

EXTRACT FROM MINUTES: AASB 8 MARCH 2006 MEETING

MEETING WITH HEADS OF TREASURIES (HoTs)

Agenda item 2

The Board had before it:

- (a) a memorandum from Geoff Harris dated 1 March 2006 (Agenda paper 2.1);
- (b) a HoTs paper *The future of public sector accounting in Australia* (Agenda paper 2.2);
- (c) HoTs' submission on ED 142 *Financial Reporting of General Government Sector by Governments* (Agenda paper 2.3); and
- (d) an *Extract from Collation and Analysis of Submissions on ED 142* (Agenda paper 2.4).

Representatives of the Heads of Treasuries (HoTs) made a presentation to the Board on HoTs' views on various issues that are pertinent to the GAAP/GFS Convergence Project. The Board agreed that the presentation and ensuing discussion provided useful input for progressing the Project. The Board noted that it will consider the views presented by HoTs, together with the views of other constituents, as it continues to review the submissions on ED 142 *Financial Reporting of General Government Sectors by Governments* at its next meeting.

Notes of the key points arising out of the presentation are provided in Attachment A.

Attachment A

Meeting with Heads of Treasuries (HoTs)

In summary, HoTs emphasised/addressed the following:

1. the belief that there is a strong interest from users of general purpose financial reports (GPFR) in the budget sector, and therefore the GGS, and have a strong view that the GGS is a reporting entity that should prepare a GPFR on a partial-consolidation basis that can be presented separately from and before whole-of-government GPFRs. The GGS should not consolidate information from the PFC sector and the PNFC sector, for example, revenues from market activities, because users are mainly interested in the government discharging its accountability for revenue arising from taxes. As a GPFR and the consequential audit report are considered to be the 'state-of-the-art' in financial presentation, HoTs expressed strong concerns that labeling a GGS financial report as a special purpose financial report (SPFR) would not provide users with the necessary level of assurance about the quality of the financial information it contains, even if it is prepared in accordance with an Accounting Standard. In any event, HoTs questioned the appropriateness of the Board setting Standards for SPFRs.

HoTs are aware of the difficulties of defining the GGS as a reporting entity and labeling a partial-consolidated financial report as a GPFR under the current Framework. HoTs suggested that the Board consider amending the Framework for the public sector and rather than concentrating on the definition of the 'concept of control' focus on a function-based criterion for circumscribing a reporting entity in the public sector. In the interim, the Board should continue to develop the proposed Standard along the lines of the decisions it has made to date in relation to the reporting entity and partial-consolidation issues.

HoTs emphasised that users' needs would not be satisfied unless these issues are dealt with appropriately.

2. The presentation of the financial statements should be a single-column format that adopts the GFS notion of splitting transactions and other economic flows on the face of the operating statement and presents the GFS analytical balance figures also on the face, albeit at the foot of the statements. The definition, recognition and measurement principles applied to items included in the financial statements should be determined on the basis of either GAAP or GFS, depending on which has conceptual superiority. HoTs noted that of the six remaining convergence differences it has identified, in its view GAAP is the superior treatment, except for two (relating to the treatment of dividends and subscriptions to international aid agencies). HoTs indicated that it could understand if the Board were to conclude that GAAP is superior in all six cases.

Amounts determined in accordance with Australian Bureau of Statistics (ABS) GFS should be disclosed in the notes. Reconciliation of ABS GFS amounts to the corresponding amounts presented on the face of the financial statement should also be disclosed in the notes.

HoTs acknowledge that with adopting Australian equivalents to IFRSs, significant progress has already been made in harmonising GAAP with GFS. The longer-term objective of the GAAP/GFS Convergence Project should be the complete elimination of all convergence differences.

3. HoTs strongly prefer the ABS GFS Manual to the IMF GFSM 2001. As the ABS is playing a similar role to the AASB in adjusting the international guidance to the Australian environment, the ABS GFS Manual is considered the appropriate reference.

4. HoTs expressed concerns regarding the proposal in paragraphs 57 to 62 of ED 142 (Issue (m) in the specific matters for comment section) to require explanations of the major variances between actual and budgeted amounts. HoTs questioned the usefulness of this information for constituents and noted that there is no equivalent or corresponding requirement for private sector entities. HoTs expressed the view that it is management information and should not be subject to audit. HoTs suggested that the information should be provided outside the financial report, not being subject to audit. HoTs believe that if the ED 142 proposal is to be adopted, it is incumbent on the Board to demonstrate the importance of this information to users of public sector financial reports.

HoTs also noted a number of practical issues in implementing the proposal including the meaning of the terms 'major' and 'explanation' and whether major differences should be identified and explanations provided at a line-item level or below. For example:

- (a) whether explanation is required, if an amount in the original budget does not significantly differ from the corresponding actual amount, but the underlying components do; and
 - (b) whether increases or decreases of revenues are explained by general fluctuations of the economy or by reference to specific sectors of the economy, like the car market or the real estate market.
5. HoTs noted that, in contrast to their submission to ED 142 regarding Issue (k) to disclose disaggregated information about GAAP and GFS amounts on a functional basis, they consider that it is feasible to allocate some revenues, liabilities and assets to functions but question whether it provides useful information given the significant amounts that cannot be reliably attributed.
 6. HoTs noted that, depending on the Board's decision, there might be a need to re-expose ED 142. The Chairman commented that the Board would consider this matter when the extent of likely changes from ED 142 becomes clear.