

CPA Australia – Tasmania Conference 2006

“Review of the Policy of Sector-Neutral Accounting  
Standard-Setting in Australia”\*

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## **Introduction**

My address today will focus on the following key themes:

1. Background to the Financial Reporting Council's Review of Sector-Neutrality;
2. The Approach and Methodology followed by the FRC's Consultant, (Kevin Simpkins);
3. Key Issues and Options addressed in the Simpkins Report;
4. Whether the Simpkins Report misses the point;
5. The FRC's Preliminary Response to the Simpkins Report;
6. Views of key public sector stakeholders; and
7. Next steps for the Review

I should commence with a disclaimer, to the effect that I am speaking today on my own behalf – not as a member of the Financial Reporting Council - and the opinions I express are my personal views and should not be associated with either the Financial Reporting Council, HoTARAC or my employer.

I would also like to acknowledge the significant contribution of my colleague Craig Jeffery who assisted me greatly in the preparation of this paper and has worked closely with me over the past few years on a number of related papers contributing to the debates on public sector financial reporting – and we aren't finished yet!

## **Background**

- The Financial Reporting Council (FRC) was established on 1 January 2000 under section 225 of the *Australian Securities and Investments Commission Act 1989* (ASIC Act) for the purpose of overseeing Australia's accounting standard-setting process.
- One of the key functions of the FRC is to provide broad oversight of the processes for setting accounting standards in Australia. Specifically, the FRC is responsible for determining the broad strategic direction for the setting of standards to be followed by the Australian Accounting Standards Board (AASB).
- In accordance with its responsibility to provide broad strategic directions to the AASB on the making of accounting standards, the FRC issued two specific directions in 2002, requiring:
  - adoption of international accounting standards; and
  - harmonisation of Government Finance Statistics (GFS) and Generally Accepted Accounting Principles (GAAP).
- No further direction to the AASB has been provided by the FRC since 2002.
- From the commencement of Australia's new standard-setting arrangements in 2002, the AASB has had a stated policy of a sector-neutral approach to the setting of accounting standards in Australia.
- This policy of setting sector-neutral standards has come under scrutiny in recent years from a number of quarters. Concerns have also been raised within the public sector and not-for-profit sector about the implications of the international accounting standards on which Australian standards are now based having been developed solely for for-profit businesses.

- These and other issues led the FRC to decide, in accordance with its role and powers, to review whether a sector-neutral approach to accounting standard-setting is able to meet the needs of users and the public interest more generally.
- At the September 2004 FRC meeting, the FRC agreed to engage a consultant to undertake research work on the appropriateness of a sector-neutral approach to the making of accounting standards. While it is an over-simplification of the issues involved, some have described the review as considering whether, in relation to accounting standards, “one size fits all”.
- The purpose of the research project was to assist the FRC in considering possible modifications to its strategic direction to the AASB, especially in relation to the public and the other not-for-profit sectors. It remains to be seen whether, in the end, the exercise will give rise to change to the strategic direction – it is too early to tell at this stage.
- The Statement of Requirements for the consultancy provided for a review of whether the information needs of users can be met within a framework of concepts and standards which are sector-neutral. Without limiting the scope of the review, the FRC expected that the consultant would:
  - undertake a review of other relevant countries and document their approach to standard-setting for different sectors, and most importantly where their standard-setting may be heading;
  - review the existing Australian accounting standards and comment on the importance or otherwise of their sector specific nature; and
  - liaise with key stakeholders to survey their views on research issues.
- It took longer than anticipated to engage someone suitable but, in November 2005, the FRC appointed Mr Kevin Simpkins to undertake the Review. Mr Simpkins was Deputy Controller and Auditor-General of New Zealand for three years until May 2005, having previously held other senior positions in the Office of the Auditor-General, Ernst & Young and the New Zealand Institute of Chartered Accountants, where he was Technical Director. He was a member and Deputy Chair of the New Zealand Financial Reporting Standards Board until 2002 and a member of the (now) International Public Sector Accounting Standards Board until 2003.

## **The Consultant’s Approach to the Review**

### **Phases of the Review**

- Following his appointment, Kevin Simpkins developed an overall plan in response to the FRC’s Statement of Requirements. This plan, involving five phases, was endorsed by the FRC, which established a Steering Committee to guide the review. The members of the Steering Committee were Phillip Prior, Charles Macek, Catherine Walter and myself. The Steering Committee worked actively and closely with Simpkins but, at the end, it was his report – we did not seek to reach agreement with him and I, for one, didn’t and still don’t agree with all aspects of it.
- The five phases were:
  - Phase 1 (Preliminary planning and scoping) - This phase included an issues based literature review and dialogue with the FRC Steering Committee to confirm the scope of the review, reach agreement on definitional aspects, confirm the preliminary research issues and agree on an overall timetable for the review.

- Phase 2 (Stakeholder liaison and research issues) - Phase 2 involved liaison with the AASB to confirm its current approach to developing standards for different sectors and to be informed about any planned future initiatives. This phase also involved liaison with stakeholders and user groups through face-to-face meetings or written communication as well as the gathering of views of other stakeholders through additional research. At the completion of this phase, the preliminary issues to be considered in the review were confirmed in conjunction with the Steering Committee.
- Phase 3 (Detailed research and analysis) - This phase comprised two overlapping streams:
  - Stream A: This stream involved research and a survey of the two international standard-setting bodies and those in four selected countries, as well as inquiries in relation to certain specific matters; and
  - Stream B: This stream involved reviewing the Australian Accounting Standards and Conceptual Framework documents as at 1 January 2006 from a sector application perspective.
- Phase 4 (Develop findings and evaluate options) - This involved bringing together the various streams of the review to identify issues and options for consideration by the FRC.
- Phase 5 (Final report) - This was the preparation of this report for consideration by the FRC and its stakeholders.

#### **Matters not covered by the Review**

- The following matters were not covered by the Simpkins Review:
  - the adoption of standards based on International Financial Reporting Standards for profit-oriented entities;
  - developments in the form in which financial information may be made available to users, such as XBRL or similar;
  - the appropriateness of accrual accounting for all sectors; and
  - issues related to standard-setting for different size entities.

#### **Sectors**

- For the purposes of the Review, the following three broad sectors were considered:
  - Profit-oriented entities;
  - Public sector not-for-profit entities; and
  - Other not-for-profit entities.

#### **Sector-Neutral Approach**

- For the purposes of Simpkins Report, a “sector-neutral” approach was taken to mean the approach currently adopted by the AASB. That approach is to base Australian standards, interpretations and conceptual documents on those of the International Accounting Standards Board (IASB) but make such modifications as the AASB considers necessary so that (with a small number of exceptions) each standard and other document may apply to all entities.
- At its February 2006 meeting, the AASB reviewed its strategies and agreed that sector-neutrality should remain one of the Board’s strategies, but should be re-expressed in terms of like transactions being treated in the same manner by all entities. This

approach would be described as “transaction-neutrality”. The Board also agreed that its use of sector-neutrality (or transaction-neutrality) as a guiding principle, rather than as a constraint, needed to be better explained. We can but wonder about the timing of this change in the AASB’s nomenclature but I suspect the fact that Simpkins was out consulting stakeholders had something to do with it!

### **Key Stakeholders**

- The Steering Committee agreed that the following stakeholders should be approached to provide views on the current arrangements for standard-setting for the three sectors being examined:
  - the three professional accounting bodies [CPA Australia, the Institute of Chartered Accountants in Australia (ICAA) and the National Institute of Accountants (NIA)];
  - the Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC);
  - the Australian Bureau of Statistics;
  - the Australian Institute of Company Directors;
  - the Australasian Council of Auditors-General (ACAG);
  - the Joint Committee of Public Accounts and Audit of the Australian Parliament;
  - selected commentators; and
  - a group of stakeholders representing the not-for-profit sector.

### **Standard-setting Approaches and Structures in Selected Countries**

- Part 5 of Simpkins Report explores the way in which accounting standards are set for different sectors in four countries – New Zealand, Canada, the United States of America and the United Kingdom.
- The reasons for different requirements in different sectors in each country are examined, as well as how users and their information needs are viewed in relation to different sectors in each country. Current or future developments in standard-setting for different sectors; the strengths and weaknesses of the current approach in each country; and the relationship between GFS and GAAP in each country are all considered.
- The Report concludes that, while there are users and information needs which are common across the sectors in each country, there are also differences in the identified users and information needs in each country. The United States’ Governmental Accounting Standards Board (GASB) in its White Paper *Why Governmental Accounting and Financial Reporting is – and should be – Different* argues for separate standards for government because the needs of users of governments differ. Simpkins’ report includes a good summary of this brilliant White Paper – I strongly urge everyone interested in public sector reporting to read one or the other.

### **Key Issues and Options addressed in the Simpkins Report**

#### **How effective is the current approach in meeting different user needs?**

- There is a consistent view from each of the strands of the Simpkins Review that, while there are common users across the sectors and there are certainly common information needs, there are also different users and some different information needs in the three sectors.

- In respect of profit-oriented entities:
  - stakeholders did not raise any issues of significance in relation to the implications of the AASB's current approach to setting standards for profit-oriented entities.
  - Simpkins concluded that the current approach to setting standards does not appear to be having any impact on the extent to which the needs of users of profit-oriented entities are met.
- In respect of public sector not-for-profit entities:
  - a strong view emerged from Australian stakeholders that public sector differences need to be better acknowledged and responded to by the standard-setting process. However, most stakeholders consider that there is a great deal of commonality between the sectors. Particular concerns were raised in relation to presentation or "display" issues in financial reports, as well as the absence of reporting requirements such as to report against budgets, to report information relevant to assessments of sustainability, compliance information and so on.
  - there is a risk that user needs may not be being met as a consequence of lack of clarity in certain requirements or diversity of practice in application (without any guidance given to minimise this risk). Simpkins noted that particular concerns were raised about the suitability of the Conceptual Framework to respond to all sectors.
  - Simpkins concluded that there is the potential to significantly enhance the extent to which the needs of users of public sector reports are met. This would be achieved through more thorough consideration of whether requirements that are appropriate for profit-oriented entities will best meet user needs in the public sector and, in particular, through addressing areas that are not covered in Australian Accounting Standards to provide additional and/or better quality information to users.
- **In respect of other not-for-profit entities.**
  - The Report highlights that many of the issues raised in relation to the Conceptual Framework and existing Australian Accounting Standards apply equally to not-for-profit and public sector entities.
  - Simpkins concluded that the needs of users in the other not-for-profit sector could be better met, as there is little in the current Australian accounting standards to respond to the particular characteristics of this sector and its users needs.

### **Identifying Options for the Future**

- Simpkins identified three different approaches that could be used to set standards in Australia:
  - 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 such as 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.
- In further considering the current approach, Simpkins noted that there is a range of options for dealing with different sectors within a single set of standards approach, including:

- the current transaction-neutral 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 applicable to particular sectors or groups of entities in sectors.

### **Other Issues Explored by Simpkins**

- Simpkins considered that there is a need for research on the needs of users in the different sectors in Australia, particularly for the not-for-profit sector. That research could be used as a basis for developing a Statement of User Needs and documenting how those needs impact the standard-setting process. This Statement would be a primary guiding document for the AASB. Simpkins noted that there is currently a lack of agreement on what the differences are between the sectors and the proposed Statement could assist in establishing a consensus on these matters.
- Simpkins noted that a number of stakeholders have called for a “strategic framework” (or similar) to indicate the direction the AASB intends to take in establishing requirements for the public sector, having regard to both IASB standards as well as IPSASB standards. A strategic framework could cover which standards the AASB intends to refer to in developing Australian guidance in particular circumstances, how the AASB intends to assess the need for different requirements of users in the different sectors and how the AASB will assess the benefits and costs of different requirements in the different sectors. A strategic framework was considered likely to increase stakeholder confidence in the AASB’s approach to the public sector and may increase the contribution from various constituencies to proposals put forward by the AASB.
- The Simpkins Report also proposes a number of options, relating to board membership, sub-boards or committees, expectations of board members, staffing and explicit board sign-offs, that may enhance the ability of the standard-setting process to meet user needs.

### **Did Simpkins Miss the Point?**

- For the purposes of his Review, Simpkins took a “sector-neutral” approach to mean the approach currently adopted by the AASB, whereby it uses the standards of the IASB as the “foundation” standards to which it adds material detailing the scope and applicability of the standard in the Australian environment.
- Simpkins also noted that in February 2006 the AASB had re-expressed this strategy in terms of like transactions being treated in the same manner by all entities (ie “transaction-neutrality”).
- Simpkins concluded that, while the term “sector-neutral” is widely used in Australia, it is a misnomer. In his view, the term “transaction-neutrality” is more accurate and the re-expression of the AASB’s strategy was therefore sensible.
- However, in my view, Simpkins essentially defined the problem away by adopting the AASB’s “transaction-neutral” terminology as being interchangeable with “sector-neutrality”.
- In its pure form, a sector-neutral approach is one in which standards are developed with regard to, and which establish identical requirements and guidance for like transactions and events for all entities to which the standards apply. Such standards would be based on a single conceptual framework.

- I think Simpkins' report would have been more useful and more interesting if he had tackled this more fundamental question.
- While I acknowledge that there is significant commonality in transactions and events between the for-profit and not-for-profit sectors, differences where they do exist, are quite fundamental and the existing conceptual framework may be inadequate for the public sector.
- In my view, there are important areas where departure from sector-neutrality is required, and the best way of achieving this is to have public-sector user needs recognised in the conceptual framework and public-sector-specific treatments within the standards.
- I would answer the more fundamental question of whether a pure sector-neutral approach can work in the negative. Let me elaborate.
- As part of the stakeholder consultation undertaken during the Simpkins Review, HoTARAC noted that a "pure" approach to sector-neutrality is not in the interests of public sector users, and identified two fundamental questions for consideration:
  - What is the definition of the reporting entity for government; and
  - What is the key accountability instrument for that reporting entity?
- HoTARAC argued that the concept of "control" and how it fits within the AASB's Conceptual Framework is an issue that is consistently problematic for the public sector.
- The concept of "control" is not helpful in determining what a reporting entity looks like for the public sector and application of the control concept in this way fails to meet the needs of users of public sector reports.
- It is essential that the reporting framework for each sector is based on a sound conceptual model that is appropriate to their particular operating context.
- There are fundamental differences in the operating environments of for-profit businesses and public sector entities. They have different purposes, revenue streams, financial processes, users, budget obligations and vastly different operating lives.
- The focus for government is not on profitability and, in the long run, revenues and expenses should be expected to even out. The consequence of these differences is that concepts and practices developed for the for-profit sector will not all apply to the public sector.
- Users of public sector financial reports are interested in the accountability of the government, while for-profit entity reports are intended mainly for those who are interested in trading equity in financial markets.
- Accountability for the public sector is much broader than the relatively narrow financial emphasis that dominates the for-profit sector. The financial markets want to know how for-profit businesses are going now, how they will go in the future and how they went in the past. Users employ the outcomes statements of for-profit businesses to forecast future performance and to place valuations on the equity of each business.
- But, there is no market for government equity, and the users of public sector financial reports should not be restricted to information that is designed to assist analysts and investors in forming equity valuations and making investment decisions.
- Because the underlying business model for government is different from that of for-profit businesses, users of public sector financial reports have significantly different information needs from those interested in for-profit reports.

- The United States' GASB, in the excellent White Paper I referred to earlier, noted that these different, and more diverse, needs result from basic environmental differences between governments and for-profit businesses. The GASB determined that these differences include:
  - differences in primary purpose, whereby governments contribute to the well-being of the community by providing services in accordance with public policy goals, while for-profit businesses focus primarily on wealth creation, by generating a financial return for shareholders;
  - governments serve a broader group of stakeholders and must meet a standard of accountability that is broader than that of for-profit businesses;
  - most government revenues are raised through taxes rather than a voluntary exchange between a willing buyer and seller;
  - government budgets are the primary method by which the community holds the government accountable; and
  - governments have a much greater propensity for longevity than for-profit businesses, and rarely liquidate.
- While others may not share my view, I regard it as unarguable that the needs of the public sector must be reflected in the conceptual framework and in applicable accounting standards.
- Public accountability should be the foundation of an acceptable public sector conceptual model. The necessity for governments to be publicly accountable for budget outcomes is a fundamental difference between the public sector and for-profit entities. This means that the key accountability document for government is not the outcomes statement but the Budget, or more precisely the comparison of outcome to Budget.
- The Budget has a specific importance for governments. Budgets form the basis on which Parliament authorises the Executive to spend taxpayers' money. The Budget is a plan, which sets out the Government's fiscal priorities. The primary resource allocations flow from the budget. Government budgets are the primary means by which Parliament and other users hold the Government accountable. By way of contrast, for-profit entities use the budget as a tool for internal management purposes only.
- In order to inform the development of a replacement public sector conceptual framework, the needs of public sector users should be considered in detail by the AASB and the conceptual framework revised in accordance with users needs.

### **FRC Response to the Simpkins Report**

- Kevin Simpkins' report was tabled at the June 2006 FRC meeting. The FRC agreed to make the report publicly available via the FRC web site.
- The FRC subsequently sought public comment on a range of matters related to standard-setting, including:
  - How well are the needs of all users of general purpose financial reports in Australia, being met?
  - 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?

- 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?
  - Which approach to setting standards do you consider the most appropriate?
  - 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 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?
  - Do you consider any of the options identified in the Report would enhance the ability of the standard-setting process to meet user needs?
- The closing date for submissions was 31 October 2006. All submissions are available from the FRC web site. As of yesterday, 18 had been posted there.

### **Views of key public sector stakeholders**

I thought you would find it interesting for me to briefly summarise the views of the key stakeholders.

#### **1. Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC)**

- The current approach to standard-setting in Australia should continue, as there is significant commonality in transactions and events between the for-profit and not-for-profit sectors.
- The IASB's Conceptual Framework was developed primarily to accommodate the needs of the for-profit sector. The AASB utilises a minimalist approach to adding material for the public sector and not-for-profit entities and therefore the level of guidance is inadequate for these sectors. This may be exacerbated by the impending harmonisation of the IASB with the Financial Accounting Standards Board (FASB) of the United States of America (US) with a resulting increase in differences between sectors.
- Issues with the AASB's current Conceptual Framework include:
  - the term "reporting entities" as defined in SAC 1 does not fully accommodate the needs of not-for-profit entities;
  - discussion on the objectives of general purpose financial reports (GPFs), and users of these reports, is restricted to for-profit entities;
  - guidance on the qualitative characteristics of financial reports, materiality, equity, the capital maintenance concept and the matching concept is geared towards profit-making entities;
  - stewardship and accountability are important issues for the public sector; and
  - the base asset definition is inadequate for application to all sectors.

- It is not acceptable for the public sector and the not-for-profit sector to wait for lengthy periods for progress to be made on public sector standards. The AASB and FRC need to develop strategies concerning an appropriate structure for the AASB, and how it will meet public sector needs. This requires appropriate consultation with users and preparers, and sufficient resources devoted to developing standards for the public sector and the not-for-profit sector.
- A Public Sector Statement of User Needs for the Australian context would assist the AASB to develop a detailed understanding of the needs of public sector users.
- The AASB should consider closer liaison with New Zealand's Financial Reporting Standards Board, which appears to have a standard-setting model for its not-for-profit sector that is closely aligned to Australia's.
- Greater clarity should be provided regarding the role of the IPSASB. The AASB should consider, but not be bound, by IPSASB requirements.

## **2. Australian Accounting Standards Board (AASB)**

- Generally, a single set of standards is the most effective way to develop and present standards. However, some standards will only be relevant to some sectors or types of entities, given the nature of the transactions that they address.
- IFRS will provide the core direction for the accounting treatment of transactions and other events. Local standards will be created to cover matters not addressed internationally.
- A "transaction-neutrality" strategy for the standards is appropriate. This strategy is regarded as a guiding principle rather than as a constraint. The AASB will consider if the needs of users of particular types of entities require a different treatment.
- Whilst some public sector stakeholders have expressed frustration at the difficulties of implementing AEIFRS in their sector and a lack of progress and consultation to a degree, they have not generally questioned the Board's transaction-neutral approach and current standard-setting arrangements.
- There are a range of issues that need to be addressed in the public sector and the broader not-for-profit sector. The AASB is putting a greater part of its resources to those issues.
- IPSASB is issuing Exposure Drafts and standards that are not covered by Australian or IASB standards. The Board will consider incorporating them into Australian standards to the extent appropriate.
- Major structural changes to the standard process in Australia are not required and would delay the resolution of issues.
- A Conceptual Framework generally applicable to all entities is required. Whether it comprises one or more documents will be determined, as the present Conceptual Framework projects develop. International projects are the best approach to improving existing Conceptual Frameworks for accounting standard-setting, since it is considered unlikely that financial report users in any one jurisdiction will have significantly different needs.
- A Statement of User Needs may be unnecessary, in the light of the work on user needs that is being done in the context of the various Conceptual Framework projects. The Board wants a productive relationship with user groups, to identify user needs and specific not-for-profit issues.

- It is inappropriate to limit the AASB's role to Corporations Act entities and establish another Board to address standards for the public sector and other not-for-profit entities.
- Dilution of limited standard-setting resources across more than one Board or more than one complete series of standards to accommodate the various sectors is inefficient. The staff and the Board make use of project advisory panels when input is needed from expert constituents on specific issues or questions relating to some complex topic areas.

### **3. Professional accounting bodies (CPA Australia, ICAA and NIA)**

- The existing approach of a single set of standards with due consideration given to differences of the various sectors is appropriate.
- The needs of users of public sector and other not-for-profit entities GPFs are not being met to the extent they ought, nor as well as those of profit-oriented entities.
- The adoption of IFRS has resulted in a number of concerns for public sector and other not-for-profit entities, including inappropriate language and terminology in standards and conceptual documents for the public sector.
- There is an urgent need for the AASB to address several public sector and not-for-profit issues.
- It may be inappropriate for standards to apply to all entities without regard to size, legislative environment, and listed or unlisted status.
- In regards to the applicability and appropriateness of a Conceptual Framework:
  - the public and other not-for-profit sectors have a wider group of users;
  - it is inappropriate to be too cash flow focused for public sector and other not-for-profit entities;
  - service performance information is important; and
  - there is a risk that the objectives of financial reporting for private sector businesses may implicitly be narrower than is necessary to meet the needs of users in the public sector and other not-for-profit entities.
- The AASB and its equivalent bodies internationally should focus on building a robust reporting framework that is relevant to the public sector and other not-for-profit entities.
- There is insufficient clarity on the direction that the AASB is taking and constituents need to be better informed by the AASB.

### **4. Australian Government Department of Defence**

- The AASB should continue to develop a single set of standards, where the principles applying to a particular type or class of transaction are uniform across all sectors. Where there are divergences, the AASB should consider whether one or more separate standards are required to ensure that the accounting standard requirements reflect the underlying purpose and structure of the various types of entities.
- Each of the accounting standards that apply to the public sector should include public sector specific policy, guidance and examples.

- The AASB and the Register of Advisory Panel Members should include equal representation from all three sectors.
- A range of sources should be considered to encompass the various types of reports that the public sector prepares and the needs of specific users.
- An accounting Conceptual Framework provides important guidance and indicative boundaries for standard-setters. The current Framework incorrectly presumes that all entities exist and operate with similar objectives.
- The needs of users of public sector GPFs are not necessarily being met under the current reporting framework. Parliamentarians are the primary users of public sector GPFs and should be consulted to ensure effective alignment of the accounting standards.
- A Statement of Users Needs is required for all sectors so that comments can be sought prior to the Board issuing Exposure Drafts.

### **Next Steps and Conclusion**

- It is expected that the FRC will commence considering the results of the Simpkins Report, and the associated stakeholder submissions, at its meeting in December 2006, and may continue considering this matter into 2007.
- Pending the outcome of the FRC's deliberations on the Simpkins Report, the future direction of the FRC's review of sector-neutrality is not known. There has been speculation that the review may lead to a new FRC strategic direction to the AASB, however at this stage, it is not clear to me that one is needed.
- In concluding today's address, I note that many ideas and practices developed for for-profit sector financial reporting need to be adapted to the unique needs of the public sector. The concepts also require examination to ensure that they are consistent with the needs of users of public sector reports and, if necessary, modified. If this requires a departure from the principle of sector-neutrality (or transaction-neutrality), so be it. Where the public sector context requires a different treatment, the accounting standards should reflect that requirement.

Thank you for your interest and attention.

### **End Notes**

- \* The opinions expressed in this paper are those of the author and are not to be associated with the Financial Reporting Council or his employer.