

ITC 11 sub 2



Government of South Australia

Department of Treasury
and FinanceT&F06/0551
TF06D05450

29 September 2006

Mr David Boymal
Chairman
Australian Accounting Standards Board
PO Box 204
Collins St West VIC 8007

State Administration Centre
200 Victoria Square
Adelaide SA 5000
GPO Box 1045
Adelaide SA 5001
DX56205
Tel 08 8226 9500
Fax 08 8226 3819
<http://www.treasury.sa.gov.au>
ABN 19 040 349 865

Dear Mr Boymal

Re: Comments on discussion paper ITC 11 - Conceptual Framework for Financial Reporting: The Objective of Financial Reporting and Qualitative Characteristics of Decision-useful Financial Reporting Information:

The South Australian Department of Treasury and Finance in consultation with a number of South Australian Government agencies has reviewed ITC 11 issued for comment by the AASB and provides the following comments:

In relation to the topics of 'objective' and 'qualitative characteristics' covered by the discussion paper, what matters do you consider require attention if this revised Framework were also applied in Australia to not-for-profit entities in the private and public sector and for-profit entities in the public sector?

Objective

It is considered that the proposed objective is stated/defined too narrowly to be applicable to the public sector.

South Australian Government agencies considered the objective of financial reporting, specifically the broad categories of users using general purpose external financial reports and why these users use general purpose external financial reports.

Broad category of users

It is noted that the proposed objective includes present and potential investors and creditors as the primary/key users of general purpose external financial reports. The public sector has a wider group of users/stakeholders to consider. Generally, the main users of general purpose external financial reports in the public sector would be parliament, the general public and economic commentators (eg media, rating agencies).

We suggest that it would be better not to refer to primary/key users in the defined/stated objective but rather to refer to users in general terms, eg the current AASB framework uses the term 'a wide range of users in making economic decisions'. Specific types of users (eg investors, parliament, employees, creditors, contributors of funds etc) could be referred to in the explanatory material/guidance accompanying the conceptual framework.

The purpose of general purpose external financial reports

It is noted that the proposed objective states/defines that users use general purpose external financial reports for investment, credit and similar resource allocation decisions. General purpose financial reports are generally prepared in the public sector to discharge accountability, for instance by demonstrating that:

- Government policies have been implemented;
- resources have been used efficiently and effectively in meeting the government's objectives;
- objectives and targets have been met; and
- goods and services have been provided to various recipients in accordance with terms/conditions outlined in contracts/agreements.

Accountability/Transparency over the use of resources and/or stewardship of management are generally the main reasons the public sector prepares general purpose external financial reports and the main reasons users/stakeholders use/refer to these financial reports.

It is considered that the purposes for preparing/reason users use general purpose external financial reports should be stated/defined in general terms, eg allocation of scarce resources for economic decision-making. In addition, the accountability/stewardship function performed by management should also be included.

Other comments

It is also noted that:

- general purpose external financial reports would not be used in isolation by users in making informed decisions. Rather, general purpose external financial reports would be used in conjunction with other information;
- the explanatory material/guidance accompanying the conceptual framework could identify users and outline their specific information needs;
- the conceptual framework emphasises the need to assess present and future/potential cash flows. In the public sector, information on financial performance, financial position and cash flows are equally important to assess service delivery.

Qualitative Characteristics

The proposed qualitative characteristics outlined in the Conceptual Framework are supported.

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

It is important:

- to have a conceptual framework to assist with the development of principle-based financial reporting standards to achieve consistent principles; and

- 3 -

- for public sector and the not-for-profit sector objectives to be considered and included in the conceptual framework.

At present, the proposed objective defined/stated in the conceptual framework is not a sufficient and/or an appropriate basis for the public sector. Therefore, it is recommended that either specific objectives relating to the public sector be considered or the objective be stated/defined on a sector-neutral/transaction-neutral basis.

If you require further information or clarification, please contact Julie Sinclair Team Leader, Financial Management on 8226 9529.



Andrew Blaskett
GENERAL MANAGER
GOVERNMENT ACCOUNTING & REPORTING