



Department of Human Services

Incorporating: Health, Community Services, Mental Health, Senior Victorians and Housing

50 Lonsdale St
GPO Box 4057
Melbourne Victoria 3001
DX210081
www.dhs.vic.gov.au
Telephone: 1300 650 172
Facsimile: 1300 785 859

OUR REF:

YOUR REF:

18 May 2009

Mr Bruce Porter
Acting Chairman
Australian Accounting Standards Board
PO Box 204
COLLINS ST WEST VIC 8007

Dear Mr Porter

ED 174 Amendments to Australian Accounting Standards to facilitate GAAP/GFS Harmonisation for Entities within the GGS

The Victorian Department of Human Services (DHS) welcomes the opportunity to provide comments on Exposure Draft 174 Amendments to Australian Accounting Standards to facilitate GAAP/GFS Harmonisation for Entities within the GGS.

In general we question the likely impact of the board and Financial Reporting Council in endeavouring to apply GFS reporting to each individual GGS entity. The intent of GFS reporting is to measure the financial activities of governments and reflect the impact of those activities on other sectors of the economy. Despite each GGS entity obviously contributing to its government's impact; the reporting of its individual impact does not in our view provide useful information on the entity based GFS information which obviously must be consolidated with other entities (including eliminations of inter-entity transactions). An understanding of government's financial activities and the impact of these activities is only possible at the highest level, being whole of government, which consolidates individual entity information to provide complete financial statistics for all like activities, not by analysing individual GGS entity financial reports. This makes us question both the cost and benefits of applying GFS formatted reports to the lowest levels of government being individual GGS entities.

In addition to our view on the application of GFS to individual GGS entities, DHS has three main areas of comment with the Exposure Draft:

1. Expansion of AASB1052 - DHS does not believe that it is appropriate to apply paragraphs 15-21 of AASB 1052 beyond government departments
2. Budgetary Reporting - DHS supports the current and continued exclusion of the requirements of paragraphs 59-65 of AASB 1049 to GGS entities.

3. Usefulness of reports to users - DHS believes that the ED174 proposals will not result in financial statements that would be useful to users.

Our detailed comments to the specific questions raised are attached. If you have any queries, please contact me on (03) 9096 7686 or Anne Chung on (03) 9096 7693.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Rob Barr', with a stylized flourish at the end.

Rob Barr FCPA
Chief Financial Officer
Director, Finance and Business Services

Victorian Department of Human Services (DHS)
Comments on ED 174 Amendments to Australian Accounting Standards to facilitate
GAAP/GFS Harmonisation for Entities within the GGS

Specific Matters for Comment

DHS has no comment on questions a, b, c, f and h.

(d) Whether it is appropriate to expand the application of paragraphs 15-21 of AASB 1052 beyond government departments (see paragraph BC13);

DHS does not believe that it is appropriate to apply paragraphs 15-21 of AASB 1052 beyond government departments. Entities within the GGS that are not departments do not necessarily have clearly defined outputs/outcomes or objectives to which they contribute, unlike departments. To require these non departmental entities to define objectives and to then attribute income and expenses to those objectives creates additional layers of complexity to their reporting structures which would not necessarily add to the usefulness of reporting nor comparability with other entities. GGS entities' major activities will not clearly align with any GFS/GPC reporting and thus renders the inclusion of this information misleading under a GFS harmonisation view. This requirement does not form part of GFS reporting and as such we question the board's intent in the inclusion of this requirement in ED174.

(e) Whether entities within the GGS should be subject to the same kind of budgetary reporting requirements that are specified in paragraphs 59-65 of AASB 1049 (see paragraph BC14). [AASB 1049 requires disclosure of the original budgeted financial statements and explanations of major variances where budgeted financial statements are presented to parliament];

DHS notes that ED174 does not include the budgetary reporting requirements of paragraphs 59-65 of AASB1049, as indicated in BC14.

Currently in Victoria departments through Treasury requirements include an unaudited report within their annual report that reports budget, actual and variances for their portfolio. For DHS this reporting consolidates the GGS entities within the portfolio, in this case 91 public hospital and ambulance service entities. In the case of DHS's consolidated GGS entities there is a single budget that covers the 91 separate reporting entities; these reporting entities do not have individual budgets that would consolidate together, and with DHS's budget to equal the published portfolio budget.

In the case of the Victorian public hospitals they generate approximately 20% of their revenue from non government commercial sources, which do not form part of the state's budget as they are funds that the hospitals use for outside of governmental controlled activities. As with the private sector their would be great reluctance to publish budgets for these commercial operations which could undermine competitive advantage and thus their earning potential.

DHS is of the opinion that to impose the reporting of budgets and variations of actual to budgets, where a GGS entity has published a budget could lead to the perverse outcome that entities will not willingly publish budgets so that they will not need to report against those budgets.

DHS supports the current and continued exclusion of the requirements of paragraphs 59-65 of AASB 1049 to GGS entities.

(g) Whether overall, the proposals would result in financial statements that would be useful to users; and

DHS see that questions g) and h) are similar though approaching from a different perspective, thus we answer them together. To answer these questions one needs first to determine who the users of GGS entities reports are, then will the financial report prove useful.

Firstly to define the users of these general purpose reports for all GGS entities is difficult, so we have approached this from a DHS and portfolio basis. As defined in AASB101, General Purpose Reports are intended to meet the needs of users who are not in a position to require an entity to prepare reports tailored to their particular information needs. Therefore these reports need to provide information to those that are interested in an entity that have no power to request specific information. Thus it can be determined by defining who has the power to request information and then excluding them from the general populace. As GGS entities are created under government legislation, and have a minister and department administering them it can be determined that parliamentarians and government can request specific information, they are therefore not a user. From this we can deduce that the users are non government organisations and individuals. DHS's portfolio includes public hospitals, specific users of reports from these hospitals would be their local community who are interested about the service provided to them and security of their input through fundraising efforts and the like.

Having determined that users of the general purpose reports for GGS entities are the general populace, excluding government, the next question is whether the proposed reports would be useful. Generally the GFS reporting format will provide a very cluttered and busy statement of comprehensive income, which will hinder the readers of these statements. The concept of 'Other Economic Flows' is foreign to most readers of financial statements and will provide information that the general populace is not interested in and will find very hard to understand. For example, for a rural public hospital, the understanding of a member of the local community who is interested in the operations of the hospital to ensure the funds they helped raised are spent wisely and to see that the hospital will continue operate and support them, will be greatly diminished under GFS formats as the concepts are foreign and they are familiar with the standard for profit based disclosures.

In addition the requirement to present the statement of comprehensive income in a GFS format will severely hinder the ability to make include additional line items, headings and subtotals, that maybe relevant to an understanding of the entity's financial performance, as these additional items or subtotals may be in both 'transactions' and 'other economic flows'. Or where the additional items are included may render the statements almost incomprehensible. This is the case for Victorian public hospitals which include the subtotal 'Net result before capital and specific items', which is the result before capital funding, depreciation expense and gains/losses on financial and non financial assets. This result is the underlying operating result which excludes transactions that occur from time to time due to government funding principles, but which cloud the true understanding of the ongoing operation of the public hospital. Some of the items excluded are 'transactions' whilst others are 'other economic flows' and presentation of this becomes problematical. This 'Net result before capital and specific items' is discussed openly in parliament and in the media, and previously when additional subtotals were not able to be included created enormous confusion publically. Whereas currently this item is an audited number that is readily ascertainable by all and provides very useful information to users.

In light of the above DHS believes that the ED174 proposals will not result in financial statements that would be useful to users.