



**Australian Government**

**Department of Defence**  
Chief Finance Officer Group

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Mr Jorge del Busto  
Secretary Financial Reporting Council  
c/- The Commonwealth Treasury  
Langton Crescent  
PARKES ACT 2600  
Email: jdelbusto@treasury.gov.au

Dear Mr del Busto

### **COMMENTS ON THE USE OF A SECTOR NEUTRAL FRAMEWORK FOR THE MAKING OF AUSTRALIAN ACCOUNTING STANDARDS**

1. The purpose of my letter is to provide you with comments on behalf of the Department of Defence (Defence) on the Matters for Consideration outlined in the abovementioned Consultation Paper.

#### **Requirements being met for public sector and other not-for-profit entities**

2. Defence is of the view that the needs of users of public sector statements are not necessarily being met under the current reporting framework. I do however acknowledge that the AASB has developed a Public Sector Policy Paper which includes a timetable for when various issues will be considered. This is a step in the right direction.

3. Parliamentarians are clearly the prime users of public sector agency financial statements and it is important that there be appropriate consultation to ensure effective alignment of the accounting standards and user's information needs.

#### **Current Approach of the AASB Responsive to the Challenging Environment of the Future**

4. Defence is of the view that the current approach of the AASB, will address some, but not all, of the needs of the public sector. All public sector issues would be better addressed if the AASB and the Register of Advisory Panel Members included equal representation from all three sectors.

5. Each of the accounting standards that apply to the public sector should include public sector specific policy, guidance and examples. There are some standards that only apply to one or a small number of Australian Government entities, and they should be involved in the discussions and review of exposure drafts, for example:

- AASB 102 *Inventories* applies to Defence, but in its current form does not address inventories held for many years or state whether impairment should be taken into account for inventories held for distribution where cost is the lower of cost and current replacement cost.

## **Conceptual Framework Applicable and Appropriate to All Sectors.**

6. Defence is of the view that an accounting conceptual framework provides important guidance and indicative boundaries for standard setters. However, the current framework presumes that all entities exist and operate with similar objectives, which is not true. In particular, public sector and not-for-profit entities are:
- (a) not aimed to derive a profit or surplus;
  - (b) are often funded under arrangements that are very different from those applying to commercial entities;
  - (c) exist for purposes that are broader in focus and nature than those of most commercial entities;
  - (d) have different legal structure (eg most cannot distribute property to private individuals on winding up); and
  - (e) likely to have a broader stakeholder base.
7. For similar reasons, public sector and not-for-profit entities also differ from each other—that is, (b), (d) and (e) are likely to be very different between a charity and a government welfare provider.
8. There are fundamental conceptual issues that are not adequately addressed in the present standards. For example, the valuation and impairment of assets in a non-cash generating context
9. The conceptual framework needs to be designed to specifically address the needs of the various broad types of entity to which the underlying accounting standards will apply or be broad enough in its principles to permit the divergence which should exist given the differences mentioned in the points above.

## **Most Appropriate Approach to Developing Accounting Standards**

10. Defence is of the view that the AASB:
- should continue to develop a single set of standards, where the principles applying to a particular type or class of transaction are uniform across all sectors;
  - where there are divergences—such as the nature of assets held by the public sector (eg heritage and cultural items), consider whether one or more separate standards are required to ensure that the accounting standard requirements reflect the underlying purpose and structure of the various type of entities;
  - continue to issue interpretive guidance, as required; and
  - should consider providing a written ‘ruling’ on interpretation of standards similar to tax rulings provided by the Australian Taxation Office and any amendment to the standard should incorporate the rulings.
11. Regardless of the number or type of standards issued, a range of sources should be considered to provide for the various types of reports the public sector prepares and the needs of specific users.
12. As a result, Defence prefers a single set of standards with some standards being specific to some sectors – which in effect is like a matrix approach. A positive step for the public sector is AASB outlining the direction it intends to take in establishing requirements and identifying the base set or sets of standards that will be adopted.

13. In order to facilitate this approach, developing a Statement of Users Needs for all sectors so that comments can be sought prior to the Board discussing an exposure draft would be beneficial. Defence noted that AASB stated in its Public Sector Policy paper which was tabled on 4-5 October 2006 meetings that it '*..would consult and engage with key constituents, where relevant, use expert groups to help develop technical issues.*'

14. I appreciate the opportunity to provide comments on the draft standard. Should you wish to discuss these comments further please do not hesitate to contact me on (02) 6265 2326.

Yours sincerely

*(original signed)*

Mark Jenkin  
Acting First Assistant Secretary  
Financial Services

31 October 2006