



Tasmania

DEPARTMENT of
TREASURY and FINANCE

Contact: Craig Jeffery
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Our Ref: D/001261 CJ/DWC

Mr David Boymal
Chairman
Australian Accounting Standards Board
PO Box 204
COLLINS ST WEST VIC 8007

Dear Mr Boymal

David

**DRAFT ACCOUNTING STANDARD - FINANCIAL REPORTING OF GENERAL
GOVERNMENT SECTORS BY GOVERNMENTS**

I am writing regarding the draft Accounting Standard harmonising Government Finance Statistics (GFS) and Generally Accepted Accounting Principles (GAAP) that was released on the Australian Accounting Standards Board (AASB) website on 29 May 2006, for consideration at the Board's June 2006 meeting.

HoTARAC has been encouraged by some of the recent decisions taken by the AASB on harmonisation, particularly the decision to allow the General Government Sector (GGS) to prepare partially-consolidated financial reports. HoTARAC has a strong interest in the ongoing development of the draft Standard and is keen to ensure that the draft Standard continues to be developed in accordance with the direction determined by the Board at its April 2006 meeting and, where possible, is consistent with the submission made by Heads of Treasuries to the AASB in December 2005.

In this regard, HoTARAC has concerns if the draft Accounting Standard posted on the AASB website were ultimately approved, as the draft Standard appears to reject most GFS concepts relevant for public sector reporting and does not harmonise the GFS and GAAP financial reporting frameworks. More specifically, the draft Standard ignores many of the important positions taken by the Heads of Treasuries in their submission to the AASB of 1 December 2005.

HoTARAC's major concerns are that the draft Standard:

- provides for GAAP-based fiscal aggregates to be shown on the face of the financial statements, which are not based on the best conceptual treatment of transactions relevant to the public sector;

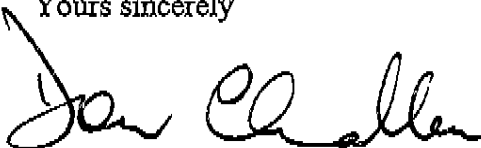
- removes the requirement to split revenue and expenses into transactions and other economic flows determined in accordance with GFS (paragraph 32 refers), so that the split of transactions and other economic flows is now to be determined in a manner that is consistent with other Australian Accounting Standards. As "Other economic flows" is not a term considered under GAAP, a meaningful split could not be made. Most importantly, however, splitting these amounts according to GFS principles is crucial to give effect to the appropriate GFS distinction between "transactions" and "other economic flows";
- requires functional information to be disclosed for revenues, assets, liabilities and net gains/(losses) where it can be reliably attributed to that function (paragraph 46 refers). Both the Australian Bureau of Statistics' (ABS) GFS and the International Monetary Fund's (IMF) GFS require functional information for expense and acquisition of non-financial assets only. In most instances, there is no conceptual basis for allocating assets, liabilities, revenues and net gains/ (losses) to particular functions;
- states that where revised budgeted financial statements are disclosed, they must be disclosed alongside original budgeted financial statements and budget outcomes (paragraph 54 refers). HoTARAC considers that the draft Standard should provide the option to disclose either original or revised estimates; and
- requires an explanation of variances between original budget estimates and final outcomes. HoTARAC considers that explanation of variances between budget and outcomes is management information, and therefore not appropriate for inclusion in the GGS financial statements.

I understand that the Board will consider the draft Standard at its June 2006 meeting. I trust that the above comments will assist the Board's consideration of this important matter.

I have no objection to you treating this letter as a submission and posting it on the AASB website.

I would be happy to discuss these issues further and, if desired, can be contacted directly on (03) 6233 3474.

Yours sincerely



D W Challen
CHAIR
HEADS OF TREASURIES ACCOUNTING AND
REPORTING ADVISORY COMMITTEE

2 June 2006