

The Commonwealth Parliament
Joint Committee of Public Accounts and Audit
Review of the Accrual Budget Documentation

We are pleased to accept your invitation to provide a written submission to the Committee's inquiry into the effectiveness of, and options for enhancing the format and content of, the current budget documentation including the Portfolio Budget Statements, Annual Reports and Portfolio Additional Estimates, for the purposes of Parliamentary scrutiny.

The Corporate Law Economic Reform Program Act 1999 establishes the basis for standard setting arrangements as part of the government's Corporate Law Economic Reform Program. The Australian Accounting Standards Board (AASB) is charged with preparing, approving and issuing accounting standards for private and public sector entities required to prepare financial statements in accordance with accounting standards and to participate and contribute to the development of a single set of accounting standards for world-wide use. It is within this context that our submission to the inquiry is developed. Accordingly, our submission is relevant to the general terms of reference of the inquiry rather than the specific points raised in the terms of reference.

Our current work program includes a number of projects that are either public sector relevant or public sector specific. These are detailed in the paragraphs that follow. In addition, we continue to liaise with, and provide input to, the Public Sector Committee (PSC) of the International Federation of Accountants. The PSC foci include the development of a comprehensive body of international accounting standards for governments around the world. It addresses this need by: issuing and promoting accounting standards; developing guidelines to improve public sector financial management and accountability; and undertaking studies of the best practices and most effective methods for dealing with financial reporting, accounting and auditing issues in the public sector. Accordingly, we are well placed to brief Australia's representative at this forum on an Australian viewpoint on these matters. In addition, the AASB submits responses to PSC Invitation to Comment and PSC Exposure Drafts.

The Australian Bureau of Statistics (ABS) Accruals-based Government Finance Statistics financial reports (GFSs) and their reconciliation with 'whole of government reporting' Australian Accounting Standard 31 (AAS 31): Financial Reporting by Government provides a catalyst for our continuing contact with the ABS.

The AASB 'Prospective Financial Reports' project is considered in-line with the commitment of the Commonwealth Government to achieving ex-ante and ex-post comparative reporting. We have established a broadly constituted Project Advisory Panel (PAP) on Prospective Financial Reports to provide the AASB with a range of views on a draft Exposure Draft on the topic.

Briefly, the draft Exposure Draft proposes general purpose prospective financial reports (a statement of prospective financial performance, a statement of prospective financial performance, a statement of prospective cash flows, and notes) prepared on the basis of estimated expected outcomes, and the inclusion of information to facilitate a "sensitivity analysis". The preparation of prospective financial statements should reflect accounting policies expected to be used in the future for ex-post general purpose financial reporting. Furthermore, Australian Accounting Standards and other pronouncements that are on issue as at the time of the completion of the prospective financial statements should underlie their preparation. Disclosure of the basis used and the significant assumptions underlying the prospective financial information is required.

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We note that where an expert undertakes the review of prospective financial statements Australian Auditing Standard 804 (AUS 804): The Audit of Prospective Information should be applied with such adaptations as are necessary for review engagements under Australian Auditing Standard 902 (AUS 902): Review of Financial Reports. The Australian Accounting Research Foundation's Auditing & Assurance Standards Board (AuASB), is vested with the responsibility for the development and maintenance of standards and statements on auditing and audit related services. Thus, the AuASB would be best placed to provide the committee with additional information regarding the audit of prospective information.

Our preliminary assessment of the PAP responses reveal that some PAP members question the AASB decision to give priority to the Prospective Financial Reports project. Furthermore, questions have been raised regarding the development of a formal accounting standard on Prospective Financial Reporting in isolation from the Accrual Uniform Presentation Framework (AUPF). As a result, we are not presently in a position to disseminate further information about this project to the committee's inquiry.

Australian Accounting Standard 29 (AAS 29): Financial Reporting by Government Departments and Australian Accounting Standard 31 (AAS 31): Financial Reporting by Government were issued in June 1998. The AASB maintains a 'watching brief' over these standards. One purpose of the 'watching brief' is to ensure that AAS 29 and AAS 31 remain relevant in a rapidly changing public sector environment. It may be appropriate for the Urgent Issues Group (UIG) to consider and decide upon specific issues receiving divergent or unacceptable treatment. More broad-based issues would require the AASB to review and possibly re-issue AAS 29 and/or AAS 31.