Final Pronouncement
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IPSAS®

Conceptual Framework Update

Chapter 3, *Qualitative Characteristics*

IPSASB International Public Sector Accounting Standards Board®

International Public Sector Accounting Standards Board®

This document was developed and approved by the International Public Sector Accounting Standards Board® (IPSASB®).

The objective of the IPSASB is to serve the public interest by setting high-quality public sector accounting standards and by facilitating the adoption and implementation of these, thereby enhancing the quality and consistency of practice throughout the world and strengthening the transparency and accountability of public sector finances.

In meeting this objective the IPSASB sets IPSAS™ and Recommended Practice Guidelines (RPGs) for use by public sector entities, including national, regional, and local governments, and related governmental agencies.

IPSAS relate to the general purpose financial statements (financial statements) and are authoritative. RPGs are pronouncements that provide guidance on good practice in preparing general purpose financial reports (GPFRs) that are not financial statements. Unlike IPSAS RPGs do not establish requirements. Currently all pronouncements relating to GPFRs that are not financial statements are RPGs. RPGs do not provide guidance on the level of assurance (if any) to which information should be subjected.

The structures and processes that support the operations of the IPSASB are facilitated by the International Federation of Accountants® (IFAC®).

CHAPTER 3: QUALITATIVE CHARACTERISTICS

CONTENTS

Paragraphs 3.14A and 3.14B are added. Paragraph 3.32 is amended, and part of the paragraph relocated to new paragraph 3.33A. New text is underlined, deleted text is struck through and relocated text double underlined.

Introduction

3.1 GPFRs present financial and non-financial information about economic and other phenomena. The qualitative characteristics of information included in GPFRs are the attributes that make that information useful to users and support the achievement of the objectives of financial reporting. The objectives of financial reporting are to provide information useful for accountability and decision-making purposes.

3.2 The qualitative characteristics of information included in GPFRs of public sector entities are relevance, faithful representation, understandability, timeliness, comparability, and verifiability.

3.3 Pervasive constraints on information included in GPFRs are materiality, cost-benefit, and achieving an appropriate balance between the qualitative characteristics.

3.4 Each of the qualitative characteristics is integral to, and works with, the other characteristics to provide in GPFRs information useful for achieving the objectives of financial reporting. However, in practice, all qualitative characteristics may not be fully achieved, and a balance or trade-off between certain of them may be necessary.

3.5 The qualitative characteristics apply to all financial and non-financial information reported in GPFRs, including historic and prospective information, and explanatory information. However, the extent to which the qualitative characteristics can be achieved may differ depending on the degree of uncertainty and subjective assessment or opinion involved in compiling the financial and non-financial information. The need for additional guidance on interpreting and applying the qualitative characteristics to information that extends the scope of financial reporting beyond financial statements will be considered in the development of any IPSASs and RPGs that deal with such matters.

Relevance

3.6 Financial and non-financial information is relevant if it is capable of making a difference in achieving the objectives of financial reporting. Financial and non-financial information is capable of making a difference when it has confirmatory value, predictive value, or both. It may be capable of making a difference, and thus be relevant, even if some users choose not to take advantage of it or are already aware of it.

3.7 Financial and non-financial information has confirmatory value if it confirms or changes past (or present) expectations. For example, information will be relevant for accountability and decision-making purposes if it confirms expectations about such matters as the extent to which managers have discharged their responsibilities for the efficient and effective use of resources, the achievement of specified service delivery objectives, and compliance with relevant budgetary, legislative and other requirements.

3.8 GPFRs may present information about an entity's anticipated future service delivery activities, objectives and costs, and the amount and sources of the resources that are intended to be allocated to providing services in the future. Such future oriented information will have predictive value and be relevant for accountability and decision-making purposes. Information about economic and other phenomena that exist or have already occurred can also have predictive value in helping form expectations about the future. For example, information that confirms or disproves past expectations can reinforce or change expectations about financial results and service delivery outcomes that may occur in the future.

3.9 The confirmatory and predictive roles of information are interrelated—for example, information about the current level and structure of an entity's resources and claims to those resources helps users to confirm the outcome of resource management strategies during the period, and to predict an entity's ability to respond to changing circumstances and anticipated future service delivery needs. The same information helps to confirm or correct users' past expectations and predictions about the entity's ability to respond to such changes. It also helps to confirm or correct prospective financial information included in previous GPFRs.

Faithful Representation

3.10 To be useful in financial reporting, information must be a faithful representation of the economic and other phenomena that it purports to represent. Faithful representation is attained when the depiction of the phenomenon is complete, neutral, and free from material error. Information that faithfully represents an economic or other phenomenon depicts the substance of the underlying transaction, other event, activity or circumstance—which is not necessarily always the same as its legal form.

3.11 In practice, it may not be possible to know or confirm whether information presented in GPFRs is complete, neutral, and free from material error. However, information should be as complete, neutral, and free from error as is possible.

3.12 An omission of some information can cause the representation of an economic or other phenomenon to be false or misleading, and thus not useful to users of GPFRs. For example, a complete depiction of the item "plant and equipment" in GPFRs will include a numeric representation of the aggregate amount of plant and equipment together with other quantitative, descriptive and explanatory information necessary to faithfully represent that class of assets. In some cases, this may include the disclosure of information about such matters as the major classes of plant and equipment, factors that have affected their use in the past or might impact on their use in the future, and the basis and process for determining their numeric representation. Similarly, prospective financial and non-financial information and information about the achievement of service delivery objectives and outcomes included in GPFRs will need to be presented with the key assumptions that underlie that information and any explanations that are necessary to ensure that its depiction is complete and useful to users.

3.13 Neutrality in financial reporting is the absence of bias. It means that the selection and presentation of financial and non-financial information is not made with the intention of attaining a particular predetermined result—for example, to influence in a particular way users' assessment of the discharge of accountability by the entity or a decision or judgment that is to be made, or to induce particular behavior.

3.14 Neutral information faithfully represents the economic and other phenomena that it purports to represent. However, to require information included in GPFRs to be neutral does not mean that it is not without purpose or that it will not influence behavior. Relevance is a qualitative characteristic and, by definition, relevant information is capable of influencing users' assessments and decisions.

3.14A Neutrality is supported by the exercise of prudence. Prudence is the exercise of caution when making judgments under conditions of uncertainty. The exercise of prudence means that assets and revenue are not overstated, and liabilities and expense are not understated. Equally, the exercise of prudence does not allow for the understatement of assets or revenue or the overstatement of liabilities or expense. Such misstatements can lead to the overstatement or understatement of revenue or expense in future reporting periods.

3.14B The exercise of prudence does not imply a need for asymmetry; for example, a systematic need for more persuasive evidence to support the recognition of assets or revenue than the recognition of liabilities or expense. Particular standards may contain asymmetric requirements where this is a consequence of decisions intended to select the most relevant information that faithfully represents what it purports to represent.

3.15 The economic and other phenomena represented in GPFRs generally occur under conditions of uncertainty. Information included in GPFRs will therefore often include estimates that incorporate management's judgment. To faithfully represent an economic or other phenomenon, an estimate must be based on appropriate inputs, and each input must reflect the best available information. Caution will need to be exercised when dealing with uncertainty. It may sometimes be necessary to explicitly disclose the degree of uncertainty in financial and non-financial information to faithfully represent economic and other phenomena.

3.16 Free from material error does not mean complete accuracy in all respects. Free from material error means there are no errors or omissions that are individually or collectively material in the description of the phenomenon, and the process used to produce the reported information has been applied as described. In some cases, it may be possible to determine the accuracy of some information included in GPFRs—for example, the amount of a cash transfer to another level of government, the volume of services delivered, or the price paid for the acquisition of plant and equipment. However, in other cases it may not—for example, the accuracy of an estimate of the value or cost of an item or the effectiveness of a service delivery program may not be able to be determined. 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, and no material errors have been identified in selecting and applying an appropriate process for developing the estimate.

Understandability

3.17 Understandability is the quality of information that enables users to comprehend its meaning. GPFRs of public sector entities should present information in a manner that responds to the needs and knowledge base of users, and to the nature of the information presented. For example, explanations of financial and non-financial information and commentary on service delivery and other achievements during the reporting period and expectations for future periods should be written in plain language and presented in a manner that is readily understandable by users. Understandability is enhanced when information is classified, characterized, and presented clearly and concisely. Comparability also can enhance understandability.

3.18 Users of GPFRs are assumed to have a reasonable knowledge of the entity's activities and the environment in which it operates, to be able and prepared to read GPFRs, and to review and analyze the information presented with reasonable diligence. Some economic and other phenomena are particularly complex and difficult to represent in GPFRs, and some users may need to seek the aid of an advisor to assist in their understanding of them. All efforts should be undertaken to represent economic and other phenomena included in GPFRs in a manner that is understandable to a wide range of users. However, information should not be excluded from

GPFRs solely because it may be too complex or difficult for some users to understand without assistance.

Timeliness

3.19 Timeliness means having information available for users before it loses its capacity to be useful for accountability and decision-making purposes. Having relevant information available sooner can enhance its usefulness as input to assessments of accountability and its capacity to inform and influence decisions that need to be made. A lack of timeliness can render information less useful.

3.20 Some items of information may continue to be useful long after the reporting period or reporting date. For example, for accountability and decision-making purposes, users of GPFRs may need to assess trends in the financial and service delivery performance of the entity and its compliance with budgets over a number of reporting periods. In addition, the outcome and effects of some service delivery programs may not be determinable until future periods—for example, this may occur in respect of programs intended to enhance the economic well-being of constituents, reduce the incidence of a particular disease, or increase literacy levels of certain age groups.

Comparability

3.21 Comparability is the quality of information that enables users to identify similarities in, and differences between, two sets of phenomena. Comparability is not a quality of an individual item of information, but rather a quality of the relationship between two or more items of information.

3.22 Comparability differs from consistency. Consistency refers to the use of the same accounting principles or policies and basis of preparation, either from period to period within an entity or in a single period across more than one entity. Comparability is the goal, and consistency helps in achieving that goal. In some cases, the accounting principles or policies adopted by an entity may be revised to better represent a particular transaction or event in GPFRs. In these cases, the inclusion of additional disclosures or explanation may be necessary to satisfy the characteristics of comparability.

3.23 Comparability also differs from uniformity. For information to be comparable, like things must look alike and different things must look different. An over-emphasis on uniformity may reduce comparability by making unlike things look alike. Comparability of information in GPFRs is not enhanced by making unlike things look alike, any more than it is by making like things look different.

3.24 Information about the entity's financial position, financial performance, cash flows, compliance with approved budgets and relevant legislation or other authority governing the raising and use of resources, service delivery achievements, and its future plans is necessary for accountability purposes and useful as input for decision-making purposes. The usefulness of such information is enhanced if it can be compared with, for example:

- Prospective financial and non-financial information previously presented for that reporting period or reporting date;
- Similar information about the same entity for some other period or some other point in time; and
- Similar information about other entities (for example, public sector entities providing similar services in different jurisdictions) for the same reporting period.

3.25 Consistent application of accounting principles, policies and basis of preparation to prospective financial and non-financial information and actual outcomes will enhance the usefulness of any comparison of projected and actual results. Comparability with other entities may be less significant for explanations of management's perception or opinion of the factors underlying the entity's current performance.

Verifiability

3.26 Verifiability is the quality of information that helps assure users that information in GPFRs faithfully represents the economic and other phenomena that it purports to represent. Supportability is sometimes used to describe this quality when applied in respect of explanatory information and prospective financial and non-financial quantitative information disclosed in GPFRs—that is, the quality of information that helps assure users that explanatory or prospective financial and non-financial quantitative information faithfully represents the economic and other phenomena that it purports to represent. Whether referred to as verifiability or supportability, the characteristic implies that different knowledgeable and independent observers could reach general consensus, although not necessarily complete agreement, that either:

- The information represents the economic and other phenomena that it purports to represent without material error or bias; or
- An appropriate recognition, measurement, or representation method has been applied without material error or bias.

3.27 To be verifiable, information need not be a single point estimate. A range of possible amounts and the related probabilities also can be verified.

3.28 Verification may be direct or indirect. With direct verification, an amount or other representation is itself verified, such as by (a) counting cash, (b) observing marketable securities and their quoted prices, or (c) confirming that the factors identified as influencing past service delivery performance were present and operated with the effect identified. With indirect verification, the amount or other representation is verified by checking the inputs and recalculating the outputs using the same accounting convention or methodology. An example is verifying the carrying amount of inventory by checking the inputs (quantities and costs) and recalculating the ending inventory using the same cost flow assumption (for example, average cost or first-in-first-out).

3.29 The quality of verifiability (or supportability if such term is used to describe this characteristic) is not an absolute—some information may be more or less capable of verification than other information. However, the more verifiable is the information included in GPFRs, the more it will assure users that the information faithfully represents the economic and other phenomena that it purports to represent.

3.30 GPFRs of public sector entities may include financial and other quantitative information and explanations about (a) key influences on the entity's performance during the period, (b) the anticipated future effects or outcomes of service delivery programs undertaken during the reporting period, and (c) prospective financial and non-financial information. It may not be possible to verify the accuracy of all quantitative representations and explanations of such information until a future period, if at all.

3.31 To help assure users that prospective financial and non-financial quantitative information and explanations included in GPFRs faithfully represent the economic and other phenomena that they purport to represent, the assumptions that underlie the information disclosed, the methodologies adopted in compiling that information, and the factors and circumstances that support any opinions expressed or disclosures made should be transparent. This will enable users to form judgments about the appropriateness of those assumptions and the method of compilation, measurement, representation and interpretation of the information.

Constraints on Information Included in General Purpose Financial Reports

Materiality

3.32 Information is material if ~~its omission or misstatement~~ omitting, misstating or obscuring it could reasonably be expected ~~could~~ to influence the discharge of accountability by the entity, or the decisions that users make on the basis of the entity's GPFRs prepared for that reporting period. Materiality depends on both the nature and amount of the item judged in the particular circumstances of each entity.

3.33 Assessments of materiality will be made in the context of the legislative, institutional and operating environment within which the entity operates and, in respect of prospective financial and non-financial information, the preparer's knowledge and expectations about the future. Disclosure of information about compliance or non-compliance with legislation, regulation or other authority may be material because of its nature—irrespective of the magnitude of any amounts involved. In determining whether an item is material in these circumstances, consideration will be given to such matters as the nature, legality, sensitivity and consequences of past or anticipated transactions and events, the parties involved in any such transactions and the circumstances giving rise to them.

3.33A GPFRs may encompass qualitative and quantitative information about service delivery achievements during the reporting period, and expectations about service delivery and financial outcomes in the future. Consequently, it is not possible to specify a uniform ~~quantitative threshold~~ characteristic or a uniform set of characteristics at which a particular type of information becomes material.

3.34 Materiality is classified as a constraint on information included in GPFRs in the Conceptual Framework. In developing IPSASs and RPGs, the IPSASB will consider the materiality of the consequences of application of a particular accounting policy, basis of preparation or disclosure of a particular item or type of information. Subject to the requirements of any IPSAS, entities preparing GPFRs will also consider the materiality of, for example, the application of a particular accounting policy and the separate disclosure of particular items of information.

Cost-Benefit

3.35 Financial reporting imposes costs. The benefits of financial reporting should justify those costs. Assessing whether the benefits of providing information justify the related costs is often a matter of judgment, because it is often not possible to identify and/or quantify all the costs and all the benefits of information included in GPFRs.

3.36 The costs of providing information include the costs of collecting and processing the information, the costs of verifying it and/or presenting the assumptions and methodologies that support it, and the costs of disseminating it. Users incur the costs of analysis and interpretation. Omission of useful information also imposes costs, including the costs that users incur to obtain needed information from other sources and the costs that result from making decisions using incomplete data provided by GPFRs.

3.37 Preparers expend the majority of the effort to provide information in GPFRs. However, service recipients and resource providers ultimately bear the cost of those efforts—because resources are redirected from service delivery activities to preparation of information for inclusion in GPFRs.

3.38 Users reap the majority of benefits from the information provided by GPFRs. However, information prepared for GPFRs may also be used internally by management and result in better decision making by management. The disclosure of information in GPFRs consistent with the concepts identified in the Conceptual Framework and IPSASs and RPGs derived from them will enhance and reinforce perceptions of the transparency of financial reporting by governments and other public sector entities and contribute to the more accurate pricing of public sector debt. Therefore, public sector entities may also benefit in a number of ways from the information provided by GPFRs.

3.39 Application of the cost-benefit constraint involves assessing whether the benefits of reporting information are likely to justify the costs incurred to provide and use the information. When making this assessment, it is necessary to consider whether one or more qualitative characteristics might be sacrificed to some degree to reduce cost.

3.40 In developing IPSASs, the IPSASB considers information from preparers, users, academics, and others about the expected nature and quantity of the benefits and costs of the proposed requirements. Disclosure and other requirements which result in the presentation of information useful to users of GPFRs for accountability and decision-making purposes and satisfy the qualitative characteristics are prescribed by IPSASs when the benefits of compliance with those disclosures and other requirements are assessed by the IPSASB to justify their costs.

Balance Between the Qualitative Characteristics

3.41 The qualitative characteristics work together to contribute to the usefulness of information. For example, neither a depiction that faithfully represents an irrelevant phenomenon, nor a depiction that unfaithfully represents a relevant phenomenon, results in useful information. Similarly, to be relevant, information must be timely and understandable.

3.42 In some cases, a balancing or trade-off between qualitative characteristics may be necessary to achieve the objectives of financial reporting. The relative importance of the qualitative characteristics in each situation is a matter of professional judgment. The aim is to achieve an appropriate balance among the characteristics in order to meet the objectives of financial reporting.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, the Conceptual Framework.

Qualitative Characteristics of Information Included in General Purpose Financial Reports

BC3.1 In developing IPSASs, the IPSASB receives input from constituents on, and makes judgments about, information that best satisfies the objectives of financial reporting and should be included in GPFRs. In making those judgments, the IPSASB considers the extent to which each of the qualitative characteristics can be achieved. Disclosure and other requirements are included in IPSASs only when the information that results from their application is considered to satisfy the qualitative characteristics and the cost-benefit constraint identified in the Conceptual Framework.

BC3.2 Some respondents to the Exposure Draft issued in 2010 (the 2010 Exposure Draft) expressed concern about the application of the qualitative characteristics to all matters that may be presented in GPFRs, particularly those matters that may be presented in reports outside the financial statements. The IPSASB understands this concern. The IPSASB acknowledges that IPSASs and RPGs that deal with the presentation in GPFRs of information outside the financial statements may need to include additional guidance on the application of the qualitative characteristics to the matters dealt with.

BC3.3 IPSASs and RPGs issued by the IPSASB will not deal with all financial and non-financial information that may be included in GPFRs. In the absence of an IPSAS or RPG that deals with particular economic or other phenomena, assessments of whether an item of information satisfies the qualitative characteristics and constraints identified in the Conceptual Framework, and therefore qualifies for inclusion in GPFRs, will be made by preparers compiling the GPFRs. Those assessments will be made in the context of achieving the objectives of financial reporting, which in turn have been developed to respond to users' information needs.

BC3.4 Having in place accounting systems and processes that are appropriately designed and are operated effectively will enable management to gather and process evidence to support financial reporting. The quality of these systems and processes is a key factor in ensuring the quality of financial information that the entity includes in GPFRs.

Limited Scope Update of Conceptual Framework

BC3.4A In March 2020 the IPSASB initiated a Limited Scope Update of the Conceptual Framework. The Limited Scope Update proposed modifications to the guidance on materiality and the addition of guidance on the role of prudence in the context of faithful representation. The IPSASB approved an updated Chapter 3 in June 2023. The IPSASB started using updated Chapter 3 immediately once approved.

Other Qualitative Characteristics Considered

BC3.5 Some respondents to the 2010 Exposure Draft expressed the view that additional qualitative characteristics should be identified. Those qualitative characteristics included "sincerity," "true and fair view," "credibility," "transparency," and "regularity".

BC3.6 The IPSASB noted that "sincerity" as used in financial reporting has a similar meaning to "true and fair". The IPSASB ~~is of~~ took the view that sincerity, true and fair view, credibility, and transparency are important expressions of the overarching qualities that financial reporting is to achieve or aspire to. However, they do not exist as single qualitative characteristics on their own—rather, achieving these qualities is the product of application of the full set of qualitative characteristics identified in the Conceptual Framework, and the IPSASs that deal with specific reporting issues. Consequently, while important characteristics of GPFRs, they are not identified as separate individual qualitative characteristics in their own right. The IPSASB ~~is also of~~ also took the view that the notion of "regularity" as noted by some respondents is related to the notion of "compliance" as used in the Conceptual Framework—therefore, regularity is not identified as an additional qualitative characteristic.

Relevance

BC3.7 The Conceptual Framework explains that financial and non-financial information is relevant if it is capable of making a difference in achieving the objectives of financial reporting. As part of its due process the IPSASB seeks input on whether the requirements of a proposed IPSAS or any proposed RPGs are relevant to the achievement of the objectives of financial reporting—that is, are relevant to the discharge of the entity's obligation to be accountable and to decisions that users may make.

Faithful Representation

BC3.8 The Conceptual Framework explains that to be useful information must be a faithful representation of the economic and other phenomena that it purports to represent. A single economic or other phenomenon may be faithfully represented in many ways. For example, the achievement of particular service delivery objectives may be depicted (a) qualitatively through an explanation of the immediate and anticipated longer term outcomes and effects of the service delivery program, (b) quantitatively as a measure of the volume and cost of services provided by the service delivery program, or (c) by a combination of both qualitative and quantitative information. Additionally, a single depiction in GPFRs may represent several economic or other phenomena. For example, the presentation of the item "plant and equipment" in a financial statement may represent an aggregate of all of an entity's plant and equipment, including items that have different functions, that are subject to different risks and opportunities and that are carried at amounts based on estimates that may be more or less complex and reliable.

BC3.9 Completeness and neutrality of estimates (and inputs to those estimates) and freedom from material error are desirable, and some minimum level of accuracy is necessary for an estimate to faithfully represent an economic or other phenomenon. However, faithful representation does not imply absolute completeness or neutrality in the estimate, nor does it imply total freedom from error in the outcome. For a representation of an economic or other phenomenon to imply a degree of completeness, neutrality, or freedom from error that is impracticable for it to achieve would diminish the extent to which the information faithfully represents the economic or other phenomenon that it purports to represent.

Faithful Representation or Reliability

BC3.10 At the time of issue of the 2010 Exposure Draft, Appendix A of IPSAS 1, *Presentation of Financial Statements,* identified "reliability" as a qualitative characteristic. It described reliable information as information that is "free from material error and bias, and can be depended on by users to represent faithfully that which it purports to represent or could reasonably be expected to represent." Faithful representation, substance over form, neutrality, prudence and completeness were identified as components of reliability. The Conceptual Framework uses the term "faithful representation" rather than "reliability" to describe what is substantially the same concept. In addition, it does not explicitly identify substance over form and prudence as components of faithful representation.

BC3.11 Many respondents to the 2010 Exposure Draft supported the use of faithful representation and its explanation in the 2010 Exposure Draft, in some cases explaining that faithful representation is a better expression of the nature of the concept intended. Some respondents did not support the replacement of reliability with the term faithful representation, expressing concerns including that faithful representation implies the adoption of fair value or market value accounting, and reliability and faithful representation are not interchangeable terms.

BC3.12 The use of the term "faithful representation", or "reliability" for that matter, to describe this qualitative characteristic in the Conceptual Framework will not determine the measurement basis to be adopted in GPFRs, whether historical cost, ~~market value~~, fair value, cost of fulfillment, or another measurement basis. The IPSASB ~~does~~ did not intend that use of faithful representation be interpreted as such. The measurement basis or measurement bases that may be adopted for the elements of financial statements are considered in Chapter 7, *Measurement of Assets and Liabilities in Financial Statements*. The qualitative characteristics will then operate to ensure that the financial statements faithfully represent the measurement basis or bases reflected in GPFRs.

BC3.13 The IPSASB ~~appreciates~~ appreciated the concern of some respondents that the use of a different term may be interpreted to reflect different, and even lesser, qualities to those communicated by the term reliability. However, the IPSASB took ~~is of~~ the view that explanation in the Conceptual Framework that "Faithful representation is attained when the depiction of the phenomenon is complete, neutral, and free from material error", and the elaboration of these key features will protect against the loss of any of the qualities that were formerly reflected in the use of the term reliability.

BC3.14 In addition, the IPSASB ~~has been~~ was advised that the term "reliability" is itself open to different interpretations and subjective judgments, with consequences for the quality of information included in GPFRs. The IPSASB took ~~is of~~ the view that use of the term "faithful representation" would overcome problems in the interpretation and application of reliability that have been experienced in some jurisdictions without a lessening of the qualities intended by the term, and is more readily translated into, and understood in, a wide range of languages.

Substance over Form and Prudence

BC3.15 Some respondents to the 2010 Exposure Draft expressed concern that substance over form and prudence ~~are~~ were not identified as qualitative characteristics or that their importance is not sufficiently recognized or explained. Some also noted that prudence need not be incompatible with the achievement of neutrality and faithful representation.

BC3.16 The Conceptual Framework explains that "Information that faithfully represents an economic or other phenomenon depicts the substance of the underlying transaction, other event, activity or circumstance—which is not necessarily always the same as its legal form." Therefore, substance over form remains a key quality that information included in GPFRs must possess. It is not identified as a separate or additional qualitative characteristic because it is already embedded in the notion of faithful representation.

BC3.17 The IPSASB ~~is of~~ took the view that the notion of prudence was also reflected in the explanation of neutrality as a component of faithful representation, and the acknowledgement of the need to exercise caution in dealing with uncertainty. Therefore, like substance over form, prudence ~~is~~ was not identified as a separate qualitative characteristic because its intent and influence in identifying information that is included in GPFRs was already embedded in the notion of faithful representation.

BC3.17A The International Accounting Standards Board (IASB) revised its approach to prudence in the *Conceptual Framework for Financial Reporting*, published in 2018 (the IASB 2018 Conceptual Framework). The IASB did not include prudence as a qualitative characteristic, but, in the context of faithful representation, explained that "neutrality is supported by the exercise of prudence" and that "prudence is the exercise of caution when making judgments under conditions of uncertainty". The IASB characterized the approach adopted in the 2018 Conceptual Framework as "cautious prudence".

BC3.17B The IPSASB also noted that prudence had been the subject of much discussion in the European Public Sector Accounting Standards project.

BC3.17C Because of the above developments, the IPSASB reconsidered the approach to prudence in the 2014 Conceptual Framework: in particular whether prudence should be included as a qualitative characteristic in its own right, or whether guidance on prudence should be included in the context of neutrality and faithful representation.

BC3.17D The IPSASB considered that prudence is insufficiently distinct from faithful representation to justify inclusion as an additional qualitative characteristic. Practical application of the IPSASB Conceptual Framework has also not identified that the non-inclusion of prudence as a qualitative characteristic is problematic.

BC3.17E The IPSASB acknowledged the case for retaining the approach in the 2014 Conceptual Framework on the grounds that an allusion to, and discussion of, prudence, adds little to the notion of neutrality, which itself conveys a lack of bias. However, the IPSASB concluded that clarifying that prudence entails caution in assessing uncertainty in the measurement of all elements would be beneficial and would respond to those who view the absence of references to prudence as a risk. The IPSASB is firmly of the view that caution should be applied consistently rather than focusing disproportionately on assets and revenue. The IPSASB therefore decided to include an explanation in paragraph 3.14A that, in the context of faithful representation, "neutrality is supported by the exercise of prudence", and that "prudence is the exercise of caution when making judgments under conditions of uncertainty". This is consistent with the approach of the IASB in its 2018 Conceptual Framework.

BC3.17F While most respondents to Exposure Draft (ED) 81, issued in February 2022, supported the proposed approach, a minority advocated the adoption of prudence as a qualitative characteristic. The IPSASB acknowledged this view but concluded that the consultation had not raised compelling reasons for the inclusion of prudence as a qualitative characteristic—in particular to substantiate a case that prudence is sufficiently distinct from faithful representation to justify inclusion as an additional qualitative characteristic. The IPSASB therefore confirmed the proposals in ED 81.

BC3.17G Some respondents to ED 81 considered that the contrast between symmetry and asymmetry had been insufficiently explained. The IPSASB agreed with this observation. The IPSASB did not consider that the principle in paragraph 3.14B that the exercise of prudence does not imply a need for asymmetry should be modified. Rather, there should be a clarification of what is meant by "asymmetry" in order to clarify the IPSASB's conclusion. The IPSASB confirmed that the most common attribute of asymmetry is that a higher standard of evidence is required for the recognition of assets and revenue than for liabilities and expenses. While there is no universally accepted definition of asymmetry the IPSASB also considered that the application of asymmetry might include:

- The non-recognition of all unrealized gains; or
- Permitting preparers to measure an asset at an amount lower than an unbiased estimate and a liability at an amount higher than an unbiased estimate under the measurement bases selected for the asset and the liability.

BC 3.17H The IPSASB concluded that the introduction of such an approach would not result in information that is relevant and provides a faithful representation of an entity's financial position and financial performance. Therefore, such an approach would not meet the objectives of financial reporting identified in Chapter 2, *Objectives and Users of General Purpose Financial Reporting.*

Understandability

BC3.18 Although presenting information clearly and concisely helps users to comprehend it, the actual comprehension or understanding of information depends largely on the users of the GPFRs.

BC3.19 Some economic and other phenomena are particularly complex and difficult to represent in GPFRs. However, the IPSASB is of the view that information that is, for example, relevant, a faithful representation of what it purports to represent, timely and verifiable should not be excluded from GPFRs solely because it may be too complex or difficult for some users to understand without assistance. Acknowledging that it may be necessary for some users to seek assistance to understand the information presented in GPFRs does not mean that information included in GPFRs need not be understandable or that all efforts should not be undertaken to present information in GPFRs in a manner that is understandable to a wide range of users. However, it does reflect that, in practice, the nature of the information included in GPFRs is such that all the qualitative characteristics may not be fully achievable at all times for all users.

Timeliness

BC3.20 The IPSASB recognizes the potential for timely reporting to increase the usefulness of GPFRs for both accountability and decision-making purposes, and that undue delay in the provision of information may reduce its usefulness for these purposes. Consequently, timeliness is identified as a qualitative characteristic in the Conceptual Framework.

Comparability

BC3.21 Some degree of comparability may be attained by maximizing the qualitative characteristics of relevance and faithful representation. For example, faithful representation of a relevant economic or other phenomenon by one public sector entity is likely to be comparable to a faithful representation of a similar relevant economic or other phenomenon by another public sector entity. However, a single economic or other phenomenon can often be faithfully represented in several ways and permitting alternative accounting methods for the same phenomenon diminishes comparability and, therefore, may be undesirable.

BC3.22 Some respondents to the 2010 Exposure Draft expressed concern that the explanation of the relationship between comparability and consistency ~~may~~ might be read as presenting an obstacle to the on-going development of financial reporting. This ~~is~~ was because enhancements in financial reporting often involve a revision or change to the accounting principles, policies or basis of preparation currently adopted by the entity.

BC3.23 Consistent application of the same accounting principles, policies and basis of preparation from one period to the next will assist users in assessing the financial position, financial performance and service delivery achievements of the entity compared with previous periods. However, where accounting principles or policies dealing with particular transactions or other events are not prescribed by IPSASs, achievement of the qualitative characteristic of comparability should not be interpreted as prohibiting the entity from changing its accounting principles or policies to better represent those transactions and events. In these cases, the inclusion in GPFRs of additional disclosures or explanation of the impact of the changed policy can still satisfy the characteristics of comparability.

Verifiability

BC3.24 Verifiability is the quality of information that helps assure users that information in GPFRs faithfully represents the economic and other phenomena that it purports to represent. While closely linked to faithful representation, verifiability is identified as a separate qualitative characteristic because information may faithfully represent economic and other phenomena even though it cannot be verified with absolute certainty. In addition, verifiability may work in different ways with faithful representation and other of the qualitative characteristics to contribute to the usefulness of information presented in GPFRs—for example, there may need to be an appropriate balance between the degree of verifiability an item of information may possess and other qualitative characteristics to ensure it is presented in a timely fashion and is relevant.

BC3.25 In developing the qualitative characteristics identified in the Conceptual Framework, the IPSASB considered whether "supportability" should be identified as a separate characteristic for application to information presented in GPFRs outside the financial statements. The IPSASB is of the view that identifying both verifiability and supportability as separate qualitative characteristics with essentially the same features may be confusing to preparers and users of GPFRs and others. However, the Conceptual Framework does acknowledge that supportability is sometimes used to refer to the quality of information that helps assure users that explanatory information and prospective financial and non-financial information included in GPFRs faithfully represent the economic and other phenomena that they purport to represent.

BC3.26 Some respondents to the 2010 Exposure Draft expressed concern about the application of verifiability to the broad range of matters that may be presented in GPFRs outside the financial statements, particularly explanatory information about service delivery achievements during the reporting period and qualitative and quantitative prospective financial and non-financial information. The IPSASB ~~is~~ was of the view that the Conceptual Framework provides appropriate guidance on the application of verifiability in respect of these matters—for example it explains that verifiability is not an absolute and it may not be possible to verify the accuracy of all quantitative representations and explanations until a future period. The Conceptual Framework also acknowledges that disclosure of the underlying assumptions and methodologies adopted for the compilation of explanatory and prospective financial and non-financial information is central to the achievement of faithful representation.

Classification of the Qualitative Characteristics and Order of their Application

BC3.27 Some respondents to the 2010 Exposure Draft expressed the view that the Conceptual Framework should identify:

- Relevance and faithful representation as fundamental qualitative characteristics, and explain the order of their application; and
- Comparability, verifiability, timeliness, and understandability as enhancing qualitative characteristics.

They noted that this would provide useful guidance on the sequence of application of the qualitative characteristics and reflect the approach adopted by the IASB. ~~International Accounting Standards Board~~

BC3.28 In developing the qualitative characteristics, the IPSASB considered whether some characteristics should be identified as fundamental, and others identified as enhancing. The IPSASB also considered whether the order of application of the characteristics should be identified and/or explained. The IPSASB ~~is~~ was of the view that such an approach should not be adopted because, for example:

- Matters identified as "fundamental" ~~may~~ might be perceived to be more important than those identified as "enhancing", even if this distinction is not intended in the case of the qualitative characteristics. As a result, there may be unintended consequences of identifying some qualitative characteristics as fundamental and others as enhancing;
- All the qualitative characteristics are important and work together to contribute to the usefulness of information. The relative importance of a particular qualitative characteristic in different circumstances is a matter of professional judgment. As such, it is not appropriate to identify certain qualitative characteristics as always being fundamental and others as having only an enhancing or supporting role, or to specify the sequence of their application, no matter what information is being considered for inclusion in GPFRs, and irrespective of the circumstances of the entity and its environment. In addition, it is questionable whether information that is not understandable or is provided so long after the event as not to be useful to users for accountability and decision-making purposes could be considered as relevant information—therefore, these characteristics are themselves fundamental to the achievement of the objectives of financial reporting; and
- GPFRs of public sector entities may encompass historical and prospective information about financial performance and the achievement of service delivery objectives over a number of reporting periods. This provides necessary input to assessments of trends in service delivery activities and resources committed thereto—for such trend data, reporting on a comparable basis may be as important as, and cannot be separated from, faithful representation of the information.

Constraints on Information Included in General Purpose Financial Reports

~~*Materiality*~~ **Materiality**

BC3.29 At the time of issue of the 2010 Exposure Draft, Appendix A of IPSAS 1 described materiality with similar characteristics to that described in the Conceptual Framework but identified materiality as a factor to be considered in determining only the relevance of information. Some respondents to the Exposure Draft noted that materiality may be identified as an aspect of relevance.

BC3.30 The IPSASB ~~has~~ considered whether materiality should be identified as an entity-specific aspect of relevance rather than a constraint on information included in GPFRs. As explained in the Conceptual Framework, and subject to requirements in an IPSAS, materiality will be considered by preparers in determining whether, for example, a particular accounting policy should be adopted, or an item of information should be separately disclosed in the financial statements of the entity.

BC3.31 However, the IPSASB ~~is of~~ took the view that materiality has a more pervasive role than would be reflected by its classification as only an entity specific aspect of relevance. For example, materiality relates to, and can impact, a number of the qualitative characteristics of information included in GPFRs. Therefore, the materiality of an item should be considered when determining whether the omission or misstatement of an item of information could undermine not only the relevance, but also the faithful representation, understandability or verifiability of financial and non-financial information presented in GPFRs. The IPSASB ~~is~~ was also of the view that whether the effects of the application of a particular accounting policy or basis of preparation or the information content of separate disclosure of certain items of information are likely to be material should be considered in establishing IPSASs and RPGs. Consequently, the IPSASB ~~is~~ was of the view that materiality is better reflected as a broad constraint on information to be included in GPFRs.

BC3.32 The IPSASB considered whether the Conceptual Framework should reflect that legislation, regulation or other authority may impose financial reporting requirements on public sector entities in addition to those imposed by IPSASs. The IPSASB ~~is~~ was of the view that, while a feature of the operating environment of many public sector (and many private sector) entities, the impact that legislation or other authority may have on the information included in GPFRs is not itself a financial reporting concept. Consequently, ~~it~~ the IPSASB has not identified it as such in the Conceptual Framework. Preparers will, of course, need to consider such requirements as they prepare GPFRs. In particular, legislation may prescribe that particular item of information are to be disclosed in GPFRs even though they may not be judged to satisfy a materiality threshold (or cost-benefit constraint) as identified in the Conceptual Framework. Similarly, the disclosure of some matters may be prohibited by legislation because, for example, they relate to matters of national security, notwithstanding that they are material and would otherwise satisfy the cost-benefit constraint.

BC3.32A In 2018 the IASB amended IAS 1, *Presentation of Financial Statements*, and IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*. The amendments clarified the definition of material in order to resolve difficulties that entities experience in making materiality judgments when preparing financial statements, and to align the definitions in both standards. Because of these changes the IASB made minor, but significant, amendments to Chapter 2, *Qualitative Characteristics of Useful Financial Information*, of its 2018 Conceptual Framework. First, an amendment complemented the guidance that information is material if omitting or misstating it could influence decision making with a reference to “obscuring information” as a further factor. A second amendment softened the threshold for entities in determining when information is material.

BC3.32B In its Limited Scope Update project initiated in 2020 the IPSASB considered both changes in the context of public sector general purpose financial reporting. The IPSASB concluded that the reference to “obscuring information” is relevant to the public sector, as it suggests that, amongst other practices, the inclusion of immaterial disclosures can have a negative impact on users, rather than just being unnecessary. This is a relevant consideration for both the financial statements and other GPFRs. The IPSASB also concluded that modifying the wording on adversely influencing users by adding the words “reasonably be expected to influence” imposes a more realistic expectation on preparers’ assessments of materiality. The IPSASB therefore decided to adopt these changes in its Conceptual Framework and amended paragraph 3.32 accordingly. In ED 81, the IPSASB proposed the addition of a sentence that “where an entity judges that a material item is not separately displayed on the face of a financial statement (or displayed sufficiently prominently) an entity considers disclosure”. The intention was to provide further useful guidance to preparers.

BC3.32C The majority of respondents to ED 81 supported the addition of “obscuring information” as a factor relevant to materiality. They also supported softening the threshold for determining when information is material. Some respondents requested that the Conceptual Framework include examples of how material information is obscured. The IPSASB considers that the role of the Conceptual Framework is to provide high-level principles rather than to include detailed examples; such examples risk diverting attention from the core principle and are better provided elsewhere in the IPSASB’s literature.

BC3.32D A number of respondents expressed reservations about the additional sentence in paragraph 3.32. These reservations highlighted two points. First, some respondents felt that the sentence risked undermining the principle in paragraph 6.9 of Chapter 6, *Recognition in Financial Statements,* that “the failure to recognize items that meet the definition of an element and the recognition criteria is not rectified by the disclosure of accounting policies, notes or other explanatory detail”. Second, some respondents felt that the sentence related to presentation and was therefore inappropriate for Chapter 3.

BC3.32E The IPSASB’s intention was not to undermine the key principle that disclosure is not an alternative to recognition of an item that meets the definition of an element and the recognition criteria. However, the IPSASB accepted that the sentence risked such an interpretation. The IPSASB also accepted that issues of display and disclosure are addressed in Chapter 8, *Presentation in General Purpose Financial Reports,* and are inappropriate for Chapter 3. The IPSASB therefore decided not to include this additional sentence in the updated Chapter 3.

BC3.32F In the IASB’s 2018 Conceptual Framework, materiality is an aspect of the qualitative characteristic of relevance, rather than a constraint on information in general purpose financial reports as in the IPSASB Conceptual Framework. In the Limited Scope Update the IPSASB did not reassess this classification. The IPSASB acknowledged that materiality can impact a number of qualitative characteristics.

BC3.32G In the Limited Scope Update the IPSASB acknowledged that in a number of jurisdictions, public sector entities are required to report on whether transactions have been recorded in accordance with governing legislation and regulations. In some jurisdictions such reports are referred to as a regularity assertion or statement. Auditors may be required to express an opinion on such statements, separate from that on the financial statements.

BC3.32H The IPSASB considered whether the Conceptual Framework should provide guidance on materiality considerations for regularity assertions/statements. Consistent with the reasoning in paragraph BC3.32, the IPSASB concluded that additional guidance is not justified.

~~*Cost-Benefit*~~ **Cost-Benefit**

BC3.33 Some respondents to the 2010 Exposure Draft expressed concern that the text of the proposed Conceptual Framework does not specify that entities cannot decide to depart from IPSASs on the basis of their own assessments of the costs and benefits of particular requirements of an IPSAS. The IPSASB is of the view that such specification is not necessary. This is because, as noted in paragraph 1.2 of ~~the Conceptual Framework~~ Chapter 1, *Role and Authority of the Conceptual Framework*, authoritative requirements relating to recognition, measurement, and presentation in GPFRs are specified in IPSASs. GPFRs are developed to provide information useful to users and requirements are prescribed by IPSASs only when the benefits to users of compliance with those requirements are assessed by the IPSASB to justify their costs. However, preparers may consider costs and benefits in, for example, determining whether to include in GPFRs disclosure of information in addition to that required by IPSASs.

BC3.34 Some respondents to the 2010 Exposure Draft also expressed concern that the proposed Conceptual Framework did not recognize that cost-benefit trade-offs may differ for different public sector entities. They ~~are~~ were of the view that acknowledgement of this ~~may~~ might provide a useful principle to be applied when considering differential reporting issues. The IPSASB ~~has~~ considered these matters and determined that the Conceptual Framework ~~will~~ should not deal with issues related to differential reporting, including whether the costs and benefits of particular requirements might differ for different entities.

BC3.35 In the process of developing an IPSAS or RPG, the IPSASB considers and seeks input on the likely costs and benefits of providing information in GPFRs of public sector entities. However, in some cases, it may not be possible for the IPSASB to identify and/or quantify all benefits that are likely to flow from, for example, the inclusion of a particular disclosure, including those that may be required because they are in the public interest, or other requirement in an IPSAS. In other cases, the IPSASB may be of the view that the benefits of a particular requirement may be marginal for users of GPFRs of some public sector entities. In applying the cost-benefit test to determine whether particular requirements should be included in an IPSAS in these circumstances, the IPSASB's deliberations may also include consideration of whether imposing such requirements on public sector entities is likely to involve undue cost and effort for the entities applying the requirements.

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