

28

**FACSIMILE****Government of South Australia**Department of Treasury  
and Finance

**To** Mr Jorge del Busto  
**of** The Commonwealth Treasury  
**From** Julie Sinclair  
**of** Government Accounting and Reporting  
 Branch  
**Email** [sinclair.julie@saugov.sa.gov.au](mailto:sinclair.julie@saugov.sa.gov.au)

**Fax No** 02 6263 2770  
**Date** 1 November 2006  
**Tel No** 08 8226 9605  
**Fax No** 08 8226 3127  
**Pages** 6

State Administration Centre  
200 Victoria Square  
Adelaide SA 5000GPO Box 1045  
Adelaide SA 5001  
DX 56205Tel 08 8226 9500  
Fax 08 8226 3819  
<http://www.treasury.sa.gov.au>

ABN 19 040 349 865

**A REVIEW OF THE POLICY OF SECTOR-NEUTRAL ACCOUNTING STANDARD-SETTING IN AUSTRALIA**

Dear Jorge,

Please find attached a letter from the SA Department of Treasury and Finance in response to the discussion paper issued for comment.

Regards

Olivia Leske  
Financial Management TeamCORPORATIONS AND  
FINANCIAL SERVICES DIVISION

31 OCT 2006

RECEIVED



Government of South Australia

Department of Treasury  
and Finance

31 October 2006

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

State Administration Centre  
200 Victoria Square  
Adelaide SA 5000

GPO Box 1045  
Adelaide SA 5001  
DX56205

Tel 08 8226 9500  
Fax 08 8226 3819

<http://www.treasury.sa.gov.au>  
ABN 19 040 349 865

Dear Mr del Busto

### **A review of the policy of sector-neutral accounting standard-setting in Australia**

The South Australian Department of Treasury and Finance, in consultation with a number of South Australian Government agencies, has reviewed the discussion paper issued for comment by the Financial Reporting Council and provides the following comments:

*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?*

In South Australia, the Accounting Policy Frameworks (issued by the Treasurer):

- are designed to ensure consistent application of Australian Accounting Standards by all SA Government controlled entities in the preparation and presentation of their general purpose financial reports;
- mandate the application of AAS 29 to the majority of SA Government agencies (including agencies that are not departments);
- where applicable, mandate the application of changes in generic pronouncements, for example SA Government agencies are required to prepare a Statement of Changes in Equity and call the profit and loss statement an Income Statement (prepared on the net cost of services basis); and
- contain guidance.

SA Government agencies discussed users of public sector general purpose financial reports and noted that these users were different to users of private sector general purpose financial reports. Users included, but were not limited to: Parliament, rating agencies, contributor of funds, general public, media groups etc.

SA Government for-profit entities were of the view that AIFRS had resulted in general purpose financial reports being more complex and containing a lot more information that was not useful to users of public sector general purpose financial reports.

SA Government not-for-profit entities were of the view that AAS 29 and AAS 31, as the overriding public sector accounting standards, were out of date (as a result of changes in generic pronouncements) and accordingly general purpose financial reports prepared using these standards would not be useful to users of public sector general purpose financial reports.

SA Government agencies were of the view that general purpose financial reports prepared using the requirements and guidance in both the Accounting Policy Frameworks and AIFRS were meeting the needs of users.

*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?*

The following was noted:

- IASB standards are written for for-profit entities in the private sector and for a primary user group, being creditors and investors; and
- the current approach to standard setting in Australia by the AASB ie use of IASB standards as a foundation for AIFRS to be applicable to all sectors within the Australian economy.

SA Department of Treasury and Finance and Government agencies were of the view that the majority of transactions could be treated the same regardless of sector, as there are common users across the sectors and common information needs. However it was acknowledged that the main objective of general purpose financial reports in the public sector is to discharge stewardship and accountability, and users of public sector general purpose financial reports have specific information needs that may not be equally reflected in the private sector and/or 'profit focused' standards.

SA Government agencies noted various difficulties with the application of current accounting standards / financial reporting in the public sector, for example assets not being held for income generation; valuation issues of unique assets such as botanical gardens, heritage and cultural assets; contributions/non-exchange revenues, control, administered items, related parties etc.

SA Department of Treasury and Finance and Government agencies were strongly of the view that accounting standards should require information to be recognised, measured, reported, disclosed and presented in a relevant, understandable and comparable manner. SA Government agencies agreed that it is desirable to have comparability for the reporting entity over different periods of time; internally within the sector but not necessarily across sectors (especially where public sector user needs are not being met). Materiality should also be considered.

SA Government agencies expressed the following concerns if accounting standards (IASB standards written for for-profit entities adopted by the AASB) were not road tested sufficiently for public sector users and their information needs:

- lack of clarity in guidance;
- difficulties with application of for-profit principles in a not-for-profit environment;
- costs potentially outweighing the benefits of providing information;
- diversity in practice between the sectors;
- inappropriate use of terminology; and
- inappropriate presentation of information.

SA Department of Treasury and Finance and Government agencies appreciate the AASB's desire to manage international perceptions ie the more Aus paragraphs the greater it may be perceived that Australia has not harmonised with International Accounting Standards.

However, it is crucial that public sector specific issues are considered and material is added to broaden the scope of standard to the public sector (a sector not addressed by the IASB) and for domestic regulatory matters.

In addition, the SA Department of Treasury and Finance and Government agencies were of the view that to minimise delays in addressing public sector specific requirements/emerging issues, the AASB develop a mechanism to address these requirements/issues, especially where IFRIC do not include these items on their agenda.

*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?*

Yes it is vital that the Australian conceptual framework be appropriate for all sectors for which standards are being developed – refer to the SA Department of Treasury and Finance and Government agencies submission on the ITC 11 discussion paper for issues identified.

*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 e.g. 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)*

SA Department of Treasury and Finance and Government agencies are of the view that the majority of transactions could be treated the same regardless of sector and therefore support the continuing development of a single set of standards. Where there are public sector specific differences/issues/guidance required, these should be dealt with in these standards by adding material to broaden the scope of the standard to those sectors not addressed by the IASB and for domestic regulatory or other matters eg Aus paragraphs.

It is also suggested that it may be beneficial to have certain public sector specific issues such as administered items; control and machinery of government changes etc covered in topic specific standards.

*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?*

SA Department of Treasury and Finance is of the view that the single set of standards should support the harmonisation of GAAP/GFS for public sector reporting.

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?

The SA Department of Treasury and Finance and Government agencies support the current approach of the AASB.

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?

Yes, the SA Department of Treasury and Finance believes a Statement of User Needs for the public sector would be beneficial.

The Statement could be developed by AASB staff in consultation with the professional accounting bodies including sub-committees such as CPA public sector/not-for-profit committee. Further comments from public sector stakeholders could be sought in the same way as comments are currently sought on Exposure Drafts and other discussion papers.

It is noted that the HoTARAC submission on the harmonisation of GAAP/GFS for public sector reporting to the AASB included significant work on the identification of users of public sector general purpose financial reports.

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?

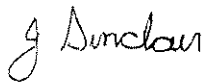
No. The SA Department of Treasury and Finance suggests that the Statement of User Needs could include:

- how the AASB will assess the needs of different users in different sectors;
- the AASB's direction in relation to meeting outstanding public sector issues;
- how the AASB will develop Australian guidance for the public sector;
- road testing of IASB's standards for the public sector;
- how the AASB will determine/assess the cost vs benefit to the Australian economy of amending/improving Australian Accounting Standards; and
- the role of IPSASB's standards and the monitoring of IPSASB projects in relation to setting standards in Australia.

*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?*

Currently, there are three representatives from the public/not-for-profit sector on the AASB. The SA Department of Treasury and Finance suggests that consideration be given to increasing this number to four members.

If you require further information or clarification, please contact Julie Sinclair Team Leader, Financial Management on 08 8226 9529.



per Sue Lees  
ACTING GENERAL MANAGER  
GOVERNMENT ACCOUNTING & REPORTING