Queensland Government

Treasury

Our Reference: TRX-17663

- 7 OCT 2011

Mr K Stevenson
Chairman
Australian Accounting Standards Board
PO Box 204
COLLINS STREET WEST VIC 8007

Dear Mr Stevenson

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

Queensland Treasury Department welcomes the opportunity to respond to the Australian Accounting Standards Board's exposure draft ED 212 Not-for-Profit Entities within the General Government Sector.

Treasury Department does not support most of the proposals in this exposure draft – particularly the proposals to present GAAP/GFS harmonised information and budgetary information. Explanation of Treasury Department's views, including in relation to each of the Specific Matters for Comment in the exposure draft, is set out in Attachment A.

Any queries regarding this response should be directed to Ms Sue Highland, Director, Financial Management Branch, on (07) 340 56064 or via email to sue.highland@treasury.qld.gov.au.

Yours sincerely

Gerard Bradley
Under Treasurer

Encl.

Executive Building
100 George Street Brisbane
GPO Box 611 Brisbane
Queensland 4001 Australia
Telephone +61 7 3224 2111
Facsimile +61 7 3221 5488
Website www.treasury.qld.gov.au
ABN 90 856 020 239

QUEENSLAND TREASURY RESPONSE TO AASB ED 212 *NOT-FOR-PROFIT ENTITIES WITHIN THE GENERAL GOVERNMENT SECTOR*

Queensland Treasury's comments in relation to each of ED 212's Specific Matters for Comment follow.

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

Queensland Treasury does not believe the proposals will lead to an overall improvement for reasons including the following:

- the Government Finance Statistics (GFS) reporting framework is highly specialised, complex and specifically designed for macro economic analysis of a Government's financial performance, not the performance of individual public sector entities. Hence, it is difficult to conceptually support the application of GFS principles to financial reports prepared by individual entities;
- apart from the Australian Bureau of Statistics (ABS), the GFS reporting framework and concepts are currently understood by very few staff in Treasury departments, let alone the users of general purpose financial statements of public sector entities. Queensland Treasury has not identified any evidence that general purpose (i.e. external) users need GFS financial information at the level of an entity within the GGS;
- presentation of unfamiliar (non-GAAP) financial information in an unfamiliar format is likely to lead to confusion by users, and incorrect conclusions may be drawn due to a lack of understanding of GFS concepts;
- the proposals are contrary to the AASB's principle of transaction neutrality, as stated in its document "AASB Policies and Processes";
- any attempts to compare financial results between entities in different jurisdictions are hampered by the inevitable structural differences between jurisdictions as to how functions are organised across entities. The use of GFS terminology and the proposed presentation format does not remedy this; and
- AASB 101 *Presentation of Financial Statements* (e.g. paragraphs 55, 77 and 85) already allows inclusion of additional line items, headings and sub-totals (e.g. on a GFS basis) if any Treasury department determines such information is relevant to users of its jurisdiction's financial statements. Therefore, mandating the inclusion of GFS information in circumstances where it is not considered relevant to users cannot be regarded as an improvement. In fact, such an approach would add to the complexity, and hamper the understandability, of the financial statements of the entities concerned.

Further, although AASB 1049 *Whole of Government and General Government Sector Financial Reporting* has been effective since 2008-09 and is only applied by nine Treasury departments (or equivalents), there continue to be different views about the application of GFS to particular circumstances e.g. distinguishing between "transactions" and "other economic flows". This is particularly problematic where a circumstance is not recognised by GFS. The extent of GFS application difficulties, and the potential for divergent GFS classifications, would be amplified by any extension of the GFS framework to large numbers of public sector entities in all jurisdictions. Such a situation would detract from any perceived improvements in financial reporting.

Over time, a chasm between private sector and public sector reporting could well lead to a shrinking pool of qualified accountants for what could be considered a 'specialised' – and little understood – area of expertise within financial accounting. This may have an adverse impact on the quality of financial reporting by public sector entities into the future.

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).

While Queensland Treasury has difficulty understanding how an entity within the GGS would meet the GAAP 'for profit' definition, it supports the exclusion of for-profit entities within the GGS, on the basis that consistency in reporting between all for-profit entities (whether they are in the public sector or private sector) should be the most important consideration, as explained in paragraph BC11 of ED 212. This view also reflects the current AASB focus on ensuring no for-profit entities are prevented from maintaining IFRS compliance.

(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).

Queensland Treasury supports this proposal, as it provides flexibility with the lead time for adoption of any GFS Manual changes. This should allow adequate time for both Treasury departments and reporting entities to identify, understand and implement such changes.

(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).

Queensland Treasury supports this proposal, as it assists in achieving consistency between GFS reporting and GAAP reporting. For not-for-profit entities within the GGS, Queensland Treasury already requires the adoption of accounting policies that are consistent with GFS, wherever GAAP allows (and this is likely to be the case with most other jurisdictions). In addition, because the use of options that align with GFS requirements is already necessary for reporting by the GGS and whole-of-Government consolidated entities, there should be no significant additional burden imposed on entities by this proposal.

(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).***

Consistent with comments earlier in this response, Queensland Treasury does not support this proposal for reasons including the following:

- as the GFS reporting framework is designed for macro economic purposes, there is no conceptual basis for mandating GFS presentation in reporting by individual entities that comprise the GGS;
- the insertion of additional line items within already complex financial statements 'clutter' their overall presentation and readability;
- the GFS reporting framework and concepts are not understood by most users of general purpose financial statements of public sector entities;
- presentation of unfamiliar (non-GAAP) information within a set of GAAP financial statements is likely to lead to confusion by users, and incorrect conclusions may be drawn due to a lack of understanding of GFS concepts;
- this proposal is contrary to the AASB's principle of transaction neutrality, as stated in its document "AASB Policies and Processes";
- adoption of GFS classifications and terminology does not improve comparability of financial results between entities in different jurisdictions, as this is hampered by structural differences between jurisdictions as to how functions are organised across entities; and
- AASB 101 *Presentation of Financial Statements* (e.g. paragraphs 55, 77 and 85) already allows inclusion of additional line items, headings and sub-totals (e.g. on a GFS basis) if any Treasury department determines such information is relevant to users.

However, Queensland Treasury would support an approach whereby this proposal may be applied in those jurisdictions where the relevant Treasury department requires such presentation by not-for-profit entities within the GGS. In such circumstances, the rigour imposed by the requirements of a standard would facilitate a consistent approach between jurisdictions that exercise their discretion to adopt the GFS presentation format.

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?***

Queensland Treasury strongly supports prohibition of GAAP/GFS harmonised information on the face of the financial statements. In line with the views expressed above, if such information must be included in the financial statements, a less conspicuous disclosure – in the notes - is considered more useful for general users of financial statements. Also, the inclusion of such information on the face of the statements may require the individual entity's budget to be reformatted to GFS presentation to allow proper comparability in presentation of any budget vs actual comparison on the face of those statements. This would be true for jurisdictions where budgetary information for entities within the GGS is only tabled in Parliament on a GAAP basis (which is the case in Queensland).

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?***

The exposure draft does not clarify what is meant by "line item level" for the purposes of this question. It is assumed "line item level" refers to the line items presented on the face of the financial statements (as opposed to the further break-downs provided in notes). Queensland Treasury would strongly recommend against requiring disclosure of GAAP/GFS information at the level of detail provided in note break-downs. It is also unclear what is meant by "GFS category level", even after a review of the ABS GFS Manual.

(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).***

Queensland Treasury 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).***

Queensland Treasury does not support this proposal for practical reasons, such as:

- equivalent disclosures (between the original budget and estimated actual figures for that year) are likely to be disclosed already in a jurisdiction's annual budget papers (as is the case in Queensland);
- the proposals do not clarify the level at which budgeted financial information is to be presented within the general purpose financial statements. The proposals would seem to extend to circumstances where budgetary information is also tabled in Parliament in respect of lower level units within an entity. In conjunction with the presentation of controlled and administered budgetary information, inclusion of budgetary information for lower levels within an entity would add a substantial volume of material to the financial statements. Therefore, this could create a disincentive for jurisdictions to present lower level budgetary information to Parliament;
- in relation to administered items, the appropriateness of disclosing budget vs actual figures (and explanations of variances) is questionable. By definition, government departments do not have any discretion about administered transactions and balances. Therefore, such disclosures are irrelevant in assessing an individual entity's accountability. Accountability for administered transactions and balances is satisfied at a whole-of-Government level;
- government budgets are not generally subject to audit scrutiny, and there has otherwise been no imperative to date for such audit scrutiny. Due to the processes by which budgets are developed, the inclusion of such information in audited financial statements is likely to cause difficulties for both preparers and auditors. This may create potential for auditors issuing an "emphasis of matter" opinion regarding budget information included in the financial statements. Such a modified audit opinion is generally viewed unfavourably by users; and
- the inclusion of such information in the audited financial statements would consequently result in a significant amount of up-front and ongoing additional effort (costs) by both preparers and auditors.

Further, it should be noted that the July 2008 Heads of Treasuries recommendations to the AASB stated "HoTs also do not support the inclusion of a requirement for explanation of variances between budget and outcomes …".

However, similar to the proposal in item (a)(iv) above, Queensland Treasury would support this proposal only being applicable in those jurisdictions where the relevant Treasury department requires the disclosure in audited financial statements of such information by not-for-profit entities within the GGS. In such circumstances, the requirements of a standard would facilitate a consistent approach between such jurisdictions.

(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).

Queensland Treasury 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).

Queensland Treasury 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).***

Queensland Treasury 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).***

Queensland Treasury supports the proposed exemptions for entities complying with Tier 2 requirements.

(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).***

The illustrative examples would be improved by the inclusion of the presentation of GAAP/GFS information only in the notes to GAAP primary financial statements. This would assist in clarifying the expectations of that allowed alternative approach (refer also to the response to Specific Matter for Comment (a)(iv)B).

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

Given the practical implications of the exposure draft's proposals, Queensland Treasury supports an operative date that is at least three years after the issue of an eventual standard.

(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?

Consistent with the response to Specific Matter for Comment (a), Queensland Treasury does not believe the proposals would result in financial statements that would be useful to users, for reasons including the following:

- the GFS framework is highly specialised, complex and specifically designed for macro economic analysis of a Government's financial performance, not the performance of individual public sector entities;
- the GFS reporting framework and concepts are not understood by most users of general purpose financial statements of public sector entities. Therefore, the additional GFS information would only be useful for certain specialist users who are familiar with GFS concepts and have a desire for such information;
- presentation of unfamiliar (non-GAAP) information is likely to lead to confusion by users, and incorrect conclusions may be drawn due to a lack of understanding of GFS concepts;
- the inclusion of GFS information is likely to hamper attempts to benchmark (or otherwise compare) financial performance between private sector and public sector not-for-profit entities;
- the proposals are contrary to the AASB's principle of transaction neutrality, as stated in its document "AASB Policies and Processes";
- any attempts to compare financial results between entities in different jurisdictions would be hampered by the differences between jurisdictions as to how functions are organised across entities; and
- AASB 101 *Presentation of Financial Statements* (e.g. paragraphs 55, 77 and 85) already allows inclusion of additional line items, headings and sub-totals (e.g. on a GFS basis) if any Treasury department determines such information is relevant to users of its jurisdiction's financial statements. Therefore, mandating the inclusion of GFS information in circumstances where it is not considered relevant to users cannot be regarded as an improvement. In fact, such an approach would add to the complexity, and hamper the understandability, of the financial statements of the entities concerned.

As mentioned in response to Specific Matter for Comment (a), in respect of AASB 1049, there continue to be different views about the application of GFS to particular circumstances e.g. distinguishing between "transactions" and "other economic flows". The extent of GFS application difficulties, and the potential for divergent GFS classifications, would be amplified by any extension of the GFS framework to large numbers of public sector entities in all jurisdictions – particularly as both preparers and auditors are unfamiliar with GFS concepts. Such circumstances would potentially detract from any perceived usefulness of such reporting.

Queensland Treasury notes the assertions in paragraphs 1(b) and BC29 of the exposure draft that the GAAP/GFS harmonised information will portray the contribution of an individual entity to the financial results of the GGS. However, the information to be disclosed (according to the proposals in this exposure draft) would not be an adequate representation of the contribution to the GGS, given the range of consolidation adjustments and eliminations that also occur in preparing the GGS results. Consequently, Queensland Treasury questions the validity of the assertions made in this regard and would not support the disclosures referred to in paragraph BC35, due to the disclosure impracticalities alluded to in that paragraph and the limited number of (non-Treasury) users who would have a desire for such information.

Queensland Treasury does not support the application of the exposure draft's proposals to for-profit entities within the GGS. If there are any for-profit entities within a GGS, the application of these proposals by not-for-profit entities within the GGS would create presentation inconsistencies in financial reporting between entities within the same GGS.

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

Given the significant additional effort (costs) that would be incurred by the public sector to comply with these proposals and the ever-increasing resource challenges on governments to deliver value-for-money to taxpayers, Queensland Treasury does not consider the proposals are in the best interests of the Australian economy. The proposals (overall) are of questionable interest to users. In particular, the classification of items of revenue and expenses between "transactions" and "other economic flows" as a useful distinction for decision making purposes by general users is not demonstrated.

(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.***

Queensland Treasury is not aware of any unmet user information needs that would be satisfied by the proposals in this exposure draft.

However, the proposals would result in significant practical issues and additional effort and costs for a wide range of entities – regardless of whether the new proposed information is presented on the face of the primary financial statements, or in the notes to the financial statements. To facilitate the publication of more timely financial information, in recent years, the

Queensland Government implemented legislative changes to require departments and statutory bodies to have their annual financial statements prepared and audited within a much shorter timeframe than previously (this is also likely to be the case in other jurisdictions). The additional effort and costs that would result from the proposals in this exposure draft are likely to present a significant challenge to those entities' ability to meet the shorter timeframe.

In addition to the issues mentioned in response to other Specific Matters for Comment, other considerations are as follows:

- 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; or
  - staff in public sector entities outside Treasury departments, or
  - most audit staff,

  as such knowledge is unnecessary for them (Treasury departments implement data transfer systems to collect financial data from entities in a way that aligns with GFS reporting requirements);
- the few staff in Queensland Treasury who have a reasonable understanding of the GFS reporting framework and concepts still need to seek advice from the ABS about the application of GFS concepts in particular circumstances. Further, Treasury departments are not resourced to provide up-front and ongoing 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, and it is unlikely that the ABS would be resourced, or willing, to provide such support to all not-for-profit GGS entities across Australia);
- collectively, significant effort and costs would be incurred to adapt each entity's financial reporting systems and processes to deal with GFS presentation. There is no standard financial reporting system operated internally by all not-for-profit entities within Queensland's GGS, and this is likely to be the case in all other jurisdictions (especially in the case of statutory bodies). There is limited scope to centrally co-ordinate and implement the up-front system changes;
- significant up-front and ongoing GFS education would be required for all staff in each entity who would be involved in the preparation of GFS information. Similarly, significant up-front and ongoing GFS education would be required for all audit staff who would be involved with the audit of GFS information; and
- a significant increase in audit costs would result for each entity that would be subject to these proposals. 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 to be included in the audited financial statements.

Queensland Treasury considers the collective up-front implementation, and ongoing preparation, time and costs that would be incurred by individual entities would be better directed to other purposes that advance the delivery of public services.

As most jurisdictions would have a large number of small not-for-profit statutory bodies (with very limited resources and expertise) within their GGS, the impact of the additional effort/costs on each of those entities would be relatively substantial. Therefore, if the proposals of this exposure draft are eventually issued as a standard, Queensland Treasury would strongly recommend a full exemption for those not-for-profit entities that are not consolidated into the whole-of-Government and GGS financial statements.