

Department of Treasury and Finance

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Mr Bruce Porter
Acting Chairman
Australian Accounting Standards Board
PO Box 204
Collins St West
MELBOURNE Vic 8007

Dear Mr Porter *Bruce*

**EXPOSURE DRAFT 174 AMENDMENTS TO AUSTRALIAN ACCOUNTING STANDARDS
TO FACILITATE GAAP/GFS HARMONISATION FOR ENTITIES WITHIN THE GGS**

The Heads of Treasuries Accounting and Reporting Advisory Committee welcomes the opportunity to provide comments to the Australian Accounting Standards Board on ED 174 *Amendments to Australian Accounting Standards to facilitate GAAP/GFS Harmonisation for Entities within the GGS*.

HoTARAC is of the opinion that with one exception, the proposals set out in the ED substantially harmonise GAAP/GFS for entities within the GGS. HoTARAC considers that to achieve harmonisation it would be necessary to include the requirement to select accounting policies that align with GFS at an entity level. In accordance with the Heads of Treasuries key harmonisation principle to keep it simple, HoTARAC considers harmonisation could be achieved by including this requirement in one of the existing standards.

HoTARAC is pleased that the presentation proposals set out in the ED will not restrict the ability of entities to include additional information on the face of their financial statements.

HoTARAC is of the opinion that the AASB needs to give thought to the treatment of discontinued operations at both an entity level and at a whole-of-government level. AASB 101 *Presentation of Financial Statements* requires discontinued operations to be disclosed as a single amount comprising the total of the post-tax profit (loss) of discontinued operations. However GFS requires discontinued operations to be split between transactions and other economic flows.

While HoTARAC appreciates that it is the intention of the AASB to allow for the net cost of services presentation format, it is not clear whether this is possible under the proposals in the ED. A format for presenting net cost of services that the Board might wish to consider can be found at Attachment 2.

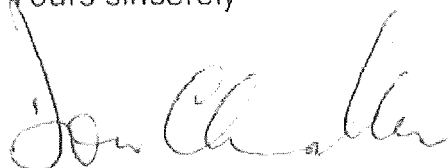
HoTARAC is not aware of any regulatory impediments to implementation of the changes. HoTARAC offers no comment about whether the changes are in the best interests of the Australian economy.

HoTARAC supplied the illustrative examples to the AASB and on that basis supports them. It is noted that the illustrative examples reflect the terminology used by the primary jurisdiction but the flexibility available under AASB 101 *Presentation of Financial Statements* would allow for a range of formats that would be acceptable.

Detailed comments by HoTARAC on the Exposure Draft can be found at Attachment 1.

If you have any queries regarding HoTARAC's comments, please contact Peter Gibson from the Australian Department of Finance and Deregulation on 02 6215 3551.

Yours sincerely

A handwritten signature in black ink, appearing to read 'D W Challen', written in a cursive style.

D W Challen

CHAIR

HEADS OF TREASURIES ACCOUNTING AND REPORTING ADVISORY COMMITTEE

25 May 2009

Encl

**COMMENTS – EXPOSURE DRAFT GAAP/GFS HARMONISATION FOR ENTITIES
WITHIN THE GGS**

The AASB would particularly value comments on:

Question 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?

Overall, HoTRAC is of the view that the approach taken by the AASB substantially achieves harmonisation and is in line with the broad principles set out by the Heads of Treasuries in their letter dated 28 July 2008.

The majority of HoTARAC members support the proposals being extended to mandate the selection of accounting policies that align with GFS (refer to (c) below). As the proposals amend current Standards rather than create a new Standard to achieve the objective, the AASB will need to consider the impact of current projects in particular, the IASB Project on Financial Statement Presentation and future projects that may effect harmonisation.

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

HoTARAC considers these proposals to be appropriate to apply to for-profit entities within the GGS. HoTARAC notes that applying these proposals to for-profit GGS entities will not lead to significant differences as the amendments are consistent with the current requirements of AASB 101 *Presentation of Financial Statements* and AASB 107 *Cash Flow Statements*.

Again, HoTARAC notes that this position may change in future given the current IASB Project relating to Financial Statement Presentation.

Question 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 BC 11)?

As mentioned under (a), the majority of HoTARAC members believe harmonisation can only be achieved if the requirement to select GAAP accounting policies that align with GFS is mandated in the standards. The mandating of the principle will ensure consistency between the jurisdictions and will fortify the benefits and relevance of harmonisation at an entity level.

The minority HoTARAC view is that the mandating of accounting policies should be left to jurisdictions. Harmonisation should be at a format level and should be kept simple.

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

HoTARAC cannot see any benefits in expanding AASB 1052 beyond its current application. HoTARAC considers that this issue is best addressed as part of the separate AASB Project on disaggregated information. However, if the AASB does expand its application, HoTARAC is of the view that the AASB 1052 requirements should not apply the ABS functional classification.

Question 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 BC 14). [AASB 1049 requires disclosure of the original budgeted financial statements and explanations of major variances where budgeted financial statements are presented to parliament]?

HoTARAC considers a decision on budgetary reporting requirements should be delayed pending the AASB's separate project on budget reporting. Nevertheless, HoTARAC has provided comments below.

The majority of HoTARAC members believe that the inclusion of budgeted figures could mislead users of financial statements as this information is unaudited and would potentially clutter the financial statements. These members also believe that the disclosure of budgeted figures would be onerous for entities, particularly given that these figures are published elsewhere and are publically available.

Other HoTARAC members are of the opinion that GGS entities should be subject to the same kind of budgetary reporting requirements as in AASB 1049.

HoTARAC constituents have varying views on whether original budgeted or revised estimates should be used if entities within the GGS were subject to the same kind of budgetary reporting requirements that are specified in AASB 1049.

Question f: Whether there is a need for specific transitional requirements to facilitate the adoption of the proposals (see paragraph BC16)?

HoTARAC members do not consider the Board's justification for not including specific transitional requirements to be adequate; in particular it doesn't explain clearly why specific transitional requirements were included in AASB 1049 and not in this ED. However, HoTARAC members do not consider the transitional requirement of AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* will be onerous, as most changes relate to presentation rather than policies.

HoTARAC is of the opinion that the transitional requirements should be reconsidered if the AASB changes its approach to the mandating of GFS policies. The transitional approach taken in AASB 1049 should be considered.

Question g: Whether overall, the proposals would result in financial statements that would be useful to users?

Overall, HoTARAC considers the proposals would result in financial statements that would be useful to users with GFS knowledge. The proposals will allow consistency when comparing GGS entity results to GGS and whole-of-government financial statements.

**POSSIBLE FORMAT – COMPREHENSIVE OPERATING STATEMENT: MODIFIED NET
COST OF SERVICES FORMAT**

	<i>(\$ thousand)</i>	
	2010	2009
Expenses from transactions		
Operating expenses		
Employee related		
Other operating expenses		
Depreciation and amortisation		
Grants and subsidies		
Finance costs		
Other expenses		
Total expenses from transactions		
Revenue from transactions (excluding appropriations)		
Sale of goods and services		
Investment revenue		
Retained taxes, fees and fines		
Grants and contributions		
Other revenue		
Total revenue from transactions		
NET COST OF SERVICES FROM TRANSACTIONS		
Government contributions (transactions)		
Recurrent appropriations		
Capital appropriations		
(Asset sale proceeds transferred to the Crown Entity)		
Acceptance by the Crown Entity of employee benefits and other liabilities		
Total Government contributions (transactions)		
NET RESULT FROM TRANSACTIONS (NET OPERATING BALANCE)		
Other economic flows included in surplus / deficit		
Net gain/(loss) on non-financial assets		
Net gain/(loss) on financial instruments and statutory receivables/payables		
Other gains/(losses) from other economic flows		
Total other economic flows		
SURPLUS / (DEFICIT) FOR THE YEAR		
Other economic flows – other non-owner changes in equity		
Changes in physical asset revaluation reserve		
Financial assets available-for-sale reserve:		
– Gain/(loss) taken to equity		
– Transferred to profit or loss for the period		
Other		
Total other economic flows – Other non-owner changes in equity		
COMPREHENSIVE RESULT		