



21 June 2010

Mr Kevin Stevenson
Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street West Victoria 8007
AUSTRALIA

Dear Mr Stevenson

Exposure Draft ED 193 “Conceptual Framework for Financial Reporting: The Reporting Entity”

The Australasian Council of Auditors-General (ACAG) welcomes the opportunity to comment on the Exposure Draft referred to above.

ACAG has decided to respond only to the following question:

“The AASB has requested information about issues that might arise if the proposals in the Exposure Draft are applied to the not-for-profit and public sectors”.

ACAG is of the view that the current concept of the reporting entity outlined in paragraph 40 of SAC 1 “Definition of the Reporting Entity” is clearer and more meaningful than that proposed in ED 193. We consider that the terms “circumscribed area of economic activities” and “potential to be useful” to be vague, and could lead to different interpretations of what constitutes a reporting entity. In addition, the definition is too commercially focused in that its focus is limited to usefulness to “existing and potential equity investors, lenders and other creditors”, thereby ignoring stakeholders critical to the private not-for-profit and public sectors such as taxpayers, ratepayers, parliamentarians and other community interests. For this reason, ACAG has a preference for the use of the broader term “user” in the definition of the reporting entity in ED 193, rather than the words “equity investors, lenders and other creditors”.

From a user’s perspective, ACAG does not believe that ED 193 specifically addresses the characteristics of a reporting entity. We believe the ED would be enhanced if guidance regarding the characteristics of a reporting entity, such as that provided in paragraphs 20 to 22 of SAC 1, would assist regulators in determining those entities in the not-for-profit private sector and the public sector that should be preparing such statements. We believe that overall, SAC 1 provides superior guidance to that currently proposed in ED 193.

ACAG also provides the following comments in relation to ED 193:

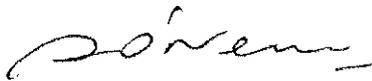
- Paragraph RE2 defines a reporting entity in terms of whether users need financial information “in making decisions about providing resources to the entity”. This is much narrower than the “making and evaluating decisions about the allocation of scarce resources” used in SAC 1. For example, voters are making decisions about the allocation of scarce resources but are not providing resources to the entity (e.g. an education department or electricity retailers).

- The ED also defines a reporting entity in terms of the need to provide information needed “in assessing whether management and the governing body of that entity have made efficient and effective use of the resources provided”. We welcome this as an important addition to the definition because it clarifies the role of general purpose financial statements in ensuring that management and governing bodies are accountable.
- Paragraph RE3 sets out three features of a reporting entity. This paragraph is inconsistent with the definition of a reporting entity in paragraph RE2 because it does not include as a feature of a reporting entity, the existence of potential users of the financial information who are dependent on general purpose financial statements, and who are not able to obtain the information directly themselves. The dependence of users is a key feature of the definition of a reporting entity.
- The definition of control in paragraph RE7 requires the controlling entity to be able to generate benefits for (or limit losses to) itself. In the not-for-profit and public sectors, control may not be with the purpose of obtaining a gain or minimising a loss, but may be for strategic or policy purposes. To apply as intended to these sectors, ACAG believes that the definition of control in paragraph 6 of SAC 1, which refers to the achievement of the objectives of the controlling entity, may be more appropriate.

The views expressed in this submission represent those of all Australian members of ACAG.

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

Yours sincerely



Simon O'Neill
Chairman
ACAG Financial Reporting and Auditing Committee