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15 June 2006

Dr David Boymal
Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street West
MELBOURNE VIC 8007
AUSTRALIA

Dear Dr Boymal

ED 148 - PROPOSED AMENDMENTS TO AASB 101 PRESENTATION OF FINANCIAL STATEMENTS: A REVISED PRESENTATION

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

The views expressed in this submission represent those 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.

The opportunity to comment is appreciated and I trust you will find the attached comments useful.

Yours sincerely



Frank McGuinness
Chairman
ACAG Financial Reporting and Auditing Committee

ED 148 Proposed Amendments to AASB 101 Presentation of Financial Statements: A Revised Presentation.

Note – references below to ACAG are limited to the Australian members of ACAG, excluding the Auditor-General for South Australia.

ACAG has reviewed the Exposure Draft, including each of the significant proposals in ED 148, and provides both general comments and comments on the specific matters raised.

Specific matters for comment:

A) The AASB's preliminary views on:

i) The Australian Text that is Proposed to be Retained in the [revised] AASB 101, as Noted in Section A of the Preface (ED 148).

A.1 Application and Materiality

No issues to raise.

A.2 Definition of Certain Terms

No issues to raise.

A.3 True and Fair View and Compliance with Australian Accounting Standards

No issues to raise.

A.4 Explicit and Unreserved Statement of Compliance

ACAG strongly supports the retention of paragraphs Aus 14.1, Aus 14.2 and Aus 14.3 to enable sector neutral standards.

A.5 English Language

No issues to raise.

A.6 Auditor Remuneration

No issues to raise.

A.7 Dividend and Franking Details

No issues to raise although ACAG appreciates that the private sector may have a preference on this issue.

A.8 Certain Illustrative Examples

No issues to raise.

ii) Australia Text Proposed Not to Be Included in the [Revised] AASB 101

B.1 Application Paragraphs

No issues to raise.

B.2 Concise Financial Reporting

No issues to raise.

B.3 Directors' Report and Remuneration Report

No issues to raise.

B.4 Definition of General Purpose Financial Report

No issues to raise.

B.5 Identification of the Framework Used in Preparation of Financial Statements

In the public sector, the legislative framework can have a significant impact on the presentation of financial statements by entities. For example relevant legislation can exist for different entity types which results in differing formats for the financial statements for each entity e.g. departments, statutory authorities, local governments, government owned corporations, aboriginal councils and island councils. Accordingly, we would recommend that the existing paragraph Aus 13.3 be retained in relation to identifying in the summary of accounting policies the relevant statutory and other requirements. While the deletion of the paragraph would not prevent such information being disclosed in the notes to the financial statements, by retaining it in AASB 101, it would ensure that the relevance of these requirements are not discounted in identifying the significant accounting policies used to prepare the financial statements.

B.6 Disclosure Whether Financial Report is a General Purpose Financial Report or a Special Purpose Financial Report

No issues to raise.

B.7 Australian Currency

No issues to raise.

B.8 Rounding Basis

No issues to raise.

B.9 Operating Cycle

No issues to raise.

B.10 Retained Earnings

No issues to raise.

B.11 Encouragement for Using Formats Illustrated

ACAG encourages the AASB to retain Paragraphs Aus 69.1, Aus 83.1 and Aus 97.1. While it is not compulsory to use the illustrated formats, encouraging their use would help financial statement users make comparisons around a range of entities and between public sector jurisdictions. Entities will still be required to disclose additional information where the applicable framework requires this.

B.12 Position of Statement of Compliance with Australian Accounting Standards

No issues to raise.

B.13 Economic Dependency

No issues to raise.

B.14 Capital Commitments and Other Expenditure Commitments

ACAG encourages the AASB to retain paragraph Aus 126.7 as this information is of particular interest to the users of public sector financial statements as a means of assessing the long term capacity of agencies to continue service delivery and provide essential infrastructure. The Aus 126.7 requirements also provide for greater consistency and comparability between entities.

B.15 Illustrative Examples and Australian Implementation Guidance

No issues to raise.

iii) Deletion Made by the AASB in the Existing AASB 101 That is Proposed to Be Reinstated

C.1 Fair Presentation

ACAG strongly opposes the proposal in Issue C1 Fair Presentation to install a true and fair override that will be subject only to the regulatory framework prohibiting a departure from a standard.

ACAG understands that the *Corporations Act 2001* (Corporations Act) includes such a prohibition. However, the regulatory frameworks for public sector entities do not generally include an explicit prohibition on departures from accounting standards.

The proposal may result in different reporting between entities reporting under the Corporations Act and public sector entities (including governments). It may also weaken the credibility of public sector financial reports as judgements as to fair presentation would have to be formed without an objective reference point.

iv) Deletion Made by the AASB in the Existing AASB 101 That Are Proposed Not to Be Reinstated

D.1 IASB's Application Paragraph

No issues to raise.

D.2 Commentary on Alternative Formats Used to Present Changes in Equity

No issues to raise.

D.3 Previous Application Paragraphs of IAS 1

No issues to raise.

- B) The AASB's preliminary views proposed for adopting the definition of 'general purpose financial report' as included in paragraph 7 of the IASB ED. The AASB notes that the second paragraph of the definition proposes that "General purpose financial statements include those that are presented separately or within other public documents such as a regulatory filing or report to shareholders." This statement could be interpreted as defining all financial reports filed with a regulator on a public register to be general purpose financial reports, which would include those filed with, for example, the Australian Securities and Investment Commission, whether or not the entities are reporting entities.**

This issue is of limited impact to the Australian Public Sector. However ACAG recognises that this is a significant issue for particular private sector entities and encourages the AASB to fully examine whether the benefits derived from the additional reporting requirements outweigh the additional costs to the financial statement preparers.

C) Whether certain entities should be required to prepare additional comparative statements of financial position as proposed. These entities may include, for example:

- i) Public sector entities (for example, general government sector): The AASB notes that three statements of financial position may create practical presentation difficulties for these entities. The AASB is particularly mindful of its proposal in ED 142 *Financial Reporting of General Government Sectors by Government* to require the presentation of an additional statement: the original budget for these entities; and**
- ii) Entities required to prepare financial reports under Part 2M.3 of the Corporations Act that are not reporting entities;**

i) Despite the practical presentation difficulties for general government sector accounts in incorporating an additional comparative statement of financial position, the presentation issues only arise in respect of the General Government Sector Financial Statement and not on an individual agency basis. The benefits as discussed in the basis of conclusion in the ED apply equally to the public sector as it does to the private sector and, therefore, should not be treated any differently. This said, ACAG does have concerns over whether this additional information will be of use to the users of financial statements both within the public and private sectors. Additionally, should a user require this information it is available in the prior year's published accounts hence there is no need to replicate the information with the current year's financial statements.

ii) No issues to raise.

D) Whether the proposals give rise to any public sector entity issues that you believe require additional requirements or guidance in AASB 101. If yes, please describe the issues and provide reasons supporting your responses;

ACAG is not aware of any issues that may arise as a result of the proposed changes within ED 148, that require additional guidance for the public sector apart from those mentioned earlier in this submission.

E) Any regulatory issues or other issues in the Australian environment that may affect the implementation of the proposals, particularly any issues relating :

- i) Not-for-profit entities; and**
- ii) Public sector entities**

Are the proposals in the best interests of the Australian economy?

ACAG has concerns over whether the Exposure Draft as a whole is in the best interests of the Australian Economy, as it requires significant additional work from some entities, for

instance the change in the definition of general purpose financial reports. In other areas, the information provided under the Exposure Draft is inferior to that which was provided by AASB 1018 and the compiled AASB 101.

Invitation to comment on IASB Exposure Draft – Amendments to IAS 1 Presentation of Financial Statements: A Revised Presentation

Question 1: Do you agree with the proposed titles of the financial statements (bearing in mind that an entity is not required to use those titles in its financial statements)? If not, why?

The Framework specifies the objective of the financial report as providing useful information to a wide range of users. The Framework also discusses the qualitative characteristics of financial information that will help assist the information to be useful. One such characteristic is comparability. ACAG believes that consistency of the titles used is far more important than the actual term used. This said we believe that the AASB should retain the terms balance sheet, income statement, statement in changes in equity and cash flow statement as this terminology is widely understood by both financial statement users and preparers and has been in place since the introduction of AIFRS. ACAG believes that these titles should be mandated in the standard.

Question 2: Do you agree that a statement of financial position as at the beginning of the period should be part of a complete set of financial statements, and that an entity presenting comparative information should therefore be required to present three statements of financial position in its financial statements? If not, why?

As discussed at question C) response to ED 148.

Question 3: Do you agree that the non-owner changes in equity should be referred to as 'recognised income and expense' (bearing in mind that an entity is not required to use the term in its financial statements)? If not, why?

Is the terminology used in the Standard if entities are permitted to use other terms in their financial statements? If so, what term would you propose instead of 'recognised income and expense'?

The proposed terminology for use in the statement of recognised income and expense, and the name of the statement is unduly complicated especially the introduction of 'other recognised income'. The framework makes no distinction between revenue and gains, a distinction that is employed in the statement of recognised income and expense. ACAG believes that the source and nature of income and expense would be better disclosed as realised/unrealised and owners as owners/non owners, in the format used in AASB 1018 Statement of Financial Performance.

Question 4: Do you agree that all non-owner changes in equity (ie components of recognised income and expense) should be presented separately from owner changes in equity? If not why?

ACAG agrees with this proposal, as this information is important to enable users to make appropriate decisions, therefore, the distinction between the sources should be highlighted by being disclosed separately.

Question 5: Do you agree that entities should be permitted to present components of recognised income and expense either in a single statement or two statements?

If so, why is it important to present two statements rather than a single statement?

If you do not agree, why? What presentation would you propose for components of recognised income and expense that are not included in profit or loss?

A single statement format should be used as there is no distinction under the framework between expenses and losses or revenues and gains. It is, therefore, appropriate to include all these items in a single format. ACAG recommends that this format be mandated to ensure consistency between entities.

As a general comment, we also have some concerns with the proposed format, which distinguishes between the items of revenue and expenditure included in "profit" and those items included in "other recognised income and expenses". In particular this represents a change in the calculation of what is traditionally referred to as "profit". This could become an issue in relation to interpreting the word "profit" in a legal sense e.g. section 254T of the Corporations Act - Dividends to be paid out of profit, as well as adding general confusion to interpreting financial statements in light of the traditional view of "profit" as the bottom line in the Income Statement.

Question 6: The Exposure Draft requires disclosure of reclassification adjustments relating to each component of other recognised income and expense - Do you agree with this proposal? If not, why?

As discussed earlier, ACAG has difficulties with the concept of 'other recognised income and expenses' and its exclusion from profit. This presentation does not sit comfortably with the Framework. If the recognition criterion is met for items to be recognised as either income or expense, they should not be treated differently in the financial statements, as this distinction has no basis in the Framework.

Question 7: The Exposure Draft requires the disclosure of income tax relating to each component of 'other recognised income and expense - Do you agree with this proposal? If not, why?

No issues to raise.

Question 8: Do you agree that earnings per share should be the only per-share measure that is required or permitted to be presented on the face of the statement of recognised income and expense? If not, which other per-share measures should be required or permitted to be presented on the face of a statement and why?

No issues to raise.