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3 December 2009

Mr Kevin Stevenson
Chairman
Australian Accounting Standards Board
PO Box 204
COLLINS ST WEST VIC 8007

Dear Mr Stevenson

RE: Comments on Exposure Draft 180 – *Income from Non-Exchange Transactions*

The South Australian Department of Treasury and Finance (SA Treasury) has reviewed the Exposure Draft (ED) 180 relating to the recognition and initial measurement of income from non-exchange transactions by not-for-profit entities in the private and public sector.

We support the AASB's consideration of this important issue and the underlying principles in ED 180.

SA Treasury and SA Government agencies support the recognition of advance receipts as a liability, and that where non-exchange transactions include conditions, the recognition of income is delayed until the conditions are satisfied.

In fact, a number of SA Government agencies currently receive a qualified audit opinion on their financial statements as a direct result of non-compliance with AASB 1004. These agencies comply with the principles in AASB 120, or consider that certain enforceable conditions on transferred assets give rise to a present obligation and recognise a liability accordingly. They are of the view that to follow AASB 1004 does not present fairly the financial performance or operations of the agency, and accordingly are prepared to accept an audit qualification.

This view is also consistent with already issued (non-mandatory) guidance by SA Treasury through our Accounting Policy Framework, which is based on ED 144 (proposed guidance to accompany the contribution standard AASB 1004).

Although it is considered that the proposals in ED 180 are better than the recognition requirements in the current "contribution" standard, it is felt that the proposals in ED 180 could be further improved by "time" being included as an event. In practical terms, this would mean that non-exchange income would be recognised as income in the period in which the grant is required to be used, and as a liability where funds is received prior to that point.

In addition to the above general comments, the following comments are provided to your specific questions:

Questions for both Australian and New Zealand constituents

(a) the Boards' approach of developing the proposals based on IPSAS 23.

We support ED 180's precursor ED 144 and we support the AASB using IPSAS 23 as a basis. We consider that the proposals in IPSAS 23 will assist agencies delivering more meaningful, relevant and useful financial statements.

(b) whether there are any differences between Australian and New Zealand that would override the Boards' desire for converged Standards for non-exchange transactions.

No comment.

(c) whether further guidance or illustrative examples are required in distinguishing exchange and non-exchange transactions or components of transactions, e.g. for local government rates.

Additional guidance would be appreciated around:

- the application of the "return" and "performance" obligations.
- distinction between example 10 and 12 as to why one would be recognised as a liability and the other not.
- "left over funds" As an example, if the Commonwealth provide \$10 million to build a road, and the road is built for \$8 million, the agency might approach the Commonwealth to use the funds for another project rather than pay it back.
- multi-year arrangements.

(d) the definition and treatment of conditions on transferred assets.

We support this proposal.

(e) the treatment of advance receipts.

We support this proposal.

(f) permitting, but not requiring, the recognition of contributions of services.

We suggest the current provisions be retained. That is the contribution of services be recognised where these services can be reliably measured and where the services would be purchased if not donated.

SA Government agencies were concerned the "permitted but not requiring" terminology could provide practical application issues whereby auditors may require recognition where volunteer labour/contribution of services is material.

(g) requiring disclosure of the nature and type of major classes of services in-kind received.

A large number of SA Government agencies receive contributions of services, and we support a form of disclosure so that users are aware of these. However, the current proposed disclosure requirement may be administratively onerous on agencies eg identifying all "classes", nature and dependency of services. It is suggested that a brief description of the nature of services contributed be identified, similar to the brief description currently provided for contingencies.

(h) the implications of recognising financial assets and financial liabilities that fall within the scope of this ED in accordance with the proposals rather than AASB 139

We support the measurement methodologies proposed in the ED.

(i) the measurement requirements, particularly in respect of financial assets and financial liabilities.

We support this proposal.

(j) prospective application per the transitional provisions.

We support this proposal.

Australian-specific questions

(k) the exclusion of for-profit government departments from the scope of the ED – are requirements for such entities still required.

We support this proposal. Governments are providers of a significant number of non-exchange transactions - for-profit entities are captured by /covered by /apply AASB 120.

(l) re the retention of requirements for restructures of administrative arrangements

We strongly support the retention of these requirements.

We would also like to suggest that the link to AASB 3 for the term "business" within the definition of an administrative restructure (in AASB 1004) be clarified to assist preparers and auditors of financial statements. Generally, units/divisions/functional areas etc within Government agencies that are subject to machinery of Government changes aren't "businesses" in a true sense, but we believe the intent is that they should be included/shown as a machinery of government change.

(m) whether recognition requirements are needed in respect of contributions from owners and distributions to owners generally

We consider recognition requirements and guidance is needed, whether this is located in the non-exchange transactions standard, UIG 1038, or another standard is an administrative matter / decision.

(o) the proposed amendments to other Australian Accounting Standards, as set out in Appendix A.

We support the proposed amendments.

(p) whether, overall, the proposals would result in financial statements that would be useful to users.

SA Treasury and consulted SA Government agencies agree. As mentioned previously some SA Government agencies, Universities and other not-for-profit entities are "accepting" an audit qualification because they do not "comply" with AASB 1004. Instead, they are applying AASB 120 or taking the view that the "conditions attached" are present obligations and recognising a liability – as this application, in their view, presents the statements fairly and is useful and meaningful to users.

p) whether the proposals are in the best interest of the Australian economy.

No comment.

Other matters

It is acknowledged that ED 180 articulates the proposed requirements for identifying, recognising and measuring non-exchange transactions from an income perspective.

However, there is no specific Australian Accounting Standard and/or guidance released by the AASB that considers contributions from the expense perspective and there may be benefit in this being developed to complete the picture.

If you require further information or clarification, please contact Julie Sinclair, Team Leader, Financial Management on (08) 8226 1786.



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 AND PROCUREMENT