

30 May 2012

Ms Stephenie Fox
The Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street West, 6th Floor
Toronto, Ontario M5V 3H2 CANADA

Dear Ms Fox

Consultation Paper
**Conceptual Framework for General Purpose Financial Reporting by Public
Sector Entities: Presentation in General Purpose Financial Reports**

Attached is the Australasian Council of Auditors-General (ACAG) response to the Consultation Paper referred to above.

The views expressed in this submission represent those of all Australian members of ACAG.

I trust you will find the attached comments useful.

Yours sincerely



Simon O'Neill
Chairman
ACAG Financial Reporting and Auditing Committee

Consultation Paper
Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Presentation in General Purpose Financial Reports

Overall comment

Consistent with our letter dated 31 March 2009 in response to the Consultation Paper on the conceptual framework, ACAG continues to support the long term objective of having a single worldwide reporting framework for application to both the public and private sectors. However, ACAG also believes that the establishment of two separate conceptual frameworks is necessary to reflect the differences in a number of accounting issues that exist, and will continue to emerge, between the public and private sectors.

ACAG notes that the IPSASB's strategy includes maintaining the alignment of International Public Sector Accounting Standards (IPSASs) with International Financial Reporting Standards (IFRSs) where appropriate for the public sector.

ACAG commends the IPSASB for continuing to progress work on the Conceptual Framework while progress from the IASB on its Conceptual Framework has slowed. However, this Consultation Paper introduces new terminology and redefines existing terminology which may result in significant divergence between the Conceptual Frameworks developed by the IPSASB and the IASB in relation to presentation in general purpose financial reports. This may be at odds with the IPSASB's strategy to maintain alignment of IPSASs with IFRSs.

Therefore, ACAG recommends that the IPSASB should not finalise Phase 4 of the Conceptual Framework until the IASB has progressed further its project on these matters.

Specific Matter for Comment 1

With respect to the descriptions of “presentation”, “display”, “disclosure”, “core information”, and “supporting information”, and the proposed relationships between these terms:

- (a) Do you agree that the proposed descriptions and relationships are appropriate and adequate?*
- (b) Do you agree that identification of core and supporting information for GPFRs should be made at a standards level rather than as part of the Conceptual Framework?*

ACAG does not agree with the term “presentation” being described as the “selection, location and organization of information that is displayed and disclosed in the GPFRs to meet the objectives of financial reporting, needs of users, and qualitative characteristics”. In Australia, many financial statement preparers and users apply the term “presentation” in relation to information reported on the face of a financial statement. ACAG considers that the broader definition of this term being proposed in the IPSASB Consultation Paper (CP) may result in confusion, particularly if other standard-setters continue to apply the term in a narrower context.

The CP does not clearly define the term “display”. However, in relation to financial statements, the CP proposes that the term “display” applies to the information on the face of the financial statements. In light of the comments on the term presentation above, ACAG does not consider this description to be appropriate.

The CP does not clearly define the term “disclosure”. However, for financial statements, the CP proposes that “disclosure of supporting information provides elaborations of items displayed on the face of a financial statement, but may also provide other types of supporting, non-core information”. ACAG does not agree that disclosure relates solely to supporting or non-core information. As an example, ACAG considers that financial statement users would interpret disclosures for key management personnel as core information.

ACAG supports the alternative view in paragraphs 2.19 and 2.20 in relation to the distinction between core information and supporting information for GPFs. ACAG does not consider that distinguishing between core information and supporting information serves a useful purpose. While ACAG considers that some information is more important to users of financial statements, a two bucket approach of core and supporting information is overly simplistic and does not adequately address the differing information needs of the range of users of GPFs.

In the CP, the term “display” is synonymous with “core information” and “disclosure” is synonymous with “supporting information”. As ACAG does not support the distinction between core and supporting information, the descriptions of the terms “display” and “disclosure” need to be more clearly defined and separated from the concepts of core and supporting information.

While ACAG does not agree with the distinction between core and supporting information for GPFs, we agree that, if the alternative view is not adopted, the identification of such information should be made at a standards level rather than as part of the Conceptual Framework.

Specific Matter for Comment 2

With respect to the IPSASB’s approach to presentation of information:

- (a) Do you agree with the development of presentation concepts that can be adopted for the more comprehensive scope of GPFs including, but not restricted to, financial statements?*
- (b) Do you agree with the approach of (i) focusing on user needs to identify presentation objectives, (ii) application of the qualitative characteristics (QCs) to presentation decisions, and (iii) separate presentation concepts?*

ACAG considers that focusing on user needs and applying qualitative characteristics are fundamental to the preparation of general purpose financial reports. These two concepts are overarching for recognition, measurement, presentation and disclosure decisions.

ACAG agrees with the development of presentation concepts that can be adopted for the more comprehensive scope of GPFs including, but not restricted to, financial statements. ACAG considers that presentation concepts are important for preparers of financial statements and that separate presentation concepts are necessary to operationalise the qualitative

characteristics of financial information in relation to presentation. Establishing presentation concepts that can be adopted for broader types of general purpose financial reports, such as service performance reports, should enhance the quality, understandability, relevance and comparability of such reports.

In our letter dated 22 June 2011 in response to the Exposure Draft on Phase 1 of the Conceptual Framework, ACAG considered materiality to be a qualitative characteristic rather than a reporting constraint. We note that this view has not been adopted by the IPSASB and that materiality continues to be listed as a constraint. ACAG is of the view that materiality is fundamental to presentation decisions. We note that materiality is linked to a separate presentation concept in paragraph 6.1 of the CP. ACAG suggests that (ii) be amended to “application of the qualitative characteristics (QCs) and constraints on information to presentation decisions”.

Specific Matter for Comment 3

This CP discusses the importance of developing presentation objectives as part of standard setting.

- (a) Do you agree that presentation objectives should be developed?*
- (b) If so, in your view, should they be developed at a standards level, or as part of the Conceptual Framework?*

ACAG agrees that presentation objectives should be developed at a standards level.

However, the illustrative presentation objectives in paragraph 4.4 of the Consultation Paper appear to be objectives relating to the general purpose financial report as a whole, rather than objectives relating to presentation concepts. In ACAG’s view, a presentation objective should be phrased to state how the selected information is most appropriately communicated to the users of a general purpose financial report.

In their current form, the illustrative ‘presentation’ objectives are relevant to decisions about recognition and measurement, as well as presentation and disclosure. ACAG suggests that the term ‘financial reporting objective’ more clearly describes these illustrative objectives.

Specific Matter for Comment 4

This CP proposes three presentation concepts. Please provide your views on these concepts, in particular whether:

- (a) Any of these concepts should be excluded from the Conceptual Framework; and*
- (b) The description of each concept could be improved and, if so, indicate how.*

ACAG considers that the three presentation concepts are appropriate and should be included in the Conceptual Framework.

The linkages in Table 2 between the separate presentation concepts and the qualitative characteristics and constraints may be useful in operationalising the application of these overarching concepts. Currently, each presentation concept is linked to at least five of the six qualitative characteristics. Further consideration could be given to more specific linkages to

the key qualitative characteristics and/or constraints relevant to each presentation concept. In particular, ACAG suggests the following improvements to Table 2:

- Presentation concept 1 “Select information” – include the constraints “materiality” and “cost-benefit”
- Presentation concept 2 “Locate information to meet user needs” – delete the qualitative characteristic “timeliness”
- Presentation concept 3 “Organise information” – include the constraint “cost-benefit”

IPSASB should consider rephrasing the presentation concept 2 “Locate information to meet user needs” because this concept is too broadly phrased to be useful to preparers of GPFs in making presentation decisions about the location of information in the report. Additionally, IPSASB could further explore comparability in relation to presentation concept 2. For example, locating comparatives with the current year information allows comparability across periods. Comparability should be a consideration when determining where information is located.

ACAG considers that the descriptions of each concept are overly detailed. For example, five paragraphs to describe “Information that satisfies the cost-benefit test” appear to be excessive for a relatively straight-forward concept. ACAG also suggests including discussion on how the presentation concepts are impacted by the constraints (particularly materiality and cost-benefit) to avoid excess detail being included in GPFs.

In our letter dated 31 March 2009 in response to the Consultation Paper on the conceptual framework, ACAG recommended the inclusion of “substance over form” as a qualitative characteristic. While we note that the IPSASB has not taken up this recommendation, it is worth noting that this concept relates most closely to presentation decisions. Therefore, ACAG suggests that making reference to substance over form, where relevant, would also improve the descriptions of the presentation concepts.

Specific Matter for Comment 5

In addition to the three concepts proposed in Section 6, please provide your views on:

- (a) Whether there are further concepts that should be included in the Conceptual Framework; and*
- (b) What those further concepts should be.*

ACAG considers that the three presentation concepts proposed in Section 6 are adequate for the purposes of guiding presentation decisions. We have no suggestions for further concepts for inclusion in the Conceptual Framework.

As noted in the comments above, it would be useful for the presentation concepts to be linked with the constraints (particularly materiality and cost-benefit) to avoid excess detail being included in general purpose financial reports. However, consistent with our previous submissions, ACAG considers materiality to be a qualitative characteristic, rather than a constraint.

Specific Matter for Comment 6

Each presentation concept refers to the possibility of developing criteria to determine the presentation techniques to be used in setting accounting standards. Please provide:

- (a) Your views on whether it would be useful and workable for the IPSASB to apply such techniques; and*
- (b) Any suggestions you have for developing these techniques.*

In relation to whether it would be useful for the IPSASB to ‘apply’ such presentation techniques, we have assumed this to mean that the IPSASB could ‘specify’ the presentation techniques.

ACAG has considered the presentation techniques included in paragraphs 6.12, 6.17, 6.24 and 6.27 at a high level. In general, these techniques appear to be appropriate. However, as ACAG does not agree with the distinction between core and supporting information, we do not agree that developing criteria to distinguish between core and supporting information is necessary.

ACAG agrees that the inclusion of general, overarching and illustrative presentation techniques would be useful for inclusion in the Conceptual Framework. However, ACAG suggests that it would be appropriate for specific or prescriptive presentation techniques to be developed at the standards level.

ACAG does not believe that it is necessary for the IPSASB to develop criteria to determine the presentation techniques to be used at the standards level.