



Government of **Western Australia**
Department of **Treasury**

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Mr Kevin Stevenson
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Australian Accounting Standards Board
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Dear Mr Stevenson

**EXPOSURE DRAFT 212 NOT-FOR-PROFIT ENTITIES WITHIN THE
GENERAL GOVERNMENT SECTOR**

The Western Australian Department of Treasury (Treasury) welcomes the opportunity to provide comments to the Australian Accounting Standards Board (AASB) on Exposure Draft (ED) 212 Not-for-Profit Entities within the General Government Sector (GGS).

Western Australia does not support the mandatory adoption of the ED on the basis that implementation and ongoing compliance costs for this jurisdiction are likely to be significant and that, on balance, the proposals do not improve the utility of financial statements.

AASB has acknowledged the continuing cost/benefit concerns arising from Generally Accepted Accounting Principles (GAAP)/Government Finance Statistics (GFS) reporting for GGS entities. It was in light of these concerns that AASB decided not to continue with the previous exposure draft (ED 174) that proposed the extension of GAAP/GFS reporting to entities within the GGS. ED 212 now includes additional proposals with the intention of improving the usefulness of general purpose financial statements. Our view is that these changes will not lead to significant improvement and will add further to the cost/benefit imbalance.

Western Australia concurs with the well-articulated counter-arguments provided by Mr Williams in the 'Alternative View of an AASB Member' and offers the following additional comments to support the argument against the mandatory adoption of ED 212.

Harmonising GAAP/GFS Reporting

GFS is a highly specialised framework focussed on the macroeconomic impact of government and its sectors. The understanding of the technical items of GFS by both preparers, users and other stakeholders is very limited. Consequently, if the face of the financial statements is presented in the GFS format, it may be argued that the usefulness of the financial statements is reduced as less relevant, less understood and less comparable information will be provided to users. These issues could be addressed by adopting the note disclosure option, but producing both GAAP and GAAP/GFS financial statements would result in an even greater increase in the implementation and compliance workload for Treasury, agencies and the Office of the Auditor General. At a time when the profession and policy makers are looking at ways of reducing the burden of annual reporting requirements, the note disclosure option would increase the size and complexity of annual reports.

In addition to training, other costs include systems changes, increased reliance on professional valuers and ongoing compliance costs for policy makers, preparers and auditors. Whilst fair value is required for property, plant and equipment (PPE) for Whole of Government (WoG) reporting, the difference for many agencies between PPE fair values and carrying amounts is not material when aggregated into WoG and GGS. However, these differences will be material for entity level reporting where fair values are mandated, exposing Western Australia to higher compliance costs for negligible benefit.

Improved Comparability Across Jurisdictions

One of the stated objectives of the ED is to improve comparability between agencies across jurisdictions. However, this will be difficult to achieve due to structural differences between jurisdictions. It is considered that moving from GAAP to GFS will not lead to any material improvement and will reduce sector neutrality between government sectors. A more relevant basis for comparisons between jurisdictions is the Uniform Presentation Framework information disclosed at WoG level.

Full Financial Statements for Administered Items

Western Australia currently reports schedules of administered transactions and balances in the notes and other note disclosures required by AASB 1050 'Administered Items'. Any benefit to be derived from the ED 212 proposal to provide users with full administered financial statements is difficult to identify. Moreover, significant costs will be incurred in producing the information which will clutter the financial statements (exacerbated where a third Statement of Financial Position is required). Western Australia prefers that AASB complete the planned fundamental review of AASB 1050, prior to mandating new administered reporting requirements.

Budget Information and Explanation

In addition to the disclosure requirements in AASB 1004 'Contributions', Western Australia requires agencies to disclose and explain material variances between actuals and budgets. Western Australia does not support the additional requirements proposed in ED 212. Again we consider that there will be an increase in costs without a material improvement in the usefulness of reporting.

In conclusion, current standards permit a jurisdiction to adopt the GFS format and appropriate measurement bases where the benefits are considered to outweigh the costs. Given that the additional costs to be incurred in implementing the proposed ED will outweigh its potential benefits, mandatory application of the ED is considered unwarranted.

If you have any queries regarding Western Australia's comments, please contact Phil Forward from Treasury on (08) 6551 2575.

Yours sincerely



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UNDER TREASURER

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