

30 May 2011

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Dear Stephenie

IPSASB Conceptual Framework Exposure Draft 1 Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Role, Authority and Scope; Objectives and Users; Qualitative Characteristics; and Reporting Entity

CPA Australia, the Institute of Chartered Accountants in Australia and the Institute of Public Accountants (the Joint Accounting Bodies) are pleased to respond to the IPSASB Conceptual Framework (CF) Exposure Draft (ED) 1.

Previous submissions of the Joint Accounting Bodies to the IPSASB and the International Accounting Standards Board (IASB) have communicated our preference for an international reporting framework comprised of a single set of concepts designed for application to all sectors. While this remains our preferred approach, we acknowledge that this is not the way that standard setting internationally is structured today. Nevertheless, we encourage the IPSASB to continue to initiate dialogue with the Trustees of the IFRS Foundation about the imperative for action to expand the objective of the IASB to develop a single set of accounting standards appropriate for all sectors. The Joint Accounting Bodies will continue to make such representations nationally and internationally.

The Joint Accounting Bodies consider the completed conceptual frameworks of the IPSASB and the IASB/Financial Accounting Standards Board (FASB) will represent international best practice for entities of the public sector and the private for-profit sector¹ respectively. However, the journey to completion is not proceeding contemporaneously. The IASB/FASB CF for Financial Reporting consists of issued chapters that articulate the objective of general purpose financial reporting, the qualitative characteristics of useful financial information and an exposed position on the reporting entity. The IPSASB CF ED 1 has a similar coverage. Different decisions may prove problematic for transaction neutral jurisdictions like Australia should jurisdictions choose to maintain the approach of one set of standards and at the same time ensure that international investors understand that the financial reports of for-profit entities accord with the International Financial Reporting Standards (IFRS). Therefore, where possible, we would like the outcomes of IPSASB CF ED 1 to mirror those of the completed chapters of the IASB/FASB project.

¹The IASB and FASB are yet to decide whether their finalised conceptual framework will have application to the private not-for-profit sector.

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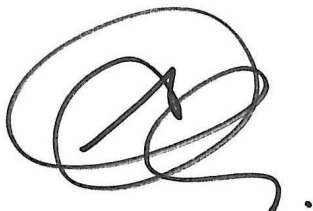


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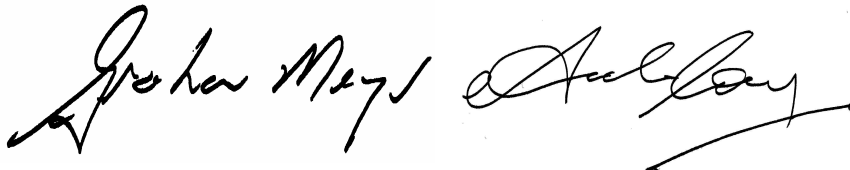
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The response of the Joint Accounting Bodies to the questions posed is appended. If you require further information on any of our views, please contact Mark Shying, CPA Australia via email mark.shying@cpaaustralia.com.au, Kerry Hicks, the Institute of Chartered Accountants via email kerry.hicks@charteredaccountants.com.au or Tom Ravlic, the Institute of Public Accountants by email tom.ravlic@publicaccountants.org.au.

Yours sincerely



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cc: K Stevenson

Specific Matters for Comments

Question 1 – Do you agree with the authority and scope of the Conceptual Framework?

The Joint Accounting Bodies support the authority of the IPSASB Framework as articulated by the IPSASB CF ED 1 paragraph 1.2 for the reasons that:

- it does not establish new authoritative requirements for financial reporting by public sector entities: and
- in selecting accounting policies to deal with circumstances not dealt with in IPSASs or other guidance issued by the IPSASB, we believe it appropriate that public sector entities can choose to refer to the IPSASB Framework, and to consider the applicability of, the definitions, recognition criteria, measurement principles, and other concepts.

The Joint Accounting Bodies welcome the decision of the IPSASB that the CF reflects a scope for financial reporting that is more comprehensive than that encompassed by financial statements including their notes. It appropriately acknowledges the importance in this sector of reporting non-financial information and prospective information. The scope of financial reporting will evolve in response to users information needs, consistent with the decision-making objective of financial reporting.

The Joint Accounting Bodies note the IPSASB CF ED 1 paragraph 3.15 makes comment about the economic and other phenomena represented in GPFRs. We believe it important that information about phenomena other than economic be dealt with explicitly within the scope section of the CF, as it is a determinant of which useful information is within the scope of financial reporting and which useful information is outside the scope of financial reporting.

Question 2 – Do you agree with the objectives of financial reporting by public sector entities and the primary users of GPFRs of public sector entities and their information needs?

The IPSASB CF ED 1 paragraph 1.3 states "...GPFRs are financial reports intended to meet the information needs of users who are unable to require the preparation of financial reports tailored to meet their specific information needs.". The Joint Accounting Bodies support this statement. We are aware of the importance of accountability for the entities of the public sector and the acquittal of funds is often the main reason for their financial reporting. The IPSASB CF ED 1 paragraph 2.1 states, "The objectives of financial reporting by public sector entities are to provide information about the entity that is useful to users of GPFRs for accountability purposes and for decision-making purposes." In contrast, the IASB/FASB Conceptual Framework for Financial Reporting Chapter 1 does not make this distinction explicit – rather, the objective of financial reporting is usefulness in making decisions. The IASB/FASB noted at paragraph BC1.28 to Chapter 1 of its conceptual framework that by describing what stewardship encapsulates, the decision-making objective of financial reporting acknowledges that users make resource allocation decisions alongside decisions about management's efficient and effective use of the resources provided. The Joint Accounting Bodies while not particularly opposed to the approach of the IPSASB, question its necessity and prefer the distinction not be made.

The Joint Accounting Bodies note that the IASB/FASB opined "...without a defined group of primary users, the Conceptual Framework would risk becoming unduly abstract or vague." (IASB/FASB Conceptual Framework for Financial Reporting Chapter 1, The Objective of General Purpose Financial Reporting, paragraph BC1.14). We concur. Accordingly, we support the IPSASB proposal to identify primary users of GPFRs as service recipients and their representatives and resource providers and their representatives.

Question 3 – Do you agree with the qualitative characteristics of, and constraints on, information included in GPFRs 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, free from material error; and**
- b. Materiality should be classified as a constraint on information that is included in GPFRs or as an entity-specific component of relevance.**

The Joint Accounting Bodies support the included qualitative characteristics, including the use of ‘faithful representation’ in place of ‘reliability’. We note their congruence with those agreed by the IASB/FASB – except that the IASB/FASB dichotomises qualitative characteristics based on fundamental and enhancing factors and treats materiality as an entity-specific component of relevance. Ideally, we would like to see both international frameworks end up with the same approach regarding fundamental and enhancing qualitative characteristics. Accordingly, we encourage the IPSASB to replicate the approach of the IASB and FASB. We agree with the position of the IASB/FASB that information without relevance and faithful representation is not useful, and that deficiency cannot be overcome through the presence of the other qualitative characteristics. We also agree with the IASB/FASB that financial information that presents with relevance and faithful representation can be useful, notwithstanding the absence of the other qualitative characteristics. We are not convinced by the arguments against classification advanced by the IPSASB.

Finally, as we understand materiality as an entity-specific consideration, we agree with the IASB/FASB that it is best described as an aspect of relevance and not as a constraint on information that is included in GPFRs for the reason that immaterial information does not affect a user’s decision.

Question 4 – Do you 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 Joint Accounting Bodies agree with the decision of the IPSASB to give attention to the needs of users who are dependent on GPFRs to delineate the boundaries of the reporting entity, be that at the level of the single entity or the group entity. We note that the IASB/FASB have not progressed their work on the Chapter beyond an ED. We consider that this is unfortunate. Were differences to emerge in the way that the term is used in the respective frameworks it may produce unnecessary confusion amongst users of public and private sector financial reports and practitioners – especially those who service both sectors or seek to move between sectors.

The Joint Accounting Bodies support the proposal about the composition of a group reporting entity.