* (the Exposure Draft) identified service recipients and their representatives, and resource providers and their representatives as the primary users of GPFs. It explained that, while the IPSASB will develop IPSASs and RPGs on the contents of GPFs to respond to the information needs of these primary users, GPFs may still be used by others with an interest in financial reporting, and may provide information of use to those other users.

BC2.3 Many respondents to the Exposure Draft expressed support for the identification of service recipients and their representatives and resource providers and their representatives as the primary users of GPFs. However, others were of the view that the public, citizens or legislature should be identified as the primary or most important users of GPFs of public sector entities. They explained that this is because governments are primarily accountable to the citizens or their representatives and, in many jurisdictions, the legislature and individual members of parliament (or similar representative body) acting on behalf of citizens are the main users of GPFs. Some respondents also expressed the view that only resource providers and their representatives should be identified as the primary users of GPFs of public sector entities. They explained that it is unlikely that GPFs would be able to respond to the information needs of all users, and resource providers are likely to have the greatest interest in GPFs. Therefore, identifying resource providers as the primary user group will allow the IPSASB to focus more sharply on the information needs of a single

² 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*.

user group. They also noted that GPFs prepared to respond to the information needs of resource providers are likely to also provide information useful to other potential users.

BC2.4 The IPSASB acknowledges that there is merit in many of the proposals made by respondents regarding the identity of the primary users of GPFs of public sector entities, particularly as they apply to governments in many jurisdictions. However, given the objectives of financial reporting by public sector entities, the IPSASB remains of the view that the primary users of GPFs of public sector entities should be identified as service recipients and their representatives and resource providers and their representatives. This is because:

- Governments and other public sector entities are accountable to those that depend on them to use resources to deliver necessary services, as well as to those that provide them with the resources that enable the delivery of those services; and
- GPFs have a significant role in the discharge of that accountability and the provision of information useful to those users for decision-making purposes.

As such, GPFs should be developed to respond to the information needs of service recipients and their representatives and resource providers and their representatives as the primary users. In addition, the Conceptual Framework will apply to governments and a potentially wide range of other public sector entities in many different jurisdictions, and to international governmental organizations. Consequently, it is not clear that identification of other user groups as the primary users of GPFs will be relevant, and operate effectively, for all public sector entities across all jurisdictions.

BC2.5 The IPSASB accepts that some information in GPFs may be of more interest and greater use to some users than others. The IPSASB also accepts that, in developing IPSASs and RPGs, it will need to consider and, in some cases, balance the needs of different groups of primary users. However, the IPSASB does not believe that such matters invalidate the identification of both service recipients and their representatives and resource providers and their representatives as the primary users of GPFs.

BC2.6 The IPSASB's views on the relationship between the primary user groups identified by respondents, and service recipients and resource providers are further elaborated below.

Citizens

BC2.7 The IPSASB acknowledges the importance of citizens, the public and their representatives as users of GPFs, but is of the view that classifying citizens as service recipients and resource providers provides a basis for assessing

their potential information needs. This is because citizens encompass many individuals with a potentially wide range of diverse information needs—focusing on the information needs of citizens as service recipients and resource providers enables the IPSASB to draw together those diverse interests and explore what information needs GPFs should attempt to respond to. The IPSASB is also of the view that, in developing IPSASs, it is appropriate that it has the capacity to consider the information needs of a range of service recipients and resource providers who may not be citizens (including donors and lenders) and do not possess the authority to require a public sector entity to disclose the information they need for accountability and decision-making purposes.

Resource Providers

BC2.8 The IPSASB agrees that GPFs directed at the provision of information to satisfy the information needs of resource providers will also provide information useful to other potential users of GPFs. However, the IPSASB is of the view that the Conceptual Framework should make clear its expectation that governments and other public sector entities should be accountable to both those that provide them with resources and those that depend on them to use those resources to deliver necessary and/or promised services. In addition, it has been noted that in some jurisdictions resource providers are primarily donors or lenders that may have the authority to require the preparation of special purpose financial reports to provide the information they need.

BC2.9 As noted at paragraph BC2.4, the IPSASB has formed a view that both service recipients and resource providers and their representatives are primary users of GPFs. The IPSASB is of the view that the Conceptual Framework should not exclude citizens who may be interested in GPFs in their capacity as service recipients from the potential users of GPFs, or identify their information needs as less important than those of resource providers. The IPSASB is also of the view that it is not appropriate that donors, lenders, and others that provide resources on a voluntary or involuntary basis to governments and other public sector entities be excluded as potential users of GPFs, or that their information needs be identified as less important than those of service recipients.

The Legislature

BC2.10 The IPSASB is of the view that the legislature or similar governing body is a primary user of GPFs in its capacity as a representative of service recipients and resource providers. The legislature, parliaments, councils and similar bodies will also require information for their own specific accountability and decision-making purposes, and usually have the authority to require the preparation of detailed special purpose financial and other reports to provide that information. However, they may also use the

information provided by GPFRs as well as information provided by special purpose financial reports for input to assessments of whether resources were used efficiently and as intended and in making decisions about allocating resources to particular government entities, programs or activities.

BC2.11 Individual members of the legislature or other governing body, whether members of the government or opposition, can usually require the disclosure of the information they need for the discharge of their official duties as directed by the legislature or governing body. However, they may not have the authority to require the preparation of financial reports that provide the information they require for other purposes, or in other circumstances. Consequently, they are users of GPFRs, whether in their capacity as representatives of service recipients and resource providers in their electorate or constituency, or in their personal capacity as citizens and members of the community.

Other User Groups

BC2.12 In developing the Conceptual Framework, the IPSASB considered a wide range of other potential users of GPFRs, including whether special interest groups and their representatives, or those transacting with public sector entities on a commercial or non-commercial basis or on a voluntary or involuntary basis (such as public sector and private sector resource providers) should be identified as separate user groups. The IPSASB is of the view that identifying service recipients and their representatives and resource providers and their representatives as the primary users of GPFRs will respond appropriately to the information needs of subgroups of service recipients and resource providers.

BC2.13 The information provided by GPFRs may be useful for compiling national accounts, as input to statistical financial reporting models, for assessments of the impact of government policies on economic activity and for other economic analytical purposes. However, GPFRs are not developed specifically to respond to the needs of those who require information for these purposes. Similarly, while those that act as advisors to service recipients or to resource providers (such as citizen advocacy groups, bond rating agencies, credit analysts and public interest groups) are likely to find the information reported in GPFRs useful for their purposes, GPFRs are not prepared specifically to respond to their particular information needs.

The Objectives of Financial Reporting

BC2.14 Many respondents to the Exposure Draft agreed that the provision of information useful for both accountability and decision-making purposes should be identified as the objectives of financial reporting by public sector entities. Some respondents advocated that only accountability be identified as the single or dominant objective of financial reporting by public sector

entities; other respondents advocated that decision making should be identified as the single objective. However, the IPSASB remains of the view that users of GPFs of public sector entities will require information for both accountability and decision-making purposes.

BC2.15 Some respondents to the Exposure Draft advocated that the link between accountability and decision making be more clearly articulated and the public sector characteristics that underpinned the IPSASB's views on the objectives of financial reporting by public sector entities be identified. The IPSASB has responded positively to these proposals. The Framework has been restructured and clarifications added.

BC2.16 The explanation of accountability and its relationship to decision-making and GPFs has also been strengthened. In this context, the IPSASB acknowledges that the notion of accountability reflected in this Framework is broad. It encompasses the provision of information about the entity's management of the resources entrusted to it, and information useful to users in assessing the sustainability of the activities of the entity and the continuity of the provision of services over the long term. The IPSASB is of the view that this broad notion of accountability is appropriate because citizens and other constituents provide resources to governments and other public sector entities on an involuntary basis and, for the most part, depend on governments and other public sector entities to provide needed services over the long term. However, the IPSASB also recognizes that it is unlikely that GPFs will provide all the information that service recipients and resource providers need for accountability and decision-making purposes.

The Scope of Financial Reporting—Financial Statements and Information that Enhances, Complements and Supplements the Financial Statements

BC2.17 Many respondents to the Exposure Draft expressed support for the scope of financial reporting and its explanation as proposed by the IPSASB, with some identifying matters for clarification and others noting that projects dealing with the broader scope issues would need to provide guidance on application of the qualitative characteristics such as verifiability and comparability. Other respondents did not support the scope of financial reporting being broader than financial statements, expressing concern that:

- The proposed broad scope dealt with matters which were outside the Terms of Reference of the IPSASB that were in effect at that time; and
- Guidance on matters outside the financial statements, such as non-financial and prospective information, is appropriately a matter for individual governments, or governing bodies or other authority.
- Some respondents to the Exposure Draft also expressed concern that the scope was too sharply focused on the financial statements, and

that additional guidance on non-financial information and sustainability reporting be included in the Conceptual Framework.

BC2.18 The IPSASB remains of the view that it is necessary that the Conceptual Framework reflect a scope for financial reporting that is more comprehensive than that encompassed by financial statements. This is because:

- The primary objective of governments and other public sector entities is to deliver services to constituents rather than to generate profits;
- Citizens and other eligible residents are dependent on governments and other public sector entities to provide a wide range of services on an on-going basis over the long term. The activities of, and decisions made by, governments and other public sector entities in a particular reporting period can have significant consequences for future generations of service recipients and future generations of taxpayers and other involuntary resource providers; and
- Most governments and other public sector entities operate within spending mandates and financial constraints established through the budgetary process. Monitoring implementation of the approved budget is the primary method by which the legislature exercises oversight, and citizens and their elected representatives hold the government's management financially accountable.

BC2.19 Consequently, the performance of public sector entities in achieving their financial and service delivery objectives can be only partially evaluated by examination of their financial position at the reporting date, and financial performance and cash flows during the reporting period. The IPSASB is of the view that, to respond to users' need for information for accountability and decision-making purposes, the Conceptual Framework should enable GPFs to encompass the provision of information that allows users to better assess and place in context the financial statements. Such information may be communicated by separate reports that present financial and non-financial information about the achievement of the entity's service delivery objectives during the reporting period; its compliance with approved budgets and legislation or other authority governing the raising and use of resources; and prospective financial and non-financial information about its future service delivery activities, objectives, and resource needs. In some cases, information about these matters may also be presented in notes to the financial statements.

BC2.20 In making decisions about financial reporting requirements or guidance that extend the information presented in GPFs beyond financial statements, the IPSASB will consider the benefits of the information to users and the costs of compiling and reporting such information.

Limiting the Scope of Financial Reporting

BC2.21 Some respondents who agreed that the scope of financial reporting should extend beyond the financial statements expressed concern that the scope as proposed in the Exposure Draft was too open ended and/or not adequately explained or justified—in some cases proposing that the scope be limited to enhancement of matters recognized in the financial statements.

BC2.22 The IPSASB has responded to these concerns by clarifying the linkages between the scope of financial reporting and users' information needs, and including additional explanation of the relationship between users' information needs and the information that GPFRs may provide in response. In addition, the IPSASB has clarified that the scope of general purpose financial reporting is limited to the financial statements and information that enhances, complements and supplements the financial statements. Consequently, what is included in the more comprehensive scope of financial reporting will be derived from financial statements, and limited to matters that assist users to better understand and put in context the information included in those statements.

Resource Considerations, Authoritative Requirements and Audit Status

BC2.23 Many respondents, whether supportive or opposed to the proposals in the Exposure Draft, expressed concern that dealing with "broad scope" issues would absorb too much of the IPSASB's resources and limit its ability to deal with financial statement issues. Some respondents to the Exposure Draft also:

- Advocated that the Conceptual Framework clarify that authoritative requirements would only be developed for financial statement matters, broader scope issues being the subject of guidelines; and
- Expressed concern about the audit implications of including non-financial information and prospective information in GPFRs.

BC2.24 While the IPSASB can develop IPSASs which include authoritative requirements, it is not inevitable that it will do so. For example, the IPSASB's publications also include RPGs and other documents intended to assist the financial reporting community to respond to particular financial reporting issues. All IPSASB documents which include authoritative requirements or guidance on the presentation of information in GPFRs, whether as part of the financial statements or enhancements to those statements, will be subject to full due process. Therefore, in developing authoritative or other guidance on the presentation of information that broadens the scope of financial reporting, the IPSASB will need to respond to constituent concerns about the proposed technical content and authority of the guidance.

- BC2.25 The IPSASB acknowledges the concern of respondents regarding the deployment of the IPSASB's resources to "broad scope" issues. However, information presented in financial statements remains at the core of financial reporting and, therefore, will remain the primary focus of the IPSASs and RPGs developed by the IPSASB. Consequently, the standards development work program of the IPSASB will continue to respond to users' need for better financial reporting of transactions and other events that are reported in the financial statements.
- BC2.26 The IPSASB is of the view that it is not the role of the Conceptual Framework, or the IPSASs and RPGs that may be developed consistent with the concepts reflected in the Framework, to attempt to establish the level of audit assurance that should be provided to particular aspects of GPFRs. The qualitative characteristics provide some assurance to users about the quality of information included in GPFRs. However, responsibilities for the audit of financial statements and other components of GPFRs will be established by such matters as the regulatory framework in place in particular jurisdictions and the audit mandate agreed with and/or applying to the entity.

CHAPTER 3: QUALITATIVE CHARACTERISTICS

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Chapter 3: Qualitative Characteristics

- 3.1 GPFs present financial and non-financial information about economic and other phenomena. The qualitative characteristics of information included in GPFs 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.
- 3.2 The qualitative characteristics of information included in GPFs of public sector entities are relevance, faithful representation, understandability, timeliness, comparability, and verifiability.
- 3.3 Pervasive constraints on information included in GPFs are materiality, cost-benefit, and achieving an appropriate balance between the qualitative characteristics.
- 3.4 Each of the qualitative characteristics is integral to, and works with, the other characteristics to provide in GPFs 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.
- 3.5 The qualitative characteristics apply to all financial and non-financial information reported in GPFs, including historic and prospective information, and explanatory information. 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 will be considered in the development of any IPSASs and RPGs that deal with such matters.

Relevance

- 3.6 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.
- 3.7 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.

- 3.8 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.
- 3.9 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 those resources 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

- 3.10 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.
- 3.11 In practice, it may not be possible to know or confirm whether information presented in GPFRs is complete, neutral, and free from material error. However, information should be as complete, neutral, and free from error as is possible.
- 3.12 An omission of some information can cause the representation of an economic or other phenomenon 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 information 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 non-financial information and information about the achievement of service delivery objectives and outcomes included in GPFRs will 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.

- 3.13 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.
- 3.14 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.
- 3.15 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 will need 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.
- 3.16 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, the 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

- 3.17 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 commentary on service delivery and other achievements during the reporting period and expectations for future periods 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.
- 3.18 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 GPFRs solely because it may be too complex or difficult for some users to understand without assistance.

Timeliness

- 3.19 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.
- 3.20 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 GPFRs 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—for example, this may occur in respect of programs intended to enhance the economic well-being of constituents, reduce the incidence of a particular disease, or increase literacy levels of certain age groups.

Comparability

- 3.21 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.

- 3.22 Comparability differs from consistency. Consistency refers to the use of the same accounting principles or policies and basis of preparation, 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. In some cases, the accounting principles or policies adopted by an entity may be revised to better represent a particular transaction or event in GPFs. In these cases, the inclusion of additional disclosures or explanation may be necessary to satisfy the characteristics of comparability.
- 3.23 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.
- 3.24 Information about the entity's financial position, financial performance, cash flows, compliance with approved budgets and relevant legislation or other authority governing the raising and use of resources, 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:
- 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) for the same reporting period.
- 3.25 Consistent application of accounting principles, policies and basis of preparation 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 explanations of management's perception or opinion of the factors underlying the entity's current performance.

Verifiability

- 3.26 Verifiability is the quality of information that helps assure users that information in GPFs faithfully represents the economic and other 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 GPFs—that is, the quality of information that helps assure users that explanatory or prospective financial and non-financial quantitative information faithfully represents the economic and other 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 economic and other 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.

- 3.27 To be verifiable, information need not be a single point estimate. A range of possible amounts and the related probabilities also can be verified.
- 3.28 Verification may be direct or indirect. With direct verification, an amount or other representation is itself verified, such as by (a) counting cash, (b) observing marketable securities and their quoted prices, or (c) 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).
- 3.29 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 GPFs, the more it will assure users that the information faithfully represents the economic and other phenomena that it purports to represent.
- 3.30 GPFs 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.
- 3.31 To help assure users that prospective financial and non-financial quantitative information and explanations included in GPFs faithfully represents the economic and other phenomena that they purport to represent, the

assumptions that underlie the information disclosed, the methodologies adopted in compiling that information, 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

- 3.32 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 GPFs prepared for that reporting period. Materiality depends on both the nature and amount of the item judged in the particular circumstances of each entity. GPFs 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.
- 3.33 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.
- 3.34 Materiality is classified as a constraint on information included in GPFs in this Conceptual Framework. In developing IPSASs and RPGs, the IPSASB will consider the materiality of the consequences of application of a particular accounting policy, basis of preparation or disclosure of a particular item or type of information. Subject to the requirements of any IPSAS, entities preparing GPFs will also consider the materiality of, for example, the application of a particular accounting policy and the separate disclosure of particular items of information.

Cost-Benefit

- 3.35 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 and all the benefits of information included in GPFs.

- 3.36 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 GPFs.
- 3.37 Preparers expend the majority of the effort to provide information in GPFs. 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 GPFs.
- 3.38 Users reap the majority of benefits from the information provided by GPFs. However, information prepared for GPFs may also be used internally by management and result in better decision making by management. The disclosure of information in GPFs consistent with the concepts identified in the Conceptual Framework and IPSASs and RPGs derived from them will enhance and reinforce perceptions of the transparency of financial 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 GPFs.
- 3.39 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 characteristic might be sacrificed to some degree to reduce cost.
- 3.40 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 GPFs for accountability and decision-making purposes and satisfy the qualitative characteristics are prescribed by IPSASs when the benefits of compliance with those disclosures and other requirements are assessed by the IPSASB to justify their costs.

Balance Between the Qualitative Characteristics

- 3.41 The qualitative characteristics work together 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.

- 3.42 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.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, the Conceptual Framework.

Qualitative Characteristics of Information Included in General Purpose Financial Reports

- BC3.1 In developing IPSASs, the IPSASB receives input from constituents on, and makes judgments about, information that best satisfies the objectives of financial reporting and should be included in GPFs. In making those judgments, the IPSASB considers the extent to which each of the qualitative characteristics can be achieved. Disclosure and other requirements are included in IPSASs only when the information that results from their application is considered to satisfy the qualitative characteristics and the cost-benefit constraint identified in the Conceptual Framework.
- BC3.2 Some respondents to the Exposure Draft expressed concern about the application of the qualitative characteristics to all matters that may be presented in GPFs, particularly those matters that may be presented in reports outside the financial statements. The IPSASB understands this concern. The IPSASB acknowledges that IPSASs and RPGs that deal with the presentation in GPFs of information outside the financial statements may need to include additional guidance on the application of the qualitative characteristics to the matters dealt with.
- BC3.3 IPSASs and RPGs issued by the IPSASB will not deal with all financial and non-financial information that may be included in GPFs. In the absence of an IPSAS or RPG that deals with particular economic or other phenomena, assessments of whether an item of information satisfies the qualitative characteristics and constraints identified in the Conceptual Framework, and therefore qualifies for inclusion in GPFs, will be made by preparers compiling the GPFs. Those assessments will be made in the context of achieving the objectives of financial reporting, which in turn have been developed to respond to users' information needs.
- BC3.4 Having in place accounting systems and processes that are appropriately designed and are operated effectively will enable management to gather and process evidence to support financial reporting. The quality of these systems and processes is a key factor in ensuring the quality of financial information that the entity includes in GPFs.

Other Qualitative Characteristics Considered

- BC3.5 Some respondents to the Exposure Draft expressed the view that additional qualitative characteristics should be identified. Those qualitative characteristics included "sincerity," "true and fair view," "credibility," "transparency," and "regularity".

BC3.6 The IPSASB notes that “sincerity” as used in financial reporting has a similar meaning to “true and fair”. The IPSASB is of the view that “sincerity,” “true and fair view,” “credibility,” and “transparency” are important expressions of the overarching qualities that financial reporting is to achieve or aspire to. However, they do not exist as single qualitative characteristics on their own—rather, achieving these qualities is the product of application of the full set of qualitative characteristics identified in the Conceptual Framework, and the IPSASs that deal with specific reporting issues. Consequently, while important characteristics of GPFs, they are not identified as separate individual qualitative characteristics in their own right. The IPSASB is also of the view that the notion of “regularity” as noted by some respondents is related to the notion of “compliance” as used in the Conceptual Framework—therefore, regularity is not identified as an additional qualitative characteristic.

Relevance

BC3.7 The Conceptual Framework explains that financial and non-financial information is relevant if it is capable of making a difference in achieving the objectives of financial reporting. As part of its due process the IPSASB seeks input on whether the requirements of a proposed IPSAS or any proposed RPGs are relevant to the achievement of the objectives of financial reporting—that is, are relevant to the discharge of the entity’s obligation to be accountable and to decisions that users may make.

Faithful Representation

BC3.8 The Conceptual Framework explains that to be useful information must be a faithful representation of the economic and other phenomena that it purports to represent. A single economic or other phenomenon may be faithfully represented in many ways. For example, the achievement of particular service delivery objectives may be depicted (a) qualitatively through an explanation of the immediate and anticipated longer term outcomes and effects of the service delivery program, (b) quantitatively as a measure of the volume and cost of services provided by the service delivery program, or (c) by a combination of both qualitative and quantitative information. Additionally, a single depiction in GPFs may represent several economic phenomena. For example, the presentation of the item “plant and equipment” in a financial statement may represent an aggregate of all of an entity’s plant and equipment, including items that have different functions, that are subject to different risks and opportunities and that are carried at amounts based on estimates that may be more or less complex and reliable.

BC3.9 Completeness and neutrality of estimates (and inputs to those estimates) and freedom from material error are desirable, and some minimum level of accuracy is necessary for an estimate to faithfully represent an economic or other phenomenon. However, faithful representation does not imply absolute

completeness or neutrality in the estimate, nor does it imply total freedom from error in the outcome. For a representation of an economic or other phenomenon to imply a degree of completeness, neutrality, or freedom from error that is impracticable for it to achieve would diminish the extent to which the information faithfully represents the economic or other phenomenon that it purports to represent.

Faithful Representation or Reliability

BC3.10 At the time of issue of the Exposure Draft, Appendix A of IPSAS 1, *Presentation of Financial Statements* identified “reliability” as a qualitative characteristic. It described reliable information as information that is “free from material error and bias, and can be depended on by users to represent faithfully that which it purports to represent or could reasonably be expected to represent.” Faithful representation, substance over form, neutrality, prudence and completeness were identified as components of reliability. The Conceptual Framework uses the term “faithful representation” rather than “reliability” to describe what is substantially the same concept. In addition, it does not explicitly identify substance over form and prudence as components of faithful representation.

BC3.11 Many respondents to the Exposure Draft supported the use of faithful representation and its explanation in the ED, in some cases explaining that faithful representation is a better expression of the nature of the concept intended. Some respondents did not support the replacement of reliability with the term faithful representation, expressing concerns including that faithful representation implies the adoption of fair value or market value accounting, and reliability and faithful representation are not interchangeable terms.

BC3.12 The use of the term faithful representation, or reliability for that matter, to describe this qualitative characteristic in the Conceptual Framework will not determine the measurement basis to be adopted in GPFRs, whether historical cost, market value, fair value or another measurement basis. The IPSASB does not intend that use of faithful representation be interpreted as such. The measurement basis or measurement bases that may be adopted for the elements of financial statements are considered in a separate Chapter of the Conceptual Framework. The qualitative characteristics will then operate to ensure that the financial statements faithfully represent the measurement basis or bases reflected in GPFRs.

BC3.13 The IPSASB appreciates the concern of some respondents that the use of a different term may be interpreted to reflect different, and even lesser, qualities to those communicated by the term reliability. However, the IPSASB is of the view that explanation in the Framework that “Faithful representation is attained when the depiction of the phenomenon is complete, neutral, and free from material error”, and the elaboration of these key

features will protect against the loss of any of the qualities that were formerly reflected in the use of the term reliability.

BC3.14 In addition, the IPSASB has been advised that the term reliability is itself open to different interpretations and subjective judgments, with consequences for the quality of information included in GPFs. The IPSASB is of the view that use of the term faithful representation will overcome problems in the interpretation and application of reliability that have been experienced in some jurisdictions without a lessening of the qualities intended by the term, and is more readily translated into, and understood in, a wide range of languages.

Substance over Form and Prudence

BC3.15 Some respondents to the Exposure Draft expressed concern that substance over form and prudence are not identified as qualitative characteristics or that their importance is not sufficiently recognized or explained. Some also noted that prudence need not be incompatible with the achievement of neutrality and faithful representation.

BC3.16 The Conceptual Framework explains that “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.” Therefore substance over form remains a key quality that information included in GPFs must possess. It is not identified as a separate or additional qualitative characteristic because it is already embedded in the notion of faithful representation.

BC3.17 The IPSASB is of the view that the notion of prudence is also reflected in the explanation of neutrality as a component of faithful representation, and the acknowledgement of the need to exercise caution in dealing with uncertainty. Therefore, like substance over form, prudence is not identified as a separate qualitative characteristic because its intent and influence in identifying information that is included in GPFs is already embedded in the notion of faithful representation.

Understandability

BC3.18 Although presenting information clearly and concisely helps users to comprehend it, the actual comprehension or understanding of information depends largely on the users of the GPFs.

BC3.19 Some economic and other phenomena are particularly complex and difficult to represent in GPFs. However, the IPSASB is of the view that information that is, for example, relevant, a faithful representation of what it purports to represent, timely and verifiable should not be excluded from GPFs solely because it may be too complex or difficult for some users to understand

without assistance. Acknowledging that it may be necessary for some users to seek assistance to understand the information presented in GPFs does not mean that information included in GPFs need not be understandable or that all efforts should not be undertaken to present information in GPFs in a manner that is understandable to a wide range of users. However, it does reflect that, in practice, the nature of the information included in GPFs is such that all the qualitative characteristics may not be fully achievable at all times for all users.

Timeliness

BC3.20 The IPSASB recognizes the potential for timely reporting to increase the usefulness of GPFs for both accountability and decision-making purposes, and that undue delay in the provision of information may reduce its usefulness for these purposes. Consequently, timeliness is identified as a qualitative characteristic in the Conceptual Framework.

Comparability

BC3.21 Some degree of comparability may be attained by maximizing the qualitative characteristics of relevance and faithful representation. For example, faithful representation of a relevant economic or other phenomenon by one public sector entity is likely to be comparable to a faithful representation of a similar relevant economic or other phenomenon by another public sector entity. However, a single economic or other phenomenon can often be faithfully represented in several ways, and permitting alternative accounting methods for the same phenomenon diminishes comparability and, therefore, may be undesirable.

BC3.22 Some respondents to the Exposure Draft expressed concern that the explanation of the relationship between comparability and consistency may be read as presenting an obstacle to the on-going development of financial reporting. This is because enhancements in financial reporting often involve a revision or change to the accounting principles, policies or basis of preparation currently adopted by the entity.

BC3.23 Consistent application of the same accounting principles, policies and basis of preparation from one period to the next will assist users in assessing the financial position, financial performance and service delivery achievements of the entity compared with previous periods. However, where accounting principles or policies dealing with particular transactions or other events are not prescribed by IPSASs, achievement of the qualitative characteristic of comparability should not be interpreted as prohibiting the entity from changing its accounting principles or policies to better represent those transactions and events. In these cases, the inclusion in GPFs of additional disclosures or explanation of the impact of the changed policy can still satisfy the characteristics of comparability.

Verifiability

- BC3.24 Verifiability is the quality of information that helps assure users that information in GPFs faithfully represents the economic and other phenomena that it purports to represent. While closely linked to faithful representation, verifiability is identified as a separate qualitative characteristic because information may faithfully represent economic and other phenomena even though it cannot be verified with absolute certainty. In addition, verifiability may work in different ways with faithful representation and other of the qualitative characteristics to contribute to the usefulness of information presented in GPFs—for example, there may need to be an appropriate balance between the degree of verifiability an item of information may possess and other qualitative characteristics to ensure it is presented in a timely fashion and is relevant.
- BC3.25 In developing the qualitative characteristics identified in the Framework, the IPSASB considered whether “supportability” should be identified as a separate characteristic for application to information presented in GPFs outside the financial statements. The IPSASB is of the view that identifying both verifiability and supportability as separate qualitative characteristics with essentially the same features may be confusing to preparers and users of GPFs and others. However, the Conceptual Framework does acknowledge that supportability is sometimes used to refer to the quality of information that helps assure users that explanatory information and prospective financial and non-financial information included in GPFs faithfully represent the economic and other phenomena that they purport to represent.
- BC3.26 Some respondents to the Exposure Draft expressed concern about the application of verifiability to the broad range of matters that may be presented in GPFs outside the financial statements, particularly explanatory information about service delivery achievements during the reporting period and qualitative and quantitative prospective financial and non-financial information. The IPSASB is of the view that the Conceptual Framework provides appropriate guidance on the application of verifiability in respect of these matters—for example it explains that verifiability is not an absolute and it may not be possible to verify the accuracy of all quantitative representations and explanations until a future period. The Framework also acknowledges that disclosure of the underlying assumptions and methodologies adopted for the compilation of explanatory and prospective financial and non-financial information is central to the achievement of faithful representation.

Classification of the Qualitative Characteristics and Order of their Application

- BC3.27 Some respondents to the Exposure Draft expressed the view that the Conceptual Framework should identify:

- Relevance and faithful representation as fundamental qualitative characteristics, and explain the order of their application; and
- Comparability, verifiability, timeliness, and understandability as enhancing qualitative characteristics.

They noted that this would provide useful guidance on the sequence of application of the qualitative characteristics and reflect the approach adopted by the International Accounting Standards Board.

BC3.28 In developing the qualitative characteristics, the IPSASB considered whether some characteristics should be identified as fundamental and others identified as enhancing. The IPSASB also considered whether the order of application of the characteristics should be identified and/or explained. The IPSASB is of the view that such an approach should not be adopted because, for example:

- Matters identified as “fundamental” may be perceived to be more important than those identified as “enhancing”, even if this distinction is not intended in the case of the qualitative characteristics. As a result, there may be unintended consequences of identifying some qualitative characteristics as fundamental and others as enhancing;
- All the qualitative characteristics are important and work together to contribute to the usefulness of information. The relative importance of a particular qualitative characteristic in different circumstances is a matter of professional judgment. As such, it is not appropriate to identify certain qualitative characteristics as always being fundamental and others as having only an enhancing or supporting role, or to specify the sequence of their application, no matter what information is being considered for inclusion in GPFRs, and irrespective of the circumstances of the entity and its environment. In addition, it is questionable whether information that is not understandable or is provided so long after the event as not to be useful to users for accountability and decision-making purposes could be considered as relevant information—therefore, these characteristics are themselves fundamental to the achievement of the objectives of financial reporting; and
- GPFRs of public sector entities may encompass historical and prospective information about financial performance and the achievement of service delivery objectives over a number of reporting periods. This provides necessary input to assessments of trends in service delivery activities and resources committed thereto—for such trend data, reporting on a comparable basis may be as important as, and cannot be separated from, faithful representation of the information.

Constraints on Information Included in General Purpose Financial Reports

Materiality

- BC3.29 At the time of issue of the Exposure Draft, Appendix A of IPSAS 1 described materiality with similar characteristics to that described in the Conceptual Framework, but identified materiality as a factor to be considered in determining only the relevance of information. Some respondents to the Exposure Draft noted that materiality may be identified as an aspect of relevance.
- BC3.30 The IPSASB has considered whether materiality should be identified as an entity-specific aspect of relevance rather than a constraint on information included in GPFs. As explained in the Conceptual Framework, and subject to requirements in an IPSAS, materiality will be considered by preparers in determining whether, for example, a particular accounting policy should be adopted or an item of information should be separately disclosed in the financial statements of the entity.
- BC3.31 However, the IPSASB is of the view that materiality has a more pervasive role than would be reflected by its classification as only an entity specific aspect of relevance. For example, materiality relates to, and can impact, a number of the qualitative characteristics of information included in GPFs. Therefore, the materiality of an item should be considered when determining whether the omission or misstatement of an item of information could undermine not only the relevance, but also the faithful representation, understandability or verifiability of financial and non-financial information presented in GPFs. The IPSASB is also of the view that whether the effects of the application of a particular accounting policy or basis of preparation or the information content of separate disclosure of certain items of information are likely to be material should be considered in establishing IPSASs and RPGs. Consequently, the IPSASB is of the view that materiality is better reflected as a broad constraint on information to be included in GPFs.
- BC3.32 The IPSASB considered whether the Conceptual Framework should reflect that legislation, regulation or other authority may impose financial reporting requirements on public sector entities in addition to those imposed by IPSASs. The IPSASB is of the view that, while a feature of the operating environment of many public sector (and many private sector) entities, the impact that legislation or other authority may have on the information included in GPFs is not itself a financial reporting concept. Consequently, it has not identified it as such in the Conceptual Framework. Preparers will, of course, need to consider such requirements as they prepare GPFs. In particular, legislation may prescribe that particular items of information are to be disclosed in GPFs even though they may not be judged to satisfy a materiality threshold (or cost-benefit constraint) as identified in the Conceptual Framework. Similarly, the disclosure of some matters may be

prohibited by legislation because, for example, they relate to matters of national security, notwithstanding that they are material and would otherwise satisfy the cost-benefit constraint.

Cost-Benefit

BC3.33 Some respondents to the Exposure Draft expressed concern that the text of the proposed Conceptual Framework does not specify that entities cannot decide to depart from IPSASs on the basis of their own assessments of the costs and benefits of particular requirements of an IPSAS. The IPSASB is of the view that such specification is not necessary. This is because, as noted in Paragraph 1.2 of the Conceptual Framework, authoritative requirements relating to recognition, measurement, and presentation in GPFs are specified in IPSASs. GPFs are developed to provide information useful to users and requirements are prescribed by IPSASs only when the benefits to users of compliance with those requirements are assessed by the IPSASB to justify their costs. However, preparers may consider costs and benefits in, for example, determining whether to include in GPFs disclosure of information in addition to that required by IPSASs.

BC3.34 Some respondents to the Exposure Draft also expressed concern that the proposed Conceptual Framework does not recognize that cost-benefit trade-offs may differ for different public sector entities. They are of the view that acknowledgement of this may provide a useful principle to be applied when considering differential reporting issues. The IPSASB has considered these matters and determined that the Conceptual Framework will not deal with issues related to differential reporting, including whether the costs and benefits of particular requirements might differ for different entities.

BC3.35 In the process of developing an IPSAS or RPG, the IPSASB considers and seeks input on the likely costs and benefits of providing information in GPFs of public sector entities. However, in some cases, it may not be possible for the IPSASB to identify and/or quantify all benefits that are likely to flow from, for example, the inclusion of a particular disclosure, including those that may be required because they are in the public interest, or other requirement in an IPSAS. In other cases, the IPSASB may be of the view that the benefits of a particular requirement may be marginal for users of GPFs of some public sector entities. In applying the cost-benefit test to determine whether particular requirements should be included in an IPSAS in these circumstances, the IPSASB's deliberations may also include consideration of whether imposing such requirements on public sector entities is likely to involve undue cost and effort for the entities applying the requirements.

January 2013

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Chapter 4: Reporting Entity

- 4.1 A public sector reporting entity is a government or other public sector organization, program or identifiable area of activity (hereafter referred to as an entity or public sector entity) that prepares GPFs.
- 4.2 A public sector reporting entity may comprise two or more separate entities that present GPFs as if they are a single entity—such a reporting entity is referred to as a group reporting entity.

Key Characteristics of a Reporting Entity

- 4.3 Key characteristics of a public sector reporting entity are that:
- It is an entity that raises resources from, or on behalf of, constituents and/or uses resources to undertake activities for the benefit of, or on behalf of, those constituents; and
 - There are service recipients or resource providers dependent on GPFs of the entity for information for accountability or decision-making purposes.
- 4.4 A government may establish and/or operate through administrative units such as ministries or departments. It may also operate through trusts, statutory authorities, government corporations and other entities with a separate legal identity or operational autonomy to undertake or otherwise support the provision of services to constituents. Other public sector organizations, including international public sector organizations and municipal authorities, may also undertake certain activities through, and may benefit from and be exposed to a financial burden or loss as a result of, the activities of entities with a separate legal identity or operational autonomy.
- 4.5 GPFs are prepared to report information useful to users for accountability and decision-making purposes. Service recipients and resource providers are the primary users of GPFs. Consequently, a key characteristic of a reporting entity, including a group reporting entity, is the existence of service recipients or resource providers who are dependent on GPFs of that entity or group of entities for information for accountability or decision-making purposes.
- 4.6 GPFs encompass financial statements and information that enhances, complements and supplements the financial statements. Financial statements present information about the resources of the reporting entity or group reporting entity and claims to those resources at the reporting date, and changes to those resources and claims and cash flows during the reporting period. Therefore, to enable the preparation of financial statements, a reporting entity will raise resources and/or use resources previously raised to undertake activities for the benefit of, or on behalf of, its constituents.

- 4.7 The factors that are likely to signal the existence of users of GPFs of a public sector entity or group of entities include an entity having the responsibility or capacity to raise or deploy resources, acquire or manage public assets, incur liabilities, or undertake activities to achieve service delivery objectives. The greater the resources that a public sector entity raises, manages and/or has the capacity to deploy, the greater the liabilities it incurs and the greater the economic or social impact of its activities, the more likely it is that there will exist service recipients or resource providers who are dependent on GPFs for information about it for accountability and decision-making purposes. In the absence of these factors, or where they are not significant, it is unlikely that users of GPFs of these entities will exist.
- 4.8 The preparation of GPFs is not a cost-free process. Therefore, if the imposition of financial reporting requirements is to be efficient and effective, it is important that only those public sector entities for which such users exist are required to prepare GPFs.
- 4.9 In many cases, it will be clear whether or not there exist service recipients or resource providers that are dependent on GPFs of a public sector entity for information for accountability and decision-making purposes. For example, such users are likely to exist for GPFs of a government at the national, state or local government level and for international public sector organizations. This is because these governments and organizations generally have the capacity to raise substantial resources from and/or deploy substantial resources on behalf of their constituents, to incur liabilities, and to impact the economic and/or social well-being of the communities that depend on them for the provision of services.
- 4.10 However, it may not always be clear whether there are service recipients or resource providers that are dependent on GPFs of, for example, individual government departments and agencies, particular programs or identifiable areas of activity for information for accountability and decision-making purposes. Determining whether these organizations, programs or activities should be identified as reporting entities and, consequently, be required to prepare GPFs will involve the exercise of professional judgment.
- 4.11 The government and some other public sector entities have a separate identity or standing in law (a legal identity). However, public sector organizations, programs and activities without a separate legal identity may also raise or deploy resources, acquire or manage public assets, incur liabilities, undertake activities to achieve service delivery objectives or otherwise implement government policy. Service recipients and resource providers may depend on GPFs of these organizations, programs and activities for information for accountability and decision-making purposes. Consequently, a public sector reporting entity may have a separate legal identity or be, for example, an organization, administrative arrangement or program without a separate legal identity.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, the Conceptual Framework.

Key Characteristics of a Reporting Entity

- BC4.1 The concept of the reporting entity is derived from the objectives of financial reporting by public sector entities. The objectives of financial reporting by public sector entities are to provide information about the entity that is useful to users of GPFs for accountability and decision-making purposes.
- BC4.2 Reporting entities prepare GPFs. GPFs include financial statements, which present information about such matters as the financial position, performance and cash flows of the entity, and financial and non-financial information that enhances, complements and supplements the financial statements. Therefore, a key characteristic of a public sector reporting entity is the existence of service recipients or resource providers who are dependent on GPFs of a government or other public sector entity for information for accountability or decision-making purposes.

Legislation, Regulation or Other Authority

- BC4.3 The Exposure Draft did not specify which public sector entities should be identified as a reporting entity or group reporting entity and, therefore, be required to prepare GPFs. It noted that the public sector organizations and programs that are to prepare GPFs will be specified in legislation, regulation or other authority, or be determined by relevant authoritative bodies in each jurisdiction.
- BC4.4 Some respondents expressed the view that while legislation or other authority may, in practice, specify which entities are to prepare GPFs, the Conceptual Framework should focus on the concept of the reporting entity, identify key features of that concept and provide guidance on the principles and factors that should be considered in determining whether a reporting entity exists. The IPSASB was persuaded by these arguments and has refocused its discussion on an explanation of the concept of the reporting entity.

Interpretation and Application

- BC4.5 Some respondents expressed concern that the characteristics of a reporting entity as explained in the Exposure Draft may be interpreted to identify particular activities or segments of an organization as separate reporting entities. These segments or activities would then be required to prepare GPFs in accordance with all IPSASs. Some respondents also noted that it was not clear how the guidance in the Exposure Draft applied to public sector organizations other than governments including, for example, international public sector organizations.

BC4.6 The IPSASB has responded to these concerns. The Framework explains that preparation of GPFs is not a cost-free process. It also:

- Includes additional guidance on the factors that are likely to signal the existence of service recipients or resource providers who are dependent on GPFs of a government or other public sector entity for information for accountability or decision-making purposes; and
- Notes the likely implications of these factors for the identification of a range of public sector organizations, programs and activities as reporting entities, including government departments and agencies and international public sector organizations.

BC4.7 The Conceptual Framework acknowledges that in some cases it may be necessary to exercise professional judgment in determining whether particular public sector entities should be identified as a reporting entity. In exercising that judgement, it should be noted that, in certain circumstances, IPSASs respond to users' needs for information about particular programs or activities undertaken by a government or other public sector reporting entity by providing for separate disclosures within the GPFs of that government or other public sector reporting entity³. Jurisdictional factors such as the legislative and regulatory framework in place and institutional and administrative arrangements for the raising of resources and the delivery of services are also likely to inform deliberations on whether it is likely that service recipients and resource providers dependent on GPFs of particular public sector entities exist.

The Group Reporting Entity

BC4.8 The Exposure Draft outlined the circumstances that would justify the inclusion of an entity or activity within a public sector group reporting entity. It explained that:

- A government or other public sector entity may (a) have the authority and capacity to direct the activities of one or more other entities so as to benefit from the activities of those entities, and (b) be exposed to a financial burden or loss that may arise as a result of the activities of those entities; and
- To satisfy the objectives of financial reporting, GPFs of a group reporting entity prepared in respect of a government or other public sector entity should include that government (or other public sector entity) and the entities whose activities it has the authority and

³ For example, International Public Sector Accounting Standards (IPSASs) such as IPSAS 18, *Segment Reporting* and IPSAS 22, *Disclosure of Financial Information about the General Government Sector* provide a mechanism to satisfy users' need for information about particular segments or sectors of an entity without their identification as separate reporting entities.

capacity to direct, when the results of such direction can (a) generate financial or other benefits for the government (or other public sector entity), or (b) expose it to a financial burden or loss.

BC4.9 Many respondents to the Exposure Draft noted their agreement with the IPSASB's view of the criteria that should be satisfied for inclusion in a public sector group reporting entity. However, other respondents expressed their concern about the potential interpretation and application of the criteria in particular circumstances. In some cases, they noted that the Framework would need to provide additional application guidance if it was to be effective in dealing with circumstances not dealt with in IPSASs. A number of respondents also expressed the view that the criteria to be satisfied for inclusion in a group reporting entity were more appropriately addressed and resolved at the standards level, where those criteria and their consequences could be tested across a range of circumstances, and supported with specific examples of the circumstances likely to exist in many jurisdictions.

BC4.10 The IPSASB found these concerns persuasive. It has reconstructed and drawn together its discussion of the reporting entity and group reporting entity to focus on the principles underlying the identification of a public sector reporting entity—whether that reporting entity comprises a single public sector entity or a group of entities. The identification of the criteria to be satisfied for inclusion in a group reporting entity consistent with these principles will then be developed and fully explored at the standards level.