

From: David.Newby@treasury.qld.gov.au
To: AASB
Subject: ED 212 Harmonisation for Departments

Dear AASB

Queensland Treasury has responded to ED 212 through the HOTARAC process as well as the discussion fora in Sydney and Melbourne. However I would like to express my personal view to the Board separately too, because I feel so strongly against the concept of applying harmonisation to General Government entities. I do not comment on the specific matters in the Exposure Draft as I am totally against the proposal

My reasons are as follows:

GFS reporting is an economic framework developed for high level government reporting. It is not appropriate for a department or statutory body as the key aggregates of net lending, net debt, net operating balance, cash surplus, etc are not relevant at the agency level when the main funding source is appropriation and borrowing is done centrally. Harmonisation will lead to agencies focussing more on the net operating balance and not being concerned about write downs of assets as they are "below the line" in other economic flows.

Further, AASB 1049 requires that GGS entities will not adopt "pure" GFS, but the harmonised version incorporating accounting rules. Having had our 1049 statements for GGS and WoG audited for three years now, we are still experiencing problems getting across to auditors the basic harmonisation concept of adopting the GFS format but using accounting rules within that format. As new auditors come on to the job we need to dedicate time to training them.

The problem we will have in rolling harmonisation out to agencies is that they have no history or understanding of GFS, let alone what a harmonised version entails. The auditors of those entities will have the same issues again. It will be the blind leading the blind. I just foresee a massive waste of resources to no good end. It will mean private sector accountants will be reluctant to transfer to government, and if they do, there will be a constant need for training.

If the harmonisation process had been a success, I wouldn't feel so strongly about this issue. Harmonisation has provided a third view of public sector that in my opinion is confusing to both economists and accountants alike. It is neither fish nor fowl. Harmonisation has distorted GFS aggregates in areas such as net financial liabilities and net financial worth where we have to adopt the accounting definition of financial assets and so should exclude prepayments and statutory receivables from financial assets. Likewise purchases and sales of leased assets are now classified as operating flows rather than investing activities, distorting one of the most important GFS aggregates, Purchases of Non-financial assets.

It has been argued that the advantage of agencies adopting 1049 is that their statements will have the same "look" as the GGS accounts but surely we should focus on providing users with statements they are most likely to understand, being the accounting view. The "line of sight" argument is over-simplistic and does not hold water in a complex

reporting structure such as Queensland's where there are numerous inter-entity eliminations

If some jurisdictions do have a burning desire for their departments to report in a GFS type format, there is nothing to stop them changing the format of their operating statements to isolate changes in value from transactions. This is surely the most critical difference between GFS and accounting (the differences in the balance sheet and cash flow are far more esoteric). Such a change in format is infinitely preferable to imposing an entire reporting framework on the unsuspecting departments. Finally, there is the issue of the FRC's direction for the AASB to complete Phase 2 of harmonisation. I feel strongly that the agonising and time consuming process we have all endured since 2006 should be sufficient indication to the FRC to revisit their original direction.

The AASB has done its best to meet the direction by offering various options, but in the end, there is nothing to be gained from a single set of Government reports for both whole-of-government and agencies. If the emperor has no clothes, he needs to be informed of that.

Regards
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