



Tasmania

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DEPARTMENT of
TREASURY and FINANCE

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Mr David Boymal
Chairman
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Dear Mr Boymal

**EXPOSURE DRAFT 142 - FINANCIAL REPORTING OF GENERAL
GOVERNMENT SECTORS BY GOVERNMENTS**

I am writing in response to the Australian Accounting Standards Board's (AASB) Exposure Draft 142, *Financial Reporting of General Government Sectors by Governments*.

I fully endorse the detailed conclusions and recommendations contained in the Heads of Treasuries (HoTs) submission of 1 December 2005. I believe harmonisation between Generally Accepted Accounting Principles (GAAP), applicable to the public sector, and Government Finance Statistics (GFS) is the highest priority for Australian public sector reporting.

Substantial progress has been made by the AASB in resolving many of the conceptual and technical issues. However, I support the consensus view of HoTs that the Exposure Draft fails to harmonise GAAP and GFS to any meaningful degree. This failure clearly means that the proposed standard does not comply with the Financial Reporting Council's (FRC) December 2002 strategic direction to the AASB.

The FRC's strategic direction requires the AASB to achieve an Australian Accounting Standard for a single set of Government reports which are auditable, comparable between jurisdictions and in which the outcome statements are directly comparable with the relevant budget statements. The FRC's apparent objective is to increase the transparency and accountability of governments by removing the confusion associated with the publication of two sets of financial statements. The Exposure Draft, as currently presented, would result in a significant reduction in the understandability and comparability of government general purpose financial reports. Consequently, the Exposure Draft fails to meet the FRC's objectives.

The Exposure Draft does not harmonise the GAAP and GFS frameworks to a single conceptual accounting framework, and therefore will not deliver government general purpose financial reports that are comparable, understandable, relevant or reliable.

The reconciliation-based approach in the Exposure Draft would significantly increase the complexity of government financial reports and seriously reduce the understanding of users. It is for this reason that I strongly disagree with the Exposure Draft in its present form and, accordingly, would not support this Exposure Draft being progressed to a resultant Standard in its current form.

The illustrative multi-column format presented in the Exposure Draft is an extremely unwieldy and impractical presentation that will seriously impair the usefulness of government general purpose financial reports. In order to simplify a GAAP-GFS presentation, the AASB should mandate the treatment of outstanding convergence differences. The government general purpose financial report can then be presented in a useable, “down-the-page” format.

A second issue of concern relates to the presentation of GFS-based aggregates in the government general purpose financial report. Certain aggregates such as the Fiscal Balance (Net Lending/Borrowing), Net Worth and Cash Surplus, GFS-based aggregates should appear on the face of the government general purpose financial report. However, the AASB should remove the requirement to report those GFS-based aggregates, such as the “net increase (decrease) in financial assets and liabilities, that are not relevant to general users. Users with specialised interests can derive these aggregates from the statements.

I also strongly recommend that the GFS-based aggregates should be derived from the fully harmonised numbers in the financial report, maintaining the “flow” of the numbers through the report. Disclosure of any further information on GFS aggregates, including any reconciliation of the aggregates shown on the face of the statements to a “pure” version of GFS, should be restricted to the notes only.

I strongly agree that the harmonised standard must require the production of general purpose financial reports for the General Government Sector. This will facilitate an assessment of the economic impact of a Government’s fiscal policy initiatives, and will ensure that essential information is provided to users unable to command the preparation of reports tailored to specifically satisfy their needs. This approach recognises that the public accountability of governments for budget outcomes is a fundamental difference between the public sector and the for-profit sector. It is essential that governments are transparent and accountable for their activities and budget outcomes, and the government general purpose reporting entity is determined by reference to the information needs of users.

Tasmania, like other jurisdictions, will continue to produce reports for the other sectors and for the whole-of-government reporting entity. This should remove any risk of users focussing solely on General Government Sector general purpose financial reports, without regard to the additional information provided in whole-of-government financial reports.

I also strongly support the AASB’s decision that the General Government Sector general purpose financial report should be prepared on a partial consolidation basis, together with the associated prohibition of consolidating entities in the Public Non-Financial Corporations Sector and the Public Financial Corporations Sector. I note that this is consistent with the approach taken by the International Public Sector Accounting Standards Board in their proposed standard “*Disclosure of Financial Information about the General Government Sector*”.

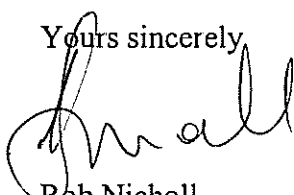
The Exposure Draft shows that the AASB has made considerable progress toward resolving a number of major conceptual and technical issues. However, there are a number of significant issues remaining to be resolved by the AASB, as outlined above, before the outcome of its Harmonisation Project will meet the needs of users or the requirements of the FRC's strategic direction. I believe that the AASB should undertake a major review of the Exposure Draft, and then issue a new Exposure Draft for stakeholder comment.

In summary, I support a standard for the General Government sector reporting entity that:

- Provides for an auditable general purpose financial report, but excludes the need for explanations of variance between budget and actual to be audited;
- Consolidates investments in entities in other sectors as a single line based on either fair value or net assets of those entities;
- Requires adoption of one approach based on the conceptually best treatment, for those items where there is a significant difference in recognition or measurement between the GAAP and GFS frameworks;
- Clearly expresses support for "down-the-page" presentation in the financial statements, with separate identification in the Operating Statement of those items that, under the GFS framework, would be "transactions" and those that would be "other economic flows" (remeasurements). Where convergence introduces items that are not in the GFS framework, this will require a decision as to where they conceptually fit;
- Presents on the face of the financial statements certain significant GFS-based measures that are derived from the numbers presented within those statements; and
- Otherwise complies with accounting standards.

I trust that my comments will assist the AASB to progress this important matter.

Yours sincerely


for Rob Nicholl

ACTING SECRETARY

6 December 2005