



International  
Federation  
of Accountants

# International Public Sector Accounting Standards Board

The Public Sector Conceptual Framework

June 2014

# Conceptual Framework: Background

- Purpose:
  - Establishes the concepts that are to be applied in developing IPSASs
  - Provides guidance for preparers of general purpose financial reports (GPFRs) of public sector entities where no IPSAS exists
- Project initiated in 2006 and accelerated in 2010
- Not an interpretation of existing or developing IASB Framework
- Four phases – to be discussed further
- Separate Preface based on ED of *Key Characteristics of Public Sector with Potential Impact on Financial Reporting*

# Conceptual Framework Project

## Preface – Key Characteristics of Public Sector

### Phase 1

- Role
- Objectives and Users
- QCs
- Reporting Entity

### Phase 2

- Elements and Recognition

### Phase 3

- Measurement

### Phase 4

- Presentation

## Public Sector Conceptual Framework

# Preface: Identified Key Characteristics

- Involuntary Transfers and Non-Exchange Transactions
- Importance of Approved Budget
- Nature and Purpose of Assets in Public Sector
- The Longevity of the Public Sector and the Nature of Public Sector Programs
- The Regulatory Role of Public Sector Entities
- The Importance of Statistical Bases of Accounting

***Posted on website July 2013 as preliminary IPSASB view  
- to be approved September 2014***

# Phase 1 - Approved December 2012

- Role and Authority of Framework
  - Does not establish authoritative requirements
  - Does not override the requirements of IPSASs
    - Prioritized program to address dislocations once Framework finalized
  - GPFRs intended to meet information needs of users who are unable to require the preparation of financial reports tailored to meet their specific information needs
- Objectives and Users
  - Provide information about the entity that is useful to users of GPFRs for accountability purposes and for decision-making purposes
  - Primary users:
    - Service recipients and resource providers and their representatives
    - Legislature in capacity as a representative of service recipients and resource providers

# Phase 1 (continued)

- Qualitative Characteristics
  - Faithful representation, relevance, understandability, timeliness, comparability and verifiability
  - Prudence discussed in BforC in context of neutrality
  - Reliability superseded by faithful representation
    - Not intended to indicate that fair value only measurement basis compatible with faithful representation
  - No distinction between fundamental and enhancing QCs
- Constraints on Information Included in General Purpose Financial Reports
  - Materiality, Cost-Benefit and Balance between QCs
  - Materiality not entity-specific

# Phase 1 (Continued)

- Reporting entity
  - Key characteristics of a public sector reporting entity:
    - Entity 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
    - Service recipients or resource providers dependent on GPFRs of the entity for information for accountability or decision-making purposes.
  - Will often be legal entity but not essential characteristic

## Phase 2 - Elements –Definition & Recognition

- Objective: Define elements for financial statements
  - Does not deal with GPFRs outside financial statements
- Elements proposed
  - Assets, Liabilities, Revenue, Expenses, Ownership Contributions & Distributions
- ED included deferred inflow & outflows – responses mixed
- “Other economic phenomena” -overarching term -“other resources” and other obligations”



# Assets & Liabilities

- An asset is a resource that an entity presently controls as a result of a past event;
  - Indicators of control :
    - (a) legal ownership; (b) access to or the ability to limit access; (c) the means to ensure resources are used to achieve its objective; and (d) enforceable rights to service potential or economic benefits.
- A liability is a present obligation of an entity for an outflow of resources that results from a past event.
  - Legally binding (or equivalent) obligations and some non-legal obligations
    - Indications to other parties
    - Valid expectations of other parties
    - Little or no realistic alternative to avoid settling the obligation

# Revenue & Expenses

## Revenue:

- (a) Increases in the net financial position of an entity, other than ownership contributions; and
- (b) Reductions in amounts recognized as other obligations in previous reporting periods.

## Expense:

- (a) Decreases in the net financial position of an entity, other than ownership distributions; and
- (b) Reductions in amounts recognized as other resources in previous reporting periods.

# Net Financial Position

- Single bottom line – net financial position
- Net financial position -the aggregate of an entity's net assets and other resources and other obligations
- Change from ED position on deferred inflows/outflows has been reflected in current position

# Recognition

- Existence uncertainty
  - Addressed by assessing the available evidence in order to make a neutral judgment about whether an element exists,
  - No thresholds
- Measurement uncertainty
  - Use of estimates is an essential part of the accrual basis of accounting
- Derecognition
- Separation of definitions and recognition criteria

# Measurement

- Objective:
  - Identify the measurement concepts that will guide the IPSASB in the selection of measurement bases for IPSASs,
  - Guide preparers where no requirements in IPSASs.
- Evaluates measurement bases against objectives of financial reporting and assesses extent to which information on a particular measurement basis meets the QCs.
  - *To select those measurement bases that most fairly reflect the financial capacity, operational capacity and cost of services of the entity in a manner that is useful in holding the entity to account, and for decision-making purposes.*
- List of measurement bases

# Measurement Bases

- **Historical cost**
  - Value of the amount received in the transaction under which the obligation is assumed
- **Market value**
  - May be appropriate where liabilities are traded in open, active and orderly markets, such as on organized exchanges
- **Cost of release**
  - Similar to net selling price
  - Immediate exit from the obligation
- **Cost of fulfillment**
  - Current value of fulfilling the obligations represented by the liability
  - Making required payments/providing goods and services
- **Assumption price**
  - Similar to replacement cost
  - Amount which entity would rationally be willing to accept in exchange for assuming an existing liability

# Presentation

- Adopts broad scope perspective
  - Presentation is the selection location and organization of information reported in GPFRs
- Display and Disclosure
- Presentation Decisions
  - Selection
  - Location
  - Organization
- Presentation Objectives

# Questions and discussion



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