

CPA Australia

**Public Sector Financial Reporting  
Think Tank**

20 January 2006

Ian McPhee  
Auditor-General for Australia

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**- Sector-neutral Accounting Standards -  
Comments by Ian McPhee, Auditor-General for Australia**

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- Thanks to CPA Australia for organising this public sector ‘think tank’, and it is pleasing to see such a good representation from the public sector here this morning.
- I also wish to compliment the Financial Reporting Council in undertaking *‘the research into how adequately a sector-neutral approach to the development of accounting standards can meet the information needs of users of financial statements and the public interest more generally.’*
- I must firstly declare an interest – I am a former member and chair of the Public Sector Accounting Standards Board, which was responsible for the development of the public sector series of standards in the early 1990s.
- Now, standard setters, like the rest of us, imagine how the world might be in a conceptual or idyllic state:
  - this is a good thing;
  - it assists in mapping out a goal or outcome to be achieved;  
: a goal to work towards
- I recall at the time of the development of SAC4 a comment that, apart from matters of disclosure, this could be the last ‘standard’ ever written –
  - because the articulation of the concepts, with mandatory application, would drive the required responses on the part of the profession in determining the classification and recognition of revenues, expenses, assets, liabilities and equity;
  - of course, it wasn’t the last standard ever written, because of the complexity of the transactions and events financial reporting has to deal with, and the demands of users for greater transparency about financial performance and financial position.
- It is appropriate, in my view, to have a presumption in favour of sector-neutral standards, but where a case can be made, departures from this approach should be allowed. On this basis, in light of the marked differences between the for-profit and public sectors, and the scale of public sector activities, I am strongly in favour of the AASB continuing to develop public sector standards.

As Professor Allan Barton of the Australian National University has written:

*'The environment of government and the nature of its operations are fundamentally different to those of the business sector, and accounting information systems must be designed to suit these characteristics if they are to provide useful information to the government and its managers (ie: the public services), Parliament and citizens'<sup>1</sup>.*

- The release of ED142 in the harmonisation of GAAP and GFS is a case in point:
  - this is an important public sector financial reporting development that cannot be handled in any sector-neutral manner, and the FRC and AASB have rightly decided a separate standard should be developed.
- Now, it may be argued that ED142 is a special case, and time has moved on when it comes to the public sector specific standards such as AAS 27, 29 & 31.
- Time has moved on, but these standards have largely remained the same despite the public sector accounting issues that are around on matters such as control, revenue recognition, accounting for administered items, accounting for social obligations, and executive remuneration disclosure at the whole-of-government level.
- I am concerned that, if AAS 29 and 31 (in particular) are withdrawn as proposed and public sector issues are dealt with in particular standards, the focus on public sector issues will be diminished.
- Ever since the merger of the PSASB and AASB, which was done on the basis that the public sector financial reporting issues would continue to receive appropriate attention, public sector issues have not been given the same focus as under earlier institutional arrangements.
  - and yet it was these standards that put public sector accounting on the map in Australia and complemented the financial management reforms in each jurisdiction in this country.
- If public sector issues are now to be dealt with in sector-neutral standards, the significant risk is that they will not be considered as an integrated whole in the context of public sector financial reporting.
  - this is a case where the *'whole is more than the sum of the parts'*;
  - and the influence of the *'whole'* on public sector financial reporting over the years should not be underestimated;
    - : it has changed not only public sector financial reporting in Australia, but also influenced public sector budgeting arrangements;
- Spreading the public sector elements across the full range of standards is a second-best answer, from my perspective.

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<sup>1</sup> **ED142, Financial Reporting of General Government Sectors by Governments.** Comments by Prof. Allan Barton, The Australian National University, Canberra, 24 October 2005.

- It also seems ironic that at the time we are introducing a standard that deals with the General Government Sector (through ED142), which is an important but partial view of the public sector, the standard dealing with reporting at the whole-of-government level would be taken away.
- Against this background, at this time, I consider a matrix approach should continue to be applied to standard-setting in Australia,
  - there are, and should continue to be, a range of sector-neutral standards dealing with issues of depreciation, leasing, financial instruments, etc, but there are also some specific industry standards required for the public sector, in the interests of the needs of users of public sector reports;
  - in other words, I favour the option presented in the AASB Strategy Paper but not adopted, of reviewing AAS 27, 29 & 31 and reissuing them in the light of the latest Australian Accounting Standards, including Australian equivalents to IFRSs, retaining/amending where necessary any issues that are additional in AAS 27, 29 & 31 that are not adequately addressed in the latest AAS, (as well as incorporating relevant requirements from International Public Sector Accounting Standards);
    - : there may, however, be scope for some rationalisation between the standards
- As you will have gathered, my interests are in encouraging greater priority being given to public sector financial reporting issues, given the importance of such reports to users of public sector reports.