Exposure Draft (Revised) GASB

Proposed Statement of the Governmental Accounting Standards Board on concepts related to Communication Methods in General Purpose External Financial Reports That Contain Basic Financial Statements:

Notes to Financial Statements an amendment of GASB Concepts Statement No. 3

Do you agree or disagree that essential information in notes to financial statements is evidenced by the following characteristics? Why?

a. Users utilize the information in their analyses for making decisions or assessing accountability or would modify those analyses to incorporate the information if it were made available.

b. The information has or would have a meaningful effect on users’ analyses for making decisions or assessing accountability.

c. A breadth or depth of users utilize or would utilize the information in their analyses for making decisions or assessing accountability.

Financial information disclosed in financial reports is used by key stakeholders for different purposes: for decision-making, for measuring the economic performance of the entity (public sector), or by external users, like citizens, financial entities and other supervisory organizations, which request accountability in the use of resources.

Following the comments above, besides the transparency requirements of the international organizations, we suggest that information disclosed to users should be understandable and transparent, in order to improve the country’s image internationally.

Sharing information with transparency helps to maintain and show the control and integrity in the use of resources.

In the private sector, information depends on investments made by key stakeholders, who focus on the financial performance of the company. However, time has taught us that financial information isn’t a measurable factor of the company’s financial performance by itself. Therefore the importance of the notes as an elementary part of the financial statement.

There are certain qualitative aspects that governments should consider when evaluating which information should be disclosed:

- The use of the resources with the aim of promoting a secure country, a social and politically stable economy, while decreasing poverty and precarious situations for its citizens. For this, resources should:
  - Cover the operating expenses of each business unit of the government (autonomous and semiautonomous entities),
Promote investment that would allow the raise of the employment rate.

Promote and support activities to encourage economic sectors that have decreased their labour market participation.

- Be invested in infrastructures that improve the services offered by the government to the citizenship.
- Be analyzed in terms of yearly-incurred assets/liabilities/incomes, within sector or activity, to continue to provide and improve the services offered to the citizenship.

#33 mentions “inherent subjectivity”, which opposes the three principles of section 35 of the Concept Statement 3, and the financial report characteristics that are composed based on understandability, reliability, relevance, timeliness, consistency and comparability.

In this sense when evaluating information, objectivity must prevail.

By indicating “inherent subjectivity”, it is implied that the information is left to be interpreted based on the individual’s own interest, while if we speak of objectivity, information to be disclosed should be evaluated by considering the characteristics and principles describe in #35 (more of a professional judgement).

Considering all this factors may be helpful to measure the government’s performance, in terms of effectiveness and efficacy, based on the available information and the appropriate use of the available resources of the government.

Do you agree or disagree that, essential information in notes to financial statements is evidenced by the following characteristics? Why?

   a. Users utilize the information in their analyses for making decisions, or assessing accountability, or would modify those analyses to incorporate the information if it were made available.

Based on the three elements described in the conceptual statement 3, in #35; we indicate that decision-making and account evaluations are linked to the perspective and guidance of the adopted accounting policies for accounting and measurement of the assets, liabilities, income and expenses. This leads to more explantory disclosures in the notes, which show more information about the inflow and outflow of resources. Therefore, we consider that the composition of these three elements does not lead to change, but rather allows for a better analysis. If information is not disclosed based on these three elements, decision-making could be biased, therefore affecting the operations of entities or even the public sector as a whole.

   b. The information has or would have a meaningful effect on users’ analyses for making decisions or assessing accountability.

Yes, it would. If information wasn’t completely provided, a meaningful effect would affect the operational and functional decision-making process, which would affect the government’s profile before the three interested components: “citizens, supervisory entities and international institutions/organizations” (provided resources-loans), as well as creditors. The term “meaningful” conveys an important role in this fact, because as
defined in the conceptual statement 1 in #65, it is pointing out the importance of keeping a logical relation between disclosed information, its source and its relevance/usefulness.

c. A breadth or depth of users utilize or would utilize the information in their analyses for making decisions or assessing accountability.

As mentioned, in point a. and b., the information to be disclose is important as long as it keeps relation to its relevance/usefulness. Therefore the three elements described in #35 of the conceptual statement 3, have a high significance; but elements like understandability, reliability, relevance, timeliness, consistency and comparability should not be overlooked; these elements and characteristics when evaluated all together, give us the essential results.