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Mr David Boymal
Chairman
Australian Accounting Standards Board
P O Box 204
Collins Street West
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Dear Mr Boymal

The Public Accounts and Estimates Committee has reviewed exposure draft, ED142, Financial Reporting of General Government Sectors by Governments.

The Committee's comments are attached.

The Committee notes that the exposure draft does not achieve harmonisation between Government Finance Statistics (GFS) and Generally Accepted Accounting Principles (GAAP), the key aim of the Financial Reporting Council. The proposed format for financial reports is merely a reconciliation between the principles and the standards, rendering it less relevant to the needs of users. This is particularly so for the private sector, which must prepare financial reports in accordance with Australian Accounting Standards and Corporations Law.

The Committee looks forward to revision of the standard in light of the submissions forwarded to your Board.

If your officers require any further information, please contact Trevor Wood on 9651 3553.

Yours sincerely

Hon. Christine Campbell, MP
Chair

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Victorian Public Accounts and Estimates Committee
Comments on ED142
Partial consolidation of General Government Sector

The Victorian Government currently produces a financial report for the State of Victoria with the General Government Sector (GGS) separately disclosed in this report. The reporting entity is the State of Victoria with the GGS regarded as a sector within the reporting entity.

Paragraph 5 of ED142 states that the GGS is a reporting entity and is therefore required to prepare general purpose financial reports. This means that together with separate general purpose financial reports also prepared for the State of Victoria, the GGS (incorporating all controlled entities within that sector) will also be required to produce separate general purpose financial reports.

The above situation will create the concept of partial consolidation because while the State of Victoria is the parent entity controlling a range of public non-financial corporations and public financial corporations outside the GGS, the establishment of the GGS as a separate reporting entity ignores the equity of government in these other corporations. To exclude recognition of government control of such entities is contrary to the fundamental concept of control under Australian Accounting Standards.

For the GGS to be regarded as a reporting entity as defined in SAC 1, it must have the ability to control its operations and make economic decisions. Under the existing parliamentary system, the government is the economic entity (exercising control over the State of Victoria), with the GGS forming part of that entity subject to the control of the government.

There are also practical difficulties with the proposal. Depending on financial results, the government may draw substantial revenue (in the form of dividends) from public financial and non-financial corporations which are not consolidated as part of the GGS. By regarding the GGS as a separate reporting entity, the impact of withdrawing dividends from these corporations would not be apparent unless whole of government financial reports were produced concurrently with the GGS financial report. Conversely, the government could choose not to withdraw dividends from such entities in order not to inflate GGS operating results.

The Committee considers that to regard the GGS as a reporting entity required to prepare general purpose financial reports, in the knowledge that ultimate control resides with the government extending beyond this sector is unacceptable in light of prevailing Australian Accounting Standards. The arrangement outlined in the exposure draft would invariably lead to qualification by the Auditor-General.

Notwithstanding the above comments, the Committee endorses the concept of preparing financial reports for the GGS that are published together with the state's financial reports, and can be compared with the Annual Budget. The reports on the general government sector should be regarded as special purpose financial reports, as distinct from the general purpose financial reports proposed under the exposure draft. In addition, these reports should provide the same level of information as is provided for in the Financial Report on the State of Victoria.

Financial report format proposed in ED 142

ED142 does not achieve harmonisation of GAAP and GFS. Instead, the financial statements will become a reconciliation between the financial results recorded under GAAP and the GFS result.

Notwithstanding the ultimate aim of harmonisation, which the Committee strongly supports, the proposed presentation (using multiple columns) appears cumbersome and confusing and would not lead to a better understanding of the financial affairs of government. The Committee also questions the purpose of preparing financial reports in a format that varies markedly from financial reports prepared in the private sector. At a minimum, the Committee suggests that the financial report be prepared on a single column basis.

Referencing Government Finance Statistics Standard to the Finance Statistics Manual prepared by the International Monetary Fund

The Committee understands that all jurisdictions in Australia preparing GFS statements use the Australian Bureau of Statistics (ABS) accrual GFS framework. Accordingly, using GFSM 2001, as suggested in the exposure draft, could lead to variances with long established Australian practice.

If there are changes to GFSM 2001, the Committee considers it would be appropriate for the ABS to evaluate the impact of such changes and update its manual where necessary.

The Committee considers that the GFS manual published by the ABS should be the standard reference document for the proposed standard.

Financial reports for the General Government Sector should explain the variance between budget and actual outcomes

The Committee agrees that information should be provided to users of financial reports about variances between budgets and financial outcomes. However, this would require that budgets are restated on the same basis that financial reports are prepared, taking into account all budget updates.

The Committee questions whether budget variances should be included in the formal part of the financial reports and be subject to audit by the Auditor-General. To include this information, which has not been included in financial reports produced by the government and the private sectors to date, may make the audit process unnecessarily complicated and extended. It would require the original budget information and subsequent budget updates to be subject to audit in order for an audit opinion to be expressed. Further, budget variations can occur for a range of reasons and can, on occasion, be open to interpretation as to their cause.

The Committee considers that budget variations between actual and estimated results should continue to be recorded in budget documents, in the report of operations accompanying whole of government annual financial reports, and in the report of operations contained in the annual reports of all government agencies.