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The Chairman  
Australian Accounting Standards Board  
PO Box 204  
Collins Street West Vic 8007  
AUSTRALIA

7 November 2011

Dear Chairman

**Exposure Draft AASB ED 212 *Proposals on Reporting by Not-for-Profit Entities within the General Government Sector***

The Australian firm of Ernst & Young is pleased to submit our comments on Exposure Draft AASB ED 212 *Proposals on Reporting by Not-for-Profit Entities within the General Government Sector*.

Overall, we do not support the proposals in ED 212 as we are of the view that the proposals would not lead to an overall improvement in general purpose financial reporting by not-for-profit entities ('NFPs') in the General Government Sector ('GGS').

We note that GFS focuses on providing information for the assessment of the macro-economic impact of a government and each of the government's sectors. Applying such concepts at the individual entity level is therefore not aligned with the objectives of GFS information. We also note the additional costs of compliance that will potentially be incurred by GGS entities in order to comply with these requirements given that there is generally limited knowledge of GFS principles outside of Treasuries and hence the need for additional training as well as costs of updating systems to comply.

Other than the benefit of aligning the financial statements of the Whole of Government ('WoG'), GGS and the entities within the GGS, we do not believe that the Basis for Conclusions provides evidence of work done by the Board to indicate that users of GGS entity financial statements require such information to meet their needs and that there is overall demand for such information by users for making decisions.

Our responses to the specific questions are provided in Appendix A to this letter.

We would be pleased to discuss our comments further with you. Please contact Georgina Dellaportas on (613) 9288 8621 if you wish to discuss any of the matters raised in this response.

Yours sincerely

A handwritten signature in black ink, appearing to read 'L. J. Henderson'.

Ernst & Young

## Appendix A – 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

Refer to covering letter.

- (i) The proposal to limit the entities affected by the proposals in this Exposure Draft to not-for-profit entities within the GGS (see paragraphs 2 and BC10-BC13);

To the extent that the Board proceeds with the proposals in ED 212, we do not support the proposal to limit the scope of the Exposure Draft to not-for-profit (NFP) entities within the GGS. While there are a limited number of entities that are for-profit entities within the GGS, we believe that the proposals should equally apply to for-profit GGS entities. For-profit entities within the GGS are by their nature mainly financed by government, similar to NFPs in the GGS and hence we would expect that the information needs of users would be similar for the two types of entities. Not extending the requirements to for-profit GGS entities would result in financial statements which are not comparable across all entities in the GGS.

The Board has stated in the Basis for Conclusions that for-profit GGS entities have been excluded so as to be comparable with private sector for-profit entities. However, we note that as a for-profit entity in the GGS is a public sector entity mainly financed by Government, it may not be comparable to a private sector for-profit entity in any case.

- (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);

On the basis that the Board proceeds with ED 212, we support this proposal as it aligns with AASB 1049 (and the subsequent amendments).

- (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);

We support the proposal to limit GAAP recognition and measurement options to those that align with GFS as it will result in consistent accounting policies as those adopted under AASB 1049 for the financial statements of Governments and the GGS. Further, GFS makes extensive use of current value information and we believe that accounting policy options that maximise the use of fair value measurements, where permitted,



provide more relevant information for the users of financial statements of entities in the GGS.

We note that most Treasuries already mandate the GFS option in respect of an agency's accounting policies.

(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). 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**

**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;**

Overall, we do not believe that information based on GAAP/GFS harmonised classification and presentation principles for controlled items and, separately, administered items should be required by GGS entities.

We note that GFS focuses on providing information for the assessment of the macro-economic impact of a government and each of the government's sectors. Applying such concepts at the individual entity level is therefore not aligned with the objectives of GFS information. We also note the additional costs of compliance that will potentially be incurred by GGS entities in order to comply with these requirements given that there is generally limited knowledge of GFS principles outside of Treasuries and hence the need for additional training as well as costs of updating systems to comply.

We do not believe that the Basis for Conclusions provides evidence of work done by the Board to indicate that users of GGS entity financial statements require such information to meet their needs and that there is overall demand for such information by users for making decisions.

To the extent that the proposal to require information based on GAAP/GFS harmonised classification and presentation principles for controlled items and, separately, administered items is adopted, we would not support the proposal to provide such information on face of this financial statements as this would be inconsistent with the Board's policy of transaction neutrality and result in general purpose financial reports of GGS entities looking very different to those of private sector entities as well as those

of other public sector entities in the Public Financial and Public Non-Financial Corporations Sectors.

We are also of the view that the "on-the-face" classification and disclosure for both controlled and separately administered items could result in a complicated set of financial statements due to the number of line items, the need for comparative information and disclosure of controlled and administered all in the one statement. This presentation may detract from the usefulness of the information.

We also note that the distinction between controlled and administered items is currently not clear and often involves considerable judgement. We believe that the Board needs to progress its broader project on controlled and administered items before extending disclosures in this regard as we finds the distinctiojn not meaningful for many agencies.

To the extent that such information is considered relevant and useful, we would prefer disclosure in the notes. Providing such additional disclosures in the notes would mean that users who wish to refer to this information to meet their needs can refer to the notes to find it.

- (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)**

We support the proposal to retain the current requirements at this time on the basis of the Board's longer term project on controlled and administered items.

- (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)**

We do not support the proposal to require disclosure of the original budgeted financial statements reflecting controlled or administered items presented to parliament together with an explanation of variances.

Firstly, the proposal to recast the original budgeted financial statements to align with the GAAP/GFS presentation and classification adopted in the primary financial statements or in the notes will add additional costs to preparers. Secondly we note that in some jurisdictions, budgets are not presented to parliament for each agency but rather at the portfolio level. Hence, this proposal would have limited application and would not aid comparability at that level of government.

In addition, we believe that the audit requirement in respect of budget information and variances to be potentially impracticable and costly. We are concerned that auditors may not be able to obtain sufficient appropriate audit evidence to provide reasonable

assurance over the budget and management assertions regarding the reasons for variations between budget and actual.

- (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
  - 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);

We support 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);

We support 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);

We do not support the proposal to exempt entities adopting Tier 2 requirements from certain disclosures.

The shaded disclosures relating to administered items are only applicable to departments and are considered relevant where RDR is applied and hence should be retained.

In addition, the disclosure of the non-application of the most recent version of the ABS GFS manual would be relevant for both Tier 1 and Tier 2 reporting and should be retained.

- (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);

We find the illustrative disclosures and examples useful.



- (xi) the proposed operative date – 3 years from date of issue (see paragraphs 3-4 and BC48);

If the Board proceeds with the proposals, we support the proposed operative date as it provides sufficient time for preparers to adopt the requirements.

- (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;

As noted in (a) above, we do not believe that there is sufficient evidence to support that the proposals will result in financial statements that are useful to users.

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

The proposals are not in the best interests of the Australian economy- refer to our comments to (a) above.

- (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.

We believe that the proposals will add additional costs to the preparation of financial statements of GGS entities due to the lack of knowledge of GFS at agency level and changes in systems required however there is not sufficient evidence that such information will provide any benefits other than an alignment between the financial statements of the WOG, GGS and the entities within the GGS or that there is sufficient demand from users for such information.