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The Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street West, 6th Floor
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Ontario M5V 3H2
CANADA

By email: stepheniefox@ifac.org

Dear Ms Fox

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

ICAEW is pleased to respond to your request for comments on *Key Characteristics of the Public Sector with Potential Implications for Financial Reporting*.

Please contact me should you wish to discuss any of the points raised in the attached response.

Yours sincerely

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ICAEW REPRESENTATION

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

Memorandum of comment submitted in August 2011 by ICAEW, in response to IFAC exposure draft *Key Characteristics of the Public Sector with Potential Implications for Financial Reporting* published in April 2011.

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INTRODUCTION

1. ICAEW welcomes the opportunity to comment on the exposure draft *Key Characteristics of the Public Sector with Potential Implications for Financial Reporting* published by IFAC on 29 April 2011. A copy of the Exposure Draft is available from this [link](#).

WHO WE ARE

2. ICAEW is a world-leading professional accountancy body. We operate under a Royal Charter which obliges us to work in the public interest. ICAEW's regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the UK Financial Reporting Council. We provide leadership and practical support to over 136,000 member chartered accountants in more than 160 countries, working with governments, regulators and industry in order to ensure that the highest standards are maintained.
3. ICAEW members operate across a wide range of areas in business, practice and the public sector. They provide financial expertise and guidance based on the highest professional, technical and ethical standards. They are trained to provide clarity and apply rigour, and so help create long-term sustainable economic value.
4. The Financial Reporting Faculty is recognised internationally as a leading authority on financial reporting. The Faculty's Financial Reporting Committee is responsible for formulating ICAEW policy on financial reporting issues, and makes submissions to standard setters and other external bodies. The faculty also provides an extensive range of services to its members, providing practical assistance in dealing with common financial reporting problems.

MAJOR POINTS

We agree that specific attributes of the public sector are relevant for financial reporting purposes

5. We welcome this ED and the contribution it makes to providing a coherent framework for financial reporting by the public sector. We agree that there are a number of factors differentiating the public from the private sector that may have implications for financial reporting and that it is useful to take these into account in drawing-up a conceptual framework for the public sector. The much more widespread use of non-exchange transactions, the role of the budget and the regulatory capacity of government are all areas where the public sector differs from the private sector. It is important that the implications of these differences are acknowledged such that general purpose financial statements prepared by public sector organisations are effective in enhancing transparency and meeting the information needs of service recipients and resource providers.

It is important that financial reporting standards remain sector neutral

6. However, while we support the inclusion of these differences in the IPSASB's conceptual framework we are slightly concerned that their recognition and categorisation could result in future financial reporting standards becoming inappropriately sector specific. General purpose financial statements, a key function of which is to allow comparisons to be drawn between different organisations, rely upon a body of standards that are modified as little as possible for application by entities in different sectors or regions. Comparability is impaired where standards become sector specific and in our opinion they should remain neutral where possible. Therefore, while we support the definition of public sector characteristics for the purposes of establishing the concepts that underpin financial reporting by the public sector, we do believe that careful consideration should be given to ensuring that these factors, once established, do not lead to greater sector specificity in the development of future standards.

RESPONSES TO SPECIFIC POINTS

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.

7. We agree. The ED provides a useful summary of some key considerations that are of particular significance to the public sector. As such it provides a useful focus for the conceptual framework and facilitates a better understanding of what general purpose financial statements in the public sector are intended to achieve. We appreciate that the ED is not intended to be an exhaustive list of all of the areas where the public sector is distinct and we do not believe that generally there is any need to make it more extensive. However, it may be useful to include a consideration of the boundary of the public sector in the context of alternative arrangements to deliver public services (ie. they could be provided directly by government or by a private sector provider). There are also connected issues relating to the control model of consolidation and how this is defined in a public sector context.

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?

8. We agree that this document should be included as part of IPSASB literature. The discussion of each issue concludes with an indication of which element of financial reporting in the public sector would be affected, and therefore we feel that it would integrate well into the conceptual framework, perhaps as part of the preamble or introductory sections. Were it to be established as a stand-alone document we feel that it would risk appearing rather awkward as it would be difficult to place the issues it raised in an appropriate context, locating it within the conceptual framework therefore appears to be the best solution. However, as we set out in paragraph 6 above, although it can play a useful role in the conceptual framework, there is also the danger that the document could influence the development of standards toward greater sector specificity. This would, we feel, be detrimental and therefore we urge the Board to consider these implications carefully.

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