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The Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street West Vic 8007
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10 October 2006

Dear Chairman

IASB Discussion Paper “Preliminary Views on Improved Conceptual framework For Financial Reporting: *The Objective of Financial Reporting & Qualitative Characteristics of Decision-Useful Financial Reporting Information*” (the Discussion Paper).

Members of the Australasian Council of Auditors-General (ACAG) have been canvassed and submit the following comments in response to the Exposure Draft referred to above.

This represents the views of all Australian members of ACAG with the exception of the Auditor-General for South Australia, who reserves his right to respond separately to auditing and accounting Exposure Drafts, where he deems it appropriate, rather than as a member of ACAG.

We would like to acknowledge the initiative of the AASB and other standard setting bodies in forming a monitoring group to assess the conceptual framework project and highlighting the implications of applying the concepts proposed in the Discussion Paper from the perspective of private and public sector not-for-profit entities.

Overall View

We do not support the IASB-FASB approach of developing concepts for business entities in the private sector and only when the concepts are finalised, considering how they might apply to financial reporting by other classes of entity. The proposals in the Discussion Paper have significant implications when applied to entities other than private sector businesses because of the different objectives, characteristics and operating environments that can characterise other classes of entity. We are particularly concerned with the consequences for all entities in the public sector. Therefore, we strongly believe that the IASB cannot develop this conceptual framework by considering private sector for-profit

entities in isolation whilst, at the same time, having a strategy of rolling out the consequential framework to other financial reporting groups such as not-for-profit and the public sector. Our specific comments that follow reflect this overriding concern.

The Objective of Financial Reporting

The objective of financial reporting outlined in the Discussion Paper proposes to incorporate the concept of stewardship implicitly within the main objective outlined in paragraph OB2. Paragraph OB2 states that the objective of management's stewardship is covered in 'making resource allocation decisions in a broad sense'. However, we believe that this does not adequately address financial reporting principles for public sector entities. In the public sector, stewardship is a significant and much broader objective than that covered in the Discussion Paper.

For public sector agencies, management's stewardship responsibilities go beyond simply making resource decisions, they involve an accountability for the use of resources already made available to them and how well goods and services have been delivered. Stewardship needs to be specifically addressed in the conceptual framework so that it meets the needs of all users. Therefore we recommend that stewardship or the discharge of accountability be identified as a separate objective or explicitly included within a single objective.

Potential Users of Financial Report

It is vital that the primary user group of financial reporting be broadened as it has significant implications in determining the type and scope of financial information.

The Discussion Paper proposes the primary group of users of the financial reporting be limited to present and potential investors and creditors who have a common interest in the ability of an entity to generate net cash inflows. This scope of users is too narrow as it excludes other users, for example users of public sector entities' financial reports such as parliament, taxpayers, and the general public.

The need to fully identify all primary users is paramount as the primary users of financial reporting dictate the type of information to be disclosed by such reports and the Discussion Paper reflects this. The main focus covered throughout the Discussion Paper as illustrated in paragraph OB3 is providing information useful in assessing the entity's future cash inflows and outflows. This focus is driving financial reporting towards fair value recognition and profit focused measurement at the expense of providing meaningful information to users of public sector financial reports that are also interested in assessing:

- management's past resource decisions
- whether the entity is achieving its objectives and operating economically and efficiently
- the use of the resources made available to the entity.

For example, information about the cost to replace an asset is more meaningful for users of public sector and not-for-profit entities' financial reports than how much the asset could be sold for (with the exception where government intends to dispose of an asset). Similarly, requirements to disclose information about the maintenance of infrastructure assets is more relevant than traditional depreciation concepts as it allows users to form conclusions on issues of inter-generational equity.

These examples also reinforce the significance of the objective of stewardship mentioned earlier.

We therefore believe that the proposed conceptual framework should acknowledge a broader user group of financial reporting beyond investors and creditors of for-profit entities. This will ensure that the type of information dictated by the needs of investors and creditors does not override the needs of other users of public sector entities' financial reports. We recommend the primary user groups must include as a minimum those outlined in the Australian Statement of Accounting Concepts SAC 2 Objective of General Purpose Financial Reporting:

- resource providers
- recipients of goods and services, and
- parties performing a review or oversight function.

The opportunity to comment is appreciated.

Yours sincerely

Frank McGuinness
Chairman
ACAG Financial Reporting and Auditing Committee