

29 January 2013

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

Dear Mr Stevenson

**AASB 105X Budgetary Reporting
Draft for Fatal Flaw Review by 31 January 2013**

Attached are comments from the Australasian Council of Auditors-General (ACAG) on the Draft referred to above.

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

ACAG members note the Draft has been provided for fatal flaw review and not as an exposure draft. Members also note that the Draft reflects consideration of feedback previously provided in respect of 'ED 212 Not-for-Profit Entities within the General Government Sector'. While comments on the Draft are restricted to new matters specific to this Draft, a number of comments included in ACAG's response to ED 212 regarding reporting of budget information remain relevant.

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

Yours Sincerely



Simon O'Neill
Chairman
ACAG Financial Reporting and Auditing Committee

ACAG RESPONSES TO AASB 105X BUDGETARY REPORTING

ACAG provides the following comments in response to AASB 105X Budgetary Reporting.

Comments arising from transaction neutral approach to drafting

The Draft adopts a transaction neutral approach, setting out requirements that are intended to apply to whole of government, general government sectors and entities within the GGS. ACAG members have no fundamental issue with this approach. However, the approach seems to have yielded matters that members hope the Board will consider before proceeding to issue the Draft as a Standard.

Whole of government, general government sectors and entities within the GGS are not subject to identical presentation requirements. As such, some clarification is essential to ensure the Draft's requirements do not imply contradictory requirements. Further, certain transactions are not relevant to all entities to which AASB 105X will apply. Clarification about the relevance of the requirements will support more straightforward application.

For example:

- Paragraph 6 needs to clarify that paragraphs 6(c) and (d) are relevant only to entities within the GGS because AASB 1049 does not allow such statements.
- Paragraph 7 needs to clarify that its requirements are only relevant to entities within the GGS because a general government sector and whole of government do not have administered items. Paragraph 11(b) only addresses administered items of entities within the GGS, which implies the intention is that paragraph 7 only applies to individual entities within the GGS. If this is the intention of the requirement (as it would appear to be, given the material in BC15), it would be clearer if this was explicitly stated in paragraph 7.

Paragraph 2 of the Draft sets out the application of AASB 105X to whole of governments, GGSs and entities within the GGS. Appendix A includes definitions of an entity within the GGS and the GGS. Accordingly, where the term 'entity' is used within AASB 105X, it is implied that all three categories of preparer are included.

Whilst use of the term 'entity' is appropriate given the transaction neutral approach taken to drafting, consistent with comments above, use of the term 'entity' means it is not readily apparent when the requirement is relevant or not. Given various paragraphs within AASB 105X do limit their relevance to only entities within the GGS, this usage could be extended to all relevant instances.

Apparent changes to requirements and implicit new requirements

When relocating existing requirements of AASB 1049, the transaction neutral approach has also resulted in apparent changes to the requirements for the GGS and whole of government. For example, paragraph 12 provides relief from reporting budgetary information where such information is presented to parliament at a more summarised level. Such circumstances were not contemplated within AASB 1049. The inclusion of this material effectively changes the requirements applicable to the GGS and whole of government.

ACAG members also noted another 'new' requirement that was not previously contemplated by AASB 1049. The existing AASB 1049 and its Basis for Conclusions clarify that the Standard allows disclosure of revised budgets (in addition to the original budget). Paragraph 10 of the Draft includes related material within AASB 105X and extends the requirement by stating revised budgets may be disclosed in addition to the original budget and 'might need to be referred to' in explanations. Further material in paragraph 14 appears to result in a clear suggestion that revised budget information needs disclosure in certain situations.

Disclosing budgetary information at the agency level, while conceptually desirable, will cause some practical application issues, particularly when new agencies are created or separated from existing agencies. Each jurisdiction has its own legislation, practices and conventions for reallocating appropriations, creating and approving budgets. When aggregated at a whole of government and GGS level, these movements do not cause problems. At the individual agency level however, this is not necessarily the case. In NSW, when a new agency is created, or functions transferred, although the appropriation moves, there is no budget for the new agency in its first year of operations. Any allocation would be purely arbitrary. Alternatively, the budget number for the appropriation would be the only number the agency could disclose.

Comments on new material within the Basis for Conclusions

The Basis for Conclusions paragraphs contain some material not previously published for consideration by constituents. ACAG members do not seek to question the Board's decision making process or outcome and accept the comments are provided with the aim of maximizing the usefulness of the material to preparers. However, ACAG draws the Board's attention to the following anomalies.

BC7 states that there is a formal requirement that budgets are published for entities within the GGS and uses this as the context for specifying the budgetary reporting requirements of such entities. In fact, there is no such formal requirement. Each jurisdiction determines its own budget requirements and some do not require publication of budgets for entities within the GGS. Notwithstanding a lack of formal requirements, some jurisdictions have a convention of publishing such material, which may have contributed to the view stated. ACAG recommends the Board consider the potential impact of inaccurate material in the Basis for Conclusions paragraphs.

BC10 identifies that a major consideration in limiting the application of the Draft to public sector entities is that there is no requirement for a private sector entity's budget to be made public. ACAG notes that there is similarly no formal requirement for the budget of an individual public sector entity to be made public, notwithstanding the convention that budgets are published for some individual entities. As noted in ACAG's response to ED 212 it is not the case that a budget is published for each individual entity within the GGS.

BC16 discusses application of the principles in AASB 105X to a new entity for which no budget was presented to parliament. ACAG members' reading of this discussion is that the Board concludes that the principles of AASB 105X could be adopted by a newly created entity having regard to the section of the original budget for a different entity that was relevant to the new entity. This conclusion seems inconsistent with the requirement that budgetary information need always reflect the original budget presented to parliament. The statement that the new entity 'might provide a comparison' could imply that the new entity could present arbitrarily determined information on the face of its statements, which is not consistent with the requirements of the Draft. ACAG believes it is important Basis for Conclusions material does not suggest alternative applications of requirements.