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Our ref AASB Submission ED 212

Mr Kevin Stevenson  
Chair  
Australian Accounting Standards Board  
PO Box 204  
Collins St West VIC 8007

23 November 2011

Dear Kevin

**Exposure Draft 212 Not-for-Profit Entities within the General Government Sector (“GGS”)**

We are pleased to have the opportunity to provide our comments on Exposure Draft 212: *Not-for-Profit Entities within the General Government Sector* (“ED 212”) issued by the Australian Accounting Standards Board.

We support the Board in its endeavours to improve financial reporting in the public sector and will generally support the Board’s proposals where we believe general purpose financial reporting is improved. With regards to the proposals with this ED, however, we have mixed views as to whether the objective will, in fact be met. We see that some benefits will arise but also see a number of practical challenges arising from implementing the proposals.

The ED 212 proposals have the effect of aligning the principles on which the financial reports of many (but not all) of the entities within the GGS are prepared, with those used to prepare financial reports at the whole of government level (both State and Commonwealth). We believe that pushing down the requirements of whole-of-government reporting to its controlled entities may, in time, result in improving the quality of this underlying financial information.

In addition, having one set of rules that applies to all States and Territories (as opposed to each State Treasury determining how to apply IFRS within its controlled group) should facilitate consistency and comparison of entities across agencies and States.

Furthermore we can also see benefit in requiring the disclosure of certain fiscal aggregates at the individual agency/department level as this improves the nexus between government decision making, as reflected in the budget documentation, and agency performance in implementing government decisions.

However, having said this, we see a number of practical challenges arising as State Agencies/ Departments work to implement the proposed requirements, the costs of which may very well outweigh the potential benefits. In formulating our views on ED 212 we

have consulted with some of our colleagues in other States and Territories and also with our clients. We found that the level of familiarity and knowledge of whole of government reporting to be somewhat limited, although this does differ by jurisdiction. Implementing the ED will therefore require extensive investment in education and training for all key stakeholders (preparers, auditors and advisors) the extent of which should not be underestimated. Furthermore, we would anticipate that some investment will be required in upgrading accounting systems in order to provide the necessary disclosures.

We also found a lack of understanding in Agencies / Departments as to why the information was required and the purpose for which it would be used; arguably there is generally only a small group of users for Agencies financial reports, the users being the Commonwealth, State Treasuries and the ABS.

We also note that the information required will result in a significant change to current financial statement presentation. We are aware that the International Accounting Standards Board has a project to address Financial Statement Presentation and wonder whether a change in presentation now would not be premature without waiting for the outcome of this project.

In summary, we would recommend the Board reconsider whether the issuance of a Standard is necessary and whether the perceived deficiencies of the current reporting standards could be overcome in other ways, for example by utilising more consistent directions from State Treasuries. We are overall supportive of the proposals regarding recognition and measurement, however, we caution the proposals regarding disclosures as we believe the costs of implementing such proposals outweighs the benefits.

Our comments on the specific matters raised for comment and on other issues are set out in the Appendix.

\* \* \* \* \*

We would be pleased to discuss our comments with members of the AASB or its staff. If you wish to do so, please contact me on (02) 9335 7963.

Yours sincerely



Nicola Davis  
*Partner*

## Appendix

Our comments on the specific matters raised for comment and on other issues are set out below.

***a. Improvement in general purpose financial reporting by not-for-profit entities within the GGS.***

We believe the proposals over time have the potential to lead to an overall improvement in general purpose financial reporting by not-for-profit (NFP) entities within the GGS as the proposals introduce consistency amongst the NFP entities within the GGS and the whole-of-governments and GGS.

We are supportive of proposals that improve the quality of the underlying financial information that flows up from State Agencies/Departments to the Total State and whole-of-government level as this should minimise re-work required at Agency/State level when information is not presented in the manner required for consolidation at whole-of-government level. Furthermore, the proposed improvements will assist with uniformity between the NFP entities within the GGS and the whole-of-governments and GGS.

We are not convinced, however that there is a broad range of users and acknowledge that the information required could be obtained from consistent directions from State Treasuries. We also see a number of practical challenges arising as State Agencies/Departments work to implement the proposed requirements, the costs of which may very well outweigh the potential benefits.

***i Version of ABS GFS Manual to be applied (see paragraphs 9 and BC14-BC15);***

We support 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. This proposal is consistent with recent amendments to AASB 1049 and would ensure consistency with whole-of-governments and GGS reporting.

***ii limit GAAP recognition and measurement options to those that align with current GFS (see paragraphs 10-12 and BC16-BC25);***

We support the proposals 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 GGS. Our experience is that many, if not all, State Treasuries already limit recognition and measurement options to facilitate the whole of government (state sector) consolidations. We therefore do not see this as leading to significant implementation challenges.

We acknowledge that over time the recognition and measurement options may introduce unintended differences between GAAP and GFS, guidance should be included to address this issue. .

**iii disclosure, under both Tier 1 and Tier 2 requirements, of information based on GAAP/GFS harmonised classification and presentation principles for controlled items and, separately, administered (see paragraphs 13-18, 22 and BC26-BC35).**

**A. on-the-face or in-the-notes presentation option**

We support the proposal to allow the disclosure of information based on the GAAP/GFS harmonised classification and presentation principles for controlled items and, separately, administered items either on-the-face or in-the-notes.

We do not believe the choice should be removed and are in favour of allowing jurisdictions, through Treasury Directions, to decide the alternative that best suits their reporting environment. We acknowledge that allowing a choice may lead to inconsistencies in the form of presentation amongst jurisdictions. However, we believe mandating such disclosures on the face may result in information presented in a format which is too complex in all circumstances. We believe that the information provided should be produced in a form that is easily understandable, the complexity of which does not detract from the usefulness of the information and which is derived from better quality underlying data.

**B. 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;**

We are supportive of either as it is consistent with the choice above.

**iv AASB 1050 to continue to apply to government departments(see paragraphs 19 and BC29-BC31);**

We support 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. We acknowledge that Departments are already required to provide the information required by AASB 1050 and the information presented is considered useful to a broad range of users.

**v disclosure, under both Tier 1 and Tier 2 requirements, of any original budgeted financial statements reflecting controlled or administered items presented to parliament (see paragraphs 23-29 and BC40-BC42);**

We support 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. We agree this should be 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. We also agree that an explanation of the variances between budget and actual should be provided. We acknowledge that such disclosure is similar to disclosure required in the International Public Sector Standard 24.

We believe that the budget reflects the financial characteristics of an entity's plan for the future, is a key tool for financial management and control, and the disclosure of that plan, and along with an explanation of the variances to plan is a key component of accountability in the public sector.

We recommend that guidance be provided as to whether the explanation of the variances have to be disclosed within the general purpose financial reports or whether such disclosures are not required if such were included in reports issued before, at the same time or in conjunction with the general purpose financial statements. Our view would be that if the explanation of the variances is provided in reports issued, before, at the same time or in conjunction with, that reference to such a report would be sufficient, although the audit implications of this would need to be explored.

We are concerned however, that the practicalities of applying this proposal may be cumbersome. Some practical challenges that may be encountered, for which we would encourage guidance to be provided, are:

- Some entities within the GGS' budget reporting may not be prepared on a basis consistent with GFS. These entities would incur additional costs to ensure their budgeted financial statements were GFS compliant and aligned with the presentation and classification adopted in the primary financial statements.
- Some budgets are set and reported at a group level (ie when an entity within the GGS has a number of other entities reporting to it), and then allocated to entities within the group for the preparation of separate general purpose financial reporting. In these circumstances, it is unclear as to whether budget information is required.
- Inclusion of an explanation of variances and budget information will require the information to be considered as part of the audit of the general purpose financial reports. A framework against which the budgeted financial statements can be audited as well as a mandate to audit the budgeted financial statements may be required.
- Administrative restructures may also be required in order to provide the additional information required to be disclosed.

We further recommend that in the event an entity discloses the revised budget that is presented to parliament in addition to the original budget, as allowed in paragraph 26, that guidance should be provided as to whether explanations of differences between the original and revised budget should also be provided.

*vi other disclosures (see paragraphs 30-32),*

We support the proposal to disclose in the accounting policy note disclosures about the version of the ABS GFS Manual adopted.

We also support the proposal to not require disclosure of disaggregated information except to the extent it continues to be required by AASB 1052 for government departments.

**vii transitional requirements (see paragraphs 33-35 and BC44-BC47);**

We support 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.

**viii exempt entities adopting Tier 2 requirements from certain disclosures (shown as shaded text in this Exposure Draft);**

We support the proposal to exempt entities adopting Tier 2 requirements from certain disclosures; this would be in line with the objective of reduced disclosures for Tier 2 entities

**ix illustrative examples (see Illustrative Examples A and B and paragraphs BC49-BC50); and**

We support the inclusion of illustrative examples and believe the examples provide guidance to staff within the entities that have no or little knowledge of GFS.

**x the proposed operative date (see paragraphs 3-4 and BC48);**

We support the proposed operative date.