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Technical Director
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CANADA

Dear Ms Fox

**IPSASB Consultation Paper on Conceptual Framework for General Purpose
Financial Reporting by Public Sector Entities (Phase 1)**

The Australian Accounting Standards Board (AASB) is pleased to submit its comments on 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, and The Reporting Entity*. In formulating these comments, the AASB sought and considered the views of Australian constituents. These responses are published on the AASB's website:

http://www.aasb.gov.au/admin/file/content102/c3/M96.Agenda_paper_11_3.pdf

The AASB supports the development of a conceptual framework for public sector entities. Such a framework will provide a foundation for the efficient development of a logically consistent set of International Public Sector Accounting Standards (IPSASs). In addition, it will provide useful guidance to interested parties on public sector financial reporting issues that are not the subject of an IPSAS.

The AASB recommends that the IPSASB should endeavour to develop a conceptual framework that only differs from the IASB-FASB conceptual framework to the extent necessary to address public-sector-specific issues, to avoid different classes of entity accounting differently for essentially similar transactions, events and circumstances. Ideally, the IPSASB should work with the IASB and FASB in developing a common set of concepts for not-for-profit entities. If that occurs, the AASB recommends that:

- (a) the IPSASB applies its 'Rules of the Road' to identify when modifications to the IASB-FASB Framework are warranted for public-sector-specific reasons; and

- (b) the IPSASB's subsequent Exposure Draft identifies clearly the nature of, and reasons for, any differences from the draft IASB-FASB Conceptual Framework. This would be particularly useful to constituents in IFRS-adopting or IFRS-convergent jurisdictions when evaluating the IPSASB's proposals.

The IPSASB's work in developing the Consultation Paper and considering comments thereon would provide valuable input to any joint activities between the IPSASB, IASB and FASB to develop a common set of concepts for not-for-profit entities.

Main concerns

The AASB's main concerns with the proposals in the Consultation Paper are:

- (a) in relation to Preliminary View 3, it agrees with identifying the legislature as a user of GPFRs of public sector entities, but not as a 'major' user;
- (b) in relation to Preliminary View 4:
 - (i) it disagrees with referring to providing information useful for making 'resource allocation, political and social decisions'. Instead, the AASB recommends referring to 'policy and resource allocation decisions' in the objectives of GPFRs of public sector entities; and
 - (ii) it recommends extending the reference in the objectives to making decisions to also include *evaluating* decisions;
- (c) in relation to Preliminary View 5, it has only qualified support for the proposal that the scope of GPFRs of public sector entities should include certain non-financial and prospective information. The AASB recommends that such information should only be reported when it is central to assessing the reporting entity's future service-delivery activities and objectives, and the resources necessary to support those activities;
- (d) in relation to Preliminary View 7, the Consultation Paper does not clearly distinguish the concepts of relevance and materiality;
- (e) in relation to Preliminary Views 8 and 9, it considers that the Reporting Entity component of the IPSASB's *Framework* project should be dealt with in more depth in a separate component of the project; and
- (f) in relation to Preliminary View 9:
 - (i) it would be inappropriate to develop a concept for the boundaries of a *group* reporting entity; instead, an all-encompassing concept should be developed for the boundaries of any reporting entity; and
 - (ii) the boundaries of any reporting entity should be based on control.

The AASB's specific comments on the Preliminary Views in the Consultation Paper are in the attached submission.

If you have queries regarding any matters in this submission, please contact Jim Paul (jpaul@asb.gov.au) or me.

Yours sincerely

A handwritten signature in black ink, appearing to read "Bruce Porter". The signature is written in a cursive style with a horizontal line underneath it.

Bruce Porter
Acting Chairman

AASB’s Specific Comments on 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, and The Reporting Entity*

In relation to the Preliminary Views in the Consultation Paper, the AASB has the following comments:

Preliminary View 1

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 AASB agrees.

Preliminary View 2

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 AASB agrees.

Preliminary View 3

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 AASB:

- (a) agrees with the users of financial reports identified in Preliminary View 3;

- (b) agrees with the proposal not to identify a primary user group in respect of GPFRs of public sector entities;
- (c) disagrees with identifying the legislature as a major user of GPFRs of public sector entities, because this would effectively identify the legislature as the primary user group and imply that the information needs of citizens should be subordinated to the information needs of their elected or appointed representatives. The AASB recommends that the legislature be given equal status to the other three groups of potential users identified in the bullet points in paragraph 2.6 and Preliminary View 3, by identifying it in another bullet point. The AASB would not object to mentioning the legislature first in the list of potential users;
- (d) recommends that the IPSASB Framework or supporting explanatory material clarifies why the legislature is identified as a user of GPFRs when Preliminary View 2 says GPFRs are financial reports intended to meet the common information needs of users who are unable to demand the preparation of financial reports tailored to meet their specific information needs. Because governments can specify the information provided in GPFRs of public sector entities within their jurisdiction, Preliminary Views 2 and 3 may seem inconsistent. The AASB considers it would be useful to note that individual members of the legislature (e.g., those not forming part of the government) may be unable to demand the preparation of financial reports tailored to meet their specific information needs; and
- (e) recommends acknowledging that managements and governing bodies are a category of users of GPFRs, while explaining that the content of GPFRs is not determined by reference to their particular information needs. An example of such discussion is provided in Australian Statement of Accounting Concepts SAC 2 *Objective of General Purpose Financial Reporting*, which says:

“Managements and governing bodies are another category of users interested in the information provided in general purpose financial reports. However, managements and governing bodies need, in addition to the information contained in general purpose financial reports, management accounting and other information to carry out their planning and control responsibilities. Since this type of reporting has to be tailored to meet the specialised needs of these users, and since they will have the ability to determine the form and content of any such reports, this reporting is in the nature of special purpose financial reporting and is therefore beyond the scope of this Statement.”
(paragraph 20)

In addition, the AASB notes that the discussion of users of GPFRs of public sector entities refers interchangeably to ‘members of the community’ and ‘citizens’. Because ‘citizens’ would normally be a narrower group, the AASB suggests using the more inclusive term ‘members of the community’ (or ‘community members’) consistently throughout the discussion.

Preliminary View 4

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 AASB agrees with proposal to identify accountability as a separate objective of financial reporting, and with broadening ‘resource allocation decisions’ to include some other decisions that users of GPFRs may make in a public sector context.

However, the AASB disagrees with referring to providing information useful for making ‘political and social decisions’. It considers that references to ‘political decisions’ may be interpreted as having a party-political connotation, which it would regard as inappropriate for financial reporting. In addition, it considers that references to ‘social decisions’ seem excessively broad because any number of social decisions may be made about governments and other public sector entities, and that it could not be hoped that GPFRs would provide sufficient information to support those decisions. Instead, the AASB recommends referring to ‘policy and resource allocation decisions’. Adding a reference to ‘policy decisions’ would reflect:

- (a) the references made to influencing users’ support for government policies, and providing information as input to formulating government policy initiatives, in paragraphs 2.17 and 2.20, respectively; and
- (b) the reference made to decisions made by policy-makers as a result of representations made by users of GPFRs (paragraph 2.21 refers).

In addition, the AASB recommends:

- (a) giving greater emphasis to providing information useful for assessing the entity’s future cash flows, because all entities need cash to achieve their objectives (regardless of whether those primary objectives are for-profit or not-for-profit). All entities require cash inflows to finance their operations, regardless of whether their primary objective is generating returns to investors and creditors or providing services to the community. Assets held by not-for-profit entities represent savings in cash outflows they otherwise would need to make to acquire the services embodied in those assets. In addition, in the long run, if not-for-profit entities are to maintain their capacity to provide services to members of the community, their cash inflows generally need to be at least equal to their cash outflows. The prospects of a not-for-profit entity obtaining future cash inflows will generally depend to some extent on non-financial aspects of the entity’s performance, information about which is also likely to be useful for assessing the entity’s accountability. Therefore, the AASB considers that, whilst information useful for assessing the future cash flows of a public sector not-for-profit entity would be insufficient for meeting the needs of users of its GPFRs, that information would still be necessary for decision-making and accountability purposes;

- (b) emphasising that information useful for accountability purposes will largely be the same as information useful for making policy and resource allocation decisions. Although the Consultation Paper notes the dual purposes for which particular items of information should be provided (for example, see paragraph 2.19), it does not make that point explicitly; and
- (c) extending the reference in the objectives to making resource allocation decisions (or, as recommended above, ‘policy and resource allocation decisions’) to include *evaluating* such decisions. This comment is explained below.

The description of *relevance* in paragraphs 4.7 and 4.8 includes confirmatory value (that is, information confirms or changes past or present expectations, including those based on previous evaluations). The AASB is of the view that, to integrate with the reference to confirmatory value in the description of *relevance*, it is essential that reference be made to ‘making *and evaluating* ... decisions’ in the objectives of financial reporting. Referring to evaluating decisions is particularly important because many users of financial reports rely on information from other sources (typically, information that becomes available before financial reports are issued) to make decisions, and use financial reports to confirm their previous assessments and provide input to future assessments.

Another reason for referring to *evaluating* decisions is to acknowledge that one of the objectives of financial reporting is to help users to evaluate the decisions of managements and governing bodies, which the AASB regards as inherent in the proposed objective of discharging accountability. Making such reference would strengthen the link between providing information for decisions and assessing accountability (see the comment in (b) above).

The AASB’s proposal to refer to *evaluating* decisions in the objectives was also made in its submission to the IASB on its Exposure Draft on the Objective and Qualitative Characteristics (May 2008).

Preliminary View 5

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.

General comments

With the exception of the matters noted below, the AASB agrees with the proposed scope of financial reporting.

The AASB supports including information about the following matters within the scope of financial reporting, on the basis that such information should not be precluded from GPFRs, but would not support requiring such information to be reported:

- (a) non-financial information, in general;
- (b) information about the reporting entity's achievement of its service delivery objectives; and
- (c) prospective financial and other information about the reporting entity's future service delivery activities and objectives, and the resources necessary to support those activities.

The AASB's qualified support for including such information in the scope of financial reporting reflects:

- (a) the AASB's view that the amount of non-financial and prospective information provided in financial reports should be limited to information best communicated in financial reports, given that:
 - (i) non-financial information can also be provided through other means; and
 - (ii) financial reports cannot provide all information that is useful for accountability purposes and making decisions; and
- (b) the AASB's support for Preliminary View 6, which indicates that users' needs (rather than IPSASB policy decisions) will be the basis for the evolution of the scope of financial reporting.

In addition, the AASB recommends that prospective financial and other information about the reporting entity's future service-delivery activities and objectives, and the resources necessary to support those activities, be limited in GPFRs to information that is central to assessing such matters. Otherwise, given the potentially wide range of service-delivery activities of a public sector reporting entity, and the multi-faceted nature of information to report about many of those services, there would be a significant chance of information overload in respect of such matters.

Information about the reporting entity's compliance

In relation to providing information about the reporting entity's compliance, the AASB recommends that:

- (a) the reference to providing such information be clarified as relating to externally-imposed requirements relating to the raising and use of resources from taxpayers and ratepayers (to reflect more clearly the IPSASB's apparent intent); and
- (b) such information also be identified as including information about breaches of externally-imposed requirements that have occurred and are relevant to assessments of the entity's performance, financial position or financing and investing activities.

In respect of (a) above in relation to information about compliance, the AASB notes that the information identified in the proposed scope of financial reporting seems to refer separately to 'compliance with relevant legislation or regulation' and 'compliance with ... legally adopted or approved budgets used to justify the raising of monies from taxpayers'. Whilst information about the second type of compliance seems clearly within the scope of financial reports directed at assisting decision making and assessments of accountability, information about the first category of compliance could extend beyond information needed for those purposes. This is because 'compliance with relevant legislation or regulation' seems an open-ended and imprecisely-defined notion. The AASB notes that this phrase is linked to the raising and use of public monies in paragraph 3.10, and recommends that the reference to compliance in the preliminary view also be expressed in a manner that conveys that narrower meaning.

In respect of (b) above in relation to information about compliance, the AASB recommends that information about breaches of externally-imposed requirements that have occurred and are relevant to assessments of the entity's performance, financial position or financing and investing activities be identified within the scope of general purpose financial reporting because it is necessary to meet the objectives of GPFs. For example, if a breach of a contract or legislative provision is likely to result in a financial penalty being imposed on the entity, information about the breach would be relevant to users of its GPFs.

Preliminary View 6

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

The AASB agrees.

Preliminary View 7

The qualitative characteristics of information included in GPFs 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 AASB:

- (a) agrees with the proposed qualitative characteristics of financial information, but notes that the concepts of relevance and materiality are not clearly distinguished (see comments below);
- (b) agrees with the IPSASB's proposal not to classify the qualitative characteristics as fundamental or enhancing (see the reasons below);
- (c) considers that the discussion of costs and benefits in paragraph 4.38 could usefully be enhanced (see the proposed additional text below); and
- (d) considers that, in view of the IPSASB proposing the same qualitative characteristics as those proposed in Chapter 2 of the corresponding IASB-FASB Exposure Draft, it should use the same guidance to explain those characteristics as the guidance developed by the IASB and FASB (rather than an edited version of that guidance).

(a) Distinguishing the concepts of relevance and materiality

The AASB considers that the Consultation Paper does not clearly distinguish the concepts of relevance and materiality. This is because it describes both concepts in terms of having the potential to affect the discharge of accountability or users' decisions.¹ As described,

¹ The Consultation Paper describes 'relevance' as follows:

"Information is relevant if it is capable of making a difference in achieving the objectives of financial reporting – that is, in the discharge of the entity's accountability obligations or in the decisions made by users of GPFs." (paragraph 4.7)

It describes 'materiality' as follows:

"Information is material if its omission or misstatement could influence the discharge of accountability by the entity for the reporting period, or the decisions that users make on the basis of the entity's GPFs prepared for that period." (paragraph 4.33)

materiality is therefore a redundant concept because, if an item of information is relevant and represented faithfully, it must be reported; and if it is not relevant, it should not be reported.

The descriptions of relevance and materiality fail to convey a subtle but important difference between them, illustrated by the following example. Information about revenue from sales of property, plant and equipment by public sector not-for-profit entities is inherently relevant because it informs users of the extent to which the entity's taxation or grant revenues was supplemented by revenue from an irregular form of exchange transactions. However, the amount of a particular entity's revenue from sales of its property, plant and equipment might be so small that its non-disclosure does not have the potential to affect the discharge of accountability or users' decisions. Information about such sales revenue would be relevant in nature but nonetheless immaterial.

Accordingly, the AASB is of the view that the concepts of relevance and materiality should be distinguished more clearly by describing relevance as a general quality of financial information that, unlike materiality, does not depend on the individual circumstances of the reporting entity. That is:

- (a) relevance should be defined as a *quality* of financial information that exists when it has the potential to generally affect users' assessments of accountability or decisions, and not necessarily affect users of the reporting entity's financial report; and
- (b) materiality should be defined in relation to the individual circumstances of each reporting entity. Therefore, it should be defined as a threshold (determined by nature and/or amount) used to assess the *extent* to which relevant and representationally faithful information may be omitted, misstated or not disclosed separately without having the potential to affect accountability assessments or decisions by users of the reporting entity's financial report.

(b) AASB's reasons for supporting the IPSASB's proposal not to classify the qualitative characteristics as 'fundamental' or 'enhancing'

An implication of distinguishing between 'fundamental' and 'enhancing' qualitative characteristics would seem to be that information can be decision-useful without being timely or understandable. The AASB would not support such a characterisation of timeliness and understandability, and therefore supports the IPSASB's position.

Another reason for the AASB's view in comment (b) is that, in the IASB-FASB Exposure Draft dealing with the qualitative characteristics (with which the IPSASB's discussion is generally consistent), comparability is depicted as a by-product of relevance and faithful representation. Therefore, 'enhancing' would seem to be an inappropriate adjective for comparability.

(c) Enhancing the discussion of costs and benefits

The AASB considers that the discussion of costs and benefits in paragraph 4.38 does not sufficiently emphasise that, because the conceptual framework is written in the context of

regulated financial reporting that attempts to maximise the benefit to cost ratio for all entities collectively:

- (a) individual entities are not entitled to choose their accounting policies on the basis of their own assessment of costs and benefits; and, similarly,
- (b) individual entities cannot use cost-benefit reasons to justify departing from accounting standards.

Therefore, the AASB suggest including commentary along the following lines:

“Assessments of costs and benefits of reporting particular items of financial information may vary between individual preparers, auditors and other interested parties. Therefore, if assessments of costs and benefits were to be made only by those individuals, the assessments would be likely to be specific to the entity and unable to have regard to the general benefits of financial reporting. Consequently, they may fail to optimise the cost/benefit function of financial reporting generally and may disregard the benefits likely to flow from the inter-entity comparability of financial reports. In the process of setting accounting standards, standard setters seek to consider all costs and benefits in relation to financial reporting generally, and not just as they pertain to individual reporting entities.”

In respect of the issues raised under headings (a) – (c) above, the AASB made similar comments to the IASB on its Exposure Draft on the Objective and Qualitative Characteristics.

Preliminary View 8

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.

General Comment on ‘The Reporting Entity’ (Chapter 5, including Preliminary Views 8 & 9)

The AASB recommends that the Reporting Entity component of the IPSASB’s *Framework* project should be omitted from Phase 1 of that project and dealt with in more depth in a separate component of the project. The AASB considers that the issues relating to the Reporting Entity concept are more complex than those addressed in Chapter 5 of the Consultation Paper, and notes that the IASB-FASB Discussion Paper *The Reporting Entity* (May 2008) discusses the topic in much greater depth than does Chapter 5 of the Consultation Paper. Examples of issues that warrant further discussion are noted below:

- (a) the Consultation Paper provides less guidance than the abovementioned IASB-FASB Discussion Paper on the ‘power’ and ‘benefits’ criteria for including an entity in a group reporting entity. This is an important and complex topic on which extensive guidance would be appropriate;

- (b) paragraph 5.21 of the Consultation Paper says a government’s power to regulate an entity without doing so for the government’s benefit is insufficient for that entity to form part of the whole-of-government group reporting entity. Although it does not disagree with that view, the AASB considers there is insufficient discussion of the implications of a government’s power to regulate other entities and the reasons why that power, of itself, arguably is insufficient to cause a regulated entity to form part of the whole-of-government group reporting entity. The AASB considers that this is a fundamental issue to address in relation to the reporting entity concept for governments;
- (c) paragraph 5.24 says the ‘power’ criterion described in paragraph 5.19 is not presently exercisable if it requires changes in legislation or renegotiation of agreements to be effective. It also says “assessment of whether the ‘power’ criterion is satisfied is based on current legislation, rather than legislation that may or may not be enacted in the future”. However, the arguments for and against these views are not discussed. The AASB considers that these are important public sector issues relevant to the Reporting Entity concept, which should therefore be discussed. For example, it does not discuss the significance of circumstances in which a government in a particular jurisdiction has an essentially unrestricted ability to change legislation;
- (d) the AASB considers that, in the context of some jurisdictions preparing group financial reports separately for the budget sector, there needs to be discussion of whether a sector can qualify as a group reporting entity;
- (e) the ‘boundaries of the group reporting entity’ issue is discussed mainly in respect of the whole-of-government group reporting entity, with the proposed criteria for determining those boundaries applied by analogy to other public sector group reporting entities. However, Chapter 5 does not discuss boundary issues that arise uniquely in respect of public sector group reporting entities that are not governments. It does not discuss how to apply the criteria for identifying group reporting entities below the whole-of-government level. For example, it does not discuss whether each government ministry (which may incorporate both administrative units and government business enterprises) should be identified as a separate group reporting entity; or whether different ministries under the direction of the same Minister should be included in one group reporting entity, even if they operate independently;
- (f) the following issues are discussed at length in the abovementioned IASB-FASB Discussion Paper but not in the IPSASB’s Consultation Paper:
 - (i) whether an entity, proprietary or parent entity perspective should be taken to the preparation of consolidated financial statements for group reporting entities; and
 - (ii) whether financial reports may be prepared separately for the parent entity in a group reporting entity; and
- (g) the abovementioned IASB-FASB Discussion Paper discusses in detail how to deal with ‘special purpose entities’, whilst the IPSASB Consultation Paper discusses this important topic relatively briefly.

Notwithstanding this recommendation, the AASB's views on Preliminary Views 8 and 9 are set out below.

The AASB agrees with both statements in Preliminary View 8. As noted in its comments on Preliminary View 4, the AASB disagrees with referring to information for making 'political and social decisions'.

Preliminary View 9

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 AASB recommends that the concept of the boundaries of a *group* reporting entity should be omitted from the IPSASB's *Framework*. Instead, it recommends developing an all-encompassing concept of the boundaries of a reporting entity that applies equally to individual reporting entities and group reporting entities.

An implication of Preliminary View 8 (which the AASB supports) is that the composition of a reporting entity depends entirely on the information needs of users, whether determining the level at which to aggregate different entities or to disaggregate within an entity. The principles for identifying individual reporting entities and group reporting entities should be consistent. The AASB recommends that:

- (a) consistent with Preliminary View 8, the existence of any reporting entity should be identified by reference to the information needs of users of GPFRs; and, then,
- (b) the boundaries of any reporting entity should be based on control. If information provided by GPFRs is to be useful, the reporting entity needs to be accountable to users of its financial reports (such as funders and other financial supporters) for the resources it controls, and not for other resources. The concept of control is adopted in IFRSs and is proposed to be included in the revised IASB *Framework*. The AASB is not aware of public-sector-specific reasons to adopt a different concept in the IPSASB *Framework*, notwithstanding that various implementation issues arise in the public sector. Such implementation issues seem to be standards-level issues, and do not alter the conceptually ideal basis for determining the boundaries of a reporting entity.

At a standards level, consideration could be given to identifying the boundaries of some other reporting entities based on common control.

In addition, regarding Preliminary View 9, the AASB considers that:

- (a) with the exception of the matter discussed in (b) – (d) below, the criteria for inclusion within a whole-of-government group reporting entity are broadly consistent with the concept of control (which the AASB supports for determining the boundaries of any reporting entity);
- (b) an entity should not form part of a group reporting entity if the ‘parent’ cannot benefit from its activities. It would be highly unusual for an entity to obtain the power to govern the strategic financing and operating policies of another entity and become exposed to a financial burden/loss from the operations of the other entity without also having the capacity to benefit from that other entity’s activities;
- (c) in relation to comment (b) immediately above, the AASB is of the view that the concept of benefiting from the activities of another entity should be interpreted broadly. Specifically, in this regard:
 - (i) ‘benefits’ take the form of an ability to provide goods or services (consistent with paragraph 5.25 of the Consultation Paper), regardless of whether net cash inflows are expected, and therefore the benefits arising from meeting the ‘power’ criterion may be in the form of a reduction in net cash outflows instead of positive net cash inflows; and
 - (ii) ‘benefits’ should encompass exposure to variability of outcomes, which may be positive or negative.

Accordingly, the IPSASB should 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 from the activities of that entity, and therefore why it should be referred to separately from benefits;

- (d) an exposure to a financial burden arising from the operations or actions of another entity is not the counterpart to a capacity to benefit from the activities of another entity, because:
 - (i) as indicated in paragraph 5.25 of the Consultation Paper, benefits can be in the form of service delivery rather than cash inflows; whilst
 - (ii) an exposure to a financial burden is described in paragraph 5.26 as only relating to cash outflows.

The AASB considers that the narrow view of a financial burden is also inconsistent with the proposal in Preliminary View 5 that the scope of financial reporting encompasses the provision of non-financial information about economic resources of the reporting entity and claims to those resources;

- (e) the IPSASB should consider whether to replace the ‘power to govern the strategic financing and operating policies’ of another entity with the ‘power to direct the activities’ of another entity. IASB ED 10 *Consolidated Financial Statements* proposes such a change to IAS 27 *Consolidated and Separate Financial Statements*, and the AASB recommends that the IPSASB monitors the outcome of ED 10 in this

regard. As paragraphs BC44 and BC45 of the Basis for Conclusions on IASB ED 10 note:

- (i) the power to govern the strategic and financing policies of an entity is not the only way in which the power to direct activities can be achieved (it can also be achieved through involvement in establishing the activities of the entity or in the ongoing decision making that affects the activities of the entity); and
- (ii) some entities may have no need for a governing board or other entity-specific structure because it is unlikely that strategic operating and financing policy decisions would need to be made on an ongoing basis to direct the activities of the entity.

Making such a change to the 'power' criterion would potentially address some of the issues arising from applying the 'power' criterion proposed in the Consultation Paper, which are described in paragraphs 5.30 (regarding entities with a degree of independence or autonomy) and 5.33 (regarding entities with pre-determined objectives and 'special purpose entities');

- (f) the IPSASB should signpost that the elements phase of the Conceptual Framework project will need to resolve the issue about whether, and when, an entity merely 'administers' resources on behalf of another entity and cannot benefit from those resources in the pursuit of its objectives. For example, some public sector entities collect tax receipts on behalf of the government and cannot deploy those collected resources in their own operations (those resources are, in effect, held in trust). Signposting that this issue will be addressed in the elements phase of the Conceptual Framework should clarify that this issue is not resolved by the proposed concept of a reporting entity; and
- (g) the proposed concept of a group reporting entity should be tested by reference to acquisitions of businesses by governments currently occurring in response to the 'global credit crisis', to assess the robustness of that concept.