PO Box 1411
Beenleigh QLD 4207
Australia
30 September 2021

Ian Carruthers
Chair
International Public Sector Accounting Standards Board
277 Wellington Street West
Toronto, ON M5V 3H2
Canada

Dear Mr. Carruthers

Exposure Draft 80 *Improvements to IPSAS, 2021*

I am pleased to make this submission on Exposure Draft 80 *Improvements to IPSAS, 2021.*

I have over 30 years of experience in accounting advisory functions of large accounting and auditing firms across a wide range of clients, industries and issues in the for-profit, not-for-profit, private, and public sectors. My clients across the business and government environments have included listed companies, unlisted and private companies, charitable and not-for-profit organisations, commonwealth, state and local government departments and agencies in the public sector, and government owned corporations (government business enterprises).

My current position is at the Queensland Audit Office where we audit Queensland state government entities, universities and local governments.

My response covers three topics:

a) Table 1: IASB's Publications not Included in ED 80
    I agree that the IPSASB should not currently proceed with the IASB *Reference to the Conceptual Framework* (Amendments to IFRS 3) (Issued in May 2020).

b) Table 3: IFRS Alignment Improvements to IPSAS proposed in ED 80
    I disagree with the IPSASB amending IPSAS 1 for item 3(a) *Classification of Liabilities as Current or Non-current* (Amendments to IAS 1) (Issued in January 2020). The IASB is currently undertaking a project to revise these amendments.

c) Omitted items
    I believe that some of the amendments to IAS 1 introduced by the IASB in December 2014 – Disclosure Initiative (Amendments to IAS 1) should be made to IPSAS 1. These amendments address some of the disclosure overload issues.

Yours sincerely,

David Hardidge
https://www.linkedin.com/in/davidhardidge/

a) Table 1: IASB's Publications not Included in ED 80

I agree that the IPSASB should not currently proceed with the IASB *Reference to the Conceptual Framework* (Amendments to IFRS 3) (Issued in May 2020).

However, the IPASB will need the amendment when it amends its conceptual framework under the separate project.

The underlying issue in the IASB amendments is that the requirements in IFRS 3 to recognise the fair value of liabilities under the (revised) conceptual framework on an acquisition (i.e. day 1) is different to the (unrevised) definitions of liabilities under IAS 37 (day 2). My understanding of the amendments is that IFRS 3 essentially uses the current IAS 37 liability definitions for day 1 acquisition accounting and consequently avoid different day 2 accounting – until such time as IAS 37 is amended to be consistent with the revised conceptual framework.

b) Table 3: IFRS Alignment Improvements to IPSAS proposed in ED 80

I disagree with the IPSASB amending IPSAS 1 for item 3(a) *Classification of Liabilities as Current or Non-current* (Amendments to IAS 1) (Issued in January 2020).

These amendments have generated considerable controversy and interpretation issues. The IASB is currently drafting proposed amendments to those amendments.

I suggest that the IPASB delay including the current or non-current amendments for liabilities until the IASB completes the revision project.

As at 30 September 2021, the IASB Work Plan is to issue an amending exposure draft in November 2021:

> https://www.ifrs.org/projects/work-plan/classification-of-debt-with-covenants-as-current-or-non-current-ias-1/

The amendments proposed in ED80 (and amending IAS 1) were subject to consideration by the IFRS Interpretations Committee.

In my response to the tentative agenda decision, I disagreed with the approach adopted. I also highlighted that in the case examined, while there was no breach of the covenant at the end of the financial year, applying the tentative agenda decision (and its surrogate hypothetical test), would cause a real world breach of the covenant!

Following the consideration of comments on the tentative agenda decision by the IFRS Interpretations Committee, and feedback to the IASB, the IASB commenced its revision project.

c) Omitted items

I believe that some of the amendments to IAS 1 introduced by the IASB in December 2014 – Disclosure Initiative (Amendments to IAS 1) should be made to IPSAS 1.

The IASB Disclosure Initiative amendments addressed some feedback that was variously described as addressing disclosure overload, and "allowing" cutting the clutter, streamlining financial reporting, focused financial reporting, and effective financial reporting.

I have included “allowing” in quotes, as it seemed to be an interpretation of what was required, and had become a behavioural issue – such that amendments were required to change behaviour rather than a statement about applying materiality.

There were also amendments to “allow” companies to reorganise the financial report, to group related items, rather than have financial statement notes in numerical order following the format of the profit or loss statement and balance sheet.

An example set of streamlined example financial statement for a state government are the Queensland Treasury Sunshine Department Illustrative Financial Statements at:

> https://www.treasury.qld.gov.au/resource/financial-reporting-requirements-queensland-government-agencies/
> https://s3.treasury.qld.gov.au/files/FRR-6A-2020-21-Sunshine-Department-Illustrative-Financial-Statements-1.pdf

Checklist mentality

One of the amendments made to IAS 1, was to emphasis that even though some of the IFRS standards are written such as to imply a checklist mentality (must disclose, shall disclose), such ‘mandatory’ disclosures are still subject to materiality.

I believe that these Disclosure Initiative amendments would be of benefit to public sector financial reporting and IPSAS 1.

IAS 1 (using the Australian equivalent AASB 101 wording) paragraph 31 was changed from:

> 31. An entity need not provide a specific disclosure required by an Australian Accounting Standard if the information is not material.

to:

> 31 <u>Some Australian Accounting Standards specify information that is required to be included in the financial statements, which include the notes.</u> An entity need not provide a specific disclosure required by an Australian Accounting Standard if the information <u>resulting from that disclosure</u> is not material. <u>This is the case even if the Australian Accounting Standard contains a list of specific requirements or describes them as minimum requirements. An entity shall also consider whether to provide additional disclosures when compliance with the specific requirements in Australian Accounting Standards is insufficient to enable users of financial statements to understand the impact of particular transactions, other events and conditions on the entity’s financial position and financial performance.</u>

N.B. The pre-2007 version of AASB 101 paragraph 31 was:

> 31. Applying the concept of materiality means that a specific disclosure requirement in an Australian Accounting Standard need not be satisfied if the information is not material.

This compares to the current IPSAS 1:

> 47. Applying the concept of materiality means that a specific disclosure requirement in an IPSAS need not be satisfied if the information is not material.

Other disclosure overload changes

The 2014 Disclosure Initiative amendments also included adding:

30A When applying this and other Australian Accounting Standards an entity shall decide, taking into consideration all relevant facts and circumstances, how it aggregates information in the financial statements, which include the notes. An entity shall not reduce the understandability of its financial statements by obscuring material information with immaterial information or by aggregating material items that have different natures or functions.

The following were included relating to grouping and ordering (again using the Australian equivalent AASB 101 wording):

113 An entity shall, as far as practicable, present notes in a systematic manner. In determining a systematic manner, the entity shall consider the effect on the understandability and comparability of its financial statements. An entity shall cross-reference each item in the statements of financial position and in the statement(s) of profit or loss and other comprehensive income, and in the statements of changes in equity and of cash flows to any related information in the notes.

114 ~~An entity normally presents notes in the following order, to assist users to understand the financial statements and to compare them with financial statements of other entities:~~ Examples of systematic ordering or grouping of the notes include:

(a) giving prominence to the areas of its activities that the entity considers to be most relevant to an understanding of its financial performance and financial position, such as grouping together information about particular operating activities;

(b) grouping together information about items measured similarly such as assets measured at fair value; or

(c) following the order of the line items in the statement(s) of profit or loss and other comprehensive income and the statement of financial position, such as:

- ~~(a)~~(i) statement of compliance with ~~Australian Accounting Standards~~ IFRSs (see paragraph 16);
- ~~(b)~~(ii) ~~summary of~~ significant accounting policies applied (see paragraph 117);
- ~~(c)~~(iii) supporting information for items presented in the statements of financial position and in the statement(s) of profit or loss and other comprehensive income, and in the statements of changes in equity and of cash flows, in the order in which each statement and each line item is presented; and
- ~~(d)~~(iv) other disclosures, including:
  - ~~(i)~~(1) contingent liabilities (see AASB 137) and unrecognised contractual commitments; and
  - ~~(ii)~~(2) non-financial disclosures, eg e.g. the entity's financial risk management objectives and policies (see AASB 7).

115. ~~In some circumstances, it may be necessary or desirable to vary the order of specific items within the notes. For example, an entity may combine information on changes in fair value recognised in profit or loss with information on maturities of financial instruments, although the former disclosures relate to the statement of comprehensive income or separate income statement (if presented) and the latter relate to the statement of financial position. Nevertheless, an entity retains a systematic structure for the notes as far as practicable.~~ [Deleted by the IASB]

These paragraphs are equivalent to IPSAS 1 paragraphs 128 – 130:

128. **Notes shall, as far as practicable, be presented in a systematic manner. Each item on the face of the statement of financial position, statement of financial performance, statement of changes in net assets/equity, and cash flow statement shall be cross-referenced to any related information in the notes.**

129. Notes are normally presented in the following order, which assists users in understanding the financial statements and comparing them with financial statements of other entities:

(a) A statement of compliance with IPSASs (see paragraph 28);

(b) A summary of significant accounting policies applied (see paragraph 132);

(c) Supporting information for items presented on the face of the statement of financial position, statement of financial performance, statement of changes in net assets/equity, or cash flow statement, in the order in which each statement and each line item is presented; and

(d) Other disclosures, including:

(i) Contingent liabilities (see IPSAS 19), and unrecognized contractual commitments; and

(ii) Non-financial disclosures, e.g., the entity's financial risk management objectives and policies (see IPSAS 30).

130. In some circumstances, it may be necessary or desirable to vary the ordering of specific items within the notes. For example, information on changes in fair value recognized in surplus or deficit may be combined with information on maturities of financial instruments, although the former disclosures relate to the statement of financial performance and the latter relate to the statement of financial position. Nevertheless, a systematic structure for the notes is retained as far as practicable.