



15 July 2005

Gary Fenlon MP  
 Chair - Public Accounts Committee  
 Queensland Government  
 Parliament House, Alice and George Streets  
 Brisbane Queensland 4000

61 Mary Street  
 Brisbane QLD 4000  
 PO Box 107 Albert Street BC  
 Brisbane QLD 4002  
 www.ergon.com.au  
 Telephone [REDACTED]  
 Facsimile [REDACTED]

Dear Sir

## **Inquiry into Financial Reporting**

We are writing in response to your request for a written submission on the inquiry into government financial reporting. At the outset, Ergon Energy would like to express its support of the Public Accounts Committee initiative to improve Government Financial Reporting. The representations contained within this submission have addressed the scope and terms of reference contained within the Discussion Paper.

Ergon Energy is firmly committed to best practice financial reporting through such commercial initiatives as the annual reporting award programs and production of sustainability reports. The objective of this approach is to achieve a position whereby the users of our financial report are presented with the most relevant, useful information available. As a Corporate Government Owned Corporation, Ergon Energy supports the continued flexibility allowed by Government in the financial reporting area. In addition, Ergon Energy has adopted all applicable ASX governance principles in a move to remain as commercially focused as any non-government owned enterprise.

### *MAINTAINING A COMPETITIVE ENVIRONMENT*

Where GOCs compete with non-government enterprises, it is important that publicly available financial information is available for comparison and analysis. It is necessary that various user groups be provided with relevant financial information that can be compared between government and non-government enterprises.

In operating within this structure, a financial reporting framework promoting comparability, consistency and accountability between government and non-government corporations will exist. This approach is in the interests of a competitive environment.

As an entity complying with all Corporations Law requirements, Ergon Energy continues to support the approach of Government to allow Corporate GOC's to apply rules and regulations in a manner that is most appropriate to the entity, as is the case for non-government enterprises. This enables Ergon Energy to maintain a competitive, accountable and transparent reporting environment.

## *APPLICATION OF ACCOUNTING RULES TO GOVERNMENT OWNED CORPORATIONS (GOCs)*

In accordance with the letter from Gerard Bradley, Under Treasurer - Queensland Treasury Department dated 27<sup>th</sup> May 2004, GOC's are considered for-profit entities as defined by the Australian equivalents to International Financial Reporting Standards (AIFRS). In maintaining a for-profit approach, GOC's should have the flexibility to adopt compliant accounting policy that is most appropriate to the specific entity, as would a non-government owned corporation.

In addition to the above, Ergon Energy supports all initiatives to aid in the development of policy that enables commercial application of accounting standards and financial information. In recent years, Corporate GOC's have adopted commercial applied accounting principles in the following areas

- Adopting Australian equivalents to International Financial Reporting Standards (AIFRS)
- Accrual accounting
- Where appropriate, participation in Accounting Standard development with the Australian Accounting Standards Board (AASB)

In the case where organisations are required to comply with overarching rules such as those included in the Government Finance Statistics, there is limited scope for the organisation to chose an accounting policy most commercially appropriate. Ergon Energy would not support a change to the regime that mandates accounting policy for Corporate GOC's.

Ergon Energy continues to support the flexibility available to Corporate GOC's to adopt accounting policy that is most appropriate to the business.

## *AUDITED FINANCIAL INFORMATION*

Ergon Energy believes audited financial statements that are compliant to relevant rules and regulations provide meaningful management information as well as comparability, consistency and accountability across both government and non-government enterprises. Ergon Energy believes the Queensland Audit Office plays an important role in ensuring relevance and reliability of financial information and provides assurance to our regulator, Queensland Competition Authority and the Australian Securities and Investment Commission.

Ergon Energy will continue to support all initiatives to improve the reliability of financial information whether through audit or otherwise.

## *REPORTING IMPROVEMENTS THROUGH TRIDATA*

In recent times, Queensland Treasury has initiated a working group to address issues surrounding the use of the ATM Module for Tridata reporting. Ergon Energy supports all procedural improvements to Tridata that results in more practical, efficient reporting processes and more useful, reliable information.

## *TRIPLE BOTTOM LINE*

Ergon Energy supports the continued enhancement of financial reporting in line with the principles of triple bottom line reporting focusing on financial, social and environmental performance throughout government. While financial reports are generally directed to the Shareholder, triple bottom line reporting introduces a new level of disclosure on social and environmental issues. Over a number of years, Ergon Energy, in its reporting structure, has sought to deliver a competitive level of social and environmental reporting, with focus on sustainability while at the same maintaining solid financial performance reporting.

*DIVIDENDS*

It should be noted that the introduction of Australian equivalents to International Financial Reporting Standards, will lead to volatility in reported earnings through the introduction of fair value accounting for financial instruments and recognition of superannuation surplus or deficit. An unrealised gain in one year, to which a dividend is paid, may reverse into a loss in the next year primarily due to movements in the underlying market. This will lead to after tax profit volatility and may in turn result in the payment of dividends out of unrealised profits to which cash has not been received.

Should you wish to discuss any of the issues in more detail, please contact Dean Wilkinson on [REDACTED]

Yours sincerely

[Original Signed]

James K Mitchell  
Chief Financial Officer