



Project:	Income of Not-for-Profit Entities	Meeting	AASB August (M153)
Topic:	Disclosure of compliance with parliamentary appropriations and other related authorities for expenditure	Agenda Item:	3.6.1
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Introduction and objective of this paper

- 1 The objective of this paper is to obtain Board decisions on ED 260 *Income of Not-for-Profit Entities* proposals in relation to the disclosure of compliance with parliamentary appropriations and other related authorities for expenditure.
- 2 The issue addressed in this paper is whether any amendment is needed from the proposals in ED 260 that proposed disclosure of compliance with parliamentary appropriations and other related authorities for expenditure, including the disclosure of the financial consequences of an unauthorised expenditure.
- 3 This paper is structured as follows:
 - (a) Summary of staff recommendations (paragraph 4)
 - (b) Issue: Disclosure of compliance with parliamentary appropriations and other related authorities for expenditure (paragraphs 5-11)
 - (c) Feedback received on disclosure of compliance with parliamentary appropriations and other related authorities for expenditure (paragraph 12-15)

- (d) summary of requirements in other jurisdictions on disclosure of compliance with parliamentary appropriations and other related authorities for expenditure (paragraph 16-17)
- (e) Staff analysis, recommendations and questions for the Board (paragraphs 18-22)
- (f) Appendix A: Disclosure proposals in ED 260 on compliance with parliamentary appropriations and other related authorities for expenditure
- (g) Appendix B: Requirements in other jurisdictions on disclosure of compliance with parliamentary appropriations and other related authorities for expenditure

Summary of staff recommendations

- 4 The staff recommend that the finalised Standard:
- (a) retain the disclosures proposals in ED 260 paragraphs 40-43 (refer to Appendix A) on compliance with parliamentary appropriations and other related authorities for expenditure, including disclosure of the financial consequences of an unauthorised expenditure; and
 - (b) uses words similar to the words expressed in ED 260 paragraphs 40-43 (refer to Appendix A).

Issue: Disclosure of compliance with parliamentary appropriations and other related authorities for expenditure¹

5 The ED 260 proposals for the disclosure of compliance with parliamentary appropriations and other related authorities for expenditure are different to the requirements of AASB 1004.

6 AASB 1004 paragraph 64 requires:

The complete set of financial statements of a government department shall disclose separately:

- (a) a summary of the recurrent, capital or other major categories of appropriations, disclosing separately:
 - (i) the original amounts appropriated for the reporting period; and
 - (ii) the total amounts appropriated for the reporting period;

¹ AASB 1055 *Budgetary Reporting* requires explanations of major variances between actual amounts and the corresponding budget amounts to be disclosed and applies to Whole of Governments, the GGS and not-for-profit entities within the GGS, which includes government departments and statutory authorities.

- (b) amounts authorised other than by way of appropriation and advanced separately by the Treasurer, other minister or other legislative authority for the reporting period;
- (c) the expenditures for the reporting period in respect of each of the items disclosed in (a) and (b) above;
- (d) the reasons for any material variances between the amounts appropriated or otherwise authorised and the associated expenditures for the reporting period; and
- (e) the nature and probable financial effect of any non-compliance by the government department with externally-imposed requirements for the reporting period, not already disclosed by virtue of (d) above, and that are relevant to assessments of the government department's performance, financial position or financing and investing activities.

7 ED 260 proposed that the disclosure requirement for compliance with parliamentary appropriations and other related authorities for expenditure not carry forward:

- (a) paragraph 64(e) of AASB 1004. As a consequence of the omission of paragraph 64(e), ED 260 proposed that the disclosure requirement presently in paragraph 64(d) of AASB 1004 be extended to require the disclosure of any financial consequences for the government department of an unauthorised expenditure (referred to as 'Proposal A' for the purposes of this paper); and
- (b) the scope limitation in AASB 1004 paragraphs 64-68, whereby only government departments disclose compliance with parliamentary appropriations and other related authorities for expenditure. ED 260 proposed that the finalised Standard require that the disclosures apply to any public sector entities that obtain part or all of their spending authority from parliamentary appropriations (referred to as 'Proposal B' for the purposes of this paper).

8 The views of constituents were sought on these proposals.

Feedback received on disclosures proposed in ED 260

9 All constituents² commenting on Proposal A expressed their support for the proposal.

10 The majority of constituents³ commenting on Proposal B supported the proposal.

11 One of the constituents⁴ noted that the extension of the scope to 'other public sector entities' could include for-profit entities and that given ED 260 is for not-for-profit

² ACAG, HoTARAC, IPA, PwC, Queensland Treasury

³ ACAG, KPMG and PwC

⁴ PwC

entities the for-profit disclosures would need to be relocated. Refer to paragraph 17 for staff analysis on this comment.

- 12 Some other constituents⁵ who did not express their support or opposition to Proposal B noted they did not expect the proposal would have much application due to funding arrangements. For example, appropriations are only provided to government departments in the Commonwealth, New South Wales, Victoria and Queensland, and the money is then distributed to other public sector entities as grants. One of those constituents⁶:
- (a) expected the occurrence of ‘unauthorised expenditure’ would be very infrequent; and
 - (b) recommended that the Board provide more specific guidance as to how this would apply to other public sector entities.
- 13 One constituent⁷ noted in relation to the application to public sector entities within the scope of AASB 1055 *Budgetary Reporting*, there would be an element of duplication in relation to appropriated amounts (due to the line items likely used by jurisdictions for their budgeted financial statements). Refer to paragraph 17 for staff analysis on this comment.

Summary of requirements in other jurisdictions on disclosure of compliance with parliamentary appropriations and other related authorities for expenditure⁸

- 14 The International Public Sector Accounting Standards Board (IPSASB) IPSAS 24 *Presentation of Budget Information in Financial Statements* applies to entities which make publicly available their approved budget(s) and is focused on actual to budget variance reporting. IPSAS 1 *Presentation of Financial Statements* paragraphs 24-26 apply to all other entities and encourages:
- (a) the inclusion in the financial statements of a comparison of actual amounts with budgeted amounts for the reporting period;
 - (b) the disclosure of information about compliance with legislative, regulatory or other externally-imposed regulations.
- 15 The New Zealand Accounting Standards Board (NZASB) did not issue IPSAS 24 as a New Zealand PBE IPSAS. PBE IPSAS 1 *Presentation of Financial Statements* includes the disclosures encouraged in IPSAS 1. In addition, PBE IPSAS 1 requires, where an entity has published general purpose prospective financial statements for the

⁵ HoTARAC and Queensland Treasury

⁶ HoTARAC

⁷ Queensland Treasury

⁸ Appendix B to this paper includes the literature summarised here.

period, a comparison of the prospective financial statements with the historical financial statements should be reported with explanations for major variances.

Staff analysis, recommendations and question for the Board

- 16 The feedback received on Proposal A and B was generally supportive. Specific comments of constituents are:
- (a) Comment 1: the extension of the scope to ‘other public sector entities’ could include for-profit entities and that given ED 260 is for not-for-profit entities the for-profit disclosures would need to be relocated; and
 - (b) Comment 2: given the requirements of AASB 1055, there would be an element of duplication in relation to the disclosures required by ED 260.
- 17 Staff are of the view that:
- (a) Comment 1: Staff do not consider that the disclosures need to be relocated for for-profit entities as the disclosures proposed in ED 260 are intended for not-for-profit entities given the scope of ED 260; and
 - (b) Comment 2: Staff consider that the disclosure requirements proposed in ED 260 paragraphs 40-43 are fundamentally different from the requirements in AASB 1055 as the disclosure requirements in ED 260 are focused on information concerning the acquittal of appropriations and other advances rather than the more broadly-based requirements in AASB 1055 for actual to budget variance analysis. This is consistent with Board’s views when considering the relationship of AASB 1055 to paragraph 64 of AASB 1004 Contributions on disclosure of compliance with parliamentary appropriations and related expenditure.⁹
- 18 Based on the above analysis, staff do not propose any change to the proposals in ED 260 on disclosures of compliance with parliamentary appropriations and other related authorities for expenditure.

Staff recommendation

- 19 Staff recommend that :
- (a) The proposals in ED 260 paragraphs 40-43 on disclosures of compliance with parliamentary appropriations and other related authorities for expenditure be retained in the finalised Standard; and

⁹ AASB 1055 paragraph BC28 states “The Board considered the relationship of AASB 1055 to paragraph 64 of AASB 1004 *Contributions*, which requires government departments to provide disclosures of appropriations and other amounts authorised other than by way of appropriations, expenditures against those appropriations or other amounts and material variances between expenditures and appropriations or other amounts. The Board decided that paragraph 64 of AASB 1004 contains fundamentally different requirements from AASB 1055 and should be retained, as it is focused on information concerning the acquittal of appropriations and other advances rather than the more broadly-based requirements in AASB 1055 for actual to budget variance analysis.”

- (b) the finalised Standard uses words similar to the words expressed in ED 260 paragraphs 40-43 for the disclosure requirements.

Question for Board members

Do Board members agree with the staff recommendation that:

- (a) The disclosure proposals in ED 260 paragraphs 40-43 be retained in the finalised Standard?; and
- (b) the finalised Standard uses words similar to the words expressed in ED 260 paragraphs 40-43 for the disclosure requirements?

Appendix A

Disclosure proposals in ED 260 on compliance with parliamentary appropriations and other related authorities for expenditure

Paragraphs 40 to 43 apply only to government departments and other public sector entities that obtain part or all of their spending authority for the period from a parliamentary appropriation. The amounts disclosed in accordance with paragraphs 41-44 include any amounts appropriated in respect of which the entity recognises revenue or other income in accordance with another Australian Accounting Standard (eg AASB 15). [ED 260 paragraph 39]

The entity shall disclose separately in respect of the period:

- (a) a summary of the recurrent, capital or other major categories of amounts authorised for expenditure (including parliamentary appropriations), disclosing separately:
 - (i) the original amounts appropriated; and
 - (ii) the total of any supplementary amounts appropriated and amounts authorised other than by way of appropriation (eg by the Treasurer, other Minister or other legislative authority);
- (b) the expenditures in respect of each of the items disclosed in (a) above; and
- (c) the reasons for any material variances between the amounts appropriated or otherwise authorised and the associated expenditures, and any financial consequences for the entity of an unauthorised expenditure. [ED 260 paragraph 40]

The information disclosed about compliance with limits on expenditures created by appropriations and any other authorities for expenditure during the period shall be in a form that is relevant to users of that information, and that reflects the following:

- (a) the operating characteristics of the government department or other public sector entity;
- (b) the structure of the appropriations; and
- (c) the general purpose nature of the financial statements. [ED 260 paragraph 41]

For the purposes of resource allocation decisions, including assessments of accountability, this Standard requires that users of financial statements of government departments and other public sector entities that obtain part or all of their spending authority for the period from a parliamentary appropriation be provided with information about the amounts appropriated or otherwise authorised for the entity's use, and whether the entity's expenditures were as authorised. When spending limits imposed by parliamentary appropriation or other authorisation have not been complied with, information regarding the amount of, and reasons for, the non-compliance is relevant for assessing the performance of management, the likely consequences of

non-compliance, and the ability of the entity to continue to provide services at a similar or different level in the future. [ED 260 paragraph 42]

Broad summaries of the major categories of appropriations and associated expenditures, rather than detailed reporting of appropriations for each activity or output, is sufficient for most users of such an entity's financial statements. Determining the level of detail and the structure of the summarised information is a matter of judgement. If detailed information about compliance with spending mandates is required by certain users, it should be provided in special purpose financial statements. [ED 260 paragraph 43]

Appendix B

Requirements in other jurisdictions on disclosure of compliance with parliamentary appropriations and other related authorities for expenditure

IPSASB

The International Public Sector Accounting Standards Board (IPSASB) *IPSAS 1 Presentation of Financial Statements* states:

Public sector entities are typically subject to budgetary limits in the form of appropriations or budget authorizations (or equivalent), which may be given effect through authorizing legislation. General purpose financial reporting by public sector entities may provide information on whether resources were obtained and used in accordance with the legally adopted budget. Entities which make publicly available their approved budget(s) are required to comply with the requirements of IPSAS 24, “Presentation of Budget Information in Financial Statements.” For other entities, where the financial statements and the budget are on the same basis of accounting, this Standard encourages the inclusion in the financial statements of a comparison with the budgeted amounts for the reporting period. Reporting against budget(s) for these entities may be presented in various different ways, including:

- (a) The use of a columnar format for the financial statements, with separate columns for budgeted amounts and actual amounts. A column showing any variances from the budget or appropriation may also be presented, for completeness; and
- (b) Disclosure that the budgeted amounts have not been exceeded. If any budgeted amounts or appropriations have been exceeded, or expenses incurred without appropriation or other form of authority, then details may be disclosed by way of footnote to the relevant item in the financial statements. [paragraph 24]

Entities are encouraged to present additional information to assist users in assessing the performance of the entity, and its stewardship of assets, as well as making and evaluating decisions about the allocation of resources. This additional information may include details about the entity’s outputs and outcomes in the form of performance indicators, statements of service performance, program reviews and other reports by management about the entity’s achievements over the reporting period. [paragraph 25]

Entities are also encouraged to disclose information about compliance with legislative, regulatory or other externally-imposed regulations. When information about compliance is not included in the financial statements, it may be useful for a note to refer to any documents that include that information. Knowledge of non-compliance is likely to be relevant for accountability purposes and may affect a user’s assessment of the entity’s performance and direction of future operations. It may also influence decisions about resources to be allocated to the entity in the future. [paragraph 26]

The International Public Sector Accounting Standards Board (IPSASB) *IPSAS 24 Presentation of Budget Information in Financial Statements* states:

For some entities adopting the same basis of accounting for preparation of both the budget documents and the financial statements, only the identification of differences between actual amounts in the budget and the equivalent amounts in the financial statements will be required. This will occur where the budget is prepared for the same period, encompasses the same entities and adopts the same presentation format as the financial statements. In these cases, a reconciliation is not required. For other entities adopting the same basis of accounting for the budget and the financial statements, there may be a difference in presentation format, reporting entity or reporting period; for example, the approved budget may adopt a different classification or presentation format to the financial statements, may include only noncommercial activities of the entity, or maybe a multiyear budget. A reconciliation would be necessary where there are presentation, timing or entity differences between the budget and the financial statements prepared on the same accounting basis. [paragraph 50]

New Zealand

- 20 New Zealand Accounting Standards Board (NZASB) PBE IPSAS 1 *Presentation of Financial Statements* states:

Public sector entities are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which may be given effect through authorising legislation. General purpose financial reporting by public sector entities may provide information on whether resources were obtained and used in accordance with the legally adopted budget. [paragraph 24]

Where an entity presents a comparison, in the financial statements, of prospective financial information and actual financial information, such a comparison shall be in accordance with the requirements of this Standard. [paragraph 24.1]

Entities are encouraged to present additional information to assist users in assessing the performance of the entity, and its stewardship of assets, as well as making and evaluating decisions about the allocation of resources. This additional information may include details about the entity's outputs and outcomes in the form of (a) performance indicators, (b) statements of service performance, (c) programme reviews, and (d) other reports by management about the entity's achievements over the reporting period. [paragraph 25]

Entities are also encouraged to disclose information about compliance with legislative, regulatory, or other externally-imposed regulations. When information about compliance is not included in the financial statements, it may be useful for a note to refer to any documents that include that information. Knowledge of non-compliance is likely to be relevant for accountability purposes, and may affect a user's assessment of the entity's performance and direction of future operations. It may also influence decisions about resources to be allocated to the entity in the future. [paragraph 26]

Where an entity has published general purpose prospective financial statements for the period of the financial statements, the entity shall present a comparison of the prospective financial statements with the historical financial statements being reported. Explanations for major variances shall be given. [paragraph 148.1]

PBE FRS 42 *Prospective Financial Statements* defines general purpose prospective financial statements. Legislative or other requirements may require a comparison with originally published information, the most recently published information, or both. [paragraph 148.2]

Comparison of prospective financial statements with actual financial results is an essential element of accountability. In the case of issuers a comparison of actual financial results against the originally published statements is important because it provides users with a comparison of actual performance with the projected performance at the time the entity raised funds. In the case of other entities, comparisons between projected performance and actual performance for a period are a means of demonstrating accountability for the resources used and the financial management of assets and liabilities. Some entities provide long-term prospective financial statements which are updated annually, prior to the beginning of the year. In such cases a comparison of actual financial results with the most recent prospective financial statements published prior to the beginning of the period is generally relevant. Where information is revised during the course of a year, the reasons for revising the information and an explanation of the differences between the originally published prospective financial statements and the historical financial statements should be given. [paragraph 148.3]