



AUSTRALASIAN  
COUNCIL OF  
AUDITORS-GENERAL

19 May 2009

Mr Bruce Porter  
Acting Chairman  
Australian Accounting Standards Board  
PO Box 204  
Collins Street West Victoria 8007  
AUSTRALIA

Dear Mr Porter

*ED 174 Amendments to Australian Accounting Standards to Facilitate GAAP/GFS Harmonisation for Entities within the GGS [AASB 101, 107 And 1052] and Supplement to ED 174 Draft Illustrative Example of Financial Statements for Entities within the General Government Sector.*

Attached is the Australasian Council of Auditors-General (ACAG) response to the Exposure Draft and the Supplement to the Exposure Draft referred to above.

The views expressed in this submission represent those of all Australian members of ACAG.

The proposals, as a whole, in this Exposure Draft are supported by ACAG. ACAG also believes that the draft Illustrative Example in the Supplement, once responses from constituents are incorporated, will provide useful guidance for implementing the proposals in ED 174.

The attachment to this letter provides ACAG's comments on the specific matters raised in ED 174 by the AASB.

The opportunity to comment is appreciated and I trust you will find the attached comments useful.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Simon O'Neill', is written over a light blue horizontal line.

Simon O'Neill  
Chairman  
ACAG Financial Reporting and Auditing Committee

**ED 174 Amendments to Australian Accounting Standards to Facilitate GAAP/GFS Harmonisation for Entities within the GGS [AASB 101, 107 And 1052] and Supplement to ED 174 Draft Illustrative Example of Financial Statements for Entities within the General Government Sector.**

ACAG has reviewed the Exposure Draft and the Supplement to the Exposure Draft and provides the following comments on the specific matters raised by the AASB.

- (a) *Whether the proposals are necessary and/or sufficient to satisfy the objective of GAAP/GFS harmonisation for entities within the GGS. If not, what approach would you suggest? Please provide your assessment of the costs and benefits of your preferred approach, and how you believe it would better meet the needs of users.*

ACAG agrees that the proposals in ED 174 are necessary but feels they are not sufficient to satisfy the objective of GAAP/GFS harmonisation for entities within the GGS. ACAG believes that full harmonisation would require mandating the use of GFS principles when there is a choice in GAAP. Applying the same accounting principles as those required by AASB 1049 is also likely to assist the consolidation process.

It is probable that in most jurisdictions choice is likely to be mandated. Accordingly, it is considered that the benefits of comparability and the improved consolidation process will outweigh the compliance costs.

- (b) *Whether it is appropriate for the proposals to apply to for-profit entities within the GGS (see paragraph BC6).*

ACAG believes that it is appropriate for the proposals to apply to for-profit entities within the GGS.

- (c) *Whether entities within the GGS should be subject to the principle in AASB 1049 that, where there is a choice in GAAP that aligns with GFS, that choice is mandated (see paragraph BC11):.*

ACAG believes that in the interests of achieving comparability among entities within the GGS and in the interests of harmonisation with GFS, entities within the GGS should be subject to the principle in AASB 1049 that where there is a choice in GAAP that aligns with the GFS, that choice is mandated. If this were not the case, GFS harmonisation would merely be in terms of presentation.

The benefits would include efficient preparation of the AASB 1049 financial statements. However, we acknowledge that in some cases the additional costs to the preparers of the financial reports, particularly for small GGS entities, could outweigh the benefits.

- (d) *Whether it is appropriate to expand the application of paragraphs 15-21 of AASB 1052 beyond government departments (see paragraph BC13).*

ACAG believes that it is appropriate to expand the application of paragraphs 15-21 of AASB 1052 beyond government departments in order to facilitate consistency of reporting amongst all entities within the GGS.

- (e) *Whether entities within the GGS should be subject to the same kind of budgetary reporting requirements that are specified in paragraphs 59-65 of AASB 1049 (see paragraph BC14). [AASB 1049 requires disclosure of the original budgeted financial statements and explanations of major variances where budgeted financial statements are presented to parliament].*

While a couple of ACAG Offices see some value in including budgetary information, overall ACAG does not support extending the current budgetary reporting requirements of AASB 1049 to GGS entities at this time. There are a number of issues that would need to be worked through if this information was to be reported at the entity level.

- (f) *Whether there is a need for specific transitional requirements to facilitate the adoption of the proposals (see paragraph BC16).*

ACAG considers that it is appropriate not to specify transitional requirements. Remaining silent in the Standard about transitional provisions will allow AASB 108 to operate in its own right. However, should the AASB mandate GFS principles where choices are allowed in GAAP, ACAG believes the Board should clarify whether, for example, elections not to recognise land under roads acquired before 2008-09 should stand, or be reversed to allow compliance with the GFS principle that all land is an asset.

- (g) *Whether overall, the proposals would result in financial statements that would be useful to users.*

ACAG agrees that the proposals in the Exposure Draft would result in financial statements that would be inherently useful to users.

- (h) *Whether the proposals are in the best interest of the Australian economy.*

ACAG believes that the proposals in the Exposure Draft will facilitate GAAP/GFS harmonisation and result in a single set of Government reports which are auditable, comparable between jurisdictions, and directly comparable with the relevant budget statements. This improved comparability will benefit assessment by users of the financial reports of governments, which ACAG believes is in the best interests of the Australian economy.

### Other Matters

- (1) Amendments to AASB 1052 on page 15 of ED 174 should refer to paragraphs 3 and 5, rather than 3 and 4.
- (2) ED 174 does not address how discontinued operations will be treated in the statement of comprehensive income. Paragraph 82(e) of AASB 101 requires a single amount in relation to discontinued operations to be included, however, there could be transactions and other economic flows which may not be able to be disclosed as a single amount.

## Comments on Draft Illustrative Example of Financial Statements for Entities within the General Government Sector

(1) ACAG recommends the following changes be made to the draft illustrative financial statements:

*(a) Comprehensive Operating Statement*

Replace the caption “Interest expense” with “Finance costs” to comply with paragraph 82(b) of AASB 101.

*(b) Balance Sheet*

(i) Replace the caption “Cash and Deposits” with “Cash and cash equivalents” to comply with paragraph 54(i) of AASB 101, and to align with the description “Cash and cash equivalents” used in the illustrative Cash Flow Statement.

(ii) Replace the caption “Interest bearing liabilities” with “Borrowings”.

*(c) Cash Flow Statement*

(i) Amend the title of the statement to read “Statement of Cash Flows” to align with the wording used in bold paragraph Aus21.1 in ED 174 (paragraph 14). Paragraph 111 of AASB 101 also uses the title “Statement of cash flows”.

(ii) Replace the caption “Interest and other costs of finance paid” with “Finance costs”.

(iii) Replace the words “interest bearing liabilities” where they appear under the heading “Cash flows from financing activities” with the word “borrowings”.

(2) ACAG believes that the factors raised by the AASB preceding the illustrative example and other issues raised by constituents should be addressed before the illustrative example becomes guidance.