

13 July 2010

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Dear Sir or Madam

Exposure Draft ED/2010/2 Conceptual Framework for Financial Reporting: The Reporting Entity

The Audit Commission welcomes the opportunity to comment on the Exposure Draft, "Conceptual Framework for Financial Reporting: The Reporting Entity."

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services in England to deliver better outcomes for everyone. We appoint auditors to over 700 major public bodies that are moving to prepare accounts under IFRS. Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies. As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

The Commission's Response

We have concerns that the Framework may not be applicable to the not-for-profit sector. In our response to the 2008 Exposure Draft "An improved Conceptual Framework for Financial Reporting: Chapter 1: The Objective of Financial Reporting; Chapter 2: Qualitative Characteristics and Constraints of Decision-useful Financial Reporting Information" we commented that the definition of a reporting entity should be broadly stated as a circumscribed area of economic activity of interest to funders and financial supporters. We note that the definition in the current Exposure Draft is now even more limited than the 2008 ED, in that it removes reference to "capital providers" and refers only to "existing and potential equity investors, lenders and other creditors". This scope, whilst applicable to profit-orientated entities, fails to reflect many of the actual or potential users of financial statements of not-for-profit entities. We note the Board's intention to consider applicability of concepts to the not-for-profit sector as part of a future exercise but feel that a suitably broad definition of a reporting entity could be adopted that is applicable to both for profit and not-for-profit entities.

Our responses to the detailed questions are attached in an Annex.

Yours sincerely

Stephen Warren
Head of Professional Standards

Specific matters for comment

Question 1

Do you agree that a reporting entity is a circumscribed area of economic activities whose financial information has the potential to be useful to existing and potential equity investors, lenders and other creditors who cannot directly obtain the information they need in making decisions about providing resources to the entity and in assessing whether the management and the governing board of that entity have made efficient and effective use of the resources provided? (See paragraphs RE2 and BC4–BC7.) If not, why?

We agree that the proposed definition applies for profit focused entities. However, as discussed in our covering letter, we would prefer that the reporting entity be more broadly described as a circumscribed area of economic activity of interest to funders and financial supporters so as to cover not-for-profit entities.

Question 2

Do you agree that if an entity that controls one or more entities prepares financial reports, it should present consolidated financial statements? Do you agree with the definition of control of an entity? (See paragraphs RE7, RE8 and BC18–BC23.) If not, why?

We agree that if an entity that controls one or more entities prepares financial reports, it should present consolidated financial statements and we agree with the definition of control of an entity.

Question 3

Do you agree that a portion of an entity could qualify as a reporting entity if the economic activities of that portion can be distinguished from the rest of the entity and financial information about that portion of the entity has the potential to be useful in making decisions about providing resources to that portion of the entity? (See paragraphs RE6 and BC10.) If not, why?

We agree with this approach.

Question 4

The IASB and the FASB are working together to develop common standards on consolidation that would apply to all types of entities. Do you agree that completion of the reporting entity concept should not be delayed until those standards have been issued? (See paragraph BC27.) If not, why

We agree that completion of the reporting entity concept should not be delayed until consolidation standards have been issued. This is on the proviso that the future consolidation standard is consistent with the reporting entity concept.