



BOROONDARA
City of Harmony

3 July 2007

Mr David Boymal
Chairman
Australian Accounting Standards Board
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Dear Mr Boymal

SUBMISSION COMMENTING ON EXPOSURE DRAFT ED 156

Thank you for the opportunity to comment on Exposure Draft ED 156 "Proposals arising from the Short-term Review of the requirements in AAS 27, AAS 29 and AAS 31". Given that the most recent reviews of these accounting standards occurred in June 1996 and June 1998 we welcome the review being conducted.

As a local government, our interest lies primarily in proposed changes to AAS 27 and we have restricted our comments to this standard.

Comments on Exposure Draft ED 156

- We support the Australian Accounting Standards Board (AASB) philosophy expressed in the preface to ED 156 of developing "a common accounting standards framework for both for-profit and not-for-profit entities whilst acknowledging differences in some areas".
- We question the merit and reporting value of recognising Land Under Roads as an asset in the financial statements of local governments. We contend that the asset adds little meaning to a Council's balance sheet and that inherent difficulties in valuing an asset for which there is no commercial market will lead to disparities in valuation methods.
- In recent years, local governments have invested significantly in asset management programs and also conducted valuable communication campaigns to educate their communities on the asset management challenges. Our concern is that inflating balance sheets with an asset with dubious measurement basis and that has no commercial market value, may undermine the credibility of the asset values reported in the financial statements.

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- We are not aware of any recent reported discussion of the merits of valuing and reporting LUR and call upon the AASB to conduct an open, transparent evaluation of the costs and benefits of measuring this asset. The current rationale for the removal of the transitional relief previously offered seems to be predicated on an acceptance that the measurement and reporting of the LUR asset will provide useful information to users of financial statements. We query this assertion and call upon the AASB to provide an assurance that the usefulness of the reporting of the asset will be fully evaluated.
- We support the proposed amendment to AASB 3 to specifically state that local governments are reporting entities.
- In the event that measurement and recognition of LUR proceeds under AAS 27 we contend that it is incumbent upon the AASB to issue a detailed Australian Guidance providing comprehensive guidance on valuation and measurement techniques to be followed.
- We believe that income recognition criteria outlined in AASB 118 need to be reviewed. It is common practice for state and federal government agencies to distribute grant funding late in the financial year. The recipients of this funding cannot physically expend these funds by year end. Current standards require these funds to be recognised as income in the year of receipt. We contend that standards should be amended to reflect traditional notions of "matching" and that funding be recognised as income as the relevant services and programs are delivered.
- We note the comments that the AASB is planning separate projects in Budget Reporting and Performance Indicators. We would respectfully suggest that developments in recent years in such reporting by Victorian local governments, following guidance from the Department for Victorian Communities and model reporting format developed by the sector, represent a solid framework that is unlikely to be enhanced by imposed AASB Standards. We also suggest that these AASB projects would need to consider existing frameworks referred to, in order to avoid any duplication or unnecessary extra reporting.
- We support the intended release of Australian Guidance on the depreciation and fair valuation of heritage assets proposed under AASB 116.
- We believe the review of requirements relating to control in the public sector in the context of AASB 127 *Consolidated and Separate Financial Statements* should be assigned low to medium priority.

We would welcome an opportunity to meet with you to discuss the above comments.

Yours sincerely



Helen Lanyon
DIRECTOR CORPORATE RESOURCES

