



**Australian Government**

**Australian Accounting  
Standards Board**

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CANADA

Dear Ms Fox

***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****

The Australian Accounting Standards Board (AASB) is pleased to provide its comments on the above named Exposure Draft (ED). In formulating these comments, the AASB considered the views received from Australian constituents.

**General Comments**

***Relationship between the IPSASB and IASB Conceptual Framework projects***

The AASB supports the IPSASB's development of a conceptual framework for public sector entities as a high priority project. The AASB considers it important that the IPSASB and IASB Conceptual Frameworks are complementary, where differences (if any) exist only to the extent warranted by differences in circumstances. This would support the development of International Public Sector Accounting Standards and International Financial Reporting Standards that differ (if at all) only where necessary to deal with different economic phenomena or with economic phenomena that are much more pervasive in one sector than the other. This approach is also likely to assist users of general purpose financial reports who read financial reports across all sectors in the economy.

Such an outcome would foster the achievement of transaction neutrality, under which a given transaction or other event is accounted for the same way, regardless of the nature of the entity (whether for-profit or not-for-profit) and the sector in which the entity operates. The AASB considers that transaction neutrality is important for ensuring information reported by any entity is relevant, representationally faithful and comparable.

The AASB encourages the IPSASB and IASB to work together as closely as possible to achieve complementary Conceptual Frameworks and, in the development process, to leverage off each other's work.

In jurisdictions, such as Australia, that have a single Conceptual Framework for all reporting entities, complementary IPSASB and IASB Conceptual Frameworks would greatly assist with incorporating aspects of the IPSASB Conceptual Framework to address public-sector-specific issues.

### ***Due process***

The AASB acknowledges that this is a substantial project and that the IPSASB is working towards completion of a final Conceptual Framework in March 2013. However, given the interrelationship of the various phases, it encourages the IPSASB to leave open the possibility of issuing an ED of the full Conceptual Framework once EDs have been issued, and comments thereon reviewed, in respect of all phases of the project.

### **Specific Comments**

The AASB has some concerns regarding the proposals in the ED and recommendations for addressing them. The more significant concerns are set out below and elaborated on in Appendix A.

### ***Scope of general purpose financial reporting***

The AASB agrees that the scope of general purpose financial reporting should evolve in response to users' information needs. However, the AASB considers that such evolution needs to be supported by conceptual guidance that helps identify the boundaries of general purpose financial reporting. The AASB does not consider usefulness a sufficient criterion, of itself, for determining which information types should fall within the scope of general purpose financial reporting. If the IPSASB does not define the scope of general purpose financial reporting at this stage, it should at least specify criteria for assessing how the scope of general purpose financial reporting should evolve in response to users' information needs.

### ***Objective(s) of general purpose financial reporting***

The AASB agrees that discharging accountability is a key role of general purpose financial reporting by public sector entities, and for reporting entities more broadly. However, the AASB considers accountability can more usefully be viewed as a means of facilitating resource allocation decisions, and therefore does not support identifying accountability as a separate objective. Put another way, members of the legislature and other interested users who commonly use general purpose financial reports of public sector entities are positioned to make decisions on the information presented for accountability purposes. Such decisions may lead to a debate or commentary on a particular government programme and its performance or, alternatively, decisions may lead to users taking no further action in the light of the information presented. The AASB considers such an approach would work well and allow consistent objectives to be adopted by both global standard-setting boards.

In this context, the AASB recommends the IPSASB Conceptual Framework identifies a single objective of general purpose financial reporting, namely, to provide information useful for decision making by users of general purpose financial reports; and, in support of that position:

- (a) defines ‘accountability’ as being encompassed by decision making; and
- (b) includes a more comprehensive description of decision making, which should include influencing the reporting entity’s resource allocation decisions.

### ***Economic and other phenomena***

The AASB considers ‘economic phenomena’ a broad notion encompassing scarce resources, claims to scarce resources, and inflows and consumptions of scarce resources. The AASB is concerned that the references to phenomena other than economic phenomena in the ED implicitly expand the scope of general purpose financial reporting, and considers that such matters should be dealt with explicitly in the ‘scope of general purpose financial reporting’ component of the Conceptual Framework. It recommends that, if references to these ‘other phenomena’ are included in the IPSASB Conceptual Framework, their meaning should also be explained.

Some contend that using ‘economic’ in relation to all phenomena within general purpose financial reports may cause translation problems. However, the AASB considers that such problems can be avoided by including appropriate explanations and, accordingly, translation issues are not a sufficient reason to incorporate ‘other phenomena’ in the IPSASB Conceptual Framework.

The AASB’s responses to the specific matters for comment in the ED are set out in Appendix A.

Other AASB comments on the ED are set out in Appendix B.

If you have any queries regarding matters in this submission, please contact me or Mischa Ginns ([mginns@aaasb.gov.au](mailto:mginns@aaasb.gov.au)).

Yours sincerely



Kevin Stevenson  
*Chairman and CEO*

## APPENDIX A

### AASB's comments on the Specific Matters for Comment on the ED

#### 1. Role, authority and scope of the Conceptual Framework

##### *Role and authority of the Conceptual Framework*

The AASB generally supports the proposed role and authority of the Conceptual Framework.

The AASB recommends that, as a matter of priority, the IPSASB addresses in IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors* the status of its Conceptual Framework in the hierarchy of authoritative guidance for issues not specifically addressed by IPSASs. The AASB considers the status of the IPSASB Conceptual Framework should be equivalent to that of the IASB Conceptual Framework in IFRSs, including in particular IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. The AASB notes that, presently, paragraph 14 of IPSAS 3 refers to the definitions, recognition and measurement criteria set out in other IPSASs, and paragraph 15 of IPSAS 3 refers to the IASB Conceptual Framework.

##### *Scope of general purpose financial reporting*

The AASB agrees that the scope of general purpose financial reporting will evolve in response to users' information needs. However, the AASB considers such evolution needs to be supported by conceptual guidance that helps identify the boundaries of general purpose financial reporting. If the IPSASB does not define the scope of general purpose financial reporting at this stage, it should at least specify criteria for assessing how the scope of general purpose financial reporting should evolve in response to users' information needs. The AASB's reasons for these comments are set out below.

The AASB does not consider usefulness a sufficient criterion for determining which information types should fall within the scope of general purpose financial reporting. It is quite probable that not all useful information belongs within that scope. This point is acknowledged in paragraph BC1.10 of the ED's Basis for Conclusions on Chapter 1. Consistent with this point, the AASB's submission on the IPSASB Consultation Paper *Reporting on the Long-Term Sustainability of Public Finances* expresses a view that information about the long-term affordability of a government's policies may be useful for decision making by users of the government's financial reports but would not be suitable for general purpose financial reporting.

Therefore, the AASB considers it unclear which types of useful information the ED would conclude belong within the scope of general purpose financial reporting and which types of useful information fall outside the scope of general purpose financial reporting. It encourages the IPSASB to define the scope of general purpose financial reporting in its Conceptual Framework to help resolve this issue.

***Applicability of the IPSASB Conceptual Framework to government business enterprises***

The AASB recommends clarifying the statement in paragraph 1.8 of the ED that the IPSASB Conceptual Framework applies to public sector entities other than government business enterprises (GBEs). Given the role of the IPSASB Conceptual Framework for the development of IPSASs, the AASB considers it important to define GBEs, explain the nature of GBEs and the IPSASB's reasons for excluding them from its Conceptual Framework. This explanation should include an articulation of whether GBEs necessarily are for-profit entities and, if not:

- (a) the circumstances in which they would be not-for-profit entities; and
- (b) why the IPSASB Conceptual Framework should not apply to those not-for-profit entities.

The AASB's view is that all public sector not-for-profit entities should fall within the scope of IPSASs and the IPSASB Conceptual Framework.

The AASB considers it important to clarify in paragraph 1.8 that, whilst general purpose financial reports of for-profit GBEs as separate reporting entities are not within the scope of the IPSASB Conceptual Framework, information about for-profit GBEs included in the general purpose financial reports of governments and other not-for-profit public sector entities is within the scope of the IPSASB Conceptual Framework. The present wording of paragraph 1.8 has caused some confusion in Australia, as noted in submissions to the IPSASB from some Australian commentators on the ED.

Subject to the comments above about any not-for-profit GBEs, the AASB recommends reiterating in the IPSASB Conceptual Framework that GBEs apply IFRSs. The AASB considers it equally important to say this in the IPSASB Conceptual Framework as it is to say it in the *Preface to IPSASs* and in the scope section of individual IPSASs.

**2. Objective(s) of general purpose financial reporting by public sector entities and the primary users of general purpose financial reports of public sector entities and their information needs**

***Objective(s) of general purpose financial reporting***

The AASB agrees that discharging accountability is a key role of general purpose financial reporting by public sector entities, and for reporting entities more broadly, and notes that accountability is therefore regarded by many IPSASB constituents as an objective of general purpose financial reporting. However, the AASB considers that accountability can more usefully be viewed as a means of facilitating resource allocation decisions, and therefore does not support identifying accountability as a separate objective. Put another way, members of the legislature and other interested users who commonly use general purpose financial reports of public sector entities are positioned to make decisions on the information presented for accountability purposes. Such decisions may lead to a debate or commentary on a particular government programme and its performance or, alternatively, decisions may lead to users taking no further action in the light of the information

presented. The AASB considers such an approach would work well and allow consistent objectives to be adopted by both global standard-setting boards.

In this context, the AASB recommends that the IPSASB Conceptual Framework identifies a single objective of general purpose financial reporting, namely, to provide information useful for decision making by users of general purpose financial reports. This would help with identifying the financial information needs of users that general purpose financial reports should strive to meet and that Standards should be developed to require. The AASB does not support identifying accountability as a separate objective because:

- (a) the information identified in the ED as useful to meet an accountability objective is indistinguishable from the information that is useful for decision making. Therefore, it is unclear how identifying accountability as an objective would affect the remainder of the IPSASB Conceptual Framework or help the IPSASB identify information that should be required by IPSASs, in ways that identifying resource allocation decisions as an objective would not;
- (b) accountability is subsumed in the decision making objective and should be explicitly acknowledged as such (see recommendation below). In that way, accountability can be given sufficient acknowledgement in the IPSASB Conceptual Framework without identifying it as a separate objective; and
- (c) accountability is an imprecise notion. Therefore, if it were identified as a separate objective, it could unintentionally open up general purpose financial reporting to providing all kinds of information, such as social responsibility reporting. Whilst the AASB acknowledges the interrelationship between objective(s) and scope, the intended scope of general purpose financial reporting should be addressed directly rather than defining it inadvertently through articulation of the objective.

Accordingly, the AASB recommends that the IPSASB Conceptual Framework:

- (a) explicitly includes accountability within a decision making objective by defining ‘accountability’ as “the responsibility to provide information enabling users to make informed judgements about the reporting entity’s performance, financial position and compliance for the purpose of making and evaluating decisions about the allocation of scarce resources”. These would include judgements about whether that entity’s management has made efficient and effective use of the entity’s resources; and
- (b) explains that users’ decisions about the allocation of scarce resources include their decisions about influencing (or attempting to influence) decision making by the reporting entity’s management or governing body regarding the allocation of that entity’s scarce resources, for example, by voting or lobbying. [In this regard, the AASB notes that the ED identifies voting and lobbying decisions as examples of decision making.]

The AASB notes that some argue decision making would be an inadequate over-arching objective in the absence of investors in the reporting entity or democratic processes in the reporting entity’s jurisdiction. The AASB disagrees with that view, which presumes

decision making is limited to investment or voting decisions. For example, regardless of whether users have voting rights, they will make decisions about resource allocations involving governments and their component entities; for example, whether to lend to them, do business with them, be employed by them, or to attempt to influence decision making by the reporting entity's governing body by formally or informally lobbying—or even publicly agitating—for changes in resource allocation decisions they make.

In relation to the foregoing discussion of accountability and decision making, the AASB considers the ED's guidance on decision making should be enhanced in two respects:

- (a) it should provide a more comprehensive description of decision making. Although the ED's guidance usefully identifies voting and lobbying decisions as examples of decision making, it does not specifically describe 'decision making'. The AASB recommends elaborating on the nature or types of decisions encompassed by the references to 'decision making'; and
- (b) in meeting (a), the discussion of decision making should refer to 'evaluating past decisions'. Information useful for such evaluations would possess confirmatory value. Including this guidance would strengthen the link between decision making and accountability. This could help address concerns that some users, such as recipients of services, do not make decisions about allocating resources to the entity. Even if a user of a general purpose financial report takes no action as a result of evaluating past decisions, this reflects the user's decision not to act.

### ***Primary users***

In the absence of the IASB's revised Conceptual Framework having identified 'primary' users of general purpose financial reports, the AASB would not support the proposed identification of 'primary' users of general purpose financial reports in the IPSASB Conceptual Framework. In respect of both the IASB and IPSASB Conceptual Frameworks, the AASB is concerned that, although it is useful to consider categories of users to help identify users' common information needs, identifying 'primary' users may inappropriately imply the needs of some users should be disregarded.

Nevertheless, the AASB considers there is no apparent public-sector-specific reason for the IPSASB's Conceptual Framework to differ from the revised IASB Conceptual Framework on this issue. This is particularly so given the benefits of complementary Conceptual Frameworks for the IPSASB and IASB. Consistent with its view outlined in the covering letter, the AASB considers differences from the IASB Conceptual Framework should only occur when there is a public-sector-specific reason for them. Accordingly, on balance, the AASB supports identifying 'primary' users.

The AASB recommends that, if the IPSASB were to retain its proposal to identify 'primary' users, such users should include, among others, all parties performing a review or oversight function on behalf of other users. The AASB considers it inconsistent to identify as primary users parties performing a representative (review or oversight) function on behalf of other primary users, but only when they are legislators/parliamentarians.

### **3. Qualitative characteristics of, and constraints on, information included in general purpose financial reports of public sector entities**

#### ***Faithful representation***

The AASB supports using faithful representation instead of reliability as a qualitative characteristic. Consistent with its view outlined in the covering letter, the AASB supports the use of terminology that is consistent with the IASB Conceptual Framework because, in this case, there is not a public sector specific reason for the IPSASB's Conceptual Framework to differ from the revised IASB Conceptual Framework.

#### ***Economic and other phenomena***

The AASB considers 'economic phenomena' a broad notion encompassing scarce resources, claims to scarce resources, and inflows and consumptions of scarce resources. It would also include phenomena external to the entity that may be assessed in relation to scarce resources and changes therein. This notion would therefore include information such as output information. Therefore, the AASB considers 'economic phenomena' a sufficiently broad notion, rooted in the fundamental economic concept of the allocation of scarce resources, to encompass all of the matters properly regarded as the subject matter of general purpose financial reports. It holds this view in respect of any reporting entity, regardless of its nature or the sector in which it operates.

The AASB is concerned that the references to phenomena other than economic phenomena in the ED implicitly expand the scope of general purpose financial reporting, and considers such matters should be dealt with explicitly in the 'scope of general purpose financial reporting' component of the Conceptual Framework. The AASB is also concerned that references to other phenomena open the door to reporting items, such as deferrals, that do not represent phenomena with a dimension that is external to the entity. The ED does not explain the meaning of such other phenomena, and if retained, the IPSASB should explain its reference to providing information about phenomena other than 'economic phenomena'.

Some contend that using 'economic' causes translation problems (for example, that it is limited to market exchanges) and therefore 'economic phenomena' is too narrow a notion to describe the subject matter of general purpose financial reports. However, this problem could readily be overcome by including a definition of 'economic' that removes the potential for unintended interpretations. Economics is concerned with the allocation of scarce resources, and does not imply or require market exchanges. Its meaning has been comprehended universally in the discipline of economics, and there seems no reason why its meaning could not be comprehended in the discipline of general purpose financial reporting.

#### ***Materiality***

The AASB does not support treating materiality as a constraint on reporting useful information in general purpose financial reports. Consistent with the IASB's revised Conceptual Framework, the AASB considers materiality to be an entity-specific aspect of relevance. This is because, unlike cost, materiality is not a constraint on a reporting entity's ability to report information; and materiality does not affect standard setters' decisions because it is an entity-specific consideration.

The AASB does not support the IPSASB’s reasoning for treating materiality as a constraint set out in paragraph BC3.32 of the ED’s Basis for Conclusions. The AASB considers that, if an item of information is irrelevant, meeting the other qualitative characteristics does not make it useful.

***‘Fundamental’ and ‘enhancing’ qualitative characteristics***

The AASB notes the ED does not replicate the revised IASB Conceptual Framework’s dichotomy between ‘fundamental’ and ‘enhancing’ qualitative characteristics. Although the AASB has concerns, in principle, with that dichotomy adopted by the IASB, it considers there is no apparent public-sector-specific reason for the IPSASB’s Conceptual Framework to differ from the revised IASB Conceptual Framework on this issue. This is particularly so given the benefits of complementary Conceptual Frameworks for the IPSASB and IASB. Consistent with its view outlined in the covering letter, the AASB considers that differences from the IASB Conceptual Framework should only occur when there is a public sector specific reason for them.

**4. The Reporting Entity and Group Reporting Entity**

***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 AASB supports the IPSASB’s intention to identify the boundaries for determining those entities that should prepare general purpose financial reports and identify the circumstances in which consolidated financial statements should be prepared. However, it considers that, in the public sector, there is likely to be a need for criteria to identify which entities should, in concept, be required to prepare general purpose financial reports. For example, it may be debatable whether government departments should prepare separate general purpose financial reports. It is more difficult than in the private sector to identify which entities that are components of entities preparing general purpose financial reports should also prepare general purpose financial reports. The AASB therefore suggests including guidance for identifying the characteristics of entities with users dependent on their general purpose financial reports for decision making, and that should therefore prepare general purpose financial reports. The focus of the guidance could, in effect, be on identifying which public sector entities need not prepare general purpose financial reports.

The AASB considers the proposed boundaries of a group reporting entity are in principle consistent with the notion of control adopted by standard-setters in various jurisdictions and recommends explicitly acknowledging this in the IPSASB Conceptual Framework. Although the AASB acknowledges the reasons for the IPSASB’s approach that focuses on the components of group reporting entity relationships without referring to ‘control’, it considers the arguments for referring to ‘control’ are stronger. The arguments include that IPSASs are developed with reference to IFRSs and are applied or referred to by many parties who are strongly conversant with IFRSs. Therefore, it is important not to create the appearance of substantive differences from IFRSs where none exists.

The AASB is concerned that paragraph BC4.21 of the ED’s Basis for Conclusions implies the concept of a group reporting entity is incomplete. This is because it says that whether applying the proposed boundaries of a group reporting entity will provide useful

information in various circumstances will need to be considered in developing authoritative requirements in each jurisdiction.

## APPENDIX B

### Other AASB Comments on the ED

Paragraphs	Comment
1.6	<p>Footnote 2 on page 11 of the ED clarifies that information about “anticipated future service delivery activities and resource needs” need not be provided in every general purpose financial report. The AASB supports that position. However, paragraph 2.14 (second sentence, particularly third bullet point) says general purpose financial reports will need to provide information about such matters and paragraph 2.23 gives a similar impression. It would seem best if the IPSASB Conceptual Framework were to say such information is included within the scope of general purpose financial reporting in view of its usefulness, but that a broad scope is not intended to indicate each general purpose financial report should provide this information.</p>
2.12	<p>The first sentence of each bullet point in paragraph 2.12 refers to an “exchange transaction”. The AASB notes that this term is not defined in the ED and presumes that, at a conceptual level, the distinction between exchange and non-exchange transactions is important, without explaining that presumption. The AASB considers that the issue of whether to distinguish exchange and non-exchange transactions is a standards-level issue only, and that the terms ‘exchange’ and ‘non-exchange’ should not (and need not) be used in the IPSASB Conceptual Framework. Accordingly, in the above-mentioned sentences, the AASB recommends using a generic description of the transaction, such as “a transaction in which the parties directly exchange approximately equal value”.</p> <p>The AASB’s recommendation above is consistent with its comments on references to ‘exchange transactions’ and ‘non-exchange transactions’ in its submission on the IPSASB’s Conceptual Framework CP on Elements and Recognition. This issue is given greater prominence in that submission because references to those terms are much more pervasive in that CP.</p>
2.24 and 2.25	<p>The AASB considers paragraphs 2.24 – 2.25 imply that narrative reports would only include information about financial and service delivery performance. This could unintentionally narrow the scope of the information that should be included in a narrative report. The AASB suggests amending the wording and including some examples of other information that may be included in a narrative report, such as information about risks, resources, objectives, strategies, relationships and nature of business/activities.</p>
3.40	<p>The AASB suggests replacing “relevant” with “useful” in the last sentence. Under the present wording, timeliness and understandability are components of relevance, although Chapter 3 identifies them as qualitative characteristics in their own right (see paragraph BC3.7, third sentence).</p>

<b>Paragraphs</b>	<b>Comment</b>
4.8	The second sentence implies services delivered are not financial benefits. The AASB disagrees with that implication, and therefore suggests replacing “financial” in the second line of the first sentence with “in the form of cash flows”.
BC4.14	This paragraph essentially repeats the proposal in Chapter 4 regarding the boundaries of a group reporting entity, and therefore is not a basis for a conclusion. The AASB suggests providing the basis for concluding that these boundaries are necessary to satisfy the objective(s) of general purpose financial reporting.