

**Swiss Public Sector Financial Reporting Advisory Committee (SRS-CSPCP)**

Stephenie Fox  
International Public Sector  
Accounting Standards Board  
International Federation of Accountants  
277 Wellington Street West  
Toronto, Ontario M5V 3H2  
CANADA

Chavannes-Lausanne, March 31, 2009

**Swiss Comments to the Consultation Paper  
„Conceptual Framework for General Purpose Financial Reporting  
by Public Sector Entities“**

Dear Stephenie:

With reference to the request for comments on the proposed Consultation Paper, we are pleased to present the Swiss Comments to the Consultation Paper “Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities”.

We thank you for giving us the opportunity to put forward our views and suggestions. You will find our inputs to the Consultation Paper in the attached document.

Should you have any questions, please do not hesitate to contact us.

Yours faithfully,

SRS-CSPCP



Prof Nils Soguel, President



Sonja Ziehli, Secretary

Swiss Comments to the Consultation Paper

## **Swiss Comments to the Consultation Paper**

### **“Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities”**

<b>Table of Contents</b>	<b>Page</b>
1. Introduction .....	2
2. Fundamental Comments on the Conceptual Framework .....	2
3. Detailed Comments on the Individual Key Issues .....	2
3.1 Preliminary View 1 – The Authority of the IPSASB .....	2
3.2 Preliminary View 2 – General Purpose Financial Reports .....	3
3.3 Preliminary View 3 – The Users of GPFRs .....	3
3.4 Preliminary View 4 – The Objectives of Financial Reporting .....	4
3.5 Preliminary View 5 – The Scope of Financial Reporting .....	4
3.6 Preliminary View 6 – Evolution of the Scope of Financial Reporting .....	4
3.7 Preliminary View 7 – The Qualitative Characteristics of Information Included in GPFRs .....	4
3.8 Preliminary View 8 – Characteristics of a Reporting Entity .....	5
3.9 Preliminary View 9 – The Composition of a Group Reporting Entity .....	5

## 1. Introduction

During its last meeting on March 5, 2009, the Swiss Public Sector Financial Reporting Advisory Committee agreed upon the following statement for the attention of the IPSAS Board. The Swiss Public Sector Financial Reporting Advisory Committee (SRS-CSPSP) was established in 2008 by the Swiss Federal Ministry of Finance together with the Ministers of Finance at the cantonal level. One of its aims is to provide the IPSAS Board with a consolidated statement for all the three Swiss levels of government (municipalities, cantons and Confederation).

## 2. Fundamental Comments on the Conceptual Framework

- A self-contained IPSASB Framework based on the IASB Framework is welcomed, and the same philosophy should be followed.
- The peculiarities of the public sector need to be specially emphasised.
- The definitive overall Framework (a document that should cover all four phases) must still be considerably shortened and made more specific so that it becomes more user-friendly.

The conceptual framework is considered to be very important; in the future, when there are open questions, it can be adduced as the principle. It would be good if it is based on the IASB conceptual framework, but adapted to the peculiarities of the public sector. The scope is still too wide – it does not have enough “meat on the bone.” The conceptual framework, on the other hand, is too detailed, and not specific as well as user-friendly enough. Some statements also appear to be rather too distant from actual accounting.

## 3. Detailed Comments on the Individual Key Issues

### 3.1 Preliminary View 1 – The Authority of the IPSASB

- Following the IASB Framework is welcomed. Possible deviations arise from the peculiarities of the public sector.
- The principle the existing IPSASs should not be affected by the IPSASB Framework is welcomed. If, however, provisions of the Framework contradict the individual Standards, the Standards would have to be revised and corrected immediately.

While it is indeed important that the IASB Framework serves as the basis, the peculiarities of the public sector must also be taken into account. In principle, the IPSASB Framework will not affect the IPSASs, although certain adjustments are not excluded and may even be sensible. A mutual interaction of IPSASs and the IPSASB Framework is inevitable. The need for immediate action would arise if provisions in the Framework contradict any individual Standard. In such cases, the existing standard would have to be revised and corrected immediately. The IPSASB Framework should be drawn up independently of the existing IPSASs, in order that a sound basis be established for the current and future IPSASs. The fundamental principles should be defined in the Framework, and specific accounting rules be contained in the IPSASs.

### 3.2 Preliminary View 2 – General Purpose Financial Reports

- It is utmost important to mention that in the Swiss public sector, the financial statements are considered to include not only the annual accounts but also the budget.
- The IPSASB Framework should be restricted to the “General Purpose Financial Reports (includes annual financial reports and other reports)” given in the very far left of Figure 1 on Page 16.
- “Special Purpose (and other) Financial Reports outside scope of IPSASB” and “Other Information” should not be dealt with in the Framework.
- Subject to authoritative Standards (IPSAS) should be solely the “General Purpose Financial Statements (includes notes to financial statements),” given in the very far left of Figure 1 on Page 16. This reservation applies for the whole Framework.
- For the part “Additional Information – may include non-financial, prospective financial, compliance and additional explanatory material”, recommendations (“guidelines”) could be drawn up however without the same authority as the IPSASs. This reservation applies for the whole Framework.
- The first sentence of the preliminary view should be made more specific: “...common financial information needs...”
- The True and Fair View approach should be integrated.

The question of what exactly is to be understood by the GPFRs has been thoroughly discussed. The text highlighted in grey of Preliminary View 2 is formulated in general terms and includes only the “financial reports”. In the public sector in Switzerland, this financial reporting covers not only the annual accounts but also the budget. But the explanations go further and cover additional information, which in our opinion goes too far (e.g., statements about future development). From an audit perspective it is necessary to make it clear that only the General Purpose Financial Statements (on the very far left of Figure 1 on Page 16) can be subject to audit. It is also inconceivable that all entities (including municipalities) would have to present reports with a larger scope than that (i.e. reports providing additional information possibly including non-financial, prospective financial, compliance and additional explanatory material). For these additional information, only recommendations (“guideline”) can be drawn up. Any evaluation of the future prospects cannot be standardized; therefore, it cannot be governed by an authoritative Standard. The commentary on the financial statements is considered to be very important, but should continue to be unregulated as it is today. A statement on True and Fair View is lacking.

### 3.3 Preliminary View 3 – The Users of GPFRs

- The first sentence of the preliminary view should be made more specific: “...common financial information needs, ...”
- The citizens and the legislature should be at the top of the list.
- The first sentence of the last paragraph should be supplemented: “The citizens and the legislature are the major users of GPFRs.”

It is primarily a question of general financial information. The circle of addressees is judged to be too narrow. In particular, the citizens are missing as the most important addressees. The list of addressees should be ranked by priorities, the first being the citizens and the legislature.

### 3.4 Preliminary View 4 – The Objectives of Financial Reporting

- The first sentence of the preliminary view should be made more specific: "... to provide financial information ..."
- The last bullet point should be more specific: "making political, social and economic decisions, for example, in the area of resource allocation or taxation."

Here, too, is a restriction to "financial reporting" and "financial information" (see PV 2). In addition, the last bullet point should be supplemented or made more specific, because "resource allocation" is ultimately a political, social and economic decision, like taxation.

### 3.5 Preliminary View 5 – The Scope of Financial Reporting

- In the first sentence of the preliminary view, delete: "... ~~and non-financial~~ ..."
- The first three bullet points are the important elements of "financial reporting" ("fundamental information").
- Bullet points four and five should be formulated only as a recommendation ("additional information").
- In the last paragraph, a distinction is also to be made between "fundamental" and "additional information": "Fundamental information": first part lit. (a) to "... of the entity" and lit (b).  
"Additional information": second part lit. (a) from "... the achievement of its service delivery ..." to "... in the future."

Here another restriction to "financial information" should be introduced. The first three bullet points are to be considered as desirable requirements that are rather widely formulated but necessary. However, the last two bullet points cover a great deal of information and go too far. This additional information should be regarded only as a recommendation. Derived from this, the last section also contains both legitimate and desirable requirements, but which should be clearly separated in two different categories.

### 3.6 Preliminary View 6 – Evolution of the Scope of Financial Reporting

- The first sentence of the preliminary view should be made more specific: "... to users' financial information needs, ..."

Here, too, a restriction to "financial information" should be introduced.

### 3.7 Preliminary View 7 – The Qualitative Characteristics of Information Included in GPFs

- The first sentence of the preliminary view should be made more specific: "... of financial information included..."

Here too is one restriction to "financial information". The various qualitative requirements have conflicting aims. However, it is accepted that the qualitative requirements are not prioritised because their relative importance can vary depending on the viewpoint.

### 3.8 Preliminary View 8 – Characteristics of a Reporting Entity

- The second part of the first sentence should be more specific: "... for information for accountability purposes, and for making political, social and economic decisions, for example in the area of resource allocation or taxation."

The end of the first sentence of the preliminary view should be supplemented and made more specific, because "resource allocation" is ultimately a political, social and economic decision, like taxation.

### 3.9 Preliminary View 9 – The Composition of a Group Reporting Entity

- The departure from the pure control principle is welcomed in principle.
- The superordinate aims and the purpose of a consolidation are lacking. This question should first be clarified and answered in the Framework.
- The criteria for the consolidation should flow into the IPSASs and not be included in the Framework.
- On the question of consolidation, there are clear deviations from IFRS (particular needs of the public sector).
- The Preliminary View and the related explanations should be completely revised.

There is a strong dependence on IPSAS 6 to 8 (topic consolidation). However, they should not be taken into account in drawing up the Framework. The present IPSASs on consolidation, which are based on the IFRS, are judged not to make sense for the public sector. The Framework offers an opportunity to improve this. There are many questions about the individual explanations (in particular from Heading 5.19). From our viewpoint, the organisation of the Framework on the topic – The Group Reporting Entity – goes in the wrong direction. The Framework should contain only the object, limits and outline of consolidation. The criteria should then be defined in the revised IPSASs. The difference compared with the IFRS should also be elaborated: the focus on investors makes little sense in the public sector. This part of the Framework should therefore be completely revised.

Chavannes-Lausanne, March 31, 2009