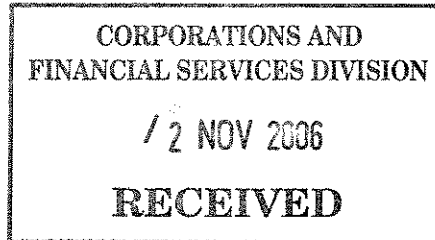




28

Australian Government
Department of Finance and Administration

Reference: 06/05718
Contact: Mr Peter Gibson
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Mr Charles Macek
Chairman
Financial Reporting Council
c/o The Treasury
Corporations and Financial Services Division
Langton Crescent
CANBERRA ACT 2600

Charles
Dear Mr Macek

Public Sector Financial Reporting

The Department of Finance and Administration (Finance) acknowledges the Financial Reporting Council's (FRC) and the Australian Accounting Standards Board's (AASB) endeavours to identify and address issues in public sector financial reporting since the adoption of the International Financial Reporting Standards.

Finance appreciates the opportunity to comment on current issues presented by the recent review by Mr Kevin Simpkins on the policy of sector-neutral accounting standard-setting in Australia. Finance provided a formal response to Mr Simpkins during the research stage of his review and also participated in *Think Tanks* run by CPA Australia. Finance is of the opinion that the financial reporting needs of the public sector are not satisfactorily addressed by the current financial reporting framework.

This letter outlines Finance's position on the essential elements required to address the current public sector financial reporting issues and to ensure public sector financial reporting is able to meet future challenges. A copy of this letter has been forwarded to Professor David Boymal, Chairman, AASB.

Finance is of the view that a public sector conceptual framework needs to be established in addition to the for-profit sector framework. This conceptual framework should focus on public sector financial statement users including parliamentarians, international credit/rating agencies, economists, financial journalist, taxpayers and governing/oversight bodies and their needs and objectives. Principles of significance to public sector users should be emphasised in the public sector conceptual framework including accountability/stewardship, policy delivery, sustainable finance and wealth distribution.

A single set of transaction-neutral topic based accounting standards should continue to be developed and maintained, with the public sector conceptual framework being applied in the development and maintenance of the single set of accounting standards.

A single set of accounting standards ensures similar transactions across sectors are treated in a similar matter. However, comparability should not be given greater weight than relevance when reporting transactions with a specific sector context. "Aus paragraphs", topic specific accounting standards and guidance should be utilized for sector transactions that by way of their nature need to be reported in a sector context.

Finance is of the opinion that the International Public Sector Accounting Standards (IPSAS) should not be adopted by the AASB as a set of standards for the public sector. Significant improvements have been achieved in public sector accounting standard setting in Australia. Australia is leading the world in accrual accounting, budgeting and Government Finance Statistics/Generally Accepted Accounting Principles (GFS/GAAP) harmonisation. The adoption of the IPSAS would diminish these achievements as IPSAS are not a complete set of accounting standards, they are largely cash based and they do not presently include a conceptual framework.

To give public sector issues the level of attention required to address current and future issues, Finance is of the view that the number of public sector members of the AASB should increase from 2 to 4 out of 13 members and that dedicated public sector technically skilled staff should be employed at the AASB. The increased representation will ensure:

- that public sector issues are identified and addressed more efficiently;
- greater assistance is given to public sector financial statement preparers and auditors on the application and interpretation of the accounting standards; and
- the development and maintenance of the public sector conceptual framework.

Finance is concerned with the potential impact the adoption of the improved conceptual framework currently being considered by the International Accounting Standards Board (IASB) will have on public sector financial reporting. The improved conceptual framework's focus on capital markets and cash flows and its insufficient emphasis on accountability/stewardship make it much less relevant to the public sector. Accounting standards developed and maintained using this improved conceptual framework will be less relevant to the public sector and users of its financial statements. The establishment of an additional public sector framework will address Finance's concerns with the improved conceptual framework as it will provide appropriate emphasis and focus on public sector principles.

If you wish to discuss the matters raised in this letter, please contact Mr Peter Gibson,
Branch Manager, Accounting Policy on 02 6215 3551.

Yours sincerely

A handwritten signature in black ink, appearing to read 'K Campbell', written in a cursive style.

Kathryn Campbell
Deputy Secretary
General Manager
Financial Management Group

31 October 2006

cc Professor David Boymal, Chairman, AASB