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United States Government Accountability Office
Washington, DC 20548

September 9, 2011

The Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street West
Toronto Ontario Canada M5V 3H2

Subject: International Public Sector Accounting Standards Board (IPSASB)
December 2010, *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities Exposure Draft: Role, Authority and Scope; Objectives and Users; Qualitative Characteristics; and Reporting Entity*

This letter provides the U.S. Government Accountability Office's (GAO) comments on the IPSASB *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities Exposure Draft*. The Conceptual Framework is an important and timely initiative that makes explicit the concepts, definitions and principles that the Board will use to develop International Public Sector Accounting Standards (IPSASs) or non-authoritative guidance applicable to the preparation and presentation of general purpose financial reports. We are supportive of the framework, which is consistent with several key concepts articulated in the Federal Accounting Standards Advisory Board's Statement of Federal Financial Accounting Concepts (SFFAC 1): *Objectives of Federal Financial Reporting* and seeks to provide for application to diverse forms of government and other differences that may exist in the jurisdictions that adopt IPSASs.

We also strongly agree that the Conceptual Framework should not establish authoritative requirements for financial reporting by public sector entities that adopt IPSASs nor override the requirements of IPSASs. It is our view that a conceptual framework is more general than accounting standards and therefore should not contain specific authoritative requirements for entities to follow and should provide general guidance to the Board itself as it deliberates on specific issues. The conceptual framework is also useful to others in understanding accounting and financial reports prepared in accordance with the IPSASs. We also support using the Conceptual Framework to provide guidance on financial reporting issues that are not articulated in the IPSAS or other non-authoritative guidance. Our specific comments are discussed below.

Authority of the Conceptual Framework

Paragraph 1.2 of the ED states that the conceptual framework “can provide guidance in dealing with financial reporting issues not dealt with by IPSASs or non-authoritative guidance issued by the IPSASB.” We believe that the Board should consider whether it is appropriate to address how a preparer might consider other non-IPSASB guidance where a reporting issue is not dealt with by accounting standards. For example, FASAB has established a GAAP Hierarchy in its accounting standards which lists the priority sequence of pronouncements that a federal reporting entity should look to for accounting and financial reporting authoritative guidance.¹ Also, the Board should consider clarifying that in the absence of specific authoritative literature applicable to a transaction or event, whether an entity should look to established accounting principles for an analogous transaction or event before considering the conceptual framework.

Faithful Representation

The definition of faithful representation should be further clarified. Paragraph 3.16 of the ED states that an estimate “will be free from material error if the amount is clearly described as an estimate, the nature and limitations of the estimation process are explained, and no material errors have been identified in selecting and applying an appropriate process for developing the estimate.” We believe that “free from material error” is a condition of the financial statements, whether or not the entity is aware of material errors or omissions, and therefore management’s awareness or lack of awareness of material errors or omissions are conditions which should not be included as part of the definition of faithful representation.

The International Standard on Auditing (ISA) 540 provides criteria that might be relevant to paragraph 3.16. Under ISA 540, the auditor’s objective for auditing estimates is to determine whether the estimates in the financial statements are reasonable. Also, under the ISA, the auditor evaluates whether: (i) the method of measurement used is appropriate in the circumstances; and (ii) the assumptions used by management are reasonable.

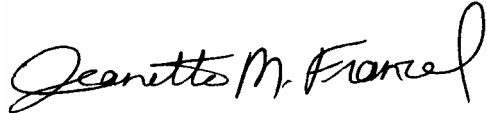
Therefore, we suggest that the wording in paragraph 3.16 be revised as follows:

In these cases, the estimate will be free from material error if the amount is clearly described as an estimate, the nature and limitations of the estimation process are explained, the method of measurement used is appropriate in the circumstances; and the assumptions used and the resulting estimate are reasonable.

¹Statement of Federal Financial Accounting Standards 34: *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards* Issued by the Financial Accounting Standards Board

Overall, we are supportive of the Conceptual Framework and appreciate the opportunity to provide comments on this important work. Please contact me at (202) 512 – 9471, franzelj@gao.gov or Robert Dacey, Chief Accountant, at (202) 512-7439, daceyr@gao.gov if you have questions on GAO’s perspectives.

Sincerely yours,

A handwritten signature in black ink that reads "Jeanette M. Franzel". The signature is written in a cursive style with a large, looping initial "J".

Jeanette M. Franzel
Managing Director,
Financial Management and Assurance