AUSTRALASIAN COUNCIL OF AUDITORS-GENERAL

11 November 2011

Mr Kevin Stevenson
Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street West
Victoria 8007

Dear Mr Stevenson

ED 212 Not-for-Profit Entities within the General Government Sector

Attached is the Australasian Council of Auditors-General (ACAG) response to the Exposure Draft referred to above.

The views expressed in this submission represent those of all Australian members of ACAG.

As a whole, ACAG was not generally supportive of the proposals set out in the Exposure Draft. Whilst some Audit Offices did see merit in some of the proposals relating to the disclosure of budget information and GAAP/GFS harmonisation, other offices were not of this view.

We appreciate the work of the Board in developing these proposals to allow deeper consideration of the issues.

Yours sincerely

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ACAG RESPONSES TO ED 212 (proposed AASB 10XX)

ACAG provides the following comments in response to specific questions raised by the AASB.

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

ACAG does not believe the proposals will lead to an overall improvement in general purpose financial reporting by not-for-profit entities within the GGS.

There are concerns that the reasons for rejecting the proposals in ED 174 (outlined in the Basis for Conclusions for ED 212) have equal relevance to this Exposure Draft. ACAG members are generally supportive of the alternative view of Mr Williams.

ED 212 states its intent is to provide information that is more relevant for users. There is concern that ED 212 does not articulate how providing GFS information will assist decision making, particularly decision making regarding agencies. Although there is some reference to how entities within the GGS contribute to the whole of government, it is not clear that this is a key factor used by users in making decisions about resource allocation.

Specifically:

(i) ***The proposals limit the entities affected to not-for-profit entities. Should the proposals also apply to for-profit entities within the GGS?***

The scope of the proposals raises many considerations.

There are limited instances of for-profit entities within the GGS in some jurisdictions. Arguments that those for-profit entities would benefit from retained comparability with private sector for-profit entities are valid.

The argument in the Exposure Draft to exclude for-profits is premised on a conclusion that there will be reduced comparability between entities applying the proposals and entities that do not. ACAG is equally concerned the proposals will result in a loss of comparability between not-for-profit entities in the GGS and not-for-profit entities outside the GGS. Most jurisdictions have frequent instances of not-for-profit entities outside the GGS.

The proposals will also reduce comparability of not-for-profit entities within the GGS and not-for-profit entities outside government. It is arguable that entities providing similar services should be comparable regardless of whether they operate in the public or private sectors. Examples include comparing GGS not-for-profit entities with:

- Not-for-profit entities in the PNFC sector (e.g. Adelaide Festival Corporation (GGS) and Adelaide Entertainments Corporation)
- Not-for-profit and for-profit entities in the private sector (e.g. Adelaide Festival Corporation and the Adelaide Fringe Festival, WomAdelaide and other private sector festival providers).

However, there are some proposals that may have relevance to for-profit entities, and which would not diminish comparability. For example, some public sector for-profit entities have budgeted financial information presented to Parliament. Under the proposals, they will not need to report against those budgets. Yet the arguments for the reporting of such information by not-for-profit entities within the GGS could have application to for-profit entities. In addition, information required by the proposals could be included in the notes to the financial statements of for-profit entities without compromising comparability.

(ii) ***Should the version of the ABS Manual that applies be the version that was effective at the beginning of the previous reporting period or any version effective at a later date, rather than necessarily the latest version?***

ACAG is supportive of proposals that are consistent with the amendments to AASB 1049 within AASB 2011-3, including disclosure of which version of the ABS Manual has been applied. This facilitates reasonable time for entities to adopt changes to the ABS GFS Manual and allows users to understand the basis of preparation.

(iii) ***Should GAAP recognition and measurement options be limited to those that align with GFS thereby requiring the same accounting policies as those adopted under AASB 1049 for whole of governments and the GGSs?***

ACAG has the following comments to make in respect of the proposals:

- Ease of consolidation is not acknowledged as an appropriate rationale for choice of accounting policy options with Australian Accounting Standards. Decisions on options need to be made having regard to the users of the individual entity's financial statements. Each jurisdiction has considered its accounting policy options having regard to the agencies within its jurisdiction. This approach is arguably more appropriate than a blanket selection across all jurisdictions.

- Many jurisdictions have already implemented accounting policy choices to this effect to facilitate easier consolidation. Accordingly, implementing the proposal would yield little 'improvement' or 'benefit' for such jurisdictions.

- One of the objectives of the proposed standard is to provide a 'bridge' between the entity and the GGS/whole of government and information about the entity's contribution to the GGS/whole of government. Given the need to eliminate intra-group transactions on consolidation, any benefits from applying consistent accounting policies in facilitating such a bridge would be minimal.

- The GFS Manual is hard to read and interpret and it is generally desirable that the Australian Accounting Standards are self-contained. Arguably, this is faced in the application of AASB 1049, but AASB 1049 is applied fewer than ten times per annum, far fewer than the several hundred entities impacted by the proposals should the ED 212 proposals proceed. For such a broad application, more straightforward requirements are desirable. Although data from entities has been provided in preparing GGS and whole of government financial reports, the materiality level will be much lower and the level of scrutiny much more intense where the data is reported at the entity level.

- In BC 18 it is articulated that the Board 'did not want to be seen as interpreting the Manual'. This is concerning as:
  (a) if the manual requires so much interpretation that the Board considers they could be open to criticism for misinterpreting it, then the Board should not be requiring compliance with such a document; and
  (b) we believe it is precisely the Board's role to interpret what it seeks to draw from a document it requires compliance with.

(iv) Comments on 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).

ACAG has the following comments on the proposals:

- We are concerned that the AASB has not articulated what it perceives as the needs of users in proposing GAAP/GFS presentation disclosures. We perceive there are different needs for users of financial reports at a microeconomic level than at the macroeconomic level.

- In respect of the application of GFS principles in the statement of financial position, ACAG foresees some issues. The GFS Manual effectively requires presentation of items on a liquidity basis. Where the requirements of the GFS Manual conflict with GAAP requirements, the GAAP requirements prevail. Paragraph 60 of AASB 101 prohibits a liquidity format unless the liquidity format is reliable and more relevant. Most entities to which the proposals would apply currently present items as current and non-current, which therefore indicates that the current/non-current format is more relevant for their users. However, ED 212 does not acknowledge this is an area of potential conflict. ACAG believes clarification of the application of AASB 101.60 in the context of GFS consistency is required.

- It seems that paragraph 13 of ED 212 operates such that should GAAP/GFS information be presented on the face, then so too must administered items. However, if GAAP is presented on the face and GAAP/GFS in the notes, then administered items do not need to appear on the face.

  Given the above, there is an effective requirement in certain circumstances to present administered items on the face. This is arguably inconsistent with the requirements of AASB 1050.25. The commentary in AASB 1050.25 clearly articulates relevant considerations in determining the appropriate placement of administered items. ACAG believes these considerations are still relevant and should be the determining factors for placement. Depending on the arrangements within the jurisdiction, presentation of administered items on the face is arguably not consistent with the principles outlined in paragraphs 15-21 of the AASB Framework document.

  The requirement to present administered items on the face will also lead to cluttered financial statements that are not useful to users.

ACAG believes that the requirements in paragraph 13 need to be unbundled such that placement of administered items is not determined by reference to placement of GAAP/GFS information. Alternatively, if the interpretation discussed above is not that intended, the wording needs to be clarified.

(iv)(A) Should the on-the-face or in the notes presentation option be allowed and, if not, should on-the-face presentation of GAAP/GFS harmonised information be prohibited given the potential for complexity?

Provision of an option for on-the-face or in the notes presentation appears at odds with the identified benefit of comparability. However, the potential for complexity is high if on-the-face presentation is chosen.

Some jurisdictions believe the requirement for GAAP/GFS harmonised information for both administered and controlled items would be useful to users and support this proposal. However, these jurisdictions also believe such disclosures should be restricted to the notes and not permitted to be included on-the-face.

(iv)(B) 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.

There is confusion amongst ACAG members as to the meaning of this proposal, as worded in the Specific Matters for Comment. Is the intention that GAAP/GFS information at the line item level is only required when GAAP/GFS information is presented in the notes? Or is it that GAAP/GFS information is always required at the line item and the reference to the notes is simply clarifying where line item information appears?

Further, does the reference to GFS category level mean the categories spelt out in the Appendices to the ABS GFS Manual, or does it mean a broader categorisation, such as other economic flows versus transactions?

(v) Should AASB 1050 continue to apply to government departments, to the extent its requirements are not satisfied by the proposals in ED 212?

ACAG members have identified application issues with the interaction of AASB 1050 and the proposals in ED 212.

1. The proposed standard does not include sufficient information on administered items.

The requirements in ED 212 relating to administered items extend to agencies not previously captured by AASB 1050, given AASB 1050 only applies to Government Departments. As such, ACAG believes that requirements and guidance need to be provided on what administered items actually are. We note that this detail is not provided in either ED 212 or the ABS GFS Manual at this stage. ACAG notes the contents of paragraph 20 of ED 212 and believes is not appropriate or sufficient, given many of the agencies captured by ED 212 are not required to comply with AASB 1050.

Having regard to the discussion above, ACAG members wonder if any proposals with respect to administered items might be better placed within AASB 1050 and broadening the scope of that Standard.

2. The requirements applicable to Departments are unclear.

The amendment to AASB 1050 in Appendix B to ED 212 is straightforward. However, the intention of paragraph 19 is not clear.

ACAG members were not sure whether paragraph 19 (a), (b), (c) should be interpreted as a listing of those requirements applicable to departments that exist within AASB 1050 that do not exist within ED 212 proposals, which would appear unnecessary, given the first sentence of paragraph 19.

In respect of parts (a) and (b), given the requirement in AASB 1050 paragraph 24, it seems difficult to foresee a situation where additional classes to those disclosed already could exist.

(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)

The divergence of budgeting practice across jurisdictions limits the usefulness of wide-scale requirements. These divergences are eliminated at whole of government level.

Where reporting on budgeted information is desired, jurisdictions can, and in some instances have, requested this already. Such requests can cater to the individual jurisdiction's budgeting arrangements and do not always require reporting within audited financial statements.

Some jurisdictions already require similar information be presented in financial statements. Having regard to this experience and experience with AASB 1049, the following comments are made.

- Paragraph 28 uses the term 'budget basis'. If the intention is that this has the same meaning as that in paragraph 23 (e), then the same wording should be used. Otherwise, the term 'budget basis' is vague.
- Both AASB 1049 and the proposals in ED 212 refer to 'the executive'. Given the context of whole of government in the application of AASB 1049, this is interpreted to mean the Ministry. However, when working in the context of individual agencies, it might be prudent to define the term 'executive'. Given the different context and preparers' unfamiliarity with requirements, the term could be subject to an alternative interpretation of executive management of the organisation, for example.

- The proposals contemplate that the budget information may be presented on the face of the financial statements. Experience in application of AASB 1049 suggests that this is not practical, as too many columns are required and it is better to present variance information with the budget and actual data altogether in a note. This also results in a less cluttered appearance on the face of the statements.

- Reporting against budget can provide motivation for smoothing of results to align with budgetary goals. This leads to increased audit risks. Auditors must respond to these risks, generally with increased procedures, which increases audit costs.

- The term 'major variance' might be interpreted differently by different preparers, auditors and users. Whilst this is also true of GGS and whole of government financial reports, the extent of application of the AASB 1049 requirements is significantly less than those caught by the scope of the ED 212 proposals. As previously mentioned, there are fewer than ten applications of AASB 1049 per annum, however there will be many hundreds of applications of ED 212 proposals. Accordingly, there is a pressing need to articulate what is meant by 'major'. Otherwise, divergences are likely and auditors will not be well placed to argue completeness and appropriateness of disclosures.

- Preparation and audit of variance analysis at the GGS and whole of government level is quite a different proposition to that at the individual agency level. At a GGS and whole of government level:

  - broad trends are apparent and government policy decisions well documented, publicised and understood
  - a lot of information about the budget is available
  - variances are smoothed by the impact of so many individual components
  - mid-year agency restructures eliminate on consolidation.

  This means preparers and auditors are well placed to consider variance analysis. This contrasts with auditors of a small single agency, where budget setting processes are less robust, variances may be more prevalent, explanations for variances harder, more time consuming and costly to substantiate. Mid-year agency restructures can make marrying original agency budgets approved by Parliament to the final financial reports prepared by the restructured agencies impossible, difficult and/or susceptible to error depending on the circumstances of the restructure. This could lead to increased preparation and audit costs, or worse, qualifications due to limitations of scope by auditors.

Having regard to the existing budgeting practices of jurisdictions, the following comments are made:

- Some jurisdictions do not present any budgeted information in respect of administered items. For example, in New South Wales, all administered items are ultimately reported as controlled in the financial statements of an agency. Proposals in respect of budgeted information for administered items would have no effect and would not improve the financial reporting of agencies administering the items.

- Some jurisdictions do not present sufficiently detailed information for the proposals to have any effect. For example, in South Australia, of the perhaps 120 not-for-profit entities within the GGS, there are only 29 sets of budgeted statements presented to parliament.

- Some jurisdictions prepare budget information at the consolidated level, but not for individual agencies within the consolidated entity. As such, the budgeted information presented to parliament is not appropriate for inclusion in the parent agency's financial statements and there is no appropriate information to be included in a subsidiary's. For example, in South Australia, budgeted financial statements for the Department of Premier and Cabinet are presented to parliament. These budgeted statements reflect consolidated information for several reporting entities, including the Department of Premier and Cabinet and, for example, the Art Gallery of South Australia. This poses two issues, it could:

  - appear to the less informed user that paragraph 23 of ED 212 has not been complied with

  - alternatively be construed that a budget has not been presented to parliament for the Department of Premier and Cabinet, which may wrongly bring into question the adequacy of information presented to Parliament.

- Some jurisdictions do not present budget information on a basis that is consistent with the presentation and classification in the primary statements. Accordingly, these budgets would need to be 'recast'. This presents additional challenges for preparers and auditors. Where no recasting is required, preparing and auditing the budget information is a matter of reference to the original information presented to parliament. However, where recasting occurs, a thorough understanding of the budget basis of preparation is required. This may be available to preparers, but judgements will likely need to be exercised in the recasting process. For auditors, who may have had no insight into the budget preparation process, the procedures required to audit recast budget information will be time consuming and costly. This is because they will have no way of assessing the recast figures without first understanding the original budget basis of preparation.

- Some jurisdictions currently present AASB 1049 consistent budget information for GGS and whole of government, and GAAP consistent information for individual agencies. This is arguably to promote consistency and an ability to assess performance of the entity. Were all the proposals in ED 212 to go ahead, the budget information would need to change to achieve the original aim. Jurisdictional budget processes are time consuming and costly. Significant changes to the processes will have a cost of implementation. Comparability of budget information for agencies in and out of the GGS will also be reduced.

Some ACAG members strongly oppose the inclusion of budget information for the reasons outlined above.

Other ACAG members support the proposal to include budget information within GGS financial statements. They believe budgeted information submitted to parliament establishes user expectations of how GGS entities will perform throughout the reporting period. Disclosure of the entity's actual performance against these amounts provides accountability over how well the entity met those expectations and helps users assess entity performance.

(vii) Comments on 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 (BC 15)

ACAG is supportive of these proposals, which are consistent with AASB 2011-3 and principles in AASB 108.

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)

The Board has determined that the requirements in AASB 1052 are the subject of review as part of a separate future project. On this basis, ACAG is supportive of the proposals.

(viii) Should there be 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?

ACAG is supportive of transitional requirements consistent with those within AASB 1049 that existed prior to amendments within AASB 2011-3. Those requirements are largely consistent with those under AASB 108 that apply for accounting policy changes necessitated by new Australian Accounting Standards.

(ix) Should entities adopting Tier 2 requirements be exempt from certain disclosures?

ACAG is not in a position to respond to this question.

Queensland has the option of applying Tier 2, but no agencies have done so. Victoria had previously developed plans and draft legislation regarding Tier 2, but these were not passed by Parliament. The new government has no plans for such a legislative change. No other jurisdictions have the option of applying Tier 2 or current plans to do so in the future.

(x) Do the illustrative examples provide guidance that is appropriate/helpful in implementing the proposals?

Illustrative examples are generally helpful in implementing such proposals and are welcomed by ACAG. However, ACAG would like the Board members to note certain matters in respect of the illustrative examples proposed.

There are no illustrative examples of other financial statements, or accounting policy notes. The challenges facing preparers who would apply the proposals are acknowledged by the Board. Accordingly, increased illustrative examples or referral with context and explanation to those illustrative examples appended to AASB 1049 could be useful.

Some issues raised elsewhere in this submission may be resolved via inclusion of illustrative examples. For example, in respect of the Statement of Financial Position, it could be clarified whether current/non-current presentation is allowable under the proposals, and if so, an example might be useful.

The illustrative examples use terminology reflective of practices not used across all jurisdictions. Amendments to the examples or context or explanations would be helpful in providing clarity to preparers from all jurisdictions. For example, some jurisdictions do not distinguish between types of appropriations. Accordingly, preparers in such jurisdictions could find use of terms like 'output appropriations' and 'standing/special appropriations' confusing. Further, the illustrative examples show 'administered appropriations', which are not commonly used across all jurisdictions. That is, in some jurisdictions appropriations are only ever controlled and so only ever recognised as revenue of the agency.

Whilst it is acknowledged that any illustrative examples cannot be exhaustive, they should include at least all items noted in paragraph 16. For example, actuarial gains and losses on superannuation are common in the public sector, but are not presented in the proposed illustrative examples.

(xi) Comments on the operative date.

In the absence of transitional relief, the need to include comparative information means that an operative date of at least three years from date of issue is necessary.

ACAG foresees issues with allowing early adoption given the significant investment in education of preparers and changes in systems that would be required to implement the proposals.

(b) Overall, do the proposals, from both a Tier 1 and Tier 2 perspective, result in financial information that would be useful to users?

Overall, ACAG does not believe that the resulting financial information is useful to users.

There is little discussion in the Exposure Draft about users of the financial reports of not-for-profit entities within the GGS. As such, ACAG considers users as those listed in the AASB Framework paragraph 9.

In this list, ACAG believes few entities are interested in GAAP/GFS harmonised information. ACAG also perceive that there are different needs for users of financial reports at a whole of government level or GGS level and users of individual agency financial reports. These different needs mean that the GFS principles, designed to facilitate analysis at the macroeconomic level, have significantly reduced relevance at the microeconomic level of an individual government agency.

ACAG believes few will fully appreciate the distinction between controlled and administered items presented on the face of financial statements and most will find the abundance of information to be presented and disclosed in accordance with the proposals cluttered and confusing.

The loss of comparability through sector-neutrality would represent a significant reduction in usefulness of financial information for users.

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

On balance, ACAG does not believe that the proposals are in the best interests of the economy. Sector neutrality is arguably in the economy's best interests, and the proposals represent a significant departure.

To facilitate this departure, governments would need to allocate significant resources to implement the proposals. Staff will need training and systems will need updating and/or development to facilitate creation of the information proposed for inclusion in financial statements and notes. Central agencies will need to devote considerable resources to supporting agencies, particularly smaller agencies with the application.

Few within the accounting profession have had experience with AASB 1049 'Whole of Government and General Government Sector Financial Reporting' and the ABS GFS Manual. Given the specialist nature of the proposals, any professional accounting firm wishing to provide assistance on implementing the proposals will also need to invest in training of their staff. It is possible that only the Big 4 firms will have the capacity for such investment, effectively creating a barrier to entry for provision of services. After implementation, any accounting advice obtained by agencies subject to the proposals will need to consider the implications arising from the proposals, and so this barrier would remain.

Further, the proposals are likely to result in less mobility within the financial reporting workforce. Widespread divergence by public sector entities from more typical application of Australian Accounting Standards in the private sector will hinder individuals transferring between public and private sectors.

Finally, the proposals represent a departure from international jurisdictions, including New Zealand. Convergence internationally is generally acknowledged as a positive outcome, and so divergence is arguably a negative.

(d) Comments on 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.

Costs

Some jurisdictions and some agencies within those jurisdictions may be better resourced to support and/or implement the proposals than others. Given the complexity and lack of familiarity with the requirements and GFS manual, less well resourced jurisdictions and agencies can be expected to encounter problems implementing the proposed standard.

It is not reasonable to assume that users of the proposed standard will understand its requirements relatively easily. For example, few will immediately grasp the distinction between transactions and economic flows. Indeed, it will require significant education of preparers, auditors, and those charged with governance to understand these concepts. There will also be an upfront cost for changing and developing financial reporting systems and processes. These upfront costs are largely financial.

On an ongoing basis, the costs are both financial and non-financial.

The proposal to align GAAP options with GFS would see intangible assets measured at fair value. The nature of intangible assets held by public sector entities (most commonly software) would require expert input to perform valuations. The increased cost to perform and audit such valuations is substantially disproportionate to any benefits from such information.

The proposals would result in application of GFS principles and of presentation and disclosure that are not widely applied by reporting entities. It is likely that any new financial reporting staff will require training in the requirements specific to financial statements of not-for-profit entities within the GGS. The need for training demonstrates the adverse impact on workforce mobility discussed previously.

There will also be an ongoing need for expenditure maintaining existing personnel's currency with GFS.

The proposals will also create impediments to the timeliness of financial reporting. There is a consensus that earlier reporting is more useful and jurisdictions are working towards shorter reporting timetables. The proposals will likely add to the time required to prepare financial reports.

The audit process will also be impacted by the proposals. Additional information to be audited will lead to additional audit costs. Furthermore, auditors will need to train personnel because as with the financial reporting process, few auditors currently have experience with AASB 1049 'Whole of Government and General Government Sector Financial Reporting'.

In jurisdictions where Auditors-General contract with private sector firms to perform audits, those private sector firms will need to train their personnel. In some instances, Auditors-General contract audit work to relatively small firms due to the geographical location of the work. These smaller firms may not have the expertise or resources to continue with the existing arrangements and the work would need to be conducted by the Auditors-General in house or by a larger firm with expertise. As such, costs to perform the audit are likely to increase.

There are also potential costs where government agency financial reports become so cluttered with information that their usefulness is reduced. There is also a risk of a perception that government agency financial reports are deliberately complicated to obscure transparency and accountability.

However, some jurisdictions believe the cost burdens on individual entities within the GGS would not be as significant. The majority of entities already align with GFS preferred accounting policy choices to aid whole of government consolidation. Central agencies could also provide support to GGS entities in classification and disclosure of GFS information. For this reason, they consider the costs to preparers would not be a significant impediment to implementing the proposals.

Articulated Benefits

The Exposure Draft identifies the improvements of the proposals as:

- improved comparability across jurisdictions
- improved comparability between entities within the GGS.

These improvements are discussed below.

Improved comparability across jurisdictions

ACAG does not agree that the proposals will result in improved comparability across jurisdictions. This is because each jurisdiction structures its government agencies differently. Governments arrange various functions to reflect the needs of the public and reflect jurisdictional differences. As such, changes to accounting requirements will not result in a marked change in the level of comparability.

For example, regardless of the accounting requirements applied, it is not possible to compare financial reports for fire-fighting agencies across Victoria, New South Wales and Queensland. Victoria also has two fire-fighting agencies, one for Melbourne and surrounds and another for all other areas. New South Wales also has two agencies, but one is responsible for incidents in all major cities, metropolitan areas and towns and the other for rural areas. As the activities of these two fire-fighting agencies are not directly comparable, comparisons of financial information between the two jurisdictions using their financial reports provides little insight. Queensland's fire fighting service is a division of a larger agency and does not report separately. Accordingly, no comparisons can be drawn.

Further, the nature of services delivered by state and territory governments is sufficiently different from the Commonwealth government that there is unlikely to be any benefit in comparing a financial report from a Commonwealth agency with that of an agency in another jurisdiction.

At a whole of government and GGS level, these jurisdictional differences are largely eliminated, and application of consistent requirements can improve comparability.

Improved comparability of entities within the GGS

Following on from comments earlier about the application of the proposals, many jurisdictions already mandate consistent accounting policies for entities within the GGS. For these jurisdictions, the proposals will not result in an improvement and so the proposals do not create a benefit.

Also discussed above, any improved comparability in entities within the GGS, will be offset by a reduction in comparability between not-for-profit entities in the GGS and those outside it.

ACAG is concerned that the proposals imply that Australian Accounting Standards do not result in sufficient comparability between entities. ACAG is also concerned that, in an environment where sector neutrality is a fundamental principle, comparability of a specific category of public sector entities is singled out as more important than comparability of other groups.

Implied Benefits

The Exposure Draft implies the following outcomes are improvements:

- coupling the presentation of controlled and administered items
- limiting recognition and measurement choices in GAAP to those that align with GFS
- budgetary reporting requirements.

These outcomes are discussed below.

Coupling the presentation of controlled and administered items

The Exposure Draft does not articulate the benefits of presenting administered items together with controlled items.

ACAG is unsure how presentation of controlled and administered items together in financial statements is consistent with the AASB Framework paragraphs 15-21. The discussion within these paragraphs would suggest that administered items are not relevant for evaluating financial position, performance and cash flows.

Limiting recognition and measurement choices

In respect of limiting recognition and measurement choices in GAAP, the Exposure Draft states that this would generally provide more relevant information for users. This generalisation would benefit from further analysis.

There is a concern that ED 212 does not articulate why GFS information assists decision-making. Although there is some reference to making it clearer how entities within the GGS contribute to the whole of government, as previously stated, it is not clear that this is a key factor considered by users when making decisions about resource allocation.

The Exposure Draft discussion has not convinced all ACAG members that GFS consistent accounting policy options would always result in more relevant information.

Budgetary reporting

In respect of imposing budgetary reporting obligations, the Exposure Draft states that there is no conceptual reason to not subject such entities to similar budgetary reporting requirements under similar circumstances that are imposed on the whole of government and GGS by AASB 1049. In ACAG's view, this is not sufficient to demonstrate an improvement in financial reporting or a benefit of the proposals.

The Exposure Draft also states that budgetary reporting would help facilitate the fulfilment of the accountability obligation by not-for-profit entities within the GGS and therefore provide decision useful information for users. Consistent with previous comments, the need for this accountability from not-for-profit entities within the GGS is arguably no greater than other public sector entities.

ACAG notes that there are already a number of accountability mechanisms other than the general purpose financial report which provide information about budgetary results, such as mid-year budget reviews, budget outcomes reporting and various parliamentary committees. These mechanisms are likely to provide more timely information to users than would be possible via the general purpose financial report.