List of Submissions to IPSASB Consultation Paper *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*

1 NSW Treasury

2 Representatives of the Australian Accounting Profession
(CPA Australia, The Institute of Chartered Accountants in Australia and National Institute of Accountants

3 HoTARAC

CFGP sub 1

New South Wales
TREASURY

Mr Bruce Porter
Acting Chairman
Australian Accounting Standards Board
PO Box 204
COLLINS ST WEST VIC 8007

Contact: D. McHugh
Telephone: (02) 9228 5340
Our Reference:
Your Reference:

10 February 2009

Dear Mr Porter

IPSASB Consultation Paper on the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities

New South Wales Treasury welcomes the opportunity to provide comments on the IPSASB Consultation Paper on the Conceptual Framework. A copy of NSW Treasury's comments to the IPSASB is attached for your consideration as part of the AASB's submission to the Consultation Paper.

NSW Treasury strongly supports transaction neutrality and the development of a Framework that applies to *all* entities in the public and private sector. In this regard, we do not support the adoption of the draft IPSASB Framework in Australia for the public sector, as it would be contrary to convergence between the IPSASB and IASB requirements. NSW Treasury does not believe that there are fundamental differences that would justify a separate Framework for the public sector.

Accordingly, our preferred approach in Australia is that the original text of the IASB draft Framework should be used to the extent possible, with modifications made where differences between the public and private sector are justified.

If you have any queries, please contact me (02 9228 3019) or Dianne McHugh (02 9228 5340).

Yours faithfully

R Williams

Robert Williams
for Secretary

New South Wales
TREASURY

Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
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Toronto Ontario Canada M5V 3H2

Contact: D. McHugh
Telephone: (02) 9228 5340
Our Reference:
Your Reference:

10 February 09

Dear Sir / Madam

IPSASB Consultation Paper on the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities

New South Wales Treasury welcomes the opportunity to respond to the IPSASB's Consultation Paper on the Conceptual Framework.

NSW Treasury supports the ongoing review of international public sector standards and pronouncements, aimed at achieving consistency with the requirements promulgated by the International Accounting Standards Board.

Given this, we are concerned that the development of a separate public sector Framework, not based on the IASB Framework as a starting point, will make future convergence with the IASB much harder and will take much longer. NSW Treasury does not believe that there are fundamental differences that would justify a separate Framework for the public sector. We believe this is demonstrated by the extent of the similarities between the IPSASB and IASB draft Frameworks, particularly in relation to the qualitative characteristics.

Accordingly, our preferred approach is that the original text of the IASB draft Framework should be used to the extent possible, with modifications made where differences between the public and private sector are justified. This is also consistent with the IPSASB document *Process for Reviewing and Modifying IASB Documents.*

These comments, as well as more detailed comments, are provided in the attachment. If you have any queries, please contact me (612 9228 3019) or Dianne McHugh (612 9228 5340).

Yours faithfully

RWilliams

Robert Williams
for Secretary

NSW Treasury comments on the IPSASB Conceptual Framework Consultation Paper (September 2008)

General comments

Some commentators believe that it is valid to develop a separate Framework for the public sector, on the basis that:

- the IPSASB is communicating with its stakeholders; and
- there are differences between the public sector and private sector.

While this may be true, the difficulty with this approach is that it focuses on the differences rather than the similarities; even though there are vastly more similarities than differences.

As a result, NSW Treasury believes that the IPSASB approach is contrary to long term convergence between the IPSASB and IASB requirements. The development of a separate public sector Framework will make future convergence much harder and will take much longer. This is the essence of what is detailed in the following comments.

NSW Treasury supports transaction neutrality. This is reflected in the approach to Standard setting in Australia, where the IASB Framework is applied to the public sector, with minor modifications. Accordingly, NSW Treasury does not believe that there are fundamental differences that would justify a separate Framework for the public sector (that is not based on the IASB Framework). We believe that the ultimate aim should be for one world standard setter for all types of entities.

By having a separate IPSASB project on the Conceptual Framework, the IPSASB risks losing the discipline of rigorously analysing and justifying departures from the IFRS, which is present in the IPSASB's approach to individual IFRSs. This is confirmed in IPSASB's document *Process for Reviewing and Modifying IASB Documents*, which provides that a separate project should only proceed where the public sector issues are so significant that a public sector specific project is justified (which we do not believe to be the case).

As currently drafted, there would be considerable overlap / duplication between the content of the IPSASB and IASB draft Framework (e.g. qualitative characteristics). Where this is the case, we believe that the original text of the IASB document should be used, wherever possible. However, where differences are apparent between the public and private sector, these differences could be minimised if IPSASB adopted the approach of modifying the IASB proposals. For example, by using the term 'resource providers' rather than 'capital providers', the differences between the IPSASB and IASB proposals could be reduced.

NSW Treasury also continues to encourage the IPSASB and IASB to work together on not-for-profit entity issues so that their Frameworks are consistent. It is noted that the IASB will be considering the application of the proposed framework to not-for-profit entities as part of Phase G of its project. Therefore, some of the IPSASB issues may be addressed as part of that process.

Further, we suggest that the IPSASB refers to the four national standard setters' paper *A report on the application to not-for-profit entities in the private and public sectors* (July 2008) on the IASB Exposure Draft. This paper identifies areas where modifications for the public sector may be necessary but, by starting with the IASB ED, it acknowledges that there are many similarities with the private sector.

Preliminary Views

Preliminary View 1 - The Authority of the IPSASB Framework

The IPSASB Framework will not establish new authoritative requirements for financial reporting by public sector entities that adopt IPSASs, nor will it override the requirements of existing IPSASs.

In selecting accounting policies to deal with circumstances not dealt with in IPSASs or other guidance issued by the IPSASB, public sector entities will refer to, and consider the applicability of, the definitions, recognition criteria, measurement principles, and other concepts identified in the IPSASB Framework.

NSW Treasury comments

NSW Treasury agrees. However, we note that the IPSASB Framework project is not simply interpreting the IASB Framework to the public sector, but rather developing a public sector conceptual framework that makes explicit the definitions, principles, etc that underpin the IPSAS. This is different from the approach to many of the IPSASs, which are based on IFRS and draw on IASB's definitions etc that underlie the IASB Framework.

Therefore, the proposed approach in the IPSASB Framework may be inconsistent with some of the IPSAS (which are implicitly based on the IASB Framework) and could be interpreted to represent a fundamental change in approach that could promote divergence rather than convergence with IFRS.

Preliminary View 2 - General Purpose Financial Reports (GPFRs)

GPFRs are financial reports intended to meet the common information needs of a potentially wide range of users who are unable to demand the preparation of financial reports tailored to meet their specific information needs

NSW Treasury comments

NSW Treasury agrees. This Preliminary View is consistent with the IASB-FASB Exposure Draft on the Conceptual Framework – *The Objective of Financial Reporting and Qualitative Characteristics and Constraints of Decision Useful Financial Reporting Information.*

Preliminary View 3 - The Users of GPFRs

As a mechanism for focusing on their common information needs, the potential users of GPFRs of public sector entities are identified as:

- recipients of services or their representatives;
- providers of resources or their representatives; and
- other parties, including special interest groups and their representatives.

The legislature is a major user of GPFRs. It acts in the interest of members of the community, whether as recipients of services, providers of resources, or citizens with an interest in, or need for, particular services or activities.

NSW Treasury comments

NSW Treasury agrees in principle with the Preliminary view. However, we note that the information needs of these three user groups are substantially the same (refer IPSASB Consultation Paper, paras 2.11-2.15). Therefore, a possible approach is to use 'resource providers' as a proxy for all three user groups, which would represent the public sector equivalent to the IASB's proposed primary user group of 'capital providers'. The advantage of this approach is that it would promote convergence with the IASB's proposed Framework.

Also, we believe that if a primary user group is identified in this way for the public sector, it should exclude 'recipients of goods and services', as we do not believe that the primary purpose of the financial report is to address customer needs (in the public *or* private sectors). However, there is minimal impact of excluding this group because, in the public sector context, most if not all customers are also resource providers, as potential taxpayers.

Preliminary View 4- The Objectives of Financial Reporting (following paragraph 2.22)

The objectives of financial reporting by public sector entities are to provide information about the reporting entity useful to users of GPFRs for:

- accountability purposes; and
- making resource allocation, political and social decisions.

NSW Treasury comments

NSW Treasury agrees. Also, arguably, accountability should be a separate objective for both public and private sector entities. This has been strongly argued by many commentators. In response, this was partially addressed by the IASB by amending their proposals to include stewardship as part of the decision usefulness objective (although in NSW Treasury's view, this still does not go far enough).

However, the differences between the proposed IASB Framework and the IPSASB Framework could be minimised, without significant effect, by encompassing 'political and social decisions' as part of 'accountability'. Alternatively, the second dot point could say just 'making decisions' (without explicitly saying the type of decisions), which is consistent with the proposed IASB Framework.

Preliminary View 5 - The Scope of Financial Reporting)

The scope of financial reporting encompasses the provision of financial and non-financial information about:

- economic resources of the reporting entity at the reporting date and claims to those resources;
- the effect of transactions, other events, and activities that change the economic resources of the reporting entity and claims to those resources during the reporting period, including cash inflows and outflows and financial performance;
- the reporting entity's compliance with relevant legislation or regulation and legally adopted or approved budgets used to justify the raising of monies from taxpayers and ratepayers;
- the reporting entity's achievement of its service delivery objectives; and
- prospective financial and other information about the reporting entity's future service delivery activities and objectives, and the resources necessary to support those activities.

It also encompasses explanatory material about: (a) the major factors underlying the financial performance of the entity, the achievement of its service delivery and other objectives and the factors which are likely to influence its performance in the future; and (b) the assumptions underlying and major uncertainties affecting the information included in GPFRs.

NSW Treasury comments

NSW Treasury agrees with the Preliminary View, except we do not support including prospective information and information regarding the achievement of service delivery objectives in financial statements and notes. However, if the IPSASB believes that this type of information is included in the scope of a financial reporting framework, we believe that it needs to differentiate between the audited financial statements and the unaudited 'annual reporting' information (or financial reporting information outside of the financial statements). For example, at present, prospective management information and information about service delivery objectives generally do not form part of the audited financial statements.

While the nature of what is included in the audited financial statements may change over time, this distinction between financial (audited) and annual reporting (unaudited) should be explicitly acknowledged.

Preliminary View 6 - Evolution of the Scope of Financial Reporting

The scope of financial reporting should evolve in response to users' information needs, consistent with the objectives of financial reporting.

NSW Treasury comments

NSW Treasury agrees. Refer our comments made in response to Preliminary View 5. However, while the concept of what is included in a general purpose financial will evolve, it is not realistic or desirable for financial reports to ever provide *all* information that is useful for accountability and decision making purposes. Therefore, it is best to limit non-financial and prospective information that may form part of a general purpose financial report to information best communicated in financial reports.

Preliminary View 7 - The Qualitative Characteristics of Information Included in GPFRs

The qualitative characteristics of information included in GPFRs of public sector entities are:

- relevance, which encompasses confirmatory value, predictive value, or both;
- faithful representation, which is attained when depiction of economic or other phenomena is complete, neutral, and free from material error;
- understandability;
- timeliness;
- comparability; and
- verifiability (including supportability).

Constraints on financial reporting are materiality, cost, and achieving an appropriate balance between the qualitative characteristics.

NSW Treasury comments

NSW Treasury agrees with the above qualitative characteristics, and notes that with the exception of the omission of the distinction between 'fundamental' and 'enhancing' characteristics, the qualitative characteristics are identical to the proposed IASB Framework. This illustrates that the differences between the public and private sector are not fundamental. Therefore, consistent with the IPSASB *Process for Reviewing and Modifying IASB Documents*, we believe that the IPSASB text should be consistent with the IASB proposal (as far as possible), rather than using different words to say, in essence, the same thing.

Further, we note that there does not seem be a justifiable public sector-specific reason to omit the IASB proposed distinction between 'fundamental' and 'enhancing' characteristics. While commentators may debate the validity of making such a distinction, arguments for it have not differentiated the public sector.

NSW Treasury believes that it is important that the IASB Framework should only be departed from where there is a public sector-specific justification. This is necessary to maintain sector / transaction neutrality and to minimise differences between the IASB and IPSASB requirements.

Preliminary View 8 - Characteristics of a Reporting Entity

The key characteristic of a reporting entity is the existence of users who are dependent on GPFRs of the entity for information for accountability purposes, and for making resource allocation, political, and social decisions.

A public sector reporting entity may be an entity with a separate legal identity or other organisational structure or arrangement.

<u>NSW Treasury comments</u>

NSW Treasury agrees.

See also comments for Preliminary View 4 above.

Preliminary View 9 – The Composition of a Group Reporting Entity

A group reporting entity will comprise the government (or other public sector entity) and other entities when the government (or other public sector entity):

- has the power to govern the strategic financing and operating policies of the other entities (a "power criterion"); and
- can benefit from the activities of the other entities, or is exposed to a financial burden that can arise as a result of the operations or actions of those entities; and can use its power to increase, maintain, or protect the amount of those benefits, or maintain, reduce, or otherwise influence the financial burden that may arise as a result of the operations or actions of those entities (a "benefit or financial burden/loss" criterion).

<u>NSW Treasury comments</u>

NSW Treasury agrees with the Preliminary View above; however, we have difficulties with some of the wording, as follows:

- *"Govern" versus "direct"*

The word "govern" contained within the power criterion could be interpreted to mean "regulate", which could lead to problems. Although the section on the reporting entity does not specifically refer to "regulation", the question of regulation versus control should be considered. "Regulate" has several possible interpretations, including legislate or restrict or control.

Further, paragraph 17.9(d) of AASB 127 *Consolidated and Separate Financial Statements* states that the power of government to establish the regulatory environment in which entities operate or to impose conditions or sanctions on their operations does not of itself constitute control of the assets deployed in those entities. For example, governments regulate the operations of entities operating in the gaming industry, but those entities are not controlled by government unless the assets or residual assets of those entities can be deployed for the benefit of government.

NSW Treasury suggests that the word "direct" be used instead of the word "govern". This is the word used by the IASB in its proposed working definition of control. The use of the word "direct" would avoid any possible confusion over the meaning of the word "govern". It would also bring the basis for determining the composition of the group reporting entity closer to the IASB proposal and promote convergence.

- *Control*

NSW Treasury questions the IPSASB's decision to avoid using the term "control" when it discusses the composition of a group reporting entity. None of the reasons put forth in the paper convinced us of the need to stay away from referring to control. In fact, IPSASB is still using the IASB concept of control with slightly different wording.

- *Financial burden versus amount or incidence of losses*

We are unclear why the IPSASB has amended the IASB working definition of control by changing the reference to reducing "the amount or incidence of losses" to a reference to "financial burden". The IPSASB should also explain why being exposed to a financial burden that can arise as a result of the operations or actions of another entity would not be encompassed by benefiting (which encompasses positive and negative benefits) from the activities of that entity.

As above, NSW Treasury recommends retaining the IASB wording as we do not see any significant difference between exposure to a financial burden (IPSASB) and reducing the incidence of losses (IASB). This is another example why we do not believe that there are fundamental differences to justify a separate Framework for the public sector.

23 February 2009

Mr Bruce Porter
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Dear Bruce

IPSASB Consultation Paper - Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: The Objectives of Financial Reporting, The Scope of Financial Reporting, The Qualitative Characteristics of Information Included in General Purpose Financial Reports, The Reporting Entity

CPA Australia, the Institute of Chartered Accountants in Australia and the National Institute of Accountants (the Joint Accounting Bodies) are pleased to respond to the IPSASB Consultation Paper.

The Joint Accounting Bodies represent over 180,000 professional accountants in Australia. Our members work in diverse roles across public practice, commerce, industry, government, academia throughout Australia and internationally.

The Joint Accounting Bodies note the Australian Accounting Standards Board (AASB) has not as yet decided how it will use the International Public Sector Accounting Standards Board (IPSASB) Conceptual Framework for public sector and not-for-profit private sector entities. We strongly encourage the AASB to determine what relevance the framework will have to Australia.

The AASB's policy paper "AASB Adoption of IASB Standards by 2005", 10 August 2004, articulated the approach of the AASB to the adoption of the framework and standards of the International Accounting Standards Board (IASB). The AASB's approach of setting a single set of standards for all sectors has resulted in Australia being one of the few countries to integrate the IASB Framework for the Preparation and Presentation of Financial Statements and International Financial Reporting Standards (IFRS) into Australian Accounting Standards which apply to all entities, including public sector and private not-for-profit sector entities.

The response of the Joint Accounting Bodies to this Consultation Paper has been developed in this context.

The AASB's approach of including additional text, suitably identified, to deal with the situations where there is a need to have different or additional requirements for the public sector and private not-for-profit sector entities, can cause some confusion, particularly overseas. To readers without detailed knowledge of the Australian standard-setting environment, it appears that the AASB has not adopted the literature of the IASB word for word, but has made changes. International investors do not want to have to consider whether the Australian framework and standards are the same of those of the IASB.

When completed, the conceptual frameworks of the IPSASB and the IASB/Financial Accounting Standards Board (FASB) will represent international best practice for entities of the private for-profit sector[1] and public sector respectively. The IPSASB comparison of IPSASB preliminary views with current IASB/FASB proposals/preliminary views identifies some significant differences in approach (for example, the characteristics of a reporting entity). Such differences may be problematic for the AASB should it choose to maintain its approach of one set of standards and at the same time ensure that international investors understand that Australian for-profit entities' financial reports comply with the IASB conceptual framework and standards.

The Joint Accounting Bodies preference is for an international reporting framework comprised of a single set of concepts designed for application to all sectors. We do, however, acknowledge that this is not the way that standard setting internationally is structured today. We encourage the AASB to submit to the Trustees of the International Accounting Standards Committee Foundation 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 consider the IPSASB Framework document to be a well written high level conceptual document, in contrast to the IASB document which shows a tendency to go into detail that should have been handled at the standards level. Nevertheless, in the interests of consistency between sectors and simplicity for users, our preference has to be for the IPSASB to use the relevant chapters of the IASB/FASB Framework as a base and then amend, delete and or insert words, sentences and or paragraphs as necessary. We think this approach would better highlight the similarities and differences of the two Frameworks – an approach particularly useful for sector neutral jurisdictions. We encourage the AASB to make this point in its submission to the IPSASB re its future work on its Framework.

The Joint Accounting Bodies will continue to make such representations nationally and internationally.

Our detailed responses to the Preliminary Views expressed in the Consultation Paper follow in an attached Appendix.

If you require further information on any of our views, please contact Mark Shying, CPA Australia via email at mark.shying@cpaaustralia.com.au, Kerry Hicks, the Institute via email at kerry.hicks@charteredacccountants.com.au or Tom Ravlic by email tom.ravlic@nia.org.au.

Yours sincerely

Geoff Rankin
Chief Executive Officer
CPA Australia Ltd

Graham Meyer
Chief Executive Officer
Institute of Chartered Accountants

Roger Cotton
Chief Executive Officer
National Institute of Accountants

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

Preliminary View 1 - The Authority of the IPSASB Framework (following paragraph 1.7)

The IPSASB Framework will not establish new authoritative requirements for financial reporting by public sector entities that adopt IPSASs, nor will it override the requirements of existing IPSASs.
In selecting accounting policies to deal with circumstances not dealt with in IPSASs or other guidance issued by the IPSASB, public sector entities will refer to, and consider the applicability of, the definitions, recognition criteria, measurement principles, and other concepts identified in the IPSASB Framework.

The Joint Accounting Bodies support the proposal that:

- the IPSASB Framework not establish new authoritative requirements: and
- in the absence of an IPSASB Standard, the IPSASB Framework is one source of information that the management of a public sector entity will refer to in developing and applying an accounting standard.

Preliminary View 2 - General Purpose Financial Reports (GPFRs) (following paragraph 1.15)

GPFRs are financial reports intended to meet the common information needs of a potentially wide range of users who are unable to demand the preparation of financial reports tailored to meet their specific information needs.

The Joint Accounting Bodies support the proposal.

Preliminary View 3 - The Users of GPFRs (following paragraph 2.7)

As a mechanism for focusing on their common information needs, the potential users of GPFRs of public sector entities are identified as:

- **recipients of services or their representatives;**
- **providers of resources or their representatives; and**
- **other parties, including special interest groups and their representatives.**

The legislature is a major user of GPFRs. It acts in the interest of members of the community, whether as recipients of services, providers of resources, or citizens with an interest in, or need for, particular services or activities.

The Joint Accounting Bodies support the proposal to identify broad groupings of users to then enable the IPSASB to identify common information needs. We do not think it necessary to identify a primary group of users. The extensive list of users of GPFRs of public sector entities identified in paragraph 2.3 seems complete. We think the preliminary view 3 statement about the legislature would be improved by the inclusion of the discussion in paragraph 2.5 that notes that the legislature generally has the authority of demand the preparation of special purpose financial reports to meet its particular information needs. However, as paragraph 2.5 notes this is not always so.

Preliminary View 4- The Objectives of Financial Reporting (following paragraph 2.22)

The objectives of financial reporting by public sector entities are to provide information about the reporting entity useful to users of GPFRs for:

- **accountability purposes; and**
- **making resource allocation, political and social decisions.**

The Joint Accounting Bodies support the proposed objectives of financial reporting. We consider that the accountability objective adequately addresses the issue of stewardship.

Preliminary View 5 - The Scope of Financial Reporting (following paragraph 3.18)

The scope of financial reporting encompasses the provision of financial and non-financial information about:

- **economic resources of the reporting entity at the reporting date and claims to those resources;**
- **the effect of transactions, other events, and activities that change the economic resources of the reporting entity and claims to those resources during the reporting period, including cash inflows and outflows and financial performance;**
- **the reporting entity's compliance with relevant legislation or regulation and legally adopted or approved budgets used to justify the raising of monies from taxpayers and ratepayers;**
- **the reporting entity's achievement of its service delivery objectives; and**
- **prospective financial and other information about the reporting entity's future service delivery activities and objectives, and the resources necessary to support those activities.**

It also encompasses explanatory material about: (a) the major factors underlying the financial performance of the entity, the achievement of its service delivery and other objectives and the factors which are likely to influence its performance in the future; and (b) the assumptions underlying and major uncertainties affecting the information included in GPFRs.

The Joint Accounting Bodies welcome the decision of the IPSASB to address this issue now. We consider the IPSASB definition appropriate. We consider it appropriately acknowledges the importance in this sector of reporting non-financial information and prospective information.

Preliminary View 6 - Evolution of the Scope of Financial Reporting (following paragraph 3.22)

The scope of financial reporting should evolve in response to users' information needs, consistent with the objectives of financial reporting.

The Joint Accounting Bodies agree that evolution will be necessary.

Preliminary View 7 - The Qualitative Characteristics of Information Included in GPFRs (following paragraph 4.40)

The qualitative characteristics of information included in GPFRs of public sector entities are:

- **relevance, which encompasses confirmatory value, predictive value, or both;**
- **faithful representation, which is attained when depiction of economic or other phenomena is complete, neutral, and free from material error;**
- **understandability;**
- **timeliness;**
- **comparability; and**
- **verifiability (including supportability).**

Constraints on financial reporting are materiality, cost, and achieving an appropriate balance between the qualitative characteristics.

The Joint Accounting Bodies support the included qualitative characteristics. We note their congruence with those proposed by the IASB – except that the IASB dichotomises qualitative characteristics on the basis of fundamental and enhancing. We encourage the IPSASB to work with the IASB to ensure they both end up with the same approach regarding fundamental and enhancing qualitative characteristics.

Preliminary View 8 - Characteristics of a Reporting Entity (following paragraph 5.10)

The key characteristic of a reporting entity is the existence of users who are dependant on GPFRs of the entity for information for accountability purposes, and for making resource allocation, political, and social decisions.

A public sector reporting entity may be an entity with a separate legal identity or other organisational structure or arrangement.

The Joint Accounting Bodies encourage the IPSASB to work with the IASB on the terminology used to describe a reporting entity. We think it important that the term is used consistently in their respective frameworks. Differences may give rise to the opportunity for unnecessary confusion among users of public sector and private sector for-profit financial reports and practitioners – especially those who service both sectors or seek to move between sectors. Our earlier correspondence to the IASB and Australian Accounting Standards Board expressed our preference for the use of the term 'economic entity' in place of 'reporting entity' to describe the circumscribed area of business activity of interest to present and potential equity investors, lenders and capital providers. Our reasoning was 'reporting entity' has different connotations and understanding in the Australian jurisdiction over an extensive number of years.

Preliminary View 9 – The Composition of a Group Reporting Entity (following paragraph 5.35)

A group reporting entity will comprise the government (or other public sector entity) and other entities when the government (or other public sector entity):

- **has the power to govern the strategic financing and operating policies of the other entities (a "power criterion"); and**
- **can benefit from the activities of the other entities, or is exposed to a financial burden that can arise as a result of the operations or actions of those entities; and can use its power to increase, maintain, or protect the amount of those benefits, or maintain, reduce, or otherwise influence the financial burden that may arise as a result of the operations or actions of those entities (a "benefit or financial burden/loss" criterion).**

The Joint Accounting Bodies support the proposal.

CFGP sub 3

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Tasmania

Mr Bruce Porter
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Dear ~~Mr Porter~~ Bruce

IPSASB CONSULTATION PAPER: CONCEPTUAL FRAMEWORK FOR GENERAL PURPOSE FINANCIAL REPORTING BY PUBLIC SECTOR ENTITIES

The Heads of Treasuries Accounting and Reporting Advisory Committee is responding to the AASB's invitation to comment on the International Public Sector Accounting Standards Board's Consultation Paper: *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*.

HoTARAC members have divergent views regarding the need for the development of a separate public sector conceptual framework for the public sector.

Some HoTARAC members believe that the development of a separate framework, not based on the IASB Framework, is contrary to the long term convergence between the IPSASB and IASB requirements as it will make future convergence more difficult and time consuming. By having a separate IPSASB project on the Conceptual Framework, the IPSASB may also risk losing the discipline of rigorously analysing and justifying departures from the IFRS, which is present in the IPSASB's approach to individual IFRSs. The importance of this is reflected in the IPSASB's document Process for Reviewing and Modifying IASB Documents.

Other HoTARAC members view the nature and operation of the public sector differently from that of the for-profit sector, particularly in areas of accountability and stewardship. Hence, this alternate view considers there is a need for the IPSASB to develop a separate conceptual framework for the public sector which reflects the differences between the public sector and for-profit sector, rather than aiming for exact convergence between the IASB and IPSASB Conceptual Frameworks. On this basis, an IPSASB Conceptual Framework may be a good tool for the AASB to use in the future in developing Aus paragraphs for the public sector.

Despite these differing views, HoTARAC has agreed, based on its review to date, the following comments with respect to the Preliminary Views contained in the IPSASB Consultation Paper (Attachment 1 refers). HoTARAC will also be providing a separate response directly to the IPSASB.

HoTARAC will continue to monitor and provide comment on the work being undertaken by the IPSASB as content is released for comment.

Yours sincerely

Don Challen

D W Challen
CHAIR
HEADS OF TREASURIES ACCOUNTING AND REPORTING ADVISORY COMMITTEE

22 February 2009

Encl

Attachment 1

IPSASB Consultation Paper

Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities

HoTARAC Response

Preliminary View 1 - The Authority of the IPSASB Framework

The IPSASB Framework will not establish new authoritative requirements for financial reporting by public sector entities that adopt IPSASs, nor will it override the requirements of existing IPSASs.

In selecting accounting policies to deal with circumstances not dealt with in IPSASs or other guidance issued by the IPSASB, public sector entities will refer to, and consider the applicability of, the definitions, recognition criteria, measurement principles, and other concepts identified in the IPSASB Framework.

Comment

HoTARAC supports this preliminary view as it is consistent with the current Australian Accounting Standards Board Framework which states that the framework is not an Australian Accounting Standard and does not define standards for measurement or disclosure.

However, HoTARAC notes that the IPSASB Framework Project is not simply interpreting the IASB Framework to the public sector, but rather developing a public sector conceptual framework that makes explicit the definitions, principles, etc that underpin the IPSAS. This is different from the approach to many of the IPSAS, which are based on IFRS and draw on IASB's definitions etc that underlie the IASB Framework. As a consequence, the proposed IPSASB Framework approach may be inconsistent with some of the IPSAS, which are implicitly based on the IASB Framework, and could be interpreted to represent a fundamental change in approach that could promote divergence rather than convergence with IFRS.

Preliminary View 2 - General Purpose Financial Reports GPFRs

GPFRs are financial reports intended to meet the common information needs of a potentially wide range of users who are unable to demand the preparation of financial reports tailored to meet their specific information needs.

Comment

HoTARAC supports the statement of providing information to meet the common information needs of a wide range of users. However, Preliminary View 2 could be strengthened by clarifying and identifying what information needs GPFRs are to satisfy.

Paragraph 1.13 of the Conceptual Framework states that GPFRs include, but are broader than, financial statements and their notes as currently dealt with in IPSAS. The Conceptual Framework is highlighting that GPFRs may provide information about the past, present and the future that is useful to users. This may include prospective financial and other information and non-financial information about the achievement of the entities service delivery objectives. Further, the Conceptual Framework mentions that information the GPFRs may provide will develop and evolve in response to a number of factors, including the changing operating environment and users needs for relevant information about new and innovative transactions. HoTARAC also believes that this broad framework will mean it is possible that not all GPFR will address all of these facets in the same report. In other words, not all GPFRs will be consistent in their coverage.

When considering this breadth of reporting, there will need to be consideration of the parameters placed on annual disclosure of such information in the financial statements to ensure they can be faithfully represented, and verifiable (auditable).

Preliminary View 3 - The Users of GPFRs

As a mechanism for focusing on their common information needs, the potential users of GPFRs of public sector entities are identified as:

- *recipients of services or their representatives;*
- *providers of resources or their representatives; and*
- *other parties, including special interest groups and their representatives.*

The legislature is a major user of GPFRs. It acts in the interest of members of the community, whether as recipients of services, providers of resources, or citizens with an interest in, or need for, particular services or activities.

Comment

HoTARAC provisionally supports Preliminary View 3, however, it believes that in defining users of GPFRs the following should be further considered:

- the term "legislature" is too broad and should be replaced by "Parliament";
- reference should be made to "goods and services", not just services, and other recipients that would "otherwise benefit from the activities of the government"; and
- in respect to the term "other parties, including special interest groups and their representatives" this category appears too broad. It would be preferable for the Framework to include the specific parties who are users of GPFRs such as regulators and oversight bodies etc.

An alternative approach held by a minority of HoTARAC members would be to use "resource providers" as a proxy for all three user groups, which would represent the public sector equivalent to the IASB's proposed primary user group of "capital providers". The advantage of this approach is that it would promote convergence with the IASB's proposed Framework. If a user group is identified in this way for the public sector, it should exclude "recipients of goods and services", as it could be argued that the primary purpose of the financial report is not to address customer needs (in the public or for-profit sectors). However, other HoTARAC members believe that a disadvantage of using the term "resource providers" is that it may be too broad to describe all users of GPFRs.

Preliminary View 4 - The Objectives of Financial Reporting

The objectives of financial reporting by public sector entities are to provide information about the reporting entity useful to users of GPFRs for:

- *accountability purposes; and*
- *making resource allocation, political and social decisions.*

Comment

HoTARAC believes that the proposed Objectives of Financial Reporting need to be researched further to determine how they will be met and the impact they will have on the alignment of IPSAS statements with those proposed under IFRS. In respect to the latter, a minority of HoTARAC members have suggested that differences between the two frameworks could be minimised, without significant effect, by encompassing "political and social decisions" as part of "accountability".

Accountability is discussed from the perspective of demonstrating that the public sector entity has achieved its performance objectives and is therefore still performance based. This is a different focus from the IASB, where performance is based on the profit made from the use of assets and how this is attributed to shareholders. However, while information can be made available to users, it is up to those users to determine management accountability rather than for this to be included explicitly in the GPFRs. Further, it would be nearly impossible to generically define accountability as each jurisdiction has different accountabilities and legal frameworks.

HoTARAC believes that stewardship and accountability are two distinct concepts and the IPSASB should discuss the stewardship of resources separately from accountability.

It is suggested that further consideration be given to the following matters identified within paragraph 2.22, namely:

- anticipated future service delivery activities and objectives of the entity - including information about their anticipated cost and the amount and sources of the resources that will be allocated to their provision;
- prospective financial and other information useful in assessing the sustainability of government operations and programs - and at what level; and
- explanatory information to support assessments of the efficiency and effectiveness of operations - and to place in context financial and other information about the compliance and service delivery achievements of the entity during the reporting period and the entity's future plans, objectives and anticipated resource needs.

Preliminary View 5 - The Scope of Financial Reporting

The scope of financial reporting encompasses the provision of financial and non-financial information about:

- *economic resources of the reporting entity at the reporting date and claims to those resources;*
- *the effect of transactions, other events, and activities that change the economic resources of the reporting entity and claims to those resources during the reporting period, including cash inflows, cash outflows and financial performance;*
- *the reporting entity's compliance with relevant legislation or regulation and legally adopted or approved budgets used to justify the raising of monies from taxpayers and ratepayers;*
- *the reporting entity's achievement of its service delivery objectives; and*
- *prospective financial and other information about the reporting entity's future service delivery activities and objectives, and the resources necessary to support those activities.*

It also encompasses explanatory material about: (a) the major factors underlying the financial performance of the entity, the achievement of its service delivery and other objectives and the factors which are likely to influence its performance in the future; and (b) the assumptions underlying and major uncertainties affecting the information included in GPFRs.

Comment

HoTARAC does not support including prospective information and information regarding achievement of service delivery objectives in financial statements and notes. However, if the IPSASB believes that this type of information is included in the scope of a financial reporting framework, HoTARAC believes that it needs to differentiate between the audited financial statements and the unaudited annual reporting information (or financial reporting information outside of the financial statements). For example, at present, prospective management information and information about service delivery objectives generally does not form part of the audited financial statements.

In respect to the auditing of information HoTARAC believes that there are some issues that need further consideration, as follows:

- Auditing of information:
  - should the provision of service delivery achievements be mandated in the financial statements and audited, or should it, partially or wholly, be in the general section of annual reports?
  - there will also be a need to differentiate between the audited financial statements and the unaudited annual reporting information.
- the practicability and cost versus benefit of capturing, collating and reporting this information, in particular:
  - do users have the capacity to request it anyway by other mechanisms such as Freedom of Information requests; and
  - the ability of this information to be faithfully represented and verifiable to facilitate auditor sign-off?

Some of the difficulties in auditing such information may encompass:

- due to the short term nature of the Australian and other jurisdictions which have an elected parliamentary cycle, there would need to be a limitation on how far into the future this information is projected;
- the degree of detail provided in the information and the type of information could have audit implications when projected into the future; and
- if budgets are to form the basis of this information, then the projected time period may need to be limited to the budget timeframes.

Preliminary View 6 - Evolution of the Scope of Financial Reporting

The scope of financial reporting should evolve in response to users' information needs, consistent with the objectives of financial reporting.

Comment

HoTARAC supports this view, as long as the scope is based on an open and transparent consultation process. However, it is important to bear in mind that it is not realistic or desirable to envisage such reports as providing all information that is useful for accountability and decision making purposes. Therefore, it is best to limit non-financial and prospective information that may form part of a general purpose financial report to information best communicated in financial reports.

Preliminary View 7 - The Qualitative Characteristics of Information Included in GPFRs

The qualitative characteristics of information included in GPFRs of public sector entities are:

- *relevance, which encompasses confirmatory value, predictive value, or both;*
- *faithful representation, which is attained when depiction of economic or other phenomena is complete, neutral, and free from material error;*
- *understandability;*
- *timeliness;*
- *comparability; and*
- *verifiability (including supportability).*

Constraints on financial reporting are; materiality, cost, and achieving an appropriate balance between the qualitative characteristics.

Comment

HoTARAC supports this view, noting that, with the exception of the omission of the distinction between "fundamental" and "enhancing" characteristics, the qualitative characteristics are identical to the proposed IASB Framework. Further, the proposed characteristics are also consistent with the current AASB Framework, namely understandability, relevance, reliability and comparability - these characteristics are limited by timeliness, materiality and cost/benefit. It is suggested that IPSASB gives consideration to including substance over form as a characteristic.

In respect to the distinction between "fundamental" and "enhancing" characteristics its omission does not appear to be well justified. It is important that the IASB Framework should only be departed from where there is a public sector-specific justification.

Preliminary View 8 - Characteristics of a Reporting Entity

The key characteristic of a reporting entity is the existence of users who are dependant on GPFRs of the entity for information for accountability purposes, and for making resource allocation, political, and social decisions.

A public sector reporting entity may be an entity with a separate legal identity or other organisational structure or arrangement.

Comment

This view is cautiously supported by HoTARAC. However, the IPSASB's proposed definition of a public sector entity could potentially increase the number of reporting entities within each jurisdiction and also increase the number of consolidated financial statements being prepared.

Further, the basis of the reporting entity discussion primarily revolves around the presence of users for general purpose statements and does not address the issue of the resources available to the entity, its size or the relevance of preparing full financials for some entities. As a consequence, the Conceptual Framework needs to recognise that GPFR may not be appropriate for all public sector entities and the jurisdiction is responsible for deciding which entities prepare them.

Consideration needs to be given to the fact that in some circumstances a restricted or differential form of GPFR or even a special report may be adequate to meet the objectives.

Preliminary View 9 - The Composition of a Group Reporting Entity

A group reporting entity will comprise the government (or other public sector entity) and other entities when the government (or other public sector entity):

- *has the power to govern the strategic financing and operating policies of the other entities (a "power criterion"); and*
- *can benefit from the activities of the other entities, or is exposed to a financial burden that can arise as a result of the operations or actions of those entities; and can use its power to increase, maintain, or protect the amount of those benefits, or maintain, reduce, or otherwise influence the financial burden that may arise as a result of the operations or actions of those entities (a "benefit or financial burden/loss" criterion).*

Comment

The group reporting entity concept is not supported by HoTARAC in its current form.

The application of the IPSASB group reporting entity concept in Australia may have a major impact on what entities are consolidated into whole-of-government reporting entities. The term "govern" does not necessarily mean "control". Further the word "govern" could be inferred to mean regulate, which could cause problems. Although the section on the reporting entity does not specifically refer to regulation, the question of regulation versus control should be considered. Regulate has several possible interpretations, including legislate or restrict or control. As such, the group reporting entity scope is very broad and could potentially capture some non-government organisations.

To define what entities fit within the group it is necessary to determine at what level enabling legislation and financial legislation applicable to some of these entities demonstrates their power to govern strategic financing and operating policies of an entity.

For example, in Australia, local governments are constitutionally recognised as a separate and independent tier of government and as a consequence are not consolidated into their State's whole-of-government financial statements even though the State concerned is responsible for their enabling legislation.

If the legislation is sufficient to fulfil the power criterion and a State government has guaranteed a loan facility for the local government for no fee, that State would be exposed to the risk of a financial burden as well. Such a scenario raises the question of whether this could be a trigger for local governments to be consolidated in the States whole-of-government financial statements.

An alternative to using the word "govern" could be to replace it with the word "direct". This would avoid any possible confusion and would bring the basis for determining the composition of the group reporting entity closer to the IASB proposal and promote convergence.

HoTARAC further suggests that the IPSASB should take the International Monetary Fund Institutional Structures (General Government Sector, Public Financial Corporations, Public Non-Financial Corporations) into account in setting a reporting entity.

It is also unclear why the IPSASB has amended the IASB working definition of control by changing the reference to reducing "the amount or incidence of losses" to a reference to "financial burden". Although some HoTARAC members support the change, others have concern as it is not clear why being exposed to a financial burden that can arise as a result of the operations or actions of another entity would not be encompassed by benefiting from the activities of that entity. As a consequence, further information from IPSASB on the reasoning for the change would be appreciated.