



31 March 2009

Sir David Tweedie
Chairman
International Accounting Standards Board
30 Cannon Street
London EC 4M 6XH
UNITED KINGDOM

Dear Sir David

IASB Discussion Paper: Preliminary Views on Financial Statement Presentation

All members of the Australasian Council of Auditors-General (ACAG) have been canvassed and submit the following comments in response to the IASB Discussion Paper referred to above. The views expressed in this submission represent those of all Australian members of ACAG.

Overall View

In a letter dated 3 November 2006 regarding the 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" ACAG advised that it believes strongly that the International Accounting Standards Board (IASB) should not develop a conceptual framework by a process that limits consideration of issues solely to those affecting private sector for-profit entities.

The IASB Discussion Paper "Preliminary Views on Financial Statement Presentation" (the Discussion Paper) notes that "IFRSs are not designed to apply to not-for-profit activities in the private or public sectors" and that "significant additional research and analysis are needed to determine to what extent the conclusions reached in this project might apply to such entities".

The discussion paper scopes out public and not-for-profit sectors, (and in the US, all but listed public entities) from the existing standard and there is no indication of what is to apply to these entities.

ACAG reiterates its overriding concern that the needs of not-for-profit and public sector entities are being overlooked by the IASB and that the IASB should not develop frameworks by a process that limits consideration of issues to those affecting private sector for-profit entities. Ideally a project to consider the future direction for the public and not for profit sectors should have been undertaken simultaneously.

It is ACAG's opinion that significant additional research and analysis needs to be undertaken to determine to what extent the conclusions reached in this project might apply to not-for-profit and public sector entities.

It is unlikely that the proposals being considered would be the best outcome for presentation of financial statements by these entities. In ACAG's view, the proposals are likely to add to the complexity of financial statements, which in turn is likely to reduce the understandability of those statements for most users in these sectors.

In Australia, the Australian Accounting Standards Board (AASB) is implementing the Financial Reporting Council's strategic direction of adopting the Standards of the IASB by replacing relevant existing AASB Standards with Australian Standards equivalent to those of the IASB. Further the AASB has decided it will continue to issue transaction-neutral pronouncements applicable to both for-profit and not-for-profit entities, including public sector entities by using the IASB pronouncements as the "foundation" pronouncements to which it adds material detailing the scope and applicability of a pronouncement in the Australian environment. Additions are also made, where necessary, to broaden the content to cover sectors not addressed by an IASB pronouncement.

The proposals in the Discussion Paper have significant implications when applied to entities other than those in the private sector because these other entities have different objectives, characteristics and operating environments. Because ACAG is primarily involved with financial reporting of public sector agencies and the IASB Discussion Paper is at this stage developing concepts for the private sector, the views expressed in this response are not focussed on the material as it applies to the private sector. Rather this submission identifies some significant issues that would need to be considered and addressed if the material was also to be applied to not-for-profit entities in the private and public sectors.

The proposed financial reporting principles contained in the Discussion Paper are consistent with the IASB Exposure Draft of May 2008¹. Accordingly the previous observations made by ACAG in our letter dated 3 November 2006 are also still relevant to this Discussion Paper.

The Objective of Financial Reporting

The Discussion Paper proposes fundamental changes in the appearance of the financial statements, both in regards to the structure and the level of detail presented.

The Discussion Paper has been developed on the basis that the objectives for financial statement presentation underlying the proposed presentation model are that information should be presented in the financial statements in a manner that:

- portrays a cohesive financial picture of an entity's activities

¹ Resulting from the 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"

- disaggregates information so that it is useful in predicting an entity's future cash flows
- helps users assess an entity's liquidity and financial flexibility.

In ACAG's view, these three objectives have a limited degree of relevance within the public sector environment as they do not capture the true essence of public sector financial reporting principles. In our letter dated 3 November 2006, ACAG raised its concerns that the stewardship objective of financial reporting was not adequately addressed for public sector entities.

The concept of management's stewardship and discharge of accountability was not separately identified as an objective of financial reporting or explicitly included within a single objective.

In ACAG's letter to the IASB dated 3 November 2006 we commented that for public sector agencies,

'management's stewardship responsibilities go beyond simply making resource decisions, they include accountability for the use of resources already made available to them in the past and how effectively, efficiently or economically goods and services are delivered. Stewardship is about making and evaluating resource allocation decisions and, therefore accountability is concerned both with future and past performance, not just future cash flows'. At that time ACAG recommended that the stewardship objective be separately identified or explicitly included within a single objective within the framework.

The current Discussion Paper acknowledges in paragraph 2.4 that the stewardship objective is not specifically included in the financial statement presentation objectives outlined in the proposed presentation model. The IASB believe that the model should help achieve the stewardship objective of financial reporting. ACAG's view is that the subsequent IASB Exposure Draft of May 2008 and the Discussion Paper do not adequately address stewardship as it relates to the public sector. ACAG again reiterates to the IASB the importance of this particular financial reporting principle to public sector financial reporting.

Once that basis is accepted, ACAG believes there will be significant issues that would need to be considered and addressed in developing a transaction-neutral AASB equivalent.

Potential Users of Financial Reports

The objective of financial reports is to provide information about the financial position, financial performance, other movements in equity and cash flows of an entity that is useful to a wide range of users in making economic decisions and in assessing performance.

ACAG's letter to the IASB of 3 November 2006 also discussed the need for the frameworks to acknowledge a broader user group of financial reporting beyond investors, and creditors of for-profit entities. ACAG expressed its concern that the scope of users within the framework was too narrow as it excluded other users, for example:

- users of public sector entities' financial reports such as parliament, taxpayers or other providers of resources
- groups with an interest in the service delivery activities of organisations.

ACAG notes that the subsequent IASB Exposure Draft of May 2008 did not extend the user group to include the principal users of public sector entities' financial reports.

The Discussion Paper refers to the users of financial statement information as present and potential equity investors, lenders, and other creditors and this information is to help users make decisions in their capacity as capital providers.

ACAG still has concerns that this definition of users combined with a narrow objective may create the perception that the focus of financial reporting is on purchasers and sellers of shares or other securities in secondary financial markets, rather than on other stakeholders who have an interest in the financial performance and financial position of an entity.

Directions in Public Sector Reporting in Australia

As indicated previously, the AASB as a matter of policy is adopting the Standards of the IASB by replacing relevant existing AASB Standards with Australian Standards equivalent to those of the IASB. In addition, the AASB is currently finalising the final stages of a major project to harmonise Government Finance Statistics (GFS) and Generally Accepted Accounting Principles (GAAP) reporting.

The objective for harmonisation of GFS and GAAP reporting is to develop accounting standards which provide a single set of reports for the public sector which are auditable, comparable between jurisdictions (within Australia and internationally), and in which the outcome statements are directly comparable with the budget statements published by Government. This has resulted in the development of AASB 1049 "Whole of Government and General Government Sector Financial Reporting".

Given the significant commitment in Australia to the development of a single set of comparable reports for the public sector, the possible adoption of financial reporting principles that have been developed by the IASB with limited regard to the needs of not-for-profit and public sector entities is not appropriate and does not complement the significant work directed at improving public sector reporting. Accordingly ACAG recommends the IASB to consider how any new requirements under the new framework will align with the reporting requirements of AASB 1049 as part of its deliberations.

In addition, currently, the majority of public sector entities in Australia present information in their financial reports by nature. Information relating to function (major activities), is disclosed by government departments in the notes to the financial statements.

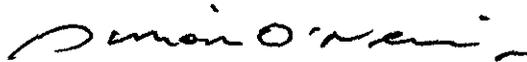
The Discussion Paper promotes disaggregation of information in the Statement of Comprehensive Income by function, and further disaggregation by nature to the extent that this will enhance the usefulness of information in predicting future cash flows.

Most entities in the public and not for profit sectors are not taxable, investing and financing activities are limited, and the majority of discontinued operations are merely reallocations to other government entities. The end result may lead to a greater degree of aggregation and will detract from the usefulness of the statements.

The Discussion Paper notes that disaggregation by function assists in the analysis of overall business trends (such as gross margins and operating margins) whereas disaggregation by nature separates items with different economic drivers (eg labour, and raw materials). ACAG does not believe that disaggregation by function would provide more useful information to the users of all public sector financial reports for which factors such as gross margins are not relevant and/or not of primary interest.

The opportunity to comment is appreciated and I trust you will find ACAG's comments useful.

Yours sincerely



Simon O'Neill
Chairman
ACAG Financial Reporting and Auditing Committee

cc: Australian Accounting Standards Board