

11 November 2011

Mr Kevin Stevenson
Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street West Victoria 8007

Via email: standard@asb.gov.au

Dear Kevin

Comments on Exposure Draft ED 212 Not-for-Profit Entities within the General Government Sector [proposed AASB 10XX, including proposals relating to Tier 2 disclosure requirements]

Thank you for the opportunity to comment on the Australian Accounting Standards Board (AASB) ED 212 Not-for-Profit Entities within the General Government Sector [proposed AASB 10XX, including proposals relating to Tier 2 disclosure requirements]. CPA Australia (CPA), The Institute of Chartered Accountants (The Institute) and the Institute of Public Accountants (IPA) (the Joint Accounting Bodies) have considered the ED and our comments follow.

The Joint Accounting Bodies represent over 190,000 professional accountants in Australia. Our members work in diverse roles across public practice, commerce, industry, government and academia throughout Australia and internationally.

Overall, the Joint Accounting Bodies do not consider the proposals in ED 212 will improve the quality of financial reporting of not-for-profit entities within the General Government Sector to the extent necessary for us to give it our support.

Our detailed comments to the questions posed by the AASB are attached.

If you require further information on any of our views, please contact Mark Shying, CPA Australia by email mark.shying@cpaaustralia.com.au, Kerry Hicks, the Institute of Chartered Accountants by email kerry.hicks@charteredaccountants.com.au or Tom Ravlic, the Institute of Public Accountants by email tom.ravlic@publicaccountants.org.au.

Yours sincerely



Alex Malley
Chief Executive Officer
CPA Australia Ltd



Graham Meyer
Chief Executive Officer
Institute of Chartered
Accountants in Australia

Andrew Conway
Chief Executive Officer
Institute of Public
Accountants

Representatives of the Australian Accounting Profession



cpaaustralia.com.au



The Institute of
Chartered Accountants
in Australia

charteredaccountants.com.au



IPA INSTITUTE OF PUBLIC
ACCOUNTANTS

publicaccountants.com.au

Appendix

a. whether the proposals would lead to an overall improvement in general purpose financial reporting by not-for-profit entities within the GGS.

Overall, the Joint Accounting Bodies do not consider the proposals in ED 212 will improve the quality of financial reporting of not-for-profit entities within the GGS to the extent necessary for us to give it our support. We note the inclusion of the second illustrative example to accompany the proposed standard (Illustrative Example B) illustrates the Net Cost of Services¹ and is therefore articulating a financial statement presentation already available under AASB 101 *Presentation of Financial Statements*. Therefore, whether the proposed standard will give rise to an improvement to the quality of financial reporting of not-for-profit entities within the GGS is a moot point for those jurisdictions that already use a Net Cost of Services presentation.

The proposal to require budgetary reporting of controlled and administered items is supported as its provision allows users of the financial statements to understand how the entity's financial performance compares with what the Government was expecting. However, we think the best information about how the entity's financial performance compares with what the Government was expecting would come from comparison with the latest revised budget presented to parliament during the reporting period. Therefore, we consider this improvement to the quality of the financial reporting by not-for-profit entities within the GGS is less than optimal.

Irrespective of your response to this general question, the AASB would value specific comments on:

- i. the proposal to limit the entities affected by the proposals in this Exposure Draft to not-for-profit entities within the GGS. In particular, the Board seeks comment on whether the proposals should also apply to for-profit entities within the GGS (see paragraphs 2 and BC10-BC13).**

The Joint Accounting Bodies support the objective of requiring for-profit entities within the GGS to be IFRS compliant. Therefore, we consider it appropriate to limit the entities affected by the proposed standard to not-for-profit entities within the GGS.

- ii. the proposal that the version of the ABS GFS Manual to be applied is a version that was effective at the beginning of the previous annual reporting period or any version effective at a later date, rather than necessarily the latest version (see paragraphs 9 and BC14-BC15).**

The Joint Accounting Bodies agree with the proposal.

- iii. the proposal to limit GAAP recognition and measurement options to those that align with GFS and thereby require the same accounting policies as those adopted under AASB 1049 for whole of governments and the GGSs (see paragraphs 10-12 and BC16-BC25).**

It is our understanding that in most jurisdictions, the central government agency mandates that its subsidiaries use GAAP options that align with GFS so the proposal would only codify existing practice rather than lead to additional improvement in reporting.

- iv. the proposal to require disclosure, under both Tier 1 and Tier 2 requirements, either in the financial statements or in the notes, of information based on GAAP/GFS harmonised classification and presentation principles for controlled items and, separately, administered items (including classification of income and expenses as transactions and other economic flows, and classification and presentation of cash flows from investing activities for policy purposes and liquidity management purposes) (see paragraphs 13-18, 22 and BC26-BC35). In relation to this proposal, the Board is particularly interested in comments on:**
 - (a) whether the on-the-face or in-the-notes presentation option should be allowed and, if not, whether on-the-face**

¹ We note the Net Cost of Services format makes explicit the cost of providing services and the source of the funds to provide those services.

- presentation of GAAP/GFS harmonised information should be prohibited given the potential for complexity; and**
- (b) the proposal to require disclosure of GAAP/GFS harmonised classification information at line item level, where it is presented in the notes; and whether information at the line item level would be more beneficial than at the GFS category level.**

The Joint Accounting Bodies do not support the proposal to require disclosure based on GAAP/GFS harmonised classification and presentation principles for controlled items and, separately, administered items. We agree with the Alternative View of an AASB Member expressed in the Basis for Conclusions to the proposed standard that as the focus of ED 212 is on microeconomic entities it is inappropriate to require them to provide information that is founded on concepts that underpin the assessment of the macroeconomic impact of a government and each of the government's sectors.

- v. the proposal to require AASB 1050 to continue to apply to government departments, to the extent its requirements are not satisfied by the proposals in this Exposure Draft (see paragraphs 19 and BC29-BC31).**

The Joint Accounting Bodies support the proposal.

- vi. the proposal to require disclosure, under both Tier 1 and Tier 2 requirements, of any original budgeted financial statements reflecting controlled or administered items presented to parliament, recast to align with the presentation and classification adopted in the primary financial statements and accompanying information about administered items or the GAAP/GFS harmonisation note (whichever is judged to be the more useful) and an explanation of variances (see paragraphs 23-29 and BC40-BC42).**

The Joint Accounting Bodies note the proposed standard will require disclosure of the original budget presented to parliament in respect of the reporting period and in addition allows disclosure of any revised budget that is presented to parliament during the reporting period. While supportive of this proposal, we think the better answers to understanding how the entity's financial performance compares with what the Government was expecting would come from requiring comparison with the latest revised budget. Therefore, we consider the improvement to the quality of the financial reporting by not-for-profit entities within the GGS is less than optimal.

- vii. the proposals relating to other disclosures, from both a Tier 1 and Tier 2 perspective (see paragraphs 30-32), in particular relating to:**
- (a) requiring information to be disclosed in the accounting policy note (paragraph BC36), including disclosures about the version of the ABS GFS Manual adopted and, where relevant, a later version (paragraph BC15); and**
 - (b) not requiring disclosure of disaggregated information, except to the extent it continues to be required by AASB 1052 for government departments (paragraphs BC37-BC39).**

The Joint Accounting Bodies support both proposals.

- viii. the proposal to provide no specific transitional requirements, except to require an entity to change the elections it previously made under AASB 1 to the extent necessary to comply with the ABS GFS Manual (see paragraphs 33-35 and BC44-BC47).**

The Joint Accounting Bodies are not aware of a need for specific transitional requirements. Accordingly, we support the proposal.

- ix. **unless already provided in response to other specific matters for comment relating to disclosures, the proposal to exempt entities adopting Tier 2 requirements from certain disclosures (shown as shaded text in this Exposure Draft).**

The Joint Accounting have no specific comment on this question.

- x. **the illustrative examples, and whether they provide guidance that is appropriate/helpful in implementing the proposals (see Illustrative Examples A and B and paragraphs BC49-BC50).**

The Joint Accounting Bodies welcome the provision of the illustrative examples and are supportive of the Board's decision to illustrate the net cost of services format.

- xi. **the proposed operative date (see paragraphs 3-4 and BC48).**

The Joint Accounting Bodies support the Board's decision to allow a period of three years from the issue of the proposed standard before it becomes mandatory.

- b. **unless already provided in response to specific matter for comment (a) above, whether overall, from both a Tier 1 and Tier 2 perspective, the proposals would result in financial statements that would be useful to users.**

As noted in (a) above, overall, the Joint Accounting Bodies do not consider the proposals in ED 212 will improve the quality of financial reporting of not-for-profit entities within the GGS.

- c. **whether the proposals, from both a Tier 1 and Tier 2 perspective, are in the best interests of the Australian economy.**

See our comments in (a) above.

- d. **unless already provided in response to the specific matters for comment above, the costs and benefits of the proposals relating to both Tier 1 and Tier 2 requirements relative to the current requirements, whether quantitative (financial or non-financial) or qualitative.**

The Joint Accounting Bodies believe the costs of the proposed standard will exceed the benefits. We agree with the Alternative View of an AASB Member expressed in the Basis for Conclusions to the proposed standard that the costs of implementing the proposals in ED 212 would be substantial, as most people at the entity level have little or no knowledge of GFS.