

22 June 2011

Ms Stephanie Fox  
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,

**Conceptual Framework for General Purpose Financial  
Reporting by Public Sector Entities:**

- **Role, Authority And Scope;**
- **Objectives And Users;**
- **Qualitative Characteristics; And**
- **Reporting Entity.**

**Phase 1: Exposure Draft**

Attached is the Australasian Council of Auditors-General (ACAG) response to the exposure draft referred to above. We appreciate the extension of the deadline for comment by one week.

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

Overall, ACAG supports those concepts outlined in the exposure draft, but draw the IPSASB's attention to the specific comments made in our response.

The opportunity to comment is appreciated and I trust you will find the attached comments useful.

Yours sincerely



Simon O'Neill  
**Chairman**  
**ACAG Financial Reporting and Auditing Committee**

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

## Phase 1: Exposure Draft

ACAG provides the following comments in response to specific questions raised by the IPSASB.

### **(1) Agree with the role, authority and scope of the Conceptual Framework**

ACAG generally supports the role, authority and scope proposed. However, ACAG notes the exclusion of government business enterprises (GBEs) and is concerned as to how the IPSASB will address the issues arising from this exclusion i.e. the practical implications for consolidating GBEs in whole-of-Government financial statements.

Consistent with our letter of 31 March 2009 in response to the Consultation Paper on this topic, ACAG considers that a single global reporting framework for all sectors is preferable.

### **(2) Agree with the objectives of financial reporting by public sector entities and the primary users of GPFs of public sector entities and their information needs**

#### *Objectives and primary users*

ACAG does not find the distinction between ‘primary users’ and ‘parties which may find GPF information useful’ helpful. This notion seems to contradict the overall principles that the objectives of GPFs are intended to meet the needs of ‘users’. Further, such a distinction is likely to cause confusion and differing interpretations.

Notwithstanding, ACAG provides the following comments.

We draw the IPSASB’s attention to ‘the Federal Government Reporting Study’ released in 1986<sup>1</sup>.

This study focused on identifying typical users of public sector financial reports and their information needs. Among the findings in this report was the importance of the intermediary role played by the media and analysts. It was found that a large portion of users, such as citizens and legislators, rely on information disseminated by the media and analysts to make decisions. As a result, the study notes that ‘Federal government financial reports will serve the needs of legislators, citizens and corporations well only if the needs of the media and analysts are adequately met’.

ACAG recommends greater acknowledgement of the importance of this intermediary relationship within the proposed conceptual framework. For example, ACAG finds the discussion of the legislature and its members somewhat confusing. The legislature itself is said to be a primary user (paragraph 2.4), despite the fact that many legislatures possess the authority to require disclosure of information for accountability and disclosure purposes. Sub-committees of the legislature are included among those who are not primary users (paragraph 2.6). If the differentiation of primary users is retained, explicitly regarding the legislature and its sub-committees as representatives of primary users, rather than primary users themselves, would seem to resolve this confusion.

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<sup>1</sup> Office of the Auditor General of Canada and the United States General Accounting Office 1986, *Federal Government Reporting Study*

### ***Information needs***

ACAG strongly agrees that financial reporting should provide users with information about the past and future. This allows financial reports to demonstrate the sustainability of government and provides accountability information by demonstrating the impact of policy decisions on current and future resources.

- (3) **Agree with the qualitative characteristics of, and constraints on, information included in GPFs of public sector entities. In particular, whether:**
- (a) **“Faithful representation” rather than “reliability” should be used in the Conceptual Framework to describe the qualitative characteristic that is satisfied when the depiction of an economic or other phenomenon is complete, neutral, and free from material error;**

ACAG agrees with the use of ‘faithful representation’ as a qualitative characteristic.

- (b) **Materiality should be classified as a constraint on information that is included in GPFs or as an entity-specific component of relevance.**

ACAG considers materiality to be an aspect of relevant information instead of a reporting constraint. When considering qualitative characteristics preparers should consider material transactions as having greater relevance for users. In contrast, transactions which are considered immaterial are likely to be considered less important for users and therefore assigned a lower relevance. Although the concept of materiality could be applied to several qualitative characteristics, the qualitative characteristics should not be seen in isolation. Characterising materiality as an aspect of relevance does not preclude its consideration in regards to the remaining qualitative characteristics.

- (4) **Agree with the basis on which a public sector reporting entity is identified and the circumstances in which an entity should be included in a group reporting entity.**

The proposed definition of a reporting entity is an entity that prepares general purpose financial statements. ACAG believes an entity should prepare general purpose financial statement when it satisfies the criteria for being a reporting entity. ACAG recommends the IPSASB adopts a similar definition of reporting entity as outlined in the IASB’s *Framework for the Preparation and Presentation of Financial Statements*.

ACAG agrees with the ED proposals regarding the circumstances in which an entity should be included in a group reporting entity.

### **Other matters**

#### ***Information provided by general purpose financial reports***

ACAG believes that decisions made in Phases 2 - 4 of the Conceptual Framework project are likely to shape the type and format of information provided by general purpose financial reports. It is therefore recommended that the statements outlined in Section 2.14 – 2.26 be reconsidered after completion of the framework project to ensure they address all types of information that should be provided by general purpose financial reports. In particular, ACAG is concerned that paragraph 2.20 could be read as stating that general purpose financial statements must be the vehicle for a range of compliance disclosures. This may or may not be the case, depending on regulatory arrangements in individual jurisdictions.

*Compliance with budget*

ACAG is concerned with the mandatory nature of paragraph 2.20 which requires budgeted information to be included for all public sector general purpose financial statements. While this information may be useful to users, especially at a whole of Government level, there may be reduced usefulness (as well as practical compilation issues) in presenting budget information for individual reporting entities within the group.

To address this ACAG recommends the wording in paragraph 2.20 be changed from ‘is included in GPFRs’ to ‘may be useful to users in GPFRs’.