



Australian Government

**Australian Accounting
Standards Board**

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The Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
545 Fifth Avenue, 14th Floor
New York, New York 10017
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Dear Paul

Exposure Draft ED 27 Presentation of Budget Information in Financial Statements

The Australian Accounting Standards Board (AASB) is pleased to submit its comments regarding Exposure Draft ED 27 *Presentation of Budget Information in Financial Statements*.

The AASB sought the views of Australian constituents and has considered the constituents' responses received in formulating its comments.

Overall, the AASB supports some aspects of the proposals in ED 27, but the AASB has reservations about proposal 5 to have a comparison of actual and budget amounts to be made on the same basis of accounting as adopted for the budget, even if that basis is different from the basis adopted in the general purpose financial statements. The AASB's detailed responses to the Specific Matters for Comment accompanying the ED together with other comments are attached.

If you have any queries regarding any matters in this submission, please contact Joanna Spencer (jspencer@asb.com.au) or me.

Yours sincerely

A handwritten signature in black ink that reads 'David'.

David Boymal
Chairman

Exposure Draft ED 27 *Presentation of Budget Information in Financial Statements*

Specific Matters for Comment

Proposal 1: Proposal to require a comparison of actual amounts with amounts in the original and final budget as part of the general purpose financial statements (GPFSS) (paragraph 12).

The AASB agrees with the proposal to require a comparison of actual amounts against the original budget as part of the GPFSSs. However, the AASB believes that the Standard should merely allow, rather than require, a comparison against the final budget, although see the AASB's comments on proposal 5.

Proposal 2: Proposal to require disclosure of the reasons for material differences between budget and actual amounts unless such explanation is included in other public documents issued at the same time as, or in conjunction with, the financial statements (paragraph 12). The IPSASB would welcome views on whether such disclosure should be required or encouraged.

The AASB supports the proposal to require the reasons for material differences between budget and actual amounts. However, the AASB is of the view that these reasons should be disclosed in the GPFSS regardless of whether they are disclosed in other public documents. The AASB is of the opinion that the needs of users are best served if information relevant to making meaningful comparisons between actual and budget amounts is presented together in the GPFSS.

The AASB believes that paragraph 12 should be amended to clarify whether its reference to a budget is to the original, final or both budgets. Consistent with our comments in Proposal 1, the AASB believes that "budget" should refer to the original budget.

Proposal 3: Proposal that an entity shall present a comparison of budget and actual amounts in the GPFSSs as additional budget columns in the primary financial statements only where the GPFSSs and the budget are on the same basis of accounting and adopt the same classification structure (paragraph 15). The IPSASB would also welcome views on whether the budget figures should be required to be presented on the face of the primary financial statements when the budget amounts and the actual amounts in the GPFSSs are prepared on a comparable basis.

The AASB believes that an entity should be required to present a comparison of budget and actual amounts in the GPFSSs as additional budget columns in the primary financial statements when the budget amounts and the actual amounts in the GPFSSs are prepared on a comparable basis. Indeed, the AASB believes that the budget amounts should always be presented on a comparable basis to the GPFSSs.

Where the budget basis differs from the accounting basis, the primary financial statements should not include additional budget columns.

Proposal 4: Proposal to require that disclosure of an explanation of the following be made in a report issued in conjunction with, or at the same time as, the financial statements: whether differences between the original and final budget arise from reallocations within the budget or other factor such as policy shifts, natural disasters, or other unforeseen events (paragraphs 25-26).

Consistent with comments on proposals 1 and 2, the AASB believes that where final budget amounts are disclosed, the GPFs should include disclosure of explanations of variances either from the original budget amounts (per proposal 4) or actual amounts, on the basis that proposal 2 would result in explanations of variances between actual and original budget amounts.

Proposal 5: Proposal to require the comparison of actual and budget amounts to be made on the same basis of accounting as adopted for the budget, even if that basis is different from the basis adopted for the GPFs (paragraph 27).

The AASB does not agree with this proposal entirely and has some concerns that inclusion of budget information that is prepared on a different basis from the accounting basis may cloud the emphasis on the operating statement as the primary indicator of financial performance, and could be perceived as connoting IPSASB's support for the budgeting basis. Therefore, the AASB suggests that a hierarchy reflecting a preferential order be reflected in the Standard. In particular, the AASB believes that the Standard should reflect the view that ideally the budget should be prepared on an IPSAS basis. This will allow meaningful comparison of budget to actual figures.

In circumstances where the budget is prepared on a different basis from IPSAS, the Standard should reflect the view that the budget should be restated on a comparable basis to align with the IPSASs. This makes the disclosure more understandable, as users are familiar with the basis of accounting under IPSASs, rather than introducing and explaining a potentially different framework.

If neither of the first two approaches are viable for a jurisdiction the AASB can accept proposal 5. The AASB acknowledges that allowing mixed budgeting/accounting bases in GPFs may assist the transition from cash to accrual budgeting and help avoid what might otherwise be a disincentive to adopt accrual accounting.

As a final comment, if proposal 5 is adopted by the IPSASB, the AASB believes that the budget information that is prepared on a different basis from the accounting basis should be required to be presented in a way that does not detract from GAAP (eg. no greater prominence).

Proposal 6: Proposal to require a reconciliation of actual amounts on a budget basis with actual amounts presented in the GPFs (paragraph 44).

The AASB agrees with this proposal and regards it as a consequence of proposal 5.

The IPSASB would also welcome views on whether:

- *separate IPSASs specifying requirements of budget and actual amounts should be issued for application when the accrual basis is adopted and when the cash basis is adopted; or*
- *the requirements proposed in this ED should be included in IPSAS 1 for those entities adopting the accrual basis of accounting, and in the Cash Basis IPSAS for those adopting the cash basis of accounting.*

The AASB is of the view that the requirements proposed in this ED should be incorporated into the existing Cash Basis IPSAS for those entities adopting the cash basis of accounting, in order to facilitate the continued existence of only one IPSAS dealing with entities adopting the cash basis of accounting.

The AASB is further of the view that the requirements of this ED should be included in a separate IPSAS for those entities adopting the accrual basis of accounting, due to the significance of the topic.

Other Comments

- **Scope (paragraph 3)**
The AASB suggests that ED 27 should also apply to public sector entities that choose to make their approved budgets publicly available, whether or not they “are required to make publicly available their approved budgets” as stated in paragraph 3.
- **Definition of ‘budgetary basis’ (paragraph 8)**
Despite the fact that it would be encroaching into ex-ante issues, the AASB believes that ED 27 should at least encourage entities to prepare budgets on an accrual accounting basis in accordance with IPSASs. Where the encouragement is not followed, consistent with the AASB view expressed on proposal 5, if proposal 5 is adopted the reconciliation between the budget and accounting bases should be presented in a way that does not detract from GAAP (eg. no greater prominence).
- **Definition of ‘final budget’ (paragraph 8)**
The AASB suggests that the definition of ‘final budget’ clarify that the final budget is the most recent budget, since adjustments and/or revisions can be made throughout the period.
- **Level of legislative oversight and aggregation (paragraphs 6 & 12)**
The AASB suggests that additional guidance should be provided about what is meant by the requirement to disclose budget and actual amounts for “each level of legislative oversight”. For example, is it referring to different levels of government (i.e. national, state and local) where one level controls the other? Or alternatively, is it referring to the general government sector, entity and program or function level?

Further, where paragraph 6 refers to disclosing budgets for “components” of the entity, it is not clear whether the term is referring to levels of government, or the general government sector individual entities and programs?