

ED 142 sub 11



Australian Government

The Treasury



Australian Government

Department of Finance and Administration

Professor David Boymal
Chairman
Australian Accounting Standards Board
PO Box 204
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Dear Professor Boymal

INVITATION TO COMMENT ON EXPOSURE DRAFT 142 *FINANCIAL REPORTING OF GENERAL GOVERNMENT SECTORS BY GOVERNMENTS*

On behalf of the Australian Government, the Department of Finance and Administration (Finance) and the Department of the Treasury (Treasury) welcome the opportunity to respond to the Board's invitation to comment on Exposure Draft 142 *Financial Reporting of General Government Sectors by Governments*, issued by the Australian Accounting Standards Board (AASB) for comment on 21 July 2005.

Finance and Treasury fully endorse the Heads of Treasuries' (HoTs) submission on Exposure Draft 142.

Finance and Treasury commend the AASB on the progress made towards harmonising the Government Finance Statistics (GFS) and Generally Accepted Accounting Principles (GAAP) frameworks. However, both Departments have strong reservations regarding whether harmonisation is in fact achieved, particularly due to the significance of the convergence differences that remain outstanding in Exposure Draft 142.

Finance and Treasury's major concerns are as follows:

- Exposure Draft 142 does not harmonise the GFS and GAAP frameworks;
- Exposure Draft 142 includes an unwieldy multi-column illustrative example which is confusing and not practical for all reporting purposes, particularly budget reporting;
- The International Monetary Fund's interpretations of GFS are to be used, which is less relevant in the Australian context, than Australian Bureau of Statistics interpretations; and
- The requirement to include Budget comparisons needs to be better defined.

Exposure Draft 142 fails to completely harmonise the GFS and GAAP frameworks to a single conceptual accounting framework that is presented in a consistent manner. This increases the complexity of government financial statements, thereby reducing the understanding of users.

Additionally, the magnitude of the convergence differences means that users will not be able to derive even simple concepts (such as GFS expenses) from line items in the statements without references to the notes. This is particularly so for the Australian Government rather than the States.

Exposure Draft 142 fails to address significant issues that give rise to convergence differences and Finance and Treasury believe that harmonisation can only be achieved when those differences are resolved. Thus defence weapons platforms, doubtful debts and the other convergence differences would need to be resolved before complete harmonisation is achieved.

Finance and Treasury consider that resolving these issues is the only practical method of reducing the complexity of the financial statements, given that complete harmonisation remains the intention of the Financial Reporting Council's strategic direction in 2002. Consistent with the response from HoTs, we consider the resolution of the convergence differences should be based on the most conceptually sound approach.

If the Standard mandated that specific treatments be adopted in situations of convergence difference (whether it be GAAP or GFS), the financial statements would only need to recognise one number. That is, there would be no convergence differences to be displayed on the face of the statements. Full disclosure of the other treatment would be included in the notes to derive "pure" GFS aggregates.

Finance and Treasury support HoTs recommendation that the AASB undertake a major review of the Exposure Draft in light of HoTs comments, and to issue a new Exposure Draft for stakeholder comment.

If you have any queries regarding this submission please contact Anne Hazell of the Department of Finance and Administration on (02) 6215 3650 or Jason McDonald of The Treasury on (02) 6263 3086.

Yours sincerely



Ken Henry
Secretary to the Treasury
5 December 2005



IJ Watt
Secretary of the Department of Finance and Administration
6 December 2005