

IPSASB Exposure Draft, Key Characteristics of the Public Sector  
with Potential Implications for Financial Reporting

# **response to exposure draft**

2 September 2011

CIPFA, the Chartered Institute of Public Finance and Accountancy, is the professional body for people in public finance. Our 14,000 members work throughout the public services, in national audit agencies, in major accountancy firms, and in other bodies where public money needs to be effectively and efficiently managed.

As the world's only professional accountancy body to specialise in public services, CIPFA's portfolio of qualifications are the foundation for a career in public finance. They include the benchmark professional qualification for public sector accountants as well as a postgraduate diploma for people already working in leadership positions. They are taught by our in-house CIPFA Education and Training Centre as well as other places of learning around the world.

We also champion high performance in public services, translating our experience and insight into clear advice and practical services. They include information and guidance, courses and conferences, property and asset management solutions, consultancy and interim people for a range of public sector clients.

Globally, CIPFA shows the way in public finance by standing up for sound public financial management and good governance. We work with donors, partner governments, accountancy bodies and the public sector around the world to advance public finance and support better public services.

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Dear Stephenie Fox

**IPSASB Exposure Draft, Key Characteristics of the Public Sector with Potential Implications for Financial Reporting**

CIPFA is pleased to present its comments on this Exposure Draft, which have been reviewed by CIPFA's Accounting and Auditing Standards Panel.

**General comments**

CIPFA strongly supports IPSASB's programme which helpfully develops public sector specific IPSASs on matters which are unique to the sector, and IFRS converged IPSASs on matters which are relevant to both private and public sectors. CIPFA particularly welcomes the continuing development of IPSASB's conceptual framework for public sector financial reporting, which will be helpful both where IPSASs are developed for circumstances covered by IFRS, and when dealing with sector specific matters.

We are conscious that the IPSASB Conceptual Framework discussions may be seen as rather specialised discussions between technical experts, and less accessible to interested stakeholders with less technical background, or without a history of conceptual discussion of public sector aspects of financial reporting. A document based on the ED could be very helpful for stakeholders who are new to public sector standard setting discussions, especially when combined with the more technical and authoritative material in the emerging draft conceptual framework for public sector financial reporting.

In order to fulfil this role, we envisage such a document being

- as clear as possible, having regard to the fact that potential readers of the document may not use English as a first language
- as short and concise as possible, while recognising that sufficient coverage has to be given to relevant public sector issues, and that these need to be clearly explained
- useful because it discusses public sector arrangements which occur in many jurisdictions, while avoiding suggesting that arrangements are universal where they are not

In the light of the preceding points, we would note our view that the Exposure Draft is well drafted and the broad direction of the material is excellent. However, in order to maximise the usefulness of the document, it is important that it is of very high quality. In our view further development will be required to produce a document which achieves the right balance between clarity, conciseness and sufficiency of coverage. In particular, rather than

providing a statement of key public sector characteristics, there may be too much use of 'compare and contrast' drafting style. This adds to the length but may not significantly add to the substance of the document.

In line with the above, we attach as an Annex some suggested amendments which we hope the Board will consider in taking this document forward.

We also suggest that it is important that IPSASB should more clearly demonstrate that the material is sufficiently general to apply to a wide range of jurisdictions. While we followed the logic of all the discussions, we had some concerns that this might be because they share the regulatory context of 'western' mixed economies or social market economies.

## **Specific Matters for Comment**

### *Specific Matter for Comment 1*

*Do you agree that this document provides useful background information on the key characteristics of the public sector and identifies some potential implications of those key characteristics for financial reporting? If not, please indicate how you would modify the document.*

We agree that the document provides useful information on the key characteristics of the public sector which are relevant in financial reporting discussions, and that it also identifies some potential implications for financial reporting, and provides a background against which other implications can be considered and discussed.

### *Specific Matter for Comment 2*

*Do you agree that this document should be included as part of the IPSASB's literature? If you agree, where do you think the material in this document should be located:*

*(a) As part of the Conceptual Framework;*

*(b) As a separate section of the Handbook of International Public Sector Accounting Pronouncements; or*

*(c) Elsewhere with some other status – please specify?*

We agree that it would be useful to include a document developed from this material in the IPSASB literature, attached to or placed with the Conceptual Framework material to which it provides introductory background.

I hope this is a helpful contribution to the development of the Board's guidance in this area.

Yours sincerely

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## DRAFTING COMMENTS ON IPSASB EXPOSURE DRAFT

### Key Characteristics of the Public Sector with Potential Implications for Financial Reporting

#### Section 1/ General comments on structure and repeated content

1. The introductory section combines an explanation of the purpose of the paper with rather different material which seeks to introduce the public sector. We are not sure that significant introductory material is necessary, especially as the effect is that material in the introduction is echoed or duplicated elsewhere.

2. Paragraph 1.3 seems rather unclear and provides a definition of IGOs which seems both circular and incomplete. An alternative drafting would be:

1.3 In the context of this paper the term "the public sector" includes

- national governments, sub-national governments, local government units and regulatory bodies which do not generally operate on a 'for-profit' basis.
- Government Business Enterprises (GBEs) or public corporations, which operate on a for-profit or break-even basis but are governed by a public sector entity
- a number of other entities with varying structures and governance arrangements
- international governmental organizations (IGOs) and their agencies, including the United Nations and its agencies, regional IGOs such as the European Union or ASEAN, and other IGOs such as the OECD, La Francophonie, and the Organisation of Islamic Cooperation.

The public sector does not include the private not-for-profit sector, although the sectors share many characteristics. Public sector organisations may perform social welfare or other roles which in other jurisdictions are supported by the not-for-profit sector and vice versa.

3. The material in para 1.4 on public sector longevity could be deleted as it is duplicated in section 6. The remaining material on the varying size and role of the public sector could be reduced. Para 1.4 also focuses on economic management: it might be helpful to provide brief information on the other roles of government as provider of social benefits and collective goods.

4. Paragraphs 1.5 and 1.6 could be deleted.

#### Comments on section 2

5. The material in paragraph 2.2 after "...money markets." can be deleted.

6. The document needs to reflect the fact that financial reporting may provide accountability on the performance of governments and politicians, and does not only provide information for politicians. The bullet point list at 2.3 might therefore include:

Has the entity provided services or achieved results in line with public promises or agreements by government or the management of the entity?

7. The final sentence of paragraph 2.4, and all of paragraph 2.5 can be deleted.

8. Paragraph 2.7 is unclear, and might be better reworded and split into two paragraphs which cover rather different subjects. For example:

International organizations are also largely funded by non-exchange revenue transfers. Transfers from member governments or public sector bodies may be governed by treaties and conventions or be made on a purely voluntary basis.

and

The significance of taxation and other involuntary transfers has implications for a number of aspects of a public sector conceptual framework, such as the definition of assets and liabilities.

As redrafted, the second paragraph makes a very general point and might be better placed elsewhere or otherwise highlighted.

9. The discussion in para 2.8 of 'public goods' uses a very specific meaning which is not used by all economists, and so might be incorrectly seen as equating non-excludable or 'pure' public goods with public sector provision, without remarking on wider public goods such as breathable air. It also characterises government intervention as arising from a particular economic view of the objective of government: it might be better to reflect on the fact that many governments provide services. The first half of the paragraph might therefore be deleted. The remaining text might more directly address existing practice, for example:

Many governments provide goods and services that enhance or maintain the well-being of citizens and other eligible residents. These services are often provided in a non-competitive environment, either because they are not provided by other entities, e.g., welfare programs, or because it is not considered appropriate for them to be provided through competitive market mechanisms on public policy grounds, e.g., policing and defense.

10. Para 2.9 mainly echoes material in other sections and can be deleted..

### **Comments on section 3**

11. Generally this section should be more concise. In particular para 3.3 mainly states that budgetary comparison is important and relevant to financial reporting and could be rendered more concisely as follows:

Information that helps users assess actual spending against budget estimates is important in determining how well a public sector entity has met its financial objectives. The usefulness of budget information for assessing performance and for accountability purposes therefore needs to be borne in mind when considering the needs of the users of public sector financial reports and in determining the scope of that reporting.

### **Comments on section 4**

12. Paragraph 4.1 could be rendered more concisely as follows:

In the private sector the primary reason for holding property, plant, and equipment and other assets is to generate positive cash flows. In the public sector, the primary reason for holding property, plant, and equipment and other assets is to provide goods and services to citizens and other eligible individuals and groups. For example, while rental income may be an important inflow on which future maintenance and refurbishment of the housing stock wholly or partially depends, the primary purpose of social housing is to provide accommodation for individuals and households which are not home owners and may not be able to participate in the private rental sector.

### **Comments on section 5**

13. Paragraph 5.2 mainly reflects on aspects of heritage assets which are important and relevant to government policy rather than financial reporting. In terms of characteristics which might result in different financial reporting, it might be more appropriate to note that in addition to being generally managed without regard to commercial return

- Heritage assets may be donated or may have been in public sector control for a very long time and may have very long or indefinite lives.
- Many heritage resources may not be sold in markets, or governments may wish to discourage sale.

- In other cases, information on historical cost or current market value may not be available either in principle or at reasonable cost.

For these reasons, heritage resources raise a number of issues including whether particular resources should be recognised as assets. They also raise different conceptual and practical considerations to those faced in profit focussed reporting when considering how they might best be measured and disclosed in financial statements.

### **Comments on Section 6**

14. The overall tone of paras 6.4 and 6.5 might be read as implying that the going concern *principle* is less significant for government. This seems inappropriate, especially in the light of recent of the recent economic crisis, and IPSASB's work in the area of long term fiscal sustainability. It might be better to mainly focus on the going concern *assumption*, noting that, in the light of the longevity of governments and their recourse to tax-raising powers, the going concern assumption is not often significantly challenged.

15. We therefore suggest that an additional sentence "As a result, the going concern assumption is rarely challenged in respect of the public sector" is added to para 6.2.

16. Also, while the power to tax is highly relevant to going concern considerations and supporting public sector longevity, the question as to whether that power is an asset might fit better in the section on non-exchange transactions.

17. Paragraphs 6.4 and 6.5 and the first and final sentences of paragraph 6.6 can be deleted, leaving the text:

Because the financial consequences of many decisions will only become clear years or even decades into the future, prospective financial information covering lengthy time horizons may be necessary for accountability and decision-making purposes.

### **Comments on Section 7**

18. We suggest that the first two sentences of paragraph 7.2 are deleted.

### **Comments on Section 9**

19. For readers who are not already familiar with statistical/economic reporting, paragraphs 9.1 and 9.2 may not adequately explain why this discussion is important. They would be easier to understand with some reordering and a little more background, starting with the use of statistical accounting by government. Perhaps as follows:

9.1 Reporting under statistical bases of accounting is very important in the public sector. This reporting is used by governments and other bodies to provide aggregated information for macro-economic analysis and modeling purposes. Governments and international public sector bodies use such information for economic analysis and comparisons between jurisdictions, primarily for decision-making purposes. The System of National Accounts (SNA), issued by the United Nations, is an internationally agreed basis for such economic reporting. The European System of Accounts (ESA) provides guidelines for Member States of the European Union and is consistent with SNA. Additionally, the Government Finance Statistics Manual (GFSM), issued by the International Monetary Fund, provides a specialized macroeconomic statistical system designed to support fiscal analysis, and is consistent with SNA. The GFSM provides economic and statistical guidelines to be used in compiling statistics on the fiscal position of nations.

9.2 For statistical reporting purposes, the public sector is divided into the general government sector (GGS) and public corporations. The GGS includes all institutional units whose output is intended for individual and collective consumption and that are mainly financed by compulsory payments made by units belonging to other sectors, and institutional units principally engaged in the redistribution of national income and wealth. The GGS is typically subdivided into four subsectors: central government, state government, local government and social security funds.