



21 Albert St,
Mornington, VIC 3931

31 October 2006

Mr Jorge del Busto
Secretary Financial Reporting Council
c/- The Commonwealth Treasury
Langton Crescent
PARKES ACT 2600

Dear Mr del Busto

**THE USE OF SECTOR NEUTRAL FRAMEWORK FOR THE MAKING OF
AUSTRALIAN ACCOUNTING STANDARDS**

Thank you for the opportunity to provide input to the Financial Reporting Council on the process for setting accounting standards in Australia.

FinPro is an Association which represents finance professionals in Victorian Local Government with membership representing nearly every Council in Victoria. The Association has an established technical committee which provides advice and training to members on financial management, governance and accounting.

We have been watching developments in Accounting Standards with interest and have been appreciative of the AASB in providing forums and opportunities to input into the public sector accounting standards debate.

Please find our submission in accordance with the advice received from your office. FinPro hopes that the information assists your process to finalise the Accounting Standards, particularly in respect to the Local Government Sector in Victoria.

Yours Sincerely

A handwritten signature in black ink, appearing to read "Joe Groher", with a long, sweeping horizontal line extending to the right.

Joe Groher
Vice President
FinPro Technical Committee

MATTERS FOR CONSIDERATION

- 1. In your view, how well are the needs of all users of general purpose financial reports, including users of public sector and other not-for-profit entities in Australia, being met?**

Response:

In the context of the Victorian environment, the users of financial reports in the context of the local government environment include groups such as the local community and community groups, state government particularly departments such as sustainability, local government and Victorian Communities and financial institutions providing services and funding to Local government councils. The interest and needs of these groups is varied and it is felt that financial reports will meet the needs of the informed users but have little relevance to the less financially literate groups in the community who have a more narrow perspective and need of financial information.

The community group's focus is not so much on whether the council has discharged its financial obligations but has it delivered the level of service attributable to the financial resources provided. A secondary need is whether the Council is financially sustainable in the medium to long term which is also an interest to Government and Financial institution users. The introduction of fair value and contributed assets may distort the picture in term of longer term financial sustainability particularly in the way these may be treated in the income statement.

To address some of these shortcomings State Government & Peak body groups in the sector have implemented a number of regulations including the requirement to produce standard statements and budget to actual comparisons and best practice guidelines to address shortcomings in standardisation of information. The aim of the framework should be to minimise the need for these additional reporting requirements. It is of concern that sector neutral standards may in fact exacerbate the need for additional regulations / best practice guidelines to ensure that all user needs are met.

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2. **Will the current approach of the AASB enable the standard-setter to respond to the more challenging environment of the future and ensure the needs of public sector and other not-for-profit users are appropriately met?**

Response:

We support the establishment of a single set of standards in Australia which covers all sectors. Prior to the introduction of A-IFRS users of standards were faced with two sets of standards (AASs and AASB) as well as sector specific standards such as AAS27 “Reporting by local governments”. This was a complex arrangement and made it difficult for financial report users to interpret results, particularly across sectors.

Having said this, there are and will always remain differences between sectors. In the local government context, the valuation of infrastructure and recognition of grants and other contributions are two examples. **These differences need to be accommodated within the new framework either through issue based standards or non-mandatory guidance.**

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- 3. Do you consider that having a conceptual framework that is applicable and appropriate to all entities is a necessary element in Australian standard-setting for all sectors? What approach to establishing a conceptual framework(s) do you consider appropriate?**

Response:

FinPro support having a conceptual framework. Without a conceptual framework, the development and setting of standards will be unplanned and likely to have unintentional consequences. In hindsight, a conceptual framework should have been developed prior to the harmonisation process commencing.

The conceptual framework will need to establish how it will recognise and deal with the differences between the profit and not-for-profit sectors. Clearly governance issues like accountability and stewardship will need to be specifically addressed given the public interest test faced by public entities.

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4. **Different approaches could be used to set standards in Australia. Which approach do you consider the most appropriate:**
- **To continue to develop a single set of standards;**
 - **To develop two separate sets of standards: one for profit-oriented entities and the other for not-for-profit entities; or**
 - **Another approach, eg. three sets of standards (profit-oriented, public sector not-for-profit and other not-for-profit sets) or two sets of standards with other not-for-profit entities being addressed together with profit-oriented entities?**
(If you prefer this option please describe the approach you prefer)

Response:

In the opinion of FinPro a single set of standards approach is preferable. It is generally felt that a single set of standards can be applied to all entities. It is however considered appropriate that some of the characteristics peculiar to local government be included in the standards with some form of “guiding principles” recognising the distortions which currently create significant confusion when reading the financial statements. This includes:

- The impact of fair value and revaluation adjustments have on the balance sheet;
- Recognition of contributed assets (non cash) on the income statement; and
- Recognition of revenue at the point of receipt rather than the no longer applied “matching principle” where revenue received for exchange of goods or services is recognised when the goods or services have been delivered.

A single set of standards recognising the needs and peculiarities in the not for profit sector is a preferred approach.

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5. If, in response to Consultation Issue 4, you considered standards different from those applying to the for-profit sector should be developed for one or more sectors please indicate, for each such sector, what the primary base should be for those standards:
- Government Finance Statistics (GFS);
 - International Public Sector Accounting Standards (IPSAS); or
 - a range of sources, including International Financial Reporting Standards, IPSAS and GFS, depending on the particular issue being considered?

Response:

No response required.

6. **If a single set of standards continues to be developed in Australia, do you prefer:**
- **the current approach of the AASB;**
 - **a matrix approach, retaining specific standards for types of public sector and possibly also other not-for-profit entities while maintaining a general set of topic based standards applicable to all entities; or**
 - **an approach involving a single set of standards but with non-standard level guidance (such as the Statements of Recommended Practice in the United Kingdom) applicable to particular sectors or groups of entities in sectors?**

Response:

As stated in item 4, in the opinion of FinPro, a single set of Standards is preferable, with recognition of the specific circumstances and needs of the different sectors. In that respect the Matrix approach seems a preferred way for Local Government where some of the unique requirements of the sector will be catered for within the one set of Standards. Some of these requirements are highlighted in section 4. This approach will better integrate the different sectors within the one set of Standards and within an overall conceptual framework, without having to create alternative Statements.

It is the view of FinPro that the third alternative, with separate SORP's could give rise to inconsistencies in the application of Standards across different sectors.

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7. **Would developing a Statement of User Needs for the public sector and other not-for-profit sectors, based on research, and including an analysis of how any different needs impact financial reporting be useful? If so, please suggest how that Statement of User Needs could be developed and maintained. Do you have any other views on how user input could be enhanced?**

Response:

A statement of user needs is supported however this is tempered with the need to know what this user need statement would look like. It is believed that a properly constructed statement of user needs could assist in developing the information required for inclusion into financial statements, in particular the addition of notes to the accounts.

A statement of user needs could provide clarification of different user group's requirements or needs associated with financial information and may assist in developing or enhancing the conceptual framework. At the end of the day the set of financials should be provided to inform the users of how well the entity performed in applying the financial resources. In the environment of Local government financial performance, exercising custodianship over resources and the delivery of community services are key issues which should be apparent in the financial statements.

A separate piece of work may be required to determine what the user needs statement should look like and what could be included. By undertaking a separate research activity, core needs of users can be identified and provide input into the conceptual framework and fundamentals required in financial statements. A user needs statement could provide an added benefit of drawing together the broader group of not for profits that currently do not have a strong voice in the standard setting environment. Increasingly not for profit entities are providing significant services to the broader community and little if any consultation is undertaken to determine the user base and needs for reporting to the stakeholders. Emerging groups such as community based health organisations are increasing levels of service and influence in the community. **Inclusion of peak body groups such as FinPro in developing and updating user needs statement may provide added information to help establishing accounting standards**

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- 8. Do you consider that there is enough clarity on the direction that the AASB is taking in establishing requirements for the public sector and other not-for-profit sector, including identifying the base set or sets of standards which will be adopted?**

Response:

We do not believe that there is enough clarity on the direction that the AASB is taking in regard to the requirements of the public sector and other not-for-profit entities. As a peak body for local government finance professionals we have been unable to determine the AASB's workplan and since a key member of the Department of Victorian Communities stepped down from its Board, we have essentially been left in the dark.

We would support the establishment of a strategic framework for the AASB along with the preparation of an annual plan or workplan. The communication of these plans along with monitoring reports would also be an essential element.

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9. A number of options to enhance the recognition of different environments and issues in sectors have been identified in the Report. Do you consider any of the options, including those relating to board membership, sub-boards or committees, expectations of board members, staffing or explicit board sign-offs would enhance the ability of the standard-setting process to meet user needs?

Response:

FinPro understands that it is not feasible for every sector to have full representation on the standard setting board (the board). However, non representation on the board should not adversely affect any sector's needs being adequately catered for in the standards.

With nearly every sector having its own representative body, the board should establish close contact with these peak bodies and ensure that user needs specific to that sector are adequately considered (refer comments on section 7). Each of these peak bodies must be invited to submit a statement of user needs for that sector so that the standards include the views of that sector, especially from a practitioners' viewpoint.

Members of the board should sign off on the standards only after satisfying themselves that user needs statements for relevant sectors have been submitted.

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10. Are there any other matters that you would like to suggest for consideration by the FRC?

Response:

FinPro would like to see a timely resolution of the FRC review process and **feedback to FinPro on key decisions made.**