



**Australian Government**

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**Department of Treasury and Finance**

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Dear Mr Yates

**AASB Staff comments on Victorian Department of Treasury and Finance  
Discussion Paper *Public Finance in Victoria: Practices & Legislation*  
October 2008**

Thank you for providing us with the opportunity to comment on the Discussion Paper. As a national accounting standard setter, we would normally only comment on the accounting standard setting aspects of national initiatives for the reform of public sector financial management. However, given the leading-edge nature of the initiatives your Discussion Paper contemplates, and the cooperative relationship between the Victorian Government and other States and Territories and the Commonwealth, we thought you might find our comments helpful as you progress the reform process.

Rather than comment on the specific matters raised in the Discussion Paper, we think that we could make a more effective contribution to your deliberations by bringing to your attention some issues that we think are relevant in an accounting standards context. We believe that developments in accounting standards will complement many of the initiatives contemplated in the Discussion Paper.

Some issues related to the subject matter of the Discussion Paper that we think are worth bringing to your attention include the following:

- (a) The Paper makes frequent reference to governance and accountability, but does not explicitly mention disclosures about related parties, including key management personnel. It may be relevant for you to note that not-for-profit public sector entities are currently excluded from the scope of AASB 124 *Related Party Disclosures*. The AASB has initiated a project to review the existing practices in Australian and international public sector jurisdictions. In due course, the AASB will consider the suitability of AASB 124 and the International Public Sector Accounting Standards Board's (IPSASB) Standard IPSAS 20 *Related Party Disclosures* in progressing the development of a Standard applying to public sector entities in an Australian context.

The project includes consideration of related party transactions and key management personnel disclosures.

- (b) The Paper refers to the relationship between the Victorian and the Commonwealth governments, but does not explicitly refer to the relationship between the Victorian and local governments. We think the concept of 'joined-up' government could usefully be extended to include the relationship between the Victorian government and local government. Furthermore, it is relevant to note that the AASB intends focusing on the question of control in the public sector, which will include consideration of the circumstances under which a State government might control local governments. If local governments are regarded as being controlled, a state government would be accountable for the local governments. A question arises as to how that control relationship should be accounted for in a State government's financial statements – through line-by-line consolidation or by applying the equity-method of accounting.
- (c) The Paper refers to consolidated financial reporting in a number of places, and uses the term 'whole-of-government'. 'General government sector' is also mentioned, but only in the glossary of the Paper. We suggest that, in progressing the review of public finance in Victoria, explicit consideration is given to the relationship between the whole-of-government and general government sector. We note that AASB 1049 *Whole of Government and General Government Sector Financial Reporting* provides a financial reporting framework that addresses both. The AASB is now considering financial reporting by entities within the general government sector and expects to issue an Exposure Draft for public comment in early 2009 (with the aim of issuing a Standard by February 2010).
- (d) The Paper refers to both financial and non-financial performance reporting. The AASB's focus to-date has been on financial reporting. Currently, accounting standards applicable to public sector entities do not explicitly address performance indicators. In due course, the AASB will consider whether it is appropriate for Standards to prescribe the disclosure of performance indicators, a process that will include consideration of New Zealand's current requirements. We do not see financial reporting and non-financial performance reporting being substitutes. We think that each complements the other.
- (e) The Paper refers to a desire to develop a consistent definition of 'entities'. We agree that it would be desirable to have a consistent definition. In that regard, it is relevant to note that the AASB is currently reviewing its definition of 'reporting entity'. We suggest that consideration of the notion of control might be useful in your deliberations of determining the boundary of an entity.
- (f) The Paper refers to prospective and retrospective information. To date the AASB's focus has been on retrospective information. AASB 1049 extended that to the reporting of actuals against budget (and explaining variances) at a general government sector and whole of government level. The AASB now intends to consider, for other not-for-profit public sector entities, whether:
  - (i) budget information (being the original budget that relates only to the financial statements themselves) should be presented in the general purpose financial statements on a comparable basis to the financial statements; and

- (ii) explanations of major variances between the actual amounts and the budgeted amounts should be disclosed in the general purpose financial statements.
- (g) The Paper refers to differential reporting in section 3.2.1. The AASB is progressing its differential reporting project. To date, in relation to general purpose financial reporting in the public sector, the AASB's tentative decisions include:
  - (i) the Federal, State and Territory governments should comply with AASB 1049, which includes applying most other AASB Standards; and
  - (ii) other public sector entities should adopt one of three possible frameworks:
    - A. all relevant AASB Standards [which are International Financial Reporting Standards (IFRSs), as adapted for the not-for-profit public sector in Australia];
    - B. a second tier AASB Standard [which would be the IFRS for private entities (previously referred to as IFRS for SMEs), as adapted for the not-for-profit public sector in Australia], which is yet to be finalised; and
    - C. AASB recognition and measurement requirements plus limited specified disclosures – yet to be finalised.

In relation to (ii), the AASB does not intend to specify which entities should adopt which framework. That would be left to the discretion of the individual entity, or the regulator of the entity. Accordingly, in your review of public finance in Victoria, we suggest that you have regard to this possible changed accounting regime, and the criteria the Victorian government might adopt in determining the accounting requirements that should be applied by its controlled entities. Different types of entities could be required to apply different frameworks.

- (h) The Paper refers to the IPSASB and its work on long-term financial sustainability reporting in section 3.2.3. The AASB intends to continue to monitor the IPSASB's development of its project.
- (i) The Paper refers to 'improving accessibility' in section 3.2.3. As you may be aware, the Commonwealth is progressing its Standard Business Reporting (SBR) initiative, which involves the use of eXtensible Business Reporting Language (XBRL) in gathering, storing and disseminating financial and other information. The AASB is assisting the SBR initiative, and we note that XBRL has the potential to be broadly applied across a wide range of entities in the private and public sectors.

We hope that you find the above comments helpful and that they provide you with some insight into the current and future intended activities of the AASB that may impact on your work. We would be happy to meet with you to explain more fully the work of the AASB.

Yours sincerely



Bruce Porter  
Acting Chairman