



**Australian Government**  
**Australian Accounting**  
**Standards Board**

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Mr Ronnie Downes  
Deputy Head of Division  
Public Governance and Territorial Development Directorate  
Budgeting and Public Expenditures Division  
OECD  
via email: [budgetprinciples@oecd.org](mailto:budgetprinciples@oecd.org)

Dear Mr Downes

**Draft Principles of Budgetary Governance**

Thank you for the opportunity to comment on the draft principles. The following comments reflect the views of the staff of the Australian Accounting Standards Board (AASB).

By way of background, the AASB is an independent statutory authority that sets Australian Accounting Standards applicable to Australian reporting entities (whether in the for-profit or not-for-profit private or public sectors) in the preparation of general purpose financial statements. Our approach to setting standards for Australian governments is to adopt International Financial Reporting Standards issued by the International Accounting Standards Board, modified where necessary to deal with public sector specific issues. Although our interest principally lies in ex post financial reporting matters, there is a clear relationship between that and ex ante budgetary reporting (see, for example, AASB 1055 *Budgetary Reporting* [freely available at [www.aasb.gov.au](http://www.aasb.gov.au)]) – hence our interest in the draft principles. We are particularly interested in, and therefore we have limited our comments to, draft principle 7 “Budgets should present a true, full and fair picture of the public finances”.

We strongly support draft principle 7 on the basis that, although it is expressed using different terminology, it is broadly consistent with the financial reporting principles enunciated in the IASB’s *Framework for the Preparation and Presentation of Financial Statements*. Whilst we acknowledge that many governments are not (yet) ready to adopt accrual budgeting principles, to be consistent with draft principle 7, we think the dot points accompanying that draft principle (particularly the third dot point) could be expressed more aspirationally by encouraging the adoption of accrual accounting. This is because, on its own, cash budgeting would not present a ‘true, full and fair picture of ... public finances’. The dot point could note that accrual accounting principles are preferred because they place cash as a resource within the context of other resources – cash management is at risk of being ineffective if it is undertaken in isolation of other resources or demands on resources.

Furthermore, to ‘close the loop’ of the budgeting cycle, we suggest that the dot points accompanying draft principle 7 explicitly refer to ‘actual to budget’ comparisons. In particular, we think that ex post reporting against original budgets, together with explanations of variances, is needed for the discharge of accountability responsibilities,

which is an essential component of budgetary governance. We note that these matters are alluded to elsewhere in the draft principles (eg draft principles 5 and 6), but we think an explicit reference in draft principle 7 is warranted.

Yours sincerely,

A handwritten signature in black ink that reads "K.M. Stevenson". The signature is written in a cursive style with a large, sweeping initial "K" and "M".

Kevin M. Stevenson  
Chairman and CEO