

14 August 2013

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

IPSASB Conceptual Framework Exposure Draft 4 (CF-ED4): Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Presentation in General Purpose Financial Reports

Please find attached the Australasian Council of Auditors-General (ACAG) response to the Exposure Draft referred to above.

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

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

IPSASB Conceptual Framework Exposure Draft 4 (CF-ED4): Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Presentation in General Purpose Financial Reports

Overall comments

Maintenance of alignment between IPSASB and IASB

Consistent with our previous letters dated 31 March 2009 and 30 May 2012 in response to the Consultation Papers on the conceptual framework, ACAG supports the long term objective of having a single worldwide reporting framework for application in both the public and private sectors. However, ACAG believes that the establishment of two separate conceptual frameworks is necessary to reflect divergence in a number of accounting issues that exist and continue to evolve, between the public and private sector.

ACAG notes and supports the strategy of the IPSASB to maintain alignment between the International Public Sector Accounting Standards (IPSASs) and the International Financial Reporting Standards (IFRSs) where appropriate.

ACAG commends the IPSASB for continuing to progress work on the Conceptual Framework given the delayed progress of the IASB project on its Conceptual Framework, which has only been recently reactivated. ACAG notes that an IASB Discussion Paper of a revised Conceptual Framework was issued on the 18 July 2013.

ACAG reiterates its prior concerns that given the mismatch in the progression of the IPSASB's and IASB's respective Conceptual Framework projects, a divergence could develop and diminish alignment between the two Conceptual Frameworks. To minimise this risk, ACAG suggests the IPSASB delay finalising its Conceptual Framework until the IASB has progressed its project.

Terminology

This ED addresses presentation concepts applicable to general purpose financial statements and 'other General Purpose Financial Reports' (GPFRs). The term 'GPFRs' has been defined in points 1.4 – 1.7 of Chapter 1 of *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*, whereas the term 'other GPFRs' has not been defined. ACAG remains uncertain as to whether 'other GPFRs' refers to other reports which may be presented in a document containing the financial statements or completely distinct reports altogether.

Currently, where information is presented in a document containing audited financial statements, the auditor's responsibilities in respect to 'other information' presented outside the audited financial statements are clearly defined in ISA 720.

Ideally, all standard setting bodies should use common or similar definitions. In the absence of a common or similar definition, ACAG finds references to 'other GPFRs' confusing. Due to the introduction of new terminology, the IPSASB may like to consider the development of a glossary of terms in respect to the Presentation in General Purpose Financial Reports.

While the ED provides high level, relevant factors to consider when evaluating how information should be presented in GPFRs, ACAG considers that the IPSASB should emphasise the clear delineation between general purpose financial statements and ‘other GPFRs’ in order not to create unreasonable public expectations of the auditor's role on the presentation of information outside of the audited financial statements.

As BC3 of the ED highlights, the IPSASB's view is that effective presentation of information in ‘other GPFRs’ is very important in meeting the objectives of financial reporting - accountability and decision making. While acknowledging the importance of the presentation of additional information in ‘other GPFRs’ and the challenges faced by the IPSASB and preparers, it is important to note that it could also have implications for auditors, as discussed above.

Specific Matters 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?

Consistent with our submission of the 30 May 2012 on the *Consultation Paper on the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Presentation in General Purpose Financial Reports*, ACAG continues to question the need to redefine the term ‘presentation’ as being the “selection, location and organisation of information that is displayed and disclosed in the GPFRs”. As previously identified, in Australia financial statement preparers and users apply the term ‘presentation’ to information reported in primary financial statements. ACAG continues to believe that redefinition of this term will result in confusion, particularly if other standard-setters continue to apply the term in the established context.

In view of the comments on the term ‘presentation’ above, ACAG does not consider the proposed definition or use of the term ‘display’ to be appropriate or necessary.

ACAG believes that the description of ‘disclosure’ places emphasis on disclosures having the function of making displayed information more useful. ACAG acknowledges that while disclosed information may make displayed information more useful by providing detail that will help users to understand the displayed information, the role of disclosed information extends beyond simply enhancing, complementing and supplementing displayed information. Disclosures may also provide key information to users of the financial statements in respect to transactions and events which may not be included on the face of the financial statements. This could include for example, disclosures relating to contingent assets and liabilities, related party disclosures and events that occur after the reporting date. It is ACAG’s view that discussion in the ED should seek to adequately balance these aspects of disclosed information.

While ACAG considers that some information is more important to users of financial statements, a two bucket approach of displayed and disclosed information is overly simplistic and does not adequately address the differing information needs of a range of users of GPFRs. ACAG recommends that the Conceptual Framework clearly articulate the principle that disclosure cannot remedy inadequate recognition of elements within the primary financial statements.

ACAG also notes that the proposed description of ‘disclosure’ includes the following:

1.4(a) the basis for the displayed information, such as applicable policies or methodology.

ACAG believes that this description could be improved to identify the basis upon which the displayed information is recognised and measured and the policies and methodologies applied in respect to the displayed information.

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

ACAG agrees that preparers must make decisions about the selection of information for inclusion within GPFs, its location and organisation. These presentation decisions should lead to the effective communication of information possessing the desired qualitative characteristics. Such information will assist users in both making economic decisions and assessing management's discharge of their responsibility for the resources entrusted to them.

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

ACAG does not agree with the proposed approach to making presentation decisions in Section 1. Our primary concern is that points 1.8 - 1.10 do not address the necessity for consistency in the presentation of information. Point 1.10 refers to development of new reports, movements in information between reports and amalgamation of reports, which is important for the initial presentation decisions for a new entity and for changes in presentation for a continuing entity. However, ACAG believes that, for a continuing entity, consistency should be a prime consideration. While consistency (both inter-period and inter-entity) is addressed in point 4.16 in relation to information organisation, ACAG is of the view that the principle of consistency warrants elevation to Section 1.

Further, ACAG believes that point 1.8 could be enhanced by making specific reference to the 'preparers' to reinforce that management of the reporting entity is responsible for the presentation of information in GPFs. We also believe that the description should take into account "other phenomena" which may have impacted (historical presentation) and/or may impact on the reporting entity prospectively. For example, a contingent asset/liability represents phenomena which may impact on a reporting entity prospectively.

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

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

If not, how would you modify the description(s)?

While ACAG agrees with the principles embodied in the description of information selection in Section 2, with regards to point 2.1, we maintain the view that the primary driver for including information in the GPFs is the preparer's consideration of the information needs of the users. Accordingly, we suggest amending point 2.1 to make this principle explicit.

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 the description(s)?

While ACAG agrees with the principles embodied in the description of information location in Section 3, ACAG would suggest the following amendments.

In respect of point 3.1, it is ACAG's view that 'location' does not impact on information's relevance, verifiability, understandability, and faithful representation. Rather, it is the nature of the information within GPFRs which is important. In ACAG's view, 'location' has an impact on the user's ability to readily discern the key messages being conveyed by the preparer. Consequently, we recommend the amendment of point 3.1 to make this distinction explicit.

Point 3.3 details three factors which are relevant to decisions about locating information in financial statements or another GPFR. Another factor which may impact on the location of information is whether the information is mandated to be audited. ACAG would recommend that audit requirements be considered in addition to legal provisions for inclusion as part jurisdiction specific factors.

ACAG suggests an amendment to point 3.6 to reference the broader function of notes to the financial statements. As previously noted in our response to the specific matter for comment 1, it is possible for a note to stand alone and provide useful information to the users about an event or transaction not captured on the face of the financial statements.

Point 3.6 also indicates a linkage between financial statements and 'other GPFRs'. ACAG believes that this link may create an unreasonable expectation on auditors about information presented in documents outside the financial statements. As set out in our overall comments above, ACAG considers that the IPSASB should emphasise the clear delineation between general purpose financial statements and 'other GPFRs' in order not to create such unreasonable public expectations of the auditor's role on the presentation of information outside of the audited financial statements.

6. Do you agree with the description of information organisation in Section 4:

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

If not, how would you modify the description(s)?

ACAG agrees with the principles applied in the description of information organisation in Section 4 relative to financial statements and other GPFRs. ACAG believes that the organisation of information has an important role in conveying the key messages to the users of the financial statements and other GPFRs. The organisation of information within the financial statements and other GPFRs will assist the users in identifying relationships between information in different GPFRs; information within various components of a specific report and potentially information in different parts of the individual component.

ACAG considers cross referencing or referencing an important tool for designating important relationships between items. For example in the absence of a note reference against a line item reported on the face of the financial statements, how does the reader discern where the related note disclosure in respect to the line item is located? ACAG recommends amending point 4.2 to include a specific reference to cross referencing.

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

ACAG considers that the ED appropriately provides high level, relevant factors to consider when evaluating how information should be presented in GPFRs and that these concepts are discussed at a high level and primarily in principles based terminology. As previously indicated in our letter of the 30 May 2012, we believe it is desirable that descriptions of concepts are not overly detailed. The dangers associated with presenting more detail in respect to the concepts is that such measures could counter and/or limit the relevance and applicability of the concepts to both financial statements and other GPFRs.