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Mr Kevin Stevenson
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Dear Mr Stevenson

ED 212 NOT-FOR-PROFIT ENTITIES WITHIN THE GENERAL GOVERNMENT SECTOR (GGS)

I welcome the opportunity to provide comments to the Australian Accounting Standards Board (AASB) on Exposure Draft – ED 212 Not-for-Profit Entities within the General Government Sector.

As a CPA, I have experience in auditing, preparation of AASB 1049 financial statements and provision of accounting advice within the public service in Western Australia.

I do not support the mandatory adoption of the Exposure Draft (ED) on the basis that implementation and ongoing compliance costs for this jurisdiction outweigh any perceived benefits.

The AASB, itself, acknowledges cost/benefit concerns arising from GAAP/GFS reporting for GGS entities. Those concerns informed the AASB's decision not to continue with the earlier GAAP/GFS harmonisation exposure draft (ED 174) and they apply equally to this ED.

I concur with the well-articulated counter-arguments in the *Alternative View of an AASB Member* and offer the following observations to support the AASB's decision <u>against</u> the mandatory adoption of ED 212.

The costs of adoption outweigh the benefits of adoption:

- GFS is a highly specialised macroeconomic framework for achieving specific reporting goals. Attempts to characterise modifications to GAAP to achieve GFS reporting as measurement, presentation and disclosure change *<u>trivialises</u>* the fundamental differences underlying the frameworks;

- comparability between agencies across jurisdictions is significantly limited due to structural differences between jurisdictions. Moving from GAAP to GFS will not improve this. A more relevant basis for macroeconomic comparisons between jurisdictions is the Uniform Presentation Framework information disclosed at WoG level;

- the “benefit” of achieving a "clear link" or "line of sight" between an entity and its GGS is illusory, due to; the level of information aggregation in GGS reporting, the raft of consolidation adjustments applied to ensure consistent and appropriate reporting at GGS level, and, the impact of eliminations to achieve consolidated GGS results.

- increased costs of preparing, auditing and publishing financial statements due to the additional content proposed by ED 212; and,

- additional up-front and ongoing educational costs for both preparers and auditors to acquire and maintain GFS knowledge (particularly where these functions are outsourced to the private sector) required to publish compliant financial statements.

The benefits to users are questionable:

- significant uncertainty exists over user needs with respect to disclosing GFS information in GPFR. Preparing financial statements in accordance with the GFS Framework reduces the subset of users that understand the financial information and is contrary to the *Objectives Of General Purpose Financial Reporting* contained in Statement of Accounting Concepts 2;

- motivated users lack access to a body of accounting treatment rulings as preparers receive this advice privately from the ABS. This impairs users ability to understand the nuances of the GFS framework and it is difficult to foresee any literature accumulation given the narrow scope of the Australian government in contrast with the larger set of IFRS adopters;

- lessened sector neutrality between government sectors; and

- lessened sector neutrality between public and private sectors.

In conclusion, current standards permit a jurisdiction to adopt the GFS format and appropriate measurement bases where the benefits are considered to outweigh the costs. Consequently, I consider mandatory application of ED 212 neither necessary nor warranted.

My responses to the Specific Matters for Comment from the exposure draft, including additional comments, are attached.

Yours sincerely

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31 October 2011

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

(A) WHETHER THE PROPOSALS WOULD LEAD TO AN OVERALL IMPROVEMENT IN GENERAL PURPOSE FINANCIAL REPORTING BY NOT-FOR-PROFIT ENTITIES WITHIN THE GGS:

A *similar* outcome is achievable under current Accounting Standards, through the selection of GFS aligned options with additional disclosures already permitted. However, other major differences are embedded in the GFS Framework, including; presentation differences for the Statement of Financial Position and logic differences in the Statement of Cash Flows with respect to the acquisition of assets (introducing non-cash items into that statement). These, and other, nuances are glossed over when the fundamental differences underlying the frameworks is trivialised and they impair user's access to financial information contained in audited financial statements.

Comparability on its own does not necessarily improve the quality of financial statements. Further, mandating options for the sake of consistency between the economic entity and the separate financial statements of the controlled entities is not the role of the Accounting Standard setter. If mandating of GFS options and presentation requirements truly improved financial reporting, then mandatory application of GFS would be warranted for all reporting entities, not just those in the GGS.

The FRC direction to the AASB for GAAP/GFS convergence arose for the possibility of multiple measures for one outcome, rather than comparability or improvements to financial reporting. Western Australia, like the Commonwealth Government, endured that issue prior to the FRC direction but has since resolved this by legislation rather than seeking to modify accounting standards.

The improvement rationale for GAAP/GFS convergence in ED 212 effectively insinuates that financial reporting by governments in Australia is sub-par. This appears at odds with the belief that International Accounting Standards, with local clarifications contained in the "Aus" paragraphs, represent best practice.

(A)(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 (PARAGRAPHS 2 AND BC10-BC13):

The proposal has limited potential to increase comparability of financial statements across General Government Sector agency reports and will reduce comparability across government sectors (GGS/PNC/PFC) <u>within each</u> jurisdiction. Consequently, mandating ED 212 would appear to be a piecemeal rejection of the concept of sector neutrality, particularly where it introduces inconsistencies between public & private sectors and between the sectors within a specific jurisdiction.

Inter-jurisdictional comparability is difficult to achieve due to variation in agency-required outcomes and structural differences that apply to otherwise to agencies that appear to share similarities across jurisdictions.

In principle based standard setting, a compelling articulation and clarification of the requirement and purpose of comparability should pre-date proposals that purport to increase comparability. In contrast, the argument for increased comparability in ED 212, appears to be *ex post facto*, adding little value in justifying the implementation of this ED.

(A)(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 (PARAGRAPHS 9 AND BC14-BC15):

This is appears appropriate, in line with the recent amendments to AASB 1049.

(A)(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 (PARAGRAPHS 10-12 AND BC16-BC25):

I disagree with this proposal on the basis that it is not the role of an Accounting Standard setter to restrict GAAP options to maintain consistency between subsidiaries and their parent entity's consolidated financial statements. This view is consistent with the approach in AASB 127 which does not require uniform accounting policies be adopted in the separate financial statements.

In my jurisdiction, management of measurement options is achieved for the PNC and PFC sector for AASB 1049 without AASB pronouncements directing mandatory adoption of fair value measurement of PPE. Consequently, it is the regulator (or parent entity), not the Accounting Standard setter, who is responsible for determining accounting policies for group members as appropriate for their circumstances.

In addition, quality improvements in financial reporting are not achieved through enhancing comparability in isolation from other qualitative attributes of financial reporting.

(A)(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) (PARAGRAPHS 13-18, 22 AND BC26-BC35):

The relevance and usefulness of GFS information has not been adequately demonstrated. Without clear enunciation of the benefits, implementation is detracted by the imposition of significant costs and reduced comprehension of nuances by the broader cross-section of users. Imposing a reporting framework that has limited understanding outside of the Australian Bureau of Statistics and State Treasury Departments appears contrary to Statement of Accounting Concepts 2 "*Objective of General Purpose Financial Reporting*".

Moreover, the relevance of the GFS framework is questionable given that the exposure draft proposes to implement a macroeconomic tool for entities that report on a microeconomic level. In addition, I note that the information will not show individual contributions to the whole of government or GGS, unless disaggregated to demonstrate a bridge between financial reports for non-eliminable balances. Eliminable amounts pose similar difficulties for fiscal transparency at a consolidated level.

(A)(IV)(A) IN RELATION TO (A)(IV) THE BOARD IS PARTICULARLY INTERESTED IN COMMENTS ON 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:

The simultaneous presentation of administered items, controlled items, and comparatives results in a minimum of four columns in each financial statement. If a third statement of financial position is required under AASB 101 Presentation of Financial Statements then this increases to five columns in the statement of financial position. This is exacerbated if the reporting entity chooses to incorporate original budgets in the financial statements to facilitate original budget versus outcome variances. This gives rise to two discrete issues:

1. The presentation of administered items with controlled items distracts from the underlying agency performance; and,

2. The reduced size of the font utilised to present these columns discriminates against statement users who are visually impaired and detracts from legibility generally. Disability Services guidelines suggest that a minimum font of Arial 12 in printed documents is necessary to cater for the visually impaired. Changes in the presentation and the increase in information raises questions, in terms of research, of how the proposed format would affect decision-making[1].

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[1] a significant attribute in terms of the "Objective Of General Purpose Financial Reporting"

(A)(IV)(B) IN RELATION TO (A)(IV) THE BOARD IS PARTICULARLY INTERESTED IN COMMENTS ON 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:

From my experience in preparing financial statements under AASB 1049, I prefer disclosure of GAAP/GFS harmonised classification information at line item level where presented in the notes. This facilitates the reconciliation to the GAAP primary financial statements and results in information that is more meaningful and useful to users.

Presentation at GFS Category Level aggregates disclosures, reducing the quantity of information currently disclosed. This reduces fiscal transparency and is contrary to the objective of improving financial reporting.

(A)(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 (PARAGRAPHS 19 AND BC29-BC31):

I do not support extending GAAP/GFS disclosure requirements to administered items, until AASB 1050 is more fundamentally reviewed.

My jurisdiction currently reports schedules of administered transactions and balances in the notes and other note disclosures required by AASB 1050. Extending these disclosures to full administered financial statements under ED 212 does not improve accountability and does not improve their relevance and benefit, whilst cluttering the financial statements or notes (exacerbated where a third Statement of Financial Position is required).

In particular, extended disclosures for administered cash flows and financial position (as proposed in ED 212) are not supported.

(A)(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 (PARAGRAPHS 23-29 AND BC40-BC42):

Before the finalisation of the AASB's separate project on budget reporting, it is premature to require disclosure of budgeted information. In addition, the inclusion of budgeted figures could mislead users of financial statements as budget information is unaudited and potentially 'clutters' the financial statements.

(A)(VII)(A) FROM BOTH A TIER 1 AND TIER 2 PERSPECTIVE (PARAGRAPHS 30-32), IN PARTICULAR THE REQUIREMENT TO INCLUDE DISCLOSURES IN THE ACCOUNTING POLICY NOTE (PARAGRAPH BC36) ABOUT THE VERSION OF THE ABS GFS MANUAL ADOPTED AND, WHERE RELEVANT, A LATER VERSION (PARAGRAPH BC15):

This appears appropriate.

(A)(VII)(B) FROM BOTH A TIER 1 AND TIER 2 PERSPECTIVE (PARAGRAPHS 30-32), NOT REQUIRING DISCLOSURE OF DISAGGREGATED INFORMATION, EXCEPT TO THE EXTENT IT CONTINUES TO BE REQUIRED BY AASB 1052 FOR GOVERNMENT DEPARTMENTS (PARAGRAPHS BC37-BC39):

I agree with the proposal, pending a more fundamental review of AASB 1052.

(A)(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):

This appears appropriate.

(A)(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):

No comment, as there remains doubt in my jurisdiction as to the extent to which relief from Tier 1 reporting requirements is suitable for government agencies.

(A)(X) THE ILLUSTRATIVE EXAMPLES, AND WHETHER THEY PROVIDE GUIDANCE THAT IS APPROPRIATE/HELPFUL IN IMPLEMENTING THE PROPOSALS (ILLUSTRATIVE EXAMPLES A AND B AND PARAGRAPHS BC49-BC50):

The net cost of services format in Illustrative Example B might be improved by showing the operating result line before splitting it between continuing and discontinued operations to maintain the flow in arriving at the operating result.

I believe that the 'net costs of services', should be based on the 'net cost of services from transactions', as this is the aggregate that it is most analogous to the net operating balance at the GGS level.

The 'net cost of services from transactions' approach is consistent with GFS/GAAP harmonisation at the GGS level, as it better reflects an individual GGS agency's contribution to the GGS Net Operating Balance; i.e. government contributions eliminate at the GGS level. This approach also has the benefit of allowing the Net Operating Balance to flow through on the face of the statement, rather than as a footnote at the end.

(A)(XI) THE PROPOSED OPERATIVE DATE (PARAGRAPHS 3-4 AND BC48):

If the exposure draft is promulgated as a Standard, I agree with the operative date.

(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:

I maintain the view that the proposals will not result in improved usefulness to financial statement users, on the basis that the GFS macroeconomic tool is not relevant at the entity level.

The application of the GFS macroeconomic framework to GGS financial statements introduces measurement, presentation, disclosure and, more importantly, changes to accounting treatments. If the opacity of the changed accounting treatments requires preparers to frequently consult the ABS after consulting the 300+ page *Australian System of Government Finance Statistics: Concepts, Sources and Methods* document, then users are at a significant disadvantage in comprehending the ramifications and nuances of the framework change. Effectively, mandatory application of the GFS Framework will discriminate against the majority of users who read financial information prepared by private sector entities and government trading enterprises.

Comparability, the attribute most frequently stressed in arguments for improved financial reporting through implementation of the GFS Framework, does not necessarily equate to improved quality of financial statements. Similarly, arguing that mandating GFS aligned options improves financial reporting, is highly suggestive that private sector reporting lacks quality merely because the sector exercises choice over their own accounting policies.

(C) WHETHER THE PROPOSALS, FROM BOTH A TIER 1 AND TIER 2 PERSPECTIVE, ARE IN THE BEST INTERESTS OF THE AUSTRALIAN ECONOMY:

GAAP is an accounting measure of transactions undertaken by a reporting entity, whereas GFS is an economic basis for reporting wealth generation. The adoption of one measurement tool over the other does not significantly influence the underlying transactions that constitute the Australian economy.

Arguably, measurement of wealth generation within the Australian economy should be at the macro-economic level, as opposed to agency level, and this is currently achieved at Whole of Sector/Government level in accordance with AASB 1049. This measurement objective is not enhanced by cascading the reporting framework from Whole of Sector/Government level to GGS reporting entities.

(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:

Views as to why costs exceed benefits

I believe that the benefits of the proposals are limited because GFS is not relevant to individual entities and the benefits to a broad range of users have not been demonstrated. The questionable assertion of improved reporting is factually countered recognising that <u>similar</u> outcomes are achievable under existing standards.

The costs of the current proposal are higher to those in ED 174 (per AV3) by virtue of the inclusion of budgetary and additional administered information. This is true whether a preparer elects to populate the face of the statements or the notes. Either election includes high ongoing system, training and maintenance costs.

In addition, costs will also arise from system changes required for agencies to map and maintain their chart of accounts using GAAP/GFS harmonisation principles; e.g. impacts on the format of the primary financial statements, include:

- preparation of model financial statements for GGS by regulatory authorities, additional to GAAP based models prepared for other sectors;
- dissecting expenses and income between transactions and other economic flows;
- adding the Net Operating Balance key fiscal aggregate; and,
- dissecting assets between additional categories (produced and non-produced assets).

I predict that mandatory application of ED 212 will result in higher initial and ongoing training costs owing to the acquisition and retention of a thorough knowledge of GFS. These costs will be particularly high at the agency and audit level because GFS is not relevant, used, or understood by preparers. This is underscored by the occurrence of knowledge atrophy arising from the outsourcing of financial statement preparation and audit functions. In particular, the high turnover of private sector auditors contracted to undertake public sector audits increases knowledge atrophy, audit risk and training expense.

As my jurisdiction has a large number of small not-for-profit statutory bodies (often in remote locations with very limited resources and expertise) within the GGS, the impact of the additional effort/costs on each of those entities would be relatively substantial. Difficulties in attracting and retaining competent personnel in remote locations would be compounded by the relative inability to rely on local private sector accounting firms for assistance (given that they exist primarily to service the private sector and that GFS is largely irrelevant to their client base). These factors increase audit risk (strong likelihood that preparers will not comply with the GFS Framework) and potentially reduces comparability of financial statements across WA's GGS.

The ongoing training requirements are clearly demonstrable when knowledgeable Treasury staff frequently seek determinations (almost fortnightly) on treatments of transactions from the Australian Bureau of Statistics. Furthermore, system and training costs will be exacerbated because GAAP/GFS convergence differences are more likely to be material at the entity level.

Mandating fair value across all PPE increases compliance costs through the need for increased valuation services. Additional preparation costs have already been incurred within my jurisdiction to achieve AASB 1049 compliance in managing differing measurement bases for asset values when consolidating the PNC and PFC sectors into Whole of Government financial statements (where that sector typically measures assets at cost). This implies that ED 212 will further increase the number of assets subject to fair valuation. Whilst fair value is required for property, plant and equipment (PPE) for Whole of Government (WoG) reporting, the difference for many agencies between PPE fair values and carrying amounts is not material when aggregated at WoG and GGS level. However, these differences will be material for entity level reporting where fair values under are mandated, exposing my jurisdiction to higher compliance costs for negligible benefit. In summation, I do not see the benefit of fair valuing all PPE[2] and do not support harmonisation of GAAP/GFS at GGS entity level.

FRC direction

The FRC direction to the AASB had the objective, a "single set of government reports..." to remove the possibility of multiple measures for one outcome.

Western Australia, like the Commonwealth Government, endured this issue prior to the FRC direction but has since resolved this by legislation, rather than seeking a desired outcome through changes to accounting standards. The Commonwealth Parliament appeared to drive the initial FRC direction. Unlike other user groups, Parliament is a relatively small user group with considerable powers to obtain information from the respective GGS entities.

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[2] For example, the value of our 11,000 vehicle fleet is highly volatile. Chasing volatile fair values generates workload that exceeds our process management resources for a highly questionable benefit.

I concur with the view of the AASB on ED 174 (para BC3), which found that there was insufficient evidence that the GAAP/GFS harmonisation proposals were substantive enough to satisfy the needs of a broad range of users. The Board's view was that the project was not justified based on GAAP/GFS harmonisation per se, and therefore the FRC's direction must be viewed in the context of user needs.

Further, the *Australian Securities and Investments Commission Act 2001* expressly limits the FRC's ability to become involved in the technical deliberations of the AASB. Moreover, in this instance, the FRC's direction appears to diverge from its own statutory mandate to further the development of a single set of accounting standards for world-wide use.

Reasons for not proceeding with ED 174 also apply to ED 212

I believe that, consistent with BC3 (and AV2), the following reasons not to proceed are equally applicable to both ED 212 and ED 174, i.e.:

- The proposals would not meet the needs of a broad range of users, as the ABS GFS Manual largely focuses on fiscal policy at a macro economic level and therefore lacks relevance for entities in the GGS;
- where ED 212 is implemented as a standard, it effectively recognises that Accounting Standard setters have abandoned the concept of "sector neutrality" as the standard does not seek to restrict GAAP options for Government Trading Enterprises or the private sector;
- Information for consolidation purposes can be derived through management prerogative. Therefore, it is unnecessary for accounting standards to mandate "bridging" information in agency general purpose financial statements;
- From the time of the initial FRC direction, a number of GAAP/GFS differences have been resolved in favour of GAAP treatments[3]; and,
- GAAP/GFS is not being pursued internationally and is inconsistent with the objective of Australia / NZ convergence.

Additional significant practical considerations include:

- the GFS framework and concepts are not understood by the 'man in the street' who may be familiar with traditional financial statement formats and disclosures;

[3] For example, treatments of defence force platforms. GFS previously required immediate expensing.

- qualified accountants in the Western Australian Treasury who have a reasonable understanding of the GFS reporting framework constantly seek ABS advice concerning the application of GFS concepts;

- harmonisation of GAAP/GFS is not ultimately possible and will always require reconciliations for points of divergence. In part, this is due to the GFS Framework being modified by economists at the IMF and ABS, whereas, GAAP is determined by accountants through the IASB and AASB. Another reason for divergence is the timing and acceptance of changes in the respective frameworks. For example, the GFS Framework distinguishes operating leases from finance leases in accordance with AASB 117. However, it is unclear whether the IMF and ABS are prepared to adopt changes implicit in ED 202R. This may never occur as operating leases do not constitute acquisitions of assets, an aspect of wealth generation which preoccupies the GFS framework and influences the principles underpinning that framework;

- Treasury departments and the Australian Bureau of Statistics are not resourced to provide up-front and on-going GFS advice and support to the large number of entities in the GGS and their auditors (private sector accounting firms would not possess GFS expertise). It is unlikely that the ABS would be resourced, or willing, to provide such support to all not-for-profit GGS entities across Australia; and,

- GAAP/GFS convergence at agency level significantly increases audit costs. Given auditors' unfamiliarity with GFS concepts, coupled with the inclusion of a significant amount of budgetary information, it is expected that auditors would take a cautious approach in attempting to form an audit opinion on the new information included in the audited financial statements.