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Dear Stephanie

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

ICAEW is pleased to respond to your request for comments on IPSASB's Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Presentation in General Purpose Financial Reports.

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

### **IPSASB CONCEPTUAL FRAMEWORK FOR GENERAL PURPOSE FINANCIAL REPORTING BY PUBLIC SECTOR ENTITIES: PRESENTATION IN GENERAL PURPOSE FINANCIAL REPORTS**

**Memorandum of comment submitted in May 2012 by ICAEW, in response to the International Public Sector Accounting Standards Board's consultation paper *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Presentation in General Purpose Financial Reports* published in January 2012.**

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## INTRODUCTION

1. ICAEW welcomes the opportunity to comment on the consultation paper *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* published by IPSASB in January 2012, a copy of which is available from this [link](#).

## WHO WE ARE

2. ICAEW is a world-leading professional accountancy body. We operate under a Royal Charter, working 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 138,000 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. ICAEW is recognised internationally as a leading authority on financial reporting. It is responsible for formulating ICAEW policy on financial reporting issues, and makes submissions to standard setters and other external bodies. It provides an extensive range of services to its members, providing practical assistance in dealing with common financial reporting problems.

## MAJOR POINTS

### Alignment with IASB conceptual framework

5. We are aware that IASB is reviewing the conceptual framework for general purpose financial reporting and we are therefore concerned that this is running ahead of the IASB framework and more importantly, in a different direction. This is not helpful. ICAEW's view is that IPSASB should not develop this framework outside of and in isolation of IASB. And whatever framework is eventually developed needs to align with the IASB conceptual framework as much as possible.

### Principles based

6. ICAEW's view is that the conceptual framework is too long and too complicated. It needs to be made simpler and more straight-forward and be much more principles-based. Currently there are too many details about the practicalities. The conceptual framework needs to remain at a high-level to avoid the need for constant revisions each time standards are revised and thus it is to some extent future-proofed. We found some of the drafting very unclear.

### User needs

7. There appears to be a tension between stakeholders in this framework and it is not clear whether primacy is being given to the users as citizens, service providers, capital markets or future taxpayers. Each group of user will have different needs and it will be difficult to meet the needs of all user groups. Our view is that the user groups need to remain narrow. We are aware that IPSASB has already defined the users of public sector financial reports in Phase 1 of its conceptual framework - namely service recipients (and their representatives) and resource providers (and their representatives) – but these may give a diversity of interests that is difficult to manage in financial reporting terms.
8. The conceptual framework should not try to cover everything that everyone might want to know. There needs to be consideration of other forms of reports that might also already be

available. This chapter reads at the moment as if it is trying to produce financial reports to serve all purposes.

### **Presentation**

9. There also needs to be clarity about which parts of the GPFR will be in the form of financial statements and hence audited. This needs to be articulated clearly and should align to the audit mandate. How much flexibility has been built into this within the conceptual framework? There needs to be clarity about where the other information will sit in the GPFR and what status it will have.
10. The presentation objectives under paragraph 4.3 appear to be overly ambitious. Our view is that this list is too long and it will not be easy to set standards based on this list. Following our point in paragraph 8 above, should the presentation objectives distinguish between those that are best served by the "hard" audited financial statements and those that are best provided in accompanying narrative material (for example, forward looking information) or in other reports that might be best provided outside the GPFR boundary (for example, environmental reports).
11. In our view, there needs to be discipline in the financial reporting framework by focusing on auditability. A decent set of accounts that have been audited will engender certain confidence levels. Other information that is provided on a different basis ought to be outside the financial reporting boundary.

## **RESPONSES TO SPECIFIC QUESTIONS**

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

### **Specific Matter for Comment 1**

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

(a) Do you agree that the proposed descriptions and relationships are appropriate and adequate?

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

12. Our view is that the conceptual framework needs to remain at a very high (principles-based) level.
13. IPSASB needs to differentiate between what is essential information in audited financial statements and what is complementary information. The difference and separation between the two is not clear. There is also some confusion caused by the wide user group. If the user group was narrowed it might then be possible to target information for those user needs more successfully.
14. It will be essential to identify the core and material information, which is capable of being audited and reported on. However different sets of users will have different information requirements. There cannot be a one-size fits all solution and there is a danger that the statements will include too much information which is not needed and will take too long to collate and publish. Timeliness of information is important and may drive simplified and summarised financial reports in some circumstances.

### **Specific Matter for Comment 2**

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

(a) Do you agree with the development of presentation concepts that can be adopted for the more comprehensive scope of GPFRs including, but not restricted to, financial statements?

**(b) Do you agree with the approach of (i) focusing on user needs to identify presentation objectives, (ii) application of the qualitative characteristics (QCs) to presentation decisions, and (iii) separate presentation concepts?**

15. There appears to be a tension between stakeholders in this framework and it is not clear whether primacy is being given to the users as citizens, service providers, capital markets or future taxpayers. Each group of user will have different needs and it will be difficult to meet the needs of all user groups. Our view is that the user groups need to remain narrow. We are aware that IPSASB has already defined the users of public sector financial reports in Phase 1 of its conceptual framework - namely service recipients (and their representatives) and resource providers (and their representatives) – but these may give a diversity of interests that is difficult to manage in financial reporting terms. At the moment the conceptual framework is trying to be all encompassing, which has made it complicated.

#### **Specific Matter for Comment 3**

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

**(a) Do you agree that presentation objectives should be developed?**

**(b) If so, in your view, should they be developed at a standards level, or as part of the Conceptual Framework?**

16. Yes, while we agree with developing these presentation objectives and that they should be set at a standard level, the breadth of users is too wide therefore presentation objectives are too wide. We find it hard to comprehend how so many user needs and therefore how many presentation objectives are going to be met by one set of financial statements.

#### **Specific Matter for Comment 4**

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

**(a) Any of these concepts should be excluded from the Conceptual Framework; and**

**(b) The description of each concept could be improved and, if so, indicate how.**

17. We agree with each of the concepts at the highest level (subject to the comments below) but we cannot understand the detail. We do support comparability but we disagree with the need to get into the detail of the presentation techniques. In our view, this is going beyond what we consider to be a conceptual framework.

18. Our view is that concept 2 and concept 3 appear to be similar. There needs to be a link to user needs rather than location. Therefore, it should include the need to structure information to user needs.

19. The presentation objectives should distinguish between those that are best served by the "hard" audited financial statements and those that are best provided in accompanying narrative material (for example, forward looking information) or in other reports that might be best provided outside the GPFR boundary (for example, environmental reports).

#### **Specific Matter for Comment 5**

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

**(a) Whether there are further concepts that should be included in the Conceptual Framework; and**

**(b) What those further concepts should be.**

20. We think that there could be another concept in relation to disclosure of information. This should emphasise the need for clear disclosure but which discourages clutter by encouraging

exclusion of disclosures set by the standard setter which is not actually material in the context of the entity in question.

**Specific Matter for Comment 6**

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

**(a) Your views on whether it would be useful and workable for the IPSASB to apply such techniques; and**

**(b) Any suggestions you have for developing these techniques.**

**21.** We do not believe that that IPSASB should develop criteria to determine the presentation techniques to be used in setting accounting standards. These will be specific to each preparer's position and should be left to them to determine, using overarching principles of materiality and the need to give a true and fair view.

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