



Accounting Standards Board

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Dear Stephenie,

**COMMENTS ON PHASE 4 OF THE IPSASB'S CONCEPTUAL FRAMEWORK PROJECT:
PRESENTATION IN GENERAL PURPOSE FINANCIAL REPORTS**

We welcome the opportunity to provide comments on Phase 4 of the IPSASB's conceptual framework project. Overall, we are supportive of the project as we believe it makes significant strides in strengthening transparency and accountability in public sector financial reporting. We appreciate that this is a new and developing area and would like to commend the IPSASB for developing guidance in this area.

Our responses to the specific matters for comment are outlined in Annexure A of this letter.

This comment letter has been prepared by the Secretariat of the ASB and does not reflect the views of the ASB Board. In formulating the comments outlined in this letter, the Secretariat has undertaken a limited consultation with its constituents in the South African public sector. This limited consultation included auditors and those involved in the preparation of financial statements.

Please feel free to contact me should you require clarification on any of our comments.

Yours sincerely

Erna Swart, Chief Executive Officer

Board Members: Mr V Jack (Chairperson), Ms T Coetzer, Mr B Colyvas, Ms CJ Kujenga,
Mr K Kumar, Mr K Makwetu, Mr G Paul, Ms N Ranchod, Ms R Rasikhinya,
Alternates: Ms L Bodewig, Mr J Van Schalkwyk
Chief Executive Officer: Ms E Swart

ANNEXURE A – RESPONSES TO SPECIFIC MATTERS FOR COMMENT

Specific Matter for Comment 1

Do you agree with the proposed descriptions of “presentation”, “display” and “disclosure” and the relationships between them in Section 1? If not, how would you modify them?

Response

“Descriptions” of presentation, display and disclosure – paragraphs 1.2 to 1.4

We have three high level issues with the terms/descriptions set out in the Exposure Draft:

1. Paragraph 1.1 notes that: “This section establishes presentation related terms and identifies three presentation decisions” [own emphasis added]. These “descriptions” or “terms” should rather be developed as “concepts” or “principles” underlying the presentation of information. As the approach to presentation is embedded firmly within these three terms, it would be more appropriate for these to be identified as “principles” or “concepts” rather than being described as just “terms”. The use of the word “term” does not denote the significance of these issues in decisions about the presentation of information in GPFRs. As a result, the structure and wording of some of the descriptions, in particular “display” needs to be amended. Our suggestion is outlined below.
2. The terms “display” and “disclosure” should have clear links or references to the objective of financial reporting. Without this link, the presentation objectives have no meaning and context. Linking these definitions with financial reporting objectives also creates a better link with the description of “presentation”.
3. We are concerned about the way in which disclosed information is described. At present, disclosed information is described as follows: “Disclosed information makes displayed information more useful, by providing detail that will help users to understand displayed information, including...”. This could be read as implying that no information is disclosed if there is no displayed information. While disclosed information does make displayed information more useful, it cannot be the only characteristic of disclosed information. Disclosed information should broadly contribute towards the objectives of financial reporting.

Specific comments on terms “presentation”, “display” and “disclosure”

Based on our proposal to describe “presentation”, “display” and “disclosure”, amendments are required to the wording of these descriptions to ensure that a clear principle/concept is articulated.

Presentation: We agree with the proposed description as it outlines both the key principle underlying presentation (i.e. provide information that contributes towards the objectives of financial reporting and achieves the QCs and constraints), as well as the approach that is applied (i.e. through the selection, organization and location of information). We do not believe any amendments are required to this definition.

Display: The description of display could be enhanced. The description should clearly outline what the objective of display is, and then the characteristics of displayed information. We propose wording such as: “Displayed information communicates key messages to users that contribute towards the objectives of financial reporting and achieving the QCs and constraints. Displayed information is presented prominently, is kept to a concise and understandable level, and should not include excess detail which may obscure key messages.” The last sentence of paragraph 1.3 is too detailed for the description of “display” and we would propose deleting it.

Disclosure: Based on our comments above, we do not agree with the proposed description of “disclosure”. As presently described, disclosed information is seen as only making displayed information more useful. We propose that the description of disclosed information should be amended

to make it clear that disclosed information should broadly contribute to the objectives of financial reporting.

“Criteria for display and disclosure” – paragraphs 1.5 and 1.6

We do not believe that this heading appropriately reflects the discussion in paragraph 1.5 and 1.6. Paragraphs 1.5 and 1.6 do not outline “criteria” for information that is displayed and disclosed. As noted above, these “criteria” should be embedded within the concepts or principles developed for display and disclosure. With the exception of the last sentence of paragraph 1.5, this section outlines the application of display and disclosure rather than the criteria for deciding when to display or disclose information.

Paragraph 1.5 indicates that information is either displayed or disclosed. We do not support this statement. For example, a single line item of aggregated information may be displayed on the face of a financial statement, while the detail of that line item may be disclosed in the notes. As a consequence, we do not believe that display or disclosure of information is a binary decision as suggested, and propose deleting the first sentence of paragraph 1.5.

If the first sentence of paragraph 1.5 is deleted, the second sentence of 1.6 could be combined with the description of “disclosure”.

Paragraph 1.6 describes the application of display and disclosure decisions to financial statements and other GPFs. We are of the view that this discussion would be better located in the section “Location of information within a Report” (paragraphs 3.8 to 3.10).

The focus of paragraph 1.6(c) should not be on list of specific information that preparers must display and disclosure, but rather what information must be displayed and disclosed to meet users’ information needs.

“Presentation decisions” (paragraphs 1.8 to 1.10)

The second sentence of paragraph 1.8 states the following: “They seek to achieve the financial reporting objectives...” The use of the word “They” makes it difficult to identify the subject of the sentence – is it the presentation decisions or the financial reporting objectives? “They” should be replaced with “Such decisions....”.

Specific Matter for Comment 2

Do you agree with the identification of three presentation decisions (selection, location and organization) in section 1? If not, how would you modify the presentation decisions?

Response

We agree with the three presentation decisions as they answer the questions, “What information should be presented”, “Where should the information be located” and “How the information should be organised.”

Specific Matter for Comment 3

Do you agree with the proposed approach to making presentation decisions in Section 1? If not, how would you modify it?

Response

We agree with the proposed approach as it describes the objective of presentation (i.e. to contribute towards the objectives of financial reporting, the qualitative characteristics and the constraints), as well as the decisions required when presenting information (i.e. selection, location and organisation).

Specific Matter for Comment 4

Do you agree with the description of information selection in Section 2:

- (a) In the financial statements; and*
- (b) Within other GPFRs?*

If not, how would you modify it?

Response

Overall, we are supportive of the principles for both financial statements and other GPFRs. We do however have a number of observations on the text in paragraphs 2.1 to 2.10.

(a) Description of information selection “in the financial statements”

Paragraph 2.2 (last sentence) notes the following: “This section focuses on the selection of detailed information to be developed and presented in GPFRs, including financial statements and other reports”. It is unclear what the purpose is of this statement? Paragraphs 2.3-2.5 describe information selection between GPFRs and other information, while paragraphs 2.6 to 2.10 outline the selection of information within a report. As such, it seems that both the high level and lower level decisions are discussed making it unclear what the “detailed information to be developed and presented in GPFRs” refers to paragraph 2.2.

(b) Description of information selection “within other GPFRs”

Paragraphs 2.6 and 2.7 relate more to the organisation of information than the selection of information. For example, the second sentence of paragraph 2.6 which refers to “Information selection avoids information overload which reduces understandability” is primarily a matter of how information is organised, including decisions about what should be displayed and disclosed. The primary decision in the selection of information is to ensure that relevant information is selected to meet the objectives of financial reporting.

While relevance is critical in deciding what information should be selected for presentation, the information selection process should also take cognisance of the other qualitative characteristics, in particular, those that indicate the quality of the information. For example, verifiability and representational faithfulness may need to be considered in conjunction with relevance. (Note: while the last sentence of paragraph 2.8 does mention representational faithfulness, it is in the context of substance over form and not a general point related to the process of selecting information. We envisage a much broader consideration of the other QCs).

Specific Matter for Comment 5

Do you agree with the description of information location in Section 3?

- (a) In the financial statements;*
- (b) In other GPFRs; and,*
- (c) Between different reports within GPFRs?*

If not, how would you modify them?

Response

Overall, we are supportive of the principles for the financial statements, other GPFRs or between different reports within GPFRs. We do however have a number of observations on the text in paragraphs 3.2 to 3.7.

(a) Description of information “in the financial statements”

Paragraph 3.3

Paragraph 3.3 notes that a number of factors need to be considered when locating information in the financial statements or another GPFR. In reading these criteria, we considered that (a) and (b) could be stated more generally as factors that would be considered when “grouping” information into different reports, rather than describing factors when information will be added to a new or existing report. For example, part (a) “linkage” refers to “whether or not the additional information envisaged needs to link very closely to information already included in an existing reporting” [own emphasis added]. We are of the view that to make this more useful, the reference to an “existing report” should be deleted. In our deliberations, we were of the view that linking specific information together and assessing the nature of certain information were useful in deciding how and where specific information should be grouped and reported. We are of the view that the linkages between all information should be assessed, not only linkages between new and existing information and would propose re-wording (a) and (b) to make this clear.

Paragraph 3.3(c) notes that jurisdiction specific requirements should be considered in deciding where information should be presented. While it may be accurate that jurisdictional requirements may prescribe where information should be reported, these jurisdictional requirements might not be consistent with the principles in the Conceptual Framework or pronouncements issued by the IPSASB. For example, if jurisdictional requirements prescribe that contingencies should be presented outside the financial statements, then this requirement is clearly inconsistent with the concepts in IPSASs.

(b) Allocation of information to the financial statements

Paragraph 3.5

The third and fourth sentences of paragraph 3.5 state the following: “The display of line items and aggregate totals involves factors such as balancing standardization to ensure that particular information necessary to meet the objectives of financial reporting is available for all entities, and consideration of entity specific factors. Materiality is an important factor for preparers when making certain types of display decisions.”

The first sentence deals with the organisation of information and should be relocated to section 4. We also propose rewording the sentence as follows to make it more understandable: “The display of line items and aggregate totals involves ~~factors such as~~ balancing standardization, to ensure that particular information necessary to meet the objectives of financial reporting is available for all entities, while still allowing information to be displayed in a manner that reflects the nature and operations of specific entities. ~~and consideration of entity specific factors~~”.

The last sentence deals with display and disclosure and should be relocated to the section “Location of information within a Report” in paragraphs 3.8 to 3.10.

Paragraph 3.6

This paragraph states that: “The notes to the financial statements disclose information that supports the information displayed on the face of the statements” [own emphasis added]. This statement is inconsistent with the earlier description of disclosed information which indicated that disclosed information makes displayed information more useful. The reference to “support” seems to imply a relative importance of disclosed information in relation to displayed information. The last sentence of paragraph 3.9 also refers to “supporting” information. This should also be revised.

Paragraph 3.10

The last sentence refers to “presentations technique”. These are not described or explained in sufficient detail in the ED for any reference to them to be useful. We propose deleting any reference to them.

Specific Matter for Comment 6

Do you agree with the description of information organization in Section 4?

(a) In the financial statements;

(b) In other GPFRs; and,

If not, how would you modify them?

Response

Introductory paragraphs

Paragraph 4.2 explains that “Information organization in GPFRs aims to make clear important relationships between items.” While this is one of the aspects information organisation aims to achieve, we are of the view that the discussions in paragraphs 4.14 to 4.16 better describe the objectives of information organisation. We propose relocating these paragraphs to the beginning of this section.

Types of relationships

Paragraph 4.5, states the following: “Information in one place in a GPFR may be enhanced though information provided elsewhere. For example, budget, prospective and service performance information enhances information in the financial statements”. While the example does illustrate how information in other GPFRs enhances the financial statements, it is unclear how the example contributes to the discussion on organisation. The example could be improved by making it clear that such information might be cross-referenced or somehow linked.

Description of information in (a) the financial statements

Paragraph 4.8

The last sentence of paragraph 4.8 makes a statement that information displayed on the face of a statement will always be organised into numeric totals. So as to not preclude the nature of any statements that might be included within the financial statements in future, we propose deleting this sentence.

Paragraph 4.10

Paragraph 4.10 states the following: “Following identification of elements and application of recognition criteria, display involves further decisions on....”

Not all statements in the financial statements report on elements, for example, cash flows. We suggest that the sentence be adjusted accordingly.

Specific Matter for Comment 7

Do you consider that CF-ED4 contains sufficient detail on concepts applicable to presentation in GPFRs, including the financial statements, of governments and other public sector entities? If not, how would you extend the proposals?

Response

Apart from the comments raised in specific sections and specific matters for comment, the concepts are appropriate and sufficient.