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COMMENTS ON ED 174

Thanks for the opportunity to comment on ED 174.

Summary

I do not support the application of GFS-GAAP Harmonisation for individual reporting entities. I am concerned that because the AASB has withdrawn AAS 29, it needs to create a replacement standard. ED 174 is not the answer. GFS (or harmonized GFS-GAAP) is not the manner in which entities operate or report, and only creates confusion for users of GG reports and for public sector accountants. The costs of ED 174 far outweigh the benefits. Ironically, I strongly support the proposal (from AASB 1049) that general government entities be required to publish and report on budgetary information and variances. ED 174 deferred this matter. There is no reasonable argument that the reporting of budgetary information by GG entities should be deferred. The AASB 1049 framework for budgetary reporting exists, and is flexible enough to be implemented immediately.

Relevance

GFS is a classification system for economists and other users to analyse government sector aggregates from the perspective of a government's contribution to the economy's production. It is consistent with the System of National Accounts. This does not mean that GFS is relevant for individual entities to report as their primary financial reporting framework. The ABS already has reporting arrangements in place to capture GFS information, which is based on individual entity unit record data. By requiring public sector entities to individually adopt harmonized reporting, the AASB is supporting the authority of the ABS for aspects of financial reporting interpretations.

If the AASB really believed that harmonized reporting is appropriate, the AASB should require all public sector entities (including public corporations and local government) to adopt this proposal at the same time. After all, GFS sector reporting is equally applicable to these sectors, so it must be equally valid, and useful for these individual entities to prepare financial reports on a harmonised basis. 'Harmonised' reporting for the GGS is a waste of time and resources for application by GGS entities. Reporting GFS entity information does not contribute to the Australian economy.

Ironically. I support the benefits of harmonized reporting for the sector aggregates, as adopted in AASB 1049. AASB 1049 assists users to understand the differences between the two sector's published aggregates ie ABS GFS sector aggregates, and jurisdictions AASB 1049 sector aggregates, presented on a AASB 1049 harmonised accounting basis. ED 174 provides little or no benefit, as no one (including the ABS) reports agency aggregates on a GFS basis. If the AASB really valued the GFS presentation, it would also support the private sector publishing harmonised financial reports that equally harmonise with National Accounts reporting, a la ED 174.

I think that the logic underlying ED 174 is mis-based. There are no major users of entity GFS reports, but only of sector reports. Otherwise, every government jurisdiction around the world would have its agency report on a GFS basis. This is the AASB's last opportunity to reconsider, and withdraw the ED. Withdrawal of the ED is not embarrassing. Australian public sector agencies will still report in accordance with accounting standards. And the ABS will still obtain information from Treasuries to prepare GFS reports.

Harmonised Entity Presentation

One of the interesting aspects of the harmonised presentation proposed is the loss of focus on reporting a GG entities Net Cost of Services. For example, NSW and some other state's GG entities are required to report several aggregates in their financial reports, namely 'Net Cost of Services, Government Contributions (toward the net cost of services, and the accounting operating result.

For, instance the proposed ED 174 harmonized operating statement dissects GFS transactions from other economic flows. Many GG entities receive significant funding as 'government appropriations'. These appropriations are neither transactions nor other economic flows in GGS reports, as they are eliminated in GG sector reports. The illustrative example in ED 174 arbitrarily concludes that they are GFS transactions (presumably similar to grant revenues). This implies that the Net Operating Result should include appropriations. This presentation removes the focus on the Net Cost of Services, and is not helpful for benchmarking a department. It leads to less accountability.

Another argument that 'ED 174 removes from a department's net operating result the activities that the reporting entity has no control over (ie the revaluations)' is false. For example, decisions made by governments about the classes, types and quality of investments, and other classes of assets do affect items that appear in 'other economic flows'. Not all 'other economic flows' are uncontrollable by governments, as is the fact that not all transactions are controllable by government. For example, many government transactional revenues (and expenditure) are dependent upon the economic cycle and the state of the economy, and not just subject to the quality of government policies and public sector management. The argument that departments should separate out GFS transactions (which are controllable and for which the entity is responsible) from other economic flows (for which the entity is not responsible) is not particularly relevant.

Further, for example in NSW, most departments do not carry their defined benefits superannuation liabilities (which is centrally managed in NSW), it is irrelevant that the most volatile (and controversial) item does not need to be removed from the 'result'. There are options in standards such as AASB 119 that would anyway allow for the volatile actuarial gains/losses from superannuation to be adjusted direct to equity. It is therefore unnecessary to argue the need for a standard like ED 174, merely to remove large superannuation gains/losses from an operating result, when other similar options exist (without ED 174) that are consistent with GFS.

In regard to the balance sheet presentation, and cash flow changes, I see little benefit. Many standards still require disclosure of current and non-current splits, even if the liquidity option is chosen. The financial instrument disclosures in AASB 7 already assist users far more in understanding an entity's liquidity and other risks. Only a handful of general government agencies have loans for policy purposes, so it's not particularly relevant to most. The ABS manual reports many investing and financing cash flows on a net basis, and is inconsistent with accounting standards that require cash flows be prepared on a gross basis! Is this progress? Or confusion? Or What?, and Why the unnecessary change? Where are the users demanding this change?

GFS Support

As an accountant that has worked in several government departments, today I do not need to know about the definitions of GFS 'transactions' versus 'other economic flows'. Why should I? You are expecting me to train staff, and management (and my auditors), to understand the intricate subtleties of the GFS manual, so that I will accurately identify and dissect them. After all, they need to be dissected properly for auditable reports. I understand that Treasuries somehow already classify and code the state's GFS aggregates that they provide the ABS. Why does every GG entity accountant need to learn the beauties of GFS.

Why do we all need to know these? For what benefit does it help my department? And the Australian economy? All it does is add to time, effort, cost and confusion. Please think carefully about this.

When I phoned the ABS their sole staff member (no one else would assist) that knew about interpreting the ABS's GFS manual was away! What a joke. Who else in the world do I approach about the ABS GFS Manual. Do I phone up the AASB?

A Better Way

The only useful part of AASB 1049 for GG entities, has been omitted ('deferred') from ED 174 ie Budgetary information. The AASB would be better to focus their time and resources in issuing standards that require government departments to prepare Budgeted Financial Statements and Budgeted Key Financial Indicators, to report against them, and to have them audited. **It's called accountability.** There is a lot of public benefit to be had by this proposal. It is simple for the AASB to introduce, without a special standard. Insert an AUS clause in one of the standards eg AASB 101 requiring that 'GG reporting entities must prepare and publish budgeted primary financial statements, before the commencement of the fiscal year, and report them, and an analysis of variances, in the audited financial reports at year end.' Why does ED 174 propose that more time is required to determine this? A similar budgetary clause already exists for GG sector and whole-of-government reports in AASB 1049. Surely if it's good enough for governments, it's good enough for departments. As a taxpayer I also realize that departments should be held accountable. It is often unpalatable for Treasuries and departments to support such proposals, but budgetary reporting is far more useful to users (especially parliament and the tax payers) of departmental reports than GFS-GAAP harmonised reporting!

I feel like the person that said that the 'emperor is not wearing any clothes'.

Please wake up AASB! It's not too late to change direction. It's an opportunity that you should not miss. I challenge the AASB to be brave. Stop! Think! Focus on public sector reporting for government departments that contribute positively to the Australian economy, such as budgetary reporting. GFS-GAAP harmonised reporting is useful for the sector based reporting. It is confusing, more costly and largely irrelevant for reporting by departments and other general government agencies. The cost of the current ED 174 proposals clearly outweighs the benefit.

An analogy to ED 174, is for the Corporations Law to require all unlisted companies and not-for-profit entities to report in accordance with ASX rules for listed companies. One size does not fit all! Just because AASB 1049 works for sector based reporting does not mean that it is suitable for individual entity reporting.

I thank you for the opportunity to comment. I wish you the best of luck in concluding revised standards that will improve public sector reporting.

Yours faithfully

Melkamu Melatta