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Mr Bruce Porter
Acting Chairman
Australian Accounting Standards Board
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Via email: standard@asb.gov.au

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Dear Mr Porter

Comments on Exposure Draft ED 174 Amendments to Australian Accounting Standards to facilitate GAAP/GFS Harmonisation for Entities within the GGS [AASBs 1010, 107 and 1052]

Thank you for the opportunity to comment on the Australian Accounting Standards Board (AASB) ED 174 Amendments to Australian Accounting Standards to facilitate GAAP/GFS Harmonisation for Entities within the GGS [AASBs 1010, 107 and 1052].

CPA Australia represents the diverse interests of more than 122,000 members in finance, accounting and business in 100 countries throughout the world. Our mission is to make CPA Australia the global professional accountancy designation for strategic business leaders. We make this submission not only on behalf of our members in the public sector but also for the accounting profession generally and in the broader public interest.

Our comments have been prepared in consultation with our public sector members, and through our Financial Reporting and Governance Centre of Excellence.

While the objective of harmonisation of Generally Accepted Accounting Principles (GAAP) and Government Finance Statistics (GFS) reporting will undoubtedly be achieved by the implementation of the [proposed] Standard, the appropriateness of the required reporting format from the perspective of users external to entities within the General Government Sector (GGS) is not immediately obvious. We are not aware of significant research identifying existing or potential user groupings and the purpose for which they refer to general purpose financial statements. We believe this remains an area requiring investigation so that extent of usage, useability and fitness of purpose are known. Research of this type might usefully inform the work of the International Public Sector Accounting Standards Board's (IPSASB) Conceptual Framework project.

With increasing government focus on budget accountability, reconciliation and comparability as well as broader service delivery models, we believe there is potential for user groupings to expand beyond the primary grouping of parliamentarians, public scrutiny bodies, advisers, commentators and standards agencies. Trends in public sector accountability and changing delivery models may increase user groupings to include non-political and non-government stakeholders as well as private and third sector partners – existing and potential.

Irrespective of user grouping, the primary purpose of access is likely to be research to inform decision making. We understand that the most common question of users of the general purpose financial statements of many of the entities within the GGS is "What is the cost of providing public services?". The next most obvious question is "Where did the funds come from to provide these services?". A third question that is emerging is "How does the entity's financial performance compare with what the Government was expecting?".

Some of our members say the answers to the first two questions are immediately obvious in the current financial statement format in the form of the Net Cost of Services and Total Government Contributions. CPA Australia notes the Draft Illustrative Example of Financial Statements for Entities within the General Government Sector reflects a possible format of financial statements for an entity within the GGS – it broadly illustrates the effects of the proposal in ED 147. The format illustrated provides a net result for the year, a format that we think is less useful for answering the two questions presented above. We strongly suggest that any illustrative example attached to the [proposed] Standard contain a clear statement that it is illustrative and that other formats might be consistent with the [proposed] Standard.¹ Further, the illustrative example only includes the "face statements", with the assumption that the notes will contain those that would be required under Australian Accounting Standard, as a minimum. It would be appropriate for the "basis of preparation note" to specify that the financial statements had been prepared taking into account GAAP/GFS harmonisation principles.

CPA Australia considers it important that a Net Cost of Services format is able to satisfy the effects of the [proposed] Standard. Given the financial statement presentation flexibility available under AASB 101 *Presentation of Financial Statements*, we expect it would reflect a possible format. However, some of our members have suggested it is not clear that this is possible – they point to the inclusion of Income and Government Contributions under the same heading "Continuing operations – transactions – income from transactions". We strongly suggest that the AASB ensure that, in finalising the [proposed] Standard, the Net Cost of Service format is a possible format of financial statements for entities within the GGS. We would like this to be unambiguous as it needs to be made clear that appropriations (a transaction) can be shown apart from other transactions including, if necessary, amongst other economic flows (although still clearly distinguished from them). We think it would be helpful if this were stated in the Basis for Conclusions to the [proposed] Standard. It may also be useful to include the Net Cost of Services format as a second illustrative example.

The third question remains impossible to discern from the proposed format. We note that Australian Accounting Standards do not prescribe the preparation of a budget. We think the AASB's future project on budget reporting should include a re-examining of this policy.

CPA Australia notes the AASB would need to review its approach to GAAP/GFS harmonisation at entity level should the International Accounting Standards Board develop a new standard on financial statement presentation.

Our detailed comments to the questions posed by the AASB are attached.

If you require further information on any of our views, please contact Dr Mark Shying, CPA Australia's Financial Reporting and Governance Senior Policy Adviser via email at mark.shying@cpaaustralia.com.au.

Yours sincerely



Geoff Rankin FCPA
Chief Executive Officer

cc: M Shying

¹ CPA Australia understands that the [proposed] Standard will amend AASBs 101, 107 and 1052.

Specific Matters for Comment

The AASB would particularly value comments on whether:

- (a) **the proposals are necessary and/or sufficient to satisfy the objective of GAAP/GFS harmonisation for entities within the GGS. If not, what approach would you suggest? Please provide your assessment of the costs and benefits of your preferred approach, and how you believe it would better meet the needs of users.**

CPA Australia considers that the objective of GAAP/GFS harmonisation can be achieved by the implementation of the [proposed] Standard.

- (b) **it is appropriate for the proposals to apply to for-profit entities within the GGS (see paragraph BC6).**

CPA Australia supports the application of the proposals to all entities within the GGS irrespective of their legal structure or objectives. Accordingly, we think it appropriate that the proposals apply to for-profit entities within the GGS.

- (c) **entities within the GGS should be subject to the principle in AASB 1049 that, where there is a choice in GAAP that aligns with GFS, that choice is mandated (see paragraph BC11).**

CPA Australia supports the proposal of not limiting the options available to entities within the GGS to achieve harmonisation with GFS. We understand it is highly likely in practice that entities within the GGS will normally follow the same recognition and measurement principles applied by their jurisdiction under AASB 1049 *Whole of Government and General Government Sector Financial Reporting*, to avoid the additional work of having to re-cast their financial information for consolidation purposes.

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

CPA Australia supports the proposal to amend AASB 1052 *Disaggregated Disclosures* to have it apply to entities within the GGS unless they are entities subject to AASB 114 *Segment Reporting* or AASB 8 *Operating Segments*. We think it more appropriate at the individual entity level to require AASB 1052 disaggregation by major activity and not disaggregation by Australian Bureau of Statistics' functional classification as required by AASB 1049. Some of our members have told us that while it is appropriate that the proposals do not require some information required under AASB 1049, it is appropriate to retain flexibility to include such information if a jurisdiction so desires it. We think it important that the Standard make this clear.

- (e) **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 paragraphs BC14). [AASB 1049 requires disclosure of the original budgeted financial statements and explanations of major variances where budgeted financial statements are presented to parliament].**

CPA Australia supports the decision of the AASB not to impose budgetary reporting requirements through this Standard.

- (f) **there is a need for specific transitional requirements to facilitate the adoption of the proposals (see paragraph BC16).**

CPA Australia is not aware of a need for specific transitional requirements.

- (g) **overall, the proposals would result in financial statements that would be useful to users.**

The appropriateness of the required reporting format from the perspective of users external to entities within the GGS is not immediately obvious. We are not aware of significant research identifying existing or potential user groupings and the purpose for which they refer to general purpose financial statements. We believe this remains an area requiring investigation so that extent of usage, useability and fitness of purpose are known. Research of this type might usefully inform the work of the IPSASB's Conceptual Framework project.

With increasing government focus on budget accountability, reconciliation and comparability as well as broader service delivery models, we believe there is potential for user groupings to expand beyond the primary grouping of parliamentarians, public scrutiny bodies, advisers, commentators and standards agencies. Trends in public sector accountability and changing delivery models may increase user groupings to include non-political and non-government stakeholders as well as private and third sector partners – existing and potential.

Irrespective of user grouping, the primary purpose of access is likely to be research to inform decision making. We believe the Net Cost of Services presentation format would provide information useful to user decision making. We think it important that the [proposed] Standard allow that format.

From user and member engagement, CPA Australia understands the most common question of users of the general purpose financial statements of many of the entities within the GGS is “What is the cost of providing public services?”. The next most obvious question is “Where did the funds come from to provide these services?”. A third question that is emerging is “How does the entity’s financial performance compare with what the Government was expecting?”

Some of our members say the answers to the first two questions are immediately obvious in the current financial statement format in the form of the Net Cost of Services and Total Government Contributions. CPA Australia notes the Draft Illustrative Example reflects a possible format of financial statements for an entity within the GGS – it broadly illustrates the effects of the proposal in ED 147. The format illustrated provides a net result for the year, a format that we think is less useful for answering the two questions presented above. We strongly suggest that any illustrative example attached to the [proposed] Standard contains a clear statement that it is illustrative and that other formats might be consistent with the [proposed] Standard. Further, the illustrative example only includes the “face statements”, with the assumption that the notes will contain those that would be required under Australian Accounting Standard, as a minimum. It would be appropriate for the “basis of preparation note” to specify that the financial statements had been prepared taking into account GAAP/GFS harmonisation principles.

CPA Australia considers it important that a Net Cost of Services format is able to satisfy the effects of the [proposed] Standard. Given the financial statement presentation flexibility available under AASB 101, we expect it would reflect a possible format. However, some of our members have suggested it is not clear that this is possible – they point to the inclusion of Income and Government Contributions under the same heading “Continuing operations – transactions – income from transactions”. We strongly suggest that the AASB ensure that, in finalising the [proposed] Standard, the Net Cost of Service format is a possible format of financial statements within the GGS. We would like this to be unambiguous as it needs to be made clear that appropriations (a transaction) can be shown apart from other transactions including, if necessary, amongst other economic flows (although still clearly distinguished from them). We think it would be helpful if this were stated in the Basis for Conclusions to the [proposed] Standard. It may also be useful to include the Net Cost of Services format as a second illustrative example.

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(h) the proposals are in the best interest of the Australian economy.

CPA Australia welcomes completion of the Financial Reporting Council’s public sector broad strategic direction to the AASB.