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To: AASB Mailbox
Subject: Request for Comment ED 212 Not-for-Profit Entities within the General Government Sector

Good afternoon

Please accept the attached comments with respect to ED 212 - Not-for-Profit Entities within the General Government Sector.

Kind regards

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AASB ED 212 NOT-FOR-PROFIT ENTITIES WITHIN THE GENERAL GOVERNMENT SECTOR

Department of Local Government and Planning's comments in relation to Specific Matters for Comment

(a) Whether the proposals would lead to an overall improvement in general purpose financial reporting by not-for-profit entities within the GGS?

Department of Local Government and Planning (DLGP) does not believe that the proposals will lead to an overall improvement in general purpose financial reporting.

Considering the highly specialised Government Finance Statistics (GFS) reporting framework, which is specifically designed for macro-economic assessment of government's financial performance, it is difficult to appreciate the benefits that would be derived from including this information in the department's GAAP financial statements. There are limited users of GAAP financial statements that would understand and otherwise benefit from the inclusion of such information. Presentation of the proposed information is more likely to lead to confusion by the majority of current users of the department's financial statements.

Irrespective of your response to this general question, the AASB would value specific comments on:

(i) the proposal to limit the entities affected by the proposals in this Exposure Draft to not-for-profit entities within the GGS. In particular, the Board seeks comment on whether the proposals should also apply to for-profit entities within the GGS (see paragraphs 2 and BC10-BC13);

DLGP supports the exclusion of for-profit entities in the GGS from the application of this proposed standard.

(ii) the proposal that the version of the ABS GFS Manual to be applied is a version that was effective at the beginning of the previous annual reporting period or any version effective at a later date, rather than necessarily the latest version (see paragraphs 9 and BC14-BC15);

DLGP supports this proposal as it allows for adequate time for reporting entities to adopt any changes to the GFS Manual.

(iii) the proposal to limit GAAP recognition and measurement options to those that align with GFS and thereby require the same accounting policies as those adopted under AASB 1049 for whole of governments and the GGSs (see paragraphs 10-12 and BC16-BC25);

DLGP supports this proposal as it contributes to achieving consistency between GFS reporting and GAAP reporting and represents current practice, where GAAP allows, within Queensland Government reporting policy.

(iv) the proposal to require disclosure, under both Tier 1 and Tier 2 requirements, either in the financial statements or in the notes, of information based on GAAP/GFS harmonised classification and presentation principles for controlled items and, separately, administered items (including classification of income and expenses as transactions and other economic flows, and classification and presentation of cash flows from investing activities for policy purposes and liquidity management purposes) (see paragraphs 13-18, 22 and BC26-BC35).

DLGP does not support this proposal. The inclusion of additional line items to meet GFS reporting requirements complicates an already complex set of information which detracts from the readability of the GAAP statements. It is considered that most

users of general purpose financial statements do not understand GFS concepts and including this information in GAAP financial statements has the potential to lead users to draw incorrect conclusions due to lack of understanding of GFS concepts.

In relation to this proposal, the Board is particularly interested in comments on:

A. whether the on-the-face or in-the-notes presentation option should be allowed and, if not, whether on-the-face presentation of GAAP/GFS harmonised information should be prohibited given the potential for complexity; and

DLGP considers that on-the-face presentation of GAAP/GFS harmonised information should be prohibited as it has the potential to unnecessarily complicate the readability of the GAAP financial statements, with limited demonstrated benefit.

If GAAP/GFS harmonised information must be included in the financial statements, it is considered that a note disclosure in the notes to the financial statements would represent the best disclosure of information to users of the financial statements.

B. the proposal to require disclosure of GAAP/GFS harmonised classification information at line item level, where it is presented in the notes; and whether information at the line item level would be more beneficial than at the GFS category level;

DLGP is unclear as to the reference of GFS category level and thus has no further comment.

(v) the proposal to require AASB 1050 to continue to apply to government departments, to the extent its requirements are not satisfied by the proposals in this Exposure Draft (see paragraphs 19 and BC29-BC31);

DLGP supports this proposal.

(vi) the proposal to require disclosure, under both Tier 1 and Tier 2 requirements, of any original budgeted financial statements reflecting controlled or administered items presented to parliament, recast to align with the presentation and classification adopted in the primary financial statements and accompanying information about administered items or the GAAP/GFS harmonisation note (whichever is judged to be the more useful) and an explanation of variances (see paragraphs 23-29 and BC40-BC42);

DLGP does not support this proposal. It is considered that similar information is already disclosed in alternative formats, for example annual budget papers as is the case in Queensland. The inclusion of budget information in the presentation of financial statements would potentially increase audit scrutiny of the Department's budgets. Given the subjective nature of budgets and the reliance on management assumptions in such a process, it may be difficult for audit to form an unqualified opinion of budget information. This requirement is also likely to result in a significant increase in cost to prepare financial statements by both preparers and auditors.

In relation to Administered Items, given the Department does not have any discretion over administered transactions, it is questionable what value is added by including a budget vs actuals comparison.

(vii) the proposals relating to other disclosures, from both a Tier 1 and Tier 2 perspective (see paragraphs 30-32), in particular relating to:

A. requiring information to be disclosed in the accounting policy note (paragraph BC36), including disclosures about the version of the ABS GFS Manual adopted and, where relevant, a later version (paragraph BC15); and

DLGP supports this proposal.

B. not requiring disclosure of disaggregated information, except to the extent it continues to be required by AASB 1052 for government departments (paragraphs BC37-BC39);

DLGP supports this proposal.

(viii) the proposal to provide no specific transitional requirements, except to require an entity to change the elections it previously made under AASB 1 to the extent necessary to comply with the ABS GFS Manual (see paragraphs 33-35 and BC44-BC47);

DLGP supports this proposal.

(ix) unless already provided in response to other specific matters for comment relating to disclosures, the proposal to exempt entities adopting Tier 2 requirements from certain disclosures (shown as shaded text in this Exposure Draft);

DLGP supports this proposal.

(x) the illustrative examples, and whether they provide guidance that is appropriate/helpful in implementing the proposals (see Illustrative Examples A and B and paragraphs BC49-BC50); and

It would be useful to see an illustrative example of the presentation of GAAP/GFS information only in the form of notes to the GAAP financial statements.

(xi) the proposed operative date (see paragraphs 3-4 and BC48);

DLGP supports this proposal.

(b) unless already provided in response to specific matter for comment (a) above, whether overall, from both a Tier 1 and Tier 2 perspective, the proposals would result in financial statements that would be useful to users;

It is difficult to understand how or why principals from the GFS framework, which specifically focuses on providing information for the assessment of the macro-economic impact of a government, would be useful for the assessment of performance of an individual GGS entity or department. Given the GFS framework is a highly specialised, complex area of reporting, it is considered that the addition of this information to GGS entities would only be useful to a very narrow, specific group of users and not general users of GAAP financial statements. Given the added complexities that this level of reporting would introduce, there is potential to confuse general users of the department's financial statements which may result in incorrect conclusions being drawn about information presented. Such reporting would also increase the divide between private sector and not-for-profit public sector entity reporting and reduce comparability in this area.

(c) whether the proposals, from both a Tier 1 and Tier 2 perspective, are in the best interests of the Australian economy; and

There would be considerable additional cost for this department to ensure compliance with these proposals, which is likely to be the case across other GGS entities. From the information presented in the Exposure Draft, it is not apparent how this additional cost is supported by improved information which is of clear benefit to general users.

(d) unless already provided in response to the specific matters for comment above, the costs and benefits of the proposals relating to both Tier 1 and Tier 2 requirements relative to the current requirements, whether quantitative (financial or non-financial) or qualitative.

DLGP considers that the proposals outlined in Exposure Draft 212 would result in significant practical issues and additional cost of compliance with little benefit demonstrated in improved information requirements relevant to users.

The GFS framework is a very specialised area, knowledge of which is not specifically held at the departmental level. There would be a significant upfront education process required to ensure preparers of the department's financial statements were adequately skilled to produce this information. There would also be further ongoing education issues and resourcing for this function would become more and more specialised.

There would also be an upfront cost involved in ensuring the department's financial reporting systems and processes were positioned to generate information in the required information to accommodate GFS presentation.

Further, the additional reporting requirements proposed are likely to have an adverse effect on the department's ability to meet Statutory reporting requirements in relation to the timely completion of audit certified financial statements.