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Mr David Boymal
Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street West
MELBOURNE VIC 8007
AUSTRALIA

Dear Mr Boymal

ED 151 – AUSTRALIAN ADDITIONS TO, AND DELETIONS FROM, IFRS

Members of the Australasian Council of Auditors-General (ACAG) have been canvassed and submit the attachment in response to the Exposure Draft referred to above.

The views expressed in this submission represent those of all Australian members of ACAG with the exception of the Auditor-General for South Australia, who reserves his right to respond separately to auditing and accounting Exposure Drafts, where he deems it appropriate, rather than as a member of ACAG.

The attachment to this letter details ACAG's responses to the matters raised in the Exposure Draft. In summary, ACAG's major concerns with the proposals in the Exposure Draft are:

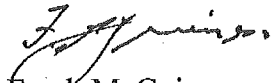
- AASB 127 – the inclusion of paragraph 10 permitting an entity to not produce consolidated financial statements is not supported for any public sector entity (be it for profit or not-for-profit), because their accountabilities do not depend simply on an approach to the market for funds;
- AASB 127 Aus 42.1, requiring disclosures of subsidiaries, should be retained for not-for-profit entities, especially for whole of government reporting in the foreshadowed absence of AAS 31;
- AASB 119 – there should be an agreed Australian position as to whether there is a deep market in high quality corporate bonds;
- AASB 119 – not-for-profit entities should continue to use the market yield on government bonds, not for the reason proposed in the Exposure Draft but because the best measure of the time value of money in Australia could well be the market yield on national government bonds (assuming a deep market exists). Further, the

requirement in AASB 119 should be, in all cases, the market yield on high quality bonds, whether government or corporate). In this regard, the AASB should, at the earliest opportunity propose to the IASB that the time value of money should be the same for all entities in an economy and that the reference point for estimating that time value should be to a high quality bond that has a deep market;

- AASB 141 – the disclosure requirements in Aus 49.1 may be highly relevant to, and should be retained for, public sector entities, including for-profit entities; and
- AASB 116 – no public sector not-for-profit entity should be permitted the option of offsetting grant income against the related asset. ACAG acknowledges that for profit public sector entities should be permitted this option although this will give rise to a number of difficulties noted in the attachment.

The opportunity to comment is appreciated and I trust you will find the attached comments useful.

Yours sincerely



Frank McGuinness
Chairman

ACAG Financial Reporting and Auditing Committee

ED 151 Australian Additions to, and deletions from, IFRSs – Submission made by the Australian Council of Auditors-General

Note – references below to ACAG are limited to the Australian members of ACAG, excluding the Auditor-General for South Australia.

ACAG has reviewed the Exposure Draft, including each of the significant proposals in ED 151, and provides both general comments and comments on the specific matters raised.

General comments

ACAG notes that an impact of removing some of the differences currently in place, will give rise to allowing for profit entities in Australia access to options currently denied, which may ‘align’ reporting requirements in Australia with the IASB but may give rise to diminishing levels of comparability in financial reporting across Australia.

While not impacting as much on not-for-profit public sector entities, ACAG notes that there are inconsistencies with the proposed treatment of references to the requirements of the *Corporations Act 2001*. In some instances (in AASB110.Aus6.1 and AASB127.Aus27.1), reminders/guidance are deleted while they are retained in other instances (in AASB121.Aus38.1 and AASB 127.6). ACAG is uncertain of the criteria for making the distinction and recommends that the AASB review this.

Specific comments

This submission is made on an exception basis. The AASB should assume that where no comment on a particular proposal as documented in pages 1 to 23 of the Proposed Amendments in the ED, ACAG supports the Proposed Action/Explanation. Therefore, comment below is limited to those situations where we may not agree or where we wish to provide further comment on the Proposed Action/Explanation.

Paragraph references	Comment on Propose Action/Explanation
AASB 3 Business Combinations Amended definition of “reporting entity” included in Appendix A of AASB 3	ACAG strongly supports the need to retain the existing Australian definition of the “reporting entity” at least until the review of SAC 1 has been completed.
AASB 107 Cash Flow Statements Proposed removal of Aus20.1-2	ACAG does not object to the removal of these disclosure requirements. However, ACAG notes that adoption of IFRS in Australia has led to significant variability in reported financial performance (profit and loss) of for profit entities, which has led to a greater focus on management of cash flows. In these instances, references to the reconciliation between reported cash performance and profit/loss (accrual) operating performance have proved most

	<p>useful. Removal of such disclosure may make interpretation of financial performance more difficult and ACAG supports inclusion of such reconciliation as good practice particularly in relation to not-for-profit entities in the public sector given the audience of public sector financial reports.</p>
<p>AASB 116 Property, Plant and Equipment Proposed inclusion of deleted para 28</p>	<p>ACAG notes a number of proposals in ED 151 that will permit the optional treatment of reducing the carrying amount of an item of property, plant and equipment by the amount of a government grant received in accordance with IAS 20. In principle, ACAG does not object to this change because it will only impact for-profit entities. However, perhaps inclusion of paragraph 28 and any associated flow on impacts should await the outcome of the AASB's intended (and IASB's) review of AASB 120 (IAS 20).</p> <p>However, as IAS 20 applies to for profit entities only this option is not available to not-for-profit entities. Consequently, consideration should be given to inserting a specific Aus paragraph into AASB 116 to emphasise that not-for-profit entities are not permitted to off-set grants in this manner.</p> <p>Also, ACAG notes that, to some extent, there may be a conflict here for wholly owned government for-profit entities. Where assets are transferred from another government entity they can use the AASB/IAS 16, paragraph 28 option and recognise the transfer at nominal value. This seems to raise a conflict with UIG 1038 "Contributions by Owners Made to Wholly-Owned Public Sector Entities" which requires all 100% owned government entities to account for transfers through equity, where the transfers occur within entities controlled by the same government.</p> <p>In addition, selection of the option of offsetting grants against property, plant and equipment by public sector entities will mask the true cost of the provision of services. Identifying the cost of services is a key aim of financial reporting in the public sector. To allow this option for any public sector entity may have an adverse impact on the usefulness of the financial information. It will also give rise to the need for consolidation adjustments at a whole of government level in the event that a for-profit public sector entity chooses the offset option.</p>
<p>AASB 119 Employee Benefits Proposal to remove Aus78.1 but to include a revised Aus para to deal specifically with the</p>	<p>The IASB discusses the appropriate discount rate for defined benefit schemes in BC 26 to BC 34 in the Basis for Conclusions to IAS 19. The IASB decided that the rate should reflect the 'time value of money' but not the risks associated with a defined benefit obligation, and also should not reflect an entity's own credit rating. It then</p>

<p>not-for-profit public sector</p>	<p>concluded that the rate that 'best achieves these objectives is the yield on high quality corporate bonds' and then adds that, in countries where there is no deep market for such bonds, the market yield on government bonds should be used (BC paragraph 32).</p> <p>It is not apparent why the IASB should, in the first instance, have limited the best reflection of the time value of money to the market yield on corporate bonds rather than any bonds (corporate or government) of high quality. Presumably, the intention is to pick the high quality bonds with the lowest yield in a deep market as the best estimate of the time value of money; higher yields presumably reflect greater risk, other things being equal.</p> <p>ACAG therefore concludes that:</p> <ul style="list-style-type: none"> • The AASB should, at the earliest opportunity, propose to the IASB that the time value of money should be the same for all entities in an economy and that the reference point for estimating that time value should be based on a high quality bond that has a deep market; and • Retain an Aus paragraph for not-for-profit public sector entities, not for the reason proposed by the ED that the 'high quality corporate bond rate does not seem relevant in this sector', but because it is likely that the government bond rate in Australia is the best estimate of the time value of money, assuming that the market in government bonds in Australia is 'deep'. <p>ACAG also believes that the question of whether a deep market exists for the purposes of AASB 119 should not be an individual judgement of each reporting entity. One would guess that in large developed economies, there would be no question as to whether there exists a deep market (The AASB could presumably test this by reference to reporting practise in the EU, for example).</p>
<p>AASB 127 Consolidated and Separate Financial Statements Proposed removal of para Aus42.1</p>	<p>ACAG does not agree to the AASB proposal to remove Aus42.1. It is important for the reader of government statements, especially Whole of Government statements, to be able to identify readily the entities that have been consolidated.</p> <p>ACAG also strongly disagrees with providing an option for public sector entities not to present consolidated financial statements.</p> <p>ACAG notes that the AASB proposes including paragraph 10 of IAS 27 which grants parent entity's an exemption from preparing consolidated financial statements if, and only if, they:</p> <ul style="list-style-type: none"> • are wholly owned or partly-owned, but all the owners do not

object to there being no consolidation;

- do not have debt or equity traded in a public market;
- do not file financial reports for the purpose of issuing securities in a public market; and
- have an ultimate parent, or any intermediate parent, that
- produces publicly available consolidated financial statements.

Effectively this exemption could allow public sector entities with subsidiaries to avoid consolidating those subsidiaries into their accounts on the basis that they are not the ultimate parent entity in the group, depending on how the ultimate parent entity is defined (refer below). This would significantly erode the strong principles of accountability that currently exist across the public sector and could lead to situations where relevant financial statements are not being produced.

This exemption directly impacts upon the accountability of Government-Owned Corporations and Universities where it is common to have numerous parent/subsidiary relationships. Often in these cases each parent/subsidiary relationship deals with a distinct and unique aspect of the organisations' business, therefore, the removal of the requirement for non-ultimate parent entities to consolidate would significantly reduce the accountability of these entities. As a result, the understandability of the financial reports by users would also be diminished. In the extreme, it could even be argued that because the State is the ultimate parent entity and the State is preparing Whole-of-Government accounts, then consolidation at the public sector entity level (eg., Government-Owned Corporation) is no longer required.

This would clearly not be in the interests of good accountability. Situations may even develop where entities are specifically established at a subsidiary level to avoid the previous accountability requirements.

Issues can also arise where separate financial statements or fully consolidated statements have not previously been prepared on this basis and ownership of these entities is transferred. This may impact on the level of information available for the new ownership group in accounting for the new subsidiaries.

Also, in relation to the proposed action for AASB 127.6 on separate financial statements, ACAG does not believe that the proposed Aus6.1 should be restricted to entities that report under the *Corporations Act*. In the interest of transparency and accountability in public sector reporting, ACAG believes that the requirement to present consolidated financial statements and separate financial statements together should also apply to public sector entities/not-for-profit entities.

	<p>The AASB could address these concerns by the inclusion of appropriate Aus paragraphs to deal with the need for preparation of consolidated financial statements by public sector for profit and not-for-profit entities. The proposed Aus 10.1 paragraph does not address this fully.</p>
<p>AASB 141 Agriculture Proposed removal of Aus49.1</p>	<p>ACAG does not object to the AASB proposal that for profit entities do not have to make the disclosure required by this Aus paragraph unless they are particularly relevant in the Australian reporting environment. Inclusion by the AASB in its proposal of the words “...unless they are particularly relevant in the Australian reporting environment.” is supported due to the situation experienced by some State based for profit public sector entities, which have entered into agreements with the Commonwealth under which restrictions on the use of native forests have been agreed to – examples include, in Tasmania, the Regional Forest Agreement and the Tasmanian Community Forest Agreement. These agreements, when initially entered into, may have significant financial implications for the entity concerned making disclosure of matters envisaged by Aus49.1 most relevant.</p>