ED 142 sub 9

AUDITOR GENERAL
VICTORIA

3 November 2005

Mr David Boymal
Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street West VIC 8007

Dear Mr Boymal,

Exposure Draft 142: Financial Reporting of General Government Sectors by Government

Thank your for the opportunity to comment on Exposure Draft 142 *Financial Reporting of General Government Sectors by Government.*

We feel that the exposure draft is a positive step towards better reporting of the general government sector and performance against budget. However we are concerned about the proposal to deem the general government sectors of governments as separate reporting entities that prepare General Purpose Financial Reports, even though these reports do not fully comply with all of the applicable requirements of Australian Accounting Standards. We suggest that the Board consider the current reporting model of the Victorian State Government. While we acknowledge that the model is not perfect, we believe that it will provide the Board with a good starting point in the reporting of the general government sectors of governments.

We are also concerned about the proposal to present information on the face of the financial statements that are based on two different reporting frameworks, namely Generally Accept Accounting Principals and Government Finance Statistics, which may confuse users in understanding the financial affairs of the government.

Our comments on specific matters are contained in the attachment.

The opportunity to comment is appreciated and I trust you will find that attached comments useful. Should you require any further information, please contact Mr Jim Dixon, Executive Director – Accounting and Auditing Policy on 03 8601 7033.

~~Yours faithfully,~~

Wayne Cameron
Auditor-General

AASB Exposure Draft 142 Financial Reporting of General Government Sectors by Governments

Specific Matters for Comment

(a) the proposal in paragraph 5 that the GGS (as defined in GFSM 2001) of a government is a reporting entity;

While supporting any move to better reporting of the general government sector and performance against budget, we support a set of disclosures that provides the complete picture of any government's responsibilities. Hence, we question the proposal that emphasis be given to the GGS as a reporting entity and be allowed to produce its separate statements as a GPFR and ignore the rest of the government's activities.

We do not believe that the GGS satisfies the definition of a reporting entity, as a reporting entity is defined under SAC 1 as:

> "all entities (including economic entities) in respect of which it is reasonable to expect the existence of users dependent on general purpose financial reports for which will be useful to them for making and evaluating decisions about the allocation of scare resources."

For the GGS to satisfy the definition of a reporting entity, it must either be an "entity" or an "economic entity" as defined under SAC 1. The GGS does not satisfy the definition of an "entity" because implicit in that definition, there is an element of control and ability to make economic decisions, i.e. the capacity to deploy scarce resources in order to achieve objectives. The controlling entity is the government as a whole and the GGS is merely a group of entities which exhibits similar characteristics.

The GGS also does not satisfy the definition of an "economic entity". We support the line of reasoning outlined in paragraph 29 of SAC 1, which states that:

> "....In the public sector, the entities making up the budget sector (that is, those entities which are heavily reliant on the budget for resources) may individually be identified as reporting entities. Because they are controlled by a government, those entities together with that government and the other entities that the government controls would, as an economic entity, meet the definition of a reporting entity. In preparing a general purpose financial report for this reporting entity, that is, for the government as a whole, it may be desirable to report detailed information regarding the operation of particular segments of the government as a whole, for example, the budget sector. This Statement does not, however, require the preparation of a separate general purpose financial report relating to the group of entities comprising the budget sector because, without their controlling entity (the government as a whole), they do not form an economic entity."

There are certainly users that are particularly interested in the activities of government that are predominantly funded by taxes (i.e. activities within the GGS), however preparing a GPFR for the GGS is a failure to recognise that the government is involved in a wider range of activities other than those that are budget funded, referred to by some as being the "core government". While the levels of influence of the government in the various sectors are different, activities of the Public Non-Financial Corporations (PNFC) sector and Public Financial Corporation (PFC) sector are never-the-less activities of the government and the fact is that all sectors are accountable to parliament. There are also transactions between the various sectors of government that could lead to a misleading result if each sector is reporting and viewed in isolation. The only way to ascertain that these transactions are eliminated is by preparing fully consolidated financial statements in accordance with the consolidation standard.

Accordingly, besides from the fact that the GGS does not satisfy the definition of a reporting entity under SAC 1, from an accountability perspective, we believe that it is not appropriate for the government to present a partial picture of its activities to parliament. The emphasis should be on a complete whole of government (WOG) report with the GGS being a segment of the WOG report, which must be presented no more prominently than the WOG statements. We note that AASB 114

Segment Reporting currently does not apply to not-for-profit entities. We would like to see the segment reporting standard to be applied to the not-for-profit sector, and it is in our view that minimal changes to the current standard will be required. We suggest that the Board consider the current reporting model of the Victorian State Government. While we acknowledge that the model is not perfect, we believe that it will provide the Board with a good starting point in the reporting of the general government sectors of governments.

We also express concerns of the AASB's intention, as outlined in the preface, to revise the definitions of "reporting entity" and "general purpose financial report" in the *Conceptual Framework*. We will not support the revision of the definitions of "reporting entity" and "general purpose financial report" to accommodate the proposals contained in ED 142. There is a danger that the revision may open up a floodgate for entities, including private sector entities, to present segmental information as general purpose financial reports, thus providing users of the financial reports with incomplete information for the purpose of making and evaluating decisions about the allocation of scare resources.

(b) the proposal, implicit in paragraph 5, that a GGS financial report prepared on a partial consolidation basis is a GPFR together with the proposal in paragraph 18 that the GGS should be prohibited from consolidating controlled entities in the PNFC sector and the PFC sector;

We question the break with GAAP, by proposing to issue a standard that supports partial consolidation. No other existing standard gives support to the concept of partial consolidation; in fact the consolidation standard goes into considerable length to ensure that every entity under the control of a parent entity is included in its group (consolidated) financial report. The concept of partial consolidation is a move away from the current accounting concept of consolidation under GAAP, which is based on the notion of "control", to a GFS concept of consolidation, defined in the GFSM 2001 as a "method of presenting statistics for a set of units as if they constituted a single unit".

The objective of preparing consolidated accounts under GAAP is to provide relevant and reliable financial information about the related entities as a single reporting entity. There is an underlying assumption that entities under common control would have a consistency in the objectives being pursued. Retaining the concept of "control" for the purpose of consolidation will ensure that the financial report will enable users to obtain an overview of the financial performance, financial position, and financing and investing activities of the government as a single reporting entity.

It has been argued that the concept of control is not relevant and that there are difficulties in applying the control concept in the public sector. However, the issue should be addressed by way of better defining the notion of "control" in the context of the public sector, rather than abandoning the concept and adopting a different concept because it is easier to apply.

It is also difficult to perceive that an entity is preparing a GPFR when it is not prepared in accordance with a fundamental principal of accounting. If it is believed that departures from GAAP is necessary and special treatments are required for the public sector in the interest of user requirements, what it suggests is that the public sector is following a framework that is different from the private sector. This is, in effect, a step away from the commitment in the development of sector neutral standards.

(c) the proposal in paragraphs 8 to 12 that, with limited significant exceptions, the GGS financial report should comply with other Australian Accounting Standards and, where it does not conflict with Australian Accounting Standards, GFSM 2001. The Board is particularly interested in comments on the proposal that where Australian Accounting Standards allow for optional treatments, only those treatments aligned with GFSM 2001 should be applied for the purposes of GGS financial reporting;

We question the fundamental premise underlying the FRC's direction to the AASB to harmonise GAAP to GFS. These are different sets of data, with GAAP being based on an accounting framework, while GFS is based on economic statistics following a framework established by the IMF.

Each framework serves a different but related set of objectives. While both frameworks will assist users to make decisions in the allocation of resources, the GAAP framework is designed to focus on the "reporting entity" for the purposes of reporting performance and discharging accountability, whereas the GFS framework focuses on the economic impact the government has on the other sectors of the economy.

There are also conceptual differences between the two frameworks, such as issues regarding consolidation and the treatment of assets related to defense platforms, which reflects that GAAP and GFS are different ways of thinking. The Macquarie Dictionary defines "harmonise" as "*to bring into harmony, accord, or agreement*". While the AASB has been working towards harmonisation of the GAAP and GFS frameworks, it is evident from the exposure draft that reconciliations between the two frameworks will still be required. Accordingly, we do not believe that "true harmonisation" has been achieved and the proposals under ED 142 are merely to facilitate the presentation of both GAAP and GFS measures on the one set of financial statements.

Having said that, we are of the view that any reconciliation should be kept to a minimum and be permitted only where there is an irreconcilable difference between the GAAP and GFS frameworks or it will defeat the purpose of harmonisation. Accordingly, we believe that it is essential to mandate the accounting treatments that align with GFSM 2001 where the accounting standards allow for optional treatments.

In addition, the strategic direction of the Financial Reporting Council is for the AASB to harmonise Government Finance Statistics and Generally Accepted Accounting Principles reporting that will result in a single set of government reports which are, among other things, comparable between jurisdictions. We believe that to achieve the objective of comparability between jurisdictions, it is necessary that consistent accounting policies are applied in the government reports for all jurisdictions.

Therefore, we support the proposal that where Australian Accounting Standards allow for optional treatments, only those treatments that aligned with GFSM 2001 should be applied for the purposes of GGS financial reporting.

(d) the proposal in paragraphs 13 to 17 to require or allow disclosure of information in the GGS financial report that is determined in accordance with GFSM 2001 and, where it is determined in a different manner from corresponding information prepared in accordance with Australian Accounting Standards, provide a reconciliation to the GFS-related information;

Refer to our comments in (c) on the harmonisation of GAAP and GFS.

In addition, the decision to embrace GFS gives rise to a number of different bottom lines and financial measures for assessing the financial position, financial performance and the cashflows of the government. We acknowledge that ED 142 has proposed to disclose in the notes explanations of the key technical terms used in the financial report. However, we are of the view that the presentation of both GFS and GAAP financial measures in the same set of financial statement is likely to confuse users in understanding the financial affairs of the government.

(e) the proposals in paragraphs 19 to 23 that:

(i) the GGS's equity investment in non-consolidated controlled entities should be measured at fair value where fair value is reliably measurable and at the government's proportional interest in the net assets of the controlled entities where fair value is not reliably measurable;

We stress our support for a set of disclosures that provides the complete picture of any government's responsibilities and therefore the full consolidation of controlled entities in accordance with AASB 127.

As discussed above, we are of the view that the GGS is not a reporting entity, rather it is a segment of the whole of government reporting entity. In addition, we believe that the GGS does not have control in other sectors of government, i.e. the PNFC and PFC sectors, as the controlling entity is the government as a whole. Accordingly, we do not believe that the GGS can have an equity investment in the other sectors of government.

We also question the purpose for requiring the GGS to account for the "controlled entities" in the other sectors of government. It would seem that the end result would come back to that of the whole of government result if, and which is often the case, the entities in the other sectors are wholly-owned by the government.

In the case that there is general acceptance of the concepts of partial consolidation and that the GGS is a reporting entity that controls the other sectors of government, we support in principle, the requirement to measure the GGS's equity investment in non-consolidated controlled entities at fair value in accordance with AASB 139 where fair value can be reliably measured and at the government's proportional interest in the net assets of the controlled entities where fair value cannot be reliably measured. The requirement to measure an investment in the subsidiary at fair value is consistent with the requirements of AASB 127 and is in line with fair value principles of GFS.

It is interesting to note that AASB 127 does not expect a parent entity (the GGS in this context) to prepare separate financial statements for public use. There is however, a clear expectation for the parent entity to prepare consolidated financial statements that is available for public use, because consolidated financial statements are designed to present to users the activities of the reporting activities as a whole. The preparation of consolidated financial statements would result in the preparation of a whole of government consolidated financial report. This is consistent with our view that the focus should be on the preparation of a whole of government (WOG) financial report, with the GGS being presented as a segment of the WOG reporting entity.

(ii) where net assets is used as the basis of measurement, it is determined in a manuer consistent with the net assets that are consolidated into the whole of government GPFR;

We support the proposal that where net assets is used as the basis of measurement, it be determined in a manner consistent with the net assets that are consolidated into the whole of government GPFR. This concept is consistent with the principles of the consolidation standard which requires uniform accounting policies to be used for like transactions and other events in similar circumstances in the preparation of consolidated financial statements.

(iii) changes in the carrying amount of the GGS's equity investment in non-consolidated controlled entities during a reporting period are treated in a manner consistent with the treatment of a change in fair value under AASB 139 even if the carryiug amount is not fair value;

We acknowledge the practical difficulties of having to fair value all the assets in the other sectors of government and therefore determining the fair vale of such "investments" is often not possible. In the absence of readily available information regarding the fair value of non-consolidated controlled entities, we support the proposal to require the changes in the carrying amount of the GGS's equity investment in non-consolidated controlled entities during a reporting period to be treated in a manner consistent with the treatment of a change in fair value under AASB 139 even if the carrying amount is not fair value. However, we believe that these non-consolidated controlled entities should be encouraged to measure their assets and liabilities at fair value.

(iv) specify the treatment of jointly controlled entities and associates;

Paragraph 23 of the Exposure Draft requires investments in jointly controlled entities and associated to be accounted for as if the GGS financial statements are consolidated financial statements. AASB 127 and AASB 131 require investments in jointly controlled entities and associates to be accounted for using the equity method in the consolidated financial accounts.

We stress again that we do not support the concept of partial consolidation and the proposed treatment under paragraph 23 is another example of "cherry-picking". On the one hand, the exposure draft proposes to require "controlled" entities from other sectors (PNFC and PFC sectors) to be treated as investments, and accounted for by the GGS if the GGS financial statements are separate financial statements. However, it then requires the GGS to account for other types of investments as if it is preparing consolidated financial statements. As both scenarios are to be treated as investments, we do not support the proposed inconsistency in accounting treatments.

(f) the proposals in paragraphs 26 to 31 relating to the format and content of the balance sheet and the treatment of convergence differences;

Liquidity Basis vs. Current/Non-Current Distinction

Paragraph 29 of the exposure draft states that "[c]onsistent with paragraph 10 of this Standard, assets are presented on the face of the balance sheet in order of liquidity under the financial/non-financial classification as defined in Australian Accounting Standards. This satisfies the requirements for the presentation of assets in AASB 101....".

In addition, paragraph 10 of the exposure draft states that "... where compliance with GFSM 2001 would not conflict with Australian Accounting Standards, the principles and rules in GFSM 2001 shall be applied...."

We do not believe that the proposal to present assets in order of liquidity will always satisfy the requirements of AASB 101. Paragraph 51 of AASB 101 requires an entity to adopt the current/non-current approach in presenting its assets and liabilities on the face of the balance sheet, except when a presentation based on liquidity provides information that is reliable and more relevant. Paragraphs 53 and 54 of the same standard provide further guidance on this issue. In the government context, its activities are mainly in the areas of provision of goods and services within a clearly identifiable operating cycle. We support the principles in paragraph 53, as we believe that the separate classification of current and non-current assets and liabilities on the face of the balance will provide more useful information by distinguishing the net assets that are continuously circulating as working capital from those used in long-term operations. Accordingly, the requirement to adopt the alternative presentation (the liquidity basis) as permitted in paragraph 51 of AASB 101 is not satisfied because we do not believe that the presentation of assets in order of liquidity will provide more reliable and relevant information to users.

Convergence Differences

We support the proposal for the requirement to disclose explanations of any convergence differences between GAAP and GFS. We have a preference for the disclosure of the convergence difference to be presented on the face of the financial statements when the GFS disclosures appear on the face of the financial statements. However, we have a preference for all GFS information, including the convergence differences, to be disclosed in the notes to the financial statements, acknowledging that there may be presentational difficulties when all of the following are presented on the face of the balance sheet:

- a column for data presented on a GFS basis
- a column for data presented on a GAAP basis
- a column for any convergence difference
- comparative information
- the budgetary information, as permitted by paragraph 61 of the exposure draft.

(g) the proposals in paragraphs 32 to 40 relating to the format and content of the operating statement and the treatment of convergence differences, including the proposal:

(i) to mandate the classification of income and expenses by nature on the face of the operating statement, with the classification aligned with the GFSM 2001 classification scheme to the extent appropriate;

The proposal is consistent with the requirements of AASB 101. Accordingly, we do not have an issue with the proposal to mandate the classification of income and expenses by nature on the face of the operating statement, with the classification aligned with the GFSM 2001 classification scheme to the extent appropriate.

(ii) to mandate a comprehensive income approach whereby all non-owner movements in equity are recognised in a single operating statement;

We note that the IASB and the FASB are currently undertaking a project on financial performance reporting, which includes the consideration of requiring a single statement of comprehensive income. We note that in the April 2005 Joint IASB/FASB meeting, the Board decided that a complete set of financial statements would include the following:

- A statement that shows balances of assets, liabilities and equity as of the beginning of the period – referred to as a Beginning of the Period Statement of Financial Position
- A statement that shows balances of assets, liabilities and equity as of the end of a period – referred to as a End of the Period Statement of Financial Position
- A statement that shows the changes in assets and liabilities other than those arising from transactions with owners in their capacity as owners and includes the currently required subtotal net income/profit or loss – referred to as a Statement of Earnings and Comprehensive Income
- A statement that shows the changes in assets and liabilities arising from transactions with owners in their capacity as owners – referred to as a Statement of Changes in Equity
- A statement that shows inflows and outflows of cash – referred to as a Statement of Cash Flows.

We acknowledge that the proposals in the Exposure Draft are largely in line with the direction undertaken by the IASB and FASB joint board, however, this project is still in its early stages and it will be some time before the IASB will issue a standard that requires private sector entities to report on the comprehensive income approach. As Australian standards are purporting to be sector neutral, we question the reason for producing a standard which mandates the presentation of government financial statements that are different from the private sector.

In addition, it is unclear under the exposure draft whether a separate statement will be required which shows the changes in assets and liabilities arising from transactions with owners in their capacity as owners to comply with AASB 101.

(iii) that the option in AASB 119 Employee Benefits (December 2004) of partially deferring actuarial gains and losses on defined benefit superannuation plans using a "corridor approach" should be prohibited, and that the remaining options of recognising them in operating result or in the other non-owner movements in equity section of the operating statement should be allowed. The Board is particularly interested in comments on whether the Standard should remove options entirely, and in so doing, prohibit recognition directly in other non-owner movements in equity;

Consistent with our comment in (c) above, we support the proposal to prohibit the option of accounting for actuarial gains and losses on defined benefit superannuation plans using the "corridor approach" as the concept is not inline with GFS. In addition, we would support the prohibition of recognising actuarial movements in other non-owner movements in equity. Firstly, this would result in a consistent set of accounting policies across jurisdictions, which will facilitate the achievement of the objective to a single set of government reports which are comparable between jurisdictions. In addition, we support the Victorian government's election to recognise all actuarial gains and losses in the operating statement as this is consistent with the principles of the treatment of changes in accounting estimates as required by AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*

(h) the proposals in paragraphs 41 to 43 relating to the format and content of the cash flow statement. The Board is particularly interested in comments on whether the Standard should also require a distinction between cash flows relating to investing in financial assets for "policy" and "liquidity management" purposes on the face of the cash flow statement and whether such a distinction would be useful and could be made with sufficient rigour for GPFR purposes;

We do not have a comment on this issue.

(i) the proposals in paragraphs 44 and 45 relating to additional information to be provided in the note containing the summary of significant accounting policies, illustrated in Appendix C. In particular, the Board is interested in comments on whether the proposed disclosures provide sufficient information to minimize the risk that users might perceive the GGS financial report as being a substitute for the whole of government GPFR;

We again stress our support for a set of disclosures that provides the complete picture of any government's responsibilities and therefore the full consolidation of controlled entities in accordance with AASB 127. The emphasis should be on a complete whole of government (WOG) report with the GGS being a segment of the WOG report, which must be presented no more prominent than the WOG statements.

There is also the danger that the focus on whole of government reporting is being de-emphasised. While an exposure draft on reporting for the GGS has been issued, and the exposure draft requires the GGS report to make reference to the whole-of-government report, work on the exposure draft for whole-of-government reporting under a "harmonised" GAAP/GFS framework is yet to be seen.

Although it is proposed under the exposure draft that the GGS report must provide cross reference to the fully consolidated WOG report, we question whether a cross reference is sufficient to ensure that users get the full picture and overall context of the reports being produced. We also express our concerns of a possibility in the development of the practice for the GGS result to be audited and publicised prior to the finalisation of the WOG report, which will further diminish the focus of the WOG report.

(j) the proposals in paragraphs 46 to 48 relating to additional disclosures. The Board is particularly interested in comments on whether the proposal in paragraph 46(d) to require disclosure of explanations of key technical terms used in the financial report is useful;

We support the proposed requirement to disclose the additional information outlined in paragraphs 46 to 48, which will assist users of the financial report to better understand the financial statements. We considered that the requirement to disclose explanations of the key technical terms used in the financial report is useful, particularly in the first few years of introduction of the new presentation. However, as discussed above, we reiterate our concern of reporting against too many different financial measures, which is likely to confuse, rather than assists, users of the financial reports in understanding the financial affairs of the government.

(k) the proposals in paragraphs 49 to 52 relating to disclosures that provide disaggregated information about GAAP and GFS amounts on a functional basis, whereby functions are determined in accordance with GFSM 2001;

We support the proposals in paragraphs 49 to 52 relating to disclosures that provide disaggregated information about GAAP and GFS amounts on a functional basis, as determined in accordance with GFSM 2001. As the current AASB 114 *Segment Reporting* does not apply to GGS financial reports, we believe that disclosure of disaggregated information on a functional basis will be useful for users in understanding the resources committed to particular functions of the GGS, the costs of service delivery and the extent of the cost recovered in providing those services.

(l) the proposals in paragraphs 53 to 56 to specify principles for the presentation of performance indicators;

We support the principles for the presentation of performance indicators as long as they satisfy the qualitative characteristics of relevant and reliability and be presented in a manner that satisfies the qualitative characteristics of comparability and understandability. We acknowledge that the GAAP/GFS harmonisation project is not about performance reporting, however we believe that further guidance may be considered to ensure that different jurisdictions are reporting against the same set of performance indicators for activities that are of the same nature.

(m) the proposals in paragraphs 57 to 62 to require disclosure of:

(i) the original budget, restated if necessary so that it is presented on a basis that aligns with the basis on which the financial statements and notes have been prepared (in accordance with the Standard);

We strongly support the requirement to present the original budget on a basis that aligns with the basis on which the financial statements and notes have been prepared, with the restatement of the original budget if necessary. It is important that there is proper symmetry between ex-ante and ex-post reporting to allow users of the financial reports to assess the discharge of a government's accountability in relation to its activities.

In addition, we are of the view that the primary focus of financial reporting is the reporting of ex-post financial information, and that the basis on which this information is prepared must not be comprised. It must be prepared on a GAAP basis.

It is important that the preparation of the original budget is on a basis that aligns with the basis on which the financial statements and notes have been prepared. There are risks involved in restatement of budgets where they were originally prepared on a GFS basis.

(ii) an explanation of major variances between the original GGS budget and actual amounts;

We support the requirement to disclose an explanation of major variances between the original GGS budget and the actual amounts, which is useful in assisting users of the financial reports to assess the discharge of a government's accountability in relation to its activities.

(n) the proposals in paragraphs 63 to 67 relating to transitional requirements. In particular, the Board is interested in assessments of the costs and benefits of the approach proposed, compared with alternative approaches, including remaining silent in the Standard about transitional requirements, and thereby effectively requiring AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* to operate in its own right;

We provide preliminary support for the proposals to permit the first GGS general purpose financial report that is prepared under the proposed standard to be prepared in the same manner as if it is the GGS's first A-IFRS financial report under AASB 1.

For governments that choose to early adopt the proposed standard for the 30 June 2006 financial reporting period, it will coincide with the preparation of the first A-IFRS financial report, therefore, the relief is already available to such entities. However, we do not believe that the relief on the preparation of reconciliations between the previous GAAP to the new GAAP should be provided to entities in this category as such information is useful for users to understand the material adjustments to the balance sheet and income statement. In view of the exemptions provided under AASB 1, the cost of providing such information is not likely to outweigh the benefits to users.

We have yet to fully consider the implications of the proposed transitional requirements for entities that choose to adopt the proposed standard for the 30 June 2007 financial reporting period.

(o) the illustrated acceptable format for the financial statements and notes related to convergence differences in Appendix B. The Board is particularly interested in comments on:

(i) the columnar approach illustrated for the balance sheet and operating statement. In addition to any criticisms of the columnar approach, respondents are invited to provide an alternative that is consistent with the Exposure Draft's proposals for the Board's consideration; and

Refer to our comments under (f) on "Convergence Differences".

(ii) whether the illustration provides guidance that is helpful in implementing the proposals in the Exposure Draft, particularly those that adopt the requirements in AASB 101 as effectively amended by the proposals;

We believe that the illustration contained in Appendix B provides helpful guidance in implementing the proposals in the Exposure Draft, especially on the format and content of the proposed financial statements.

However, as raised earlier under (g)(ii), it is unclear from the illustration whether a separate statement will be required for presenting the changes in assets and liabilities arising from transactions with owners in their capacity as required by AASB 101.

(p) whether it is appropriate for the Standard to cross-reference to GFSM 2001, given that GFSM 2001 is not prepared by the AASB and that there is a need for the AASB to consider whether amendments to the Standard are necessary each time GFSM 2001 is amended. The Board is also interested in comments on whether instead of GFSM 2001 the Standard should cross-reference to the GFS Manual published by the Australian Bureau of Statistics (ABS);

Cross Reference to GFSM 2001 vs. ABS GFS Manual

We note that there are currently some inconsistencies between the IMF and ABS GFS frameworks. Accordingly, there may be inconsistencies in the GFS information as prepared by the ABS and those prepared by government in the short term. However, in view of Australia's commitment to international harmonisation, we believe that it is appropriate for the Standard to cross-reference to the GFSM 2001.

It should also be noted that in May 1991, all Australian jurisdictions agreed in the Premier's Conference to the introduction of the Uniform Presentation Framework (UPF). Not dissimilar to the current GAAP/GFS convergence project, the primary objective of the UPF is to ensure that Commonwealth, State and Territory governments provide a common set of financial information that is prepared and presented in a consistent manner. Since 2001, all jurisdictions have agreed to adopt the ABS accrual GFS framework as the basis for the accrual UPF. As a result, each Australian jurisdiction already prepares GFS data in accordance with the ABS accrual framework in their financial reports. The cross reference to GFSM 2001, rather than the ABS accrual framework, will potentially result in different GFS results being presented in the financial statements and the UPF. On the other hand, it is expected that the need for the presentation of financial statements under the UPF would become redundant when this proposed Standard is implemented.

Cross References to GFS material

As the AASB does not have a responsibility for the GFS framework, we believe that it is inevitable that the AASB would have to consider whether amendments to the Standard are necessary each time the GFS framework is amended, although there may be an argument that as one of the objectives for the GAAP/GFS convergence is to achieve a single set of government reports that is comparable between jurisdictions, a reference to a static GFS framework would also achieve that outcome.

However, we believe that it is more appropriate for the Standard to cross-reference to the latest version of the GFS manual to ensure that there is consistency between the GFS data prepared by the government and those prepared by the IMF. Accordingly, we believe that the AASB has an obligation to monitor changes to the GFS framework and consider whether amendments to the Standard are required. We also suggest that the reference to "2001" be deleted and reference be made to the "latest version of the GFS manual as at reporting date".

(q) whether there are any aspects of GFSM 2001 that you consider should be prohibited from forming part of the basis upon which the GGS's financial report is prepared;

We are of the view that existing GAAP should not be comprised unless the change would:

- be applied to both private and public sectors, such that financial information will be comparable between all financial reports that purports to be general purpose financial reports
- provide more relevant and useful information to satisfy the information needs of users.

(r) whether, overall, the proposals result in financial reports that are useful to users.

We acknowledge that there are users that are particularly interested in the activities of government that are predominantly funded by taxes (i.e. activities within the GGS) and we believe that the proposed <u>disclosures</u> would provide information that may be useful to those users. In particular, the disclosure of both GAAP and GFS measures would satisfy the information requirement of users in understanding the accountability of the GGS and the economic impact the GGS has on the other sectors of the economy. In addition, we believe that the proposal to require reporting of the actual performance against budget would provide useful information to users in assessing the discharge of a government's accountability.

However, we express our concerns on the following issues:

- the proposal to permit partial consolidations will create a risk of presenting incomplete information to users for the purpose of making and evaluating decisions about the allocation of scare resources
- the presentation of both GAAP and GFS data on the face of the financial statement will create too many bottom lines, which may confuse users in understanding the financial affairs of the government
- the move away from the principle of sector neutral standards. The preparation and presentation of government financial statements that are different from that of the private sector is likely to confuse users in understanding the basis of accounting in the public sector, which will in turn diminish users' ability to meaningfully assess a government's discharge of its accountability
- the proposed removal of AAS 31, which may put the future of whole-of-government reporting at risk as we have yet to seen work on an exposure draft for whole of government reporting. We believe that it is important for the preparation of whole of government reports such that it presents a complete picture of any government's responsibilities. In addition, we would support the presentation of financial information for all three sectors of government in the whole of government report as segments of the government.