



<b>Project:</b>	<b>AASB Work Plan 2017-2019</b>	<b>Meeting:</b>	AASB May 2017 (M157)
<b>Topic:</b>	<b>Post-implementation Review AASB 1049 – project plan</b>	<b>Agenda Item:</b>	3.6
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		<b>Decision-Making:</b>	High
		<b>Project Status:</b>	Project planning

## Introduction

- 1 As part of the feedback on ITC 34 *AASB Agenda Consultation 2017-2019*, a stakeholder suggested that it is timely for the Board to conduct a post-implementation review (PIR) of AASB 1049 *Whole of Government and General Government Sector Reporting* as the Government Finance Statistics (GFS) Manual has been recently revised.<sup>1,2</sup> Other constituents reported that AASB 1049 has minimal benefits to practice. Staff are also aware that some constituents are of the view that the requirements in AASB 1049 for public sector entities to adopt the fair value basis of accounting for property, plant and equipment are more onerous and costly than ‘market value’ as specified by GFS and are more onerous and costly than required for the for-profit sector and not-for-profit private sector. In addition:
  - (a) the FRC has received a recent report on financial reporting issues related to public sector entities; and
  - (b) public sector accounting issues were discussed at CPA Australia’s *Future of Financial Reporting* events held in Brisbane and Sydney (February 2017). The value of fair value information and the future of AASB 1049 was discussed as part of those events.<sup>3</sup>
- 2 At its August 2016 meeting, the Board considered the feedback received and directed staff to prepare a project plan for a post-implementation review of AASB 1049, acknowledging that a post-implementation review of the operationalisation of AASB 1049 had previously been completed in 2011. This agenda paper sets out the

1 *Australian System of Government Finance Statistics: Concepts, Sources and Methods, 2015* (ABS GFS Manual) applies to periods from 1 July 2017 and can be downloaded from [www.abs.gov.au](http://www.abs.gov.au).

2 AASB staff liaised with ABS staff as the revised ABS GFS Manual was being developed.

3 Key discussion points from the events are available here: (1) Sydney: [http://www.aasb.gov.au/admin/file/content102/c3/FoPSA\\_discussion\\_points.pdf](http://www.aasb.gov.au/admin/file/content102/c3/FoPSA_discussion_points.pdf); (2) Brisbane: [http://www.aasb.gov.au/admin/file/content102/c3/FoPSA\\_Bris\\_discussion\\_points.pdf](http://www.aasb.gov.au/admin/file/content102/c3/FoPSA_Bris_discussion_points.pdf)

proposed project plan to assist the Board to form its views whether to add this project to the AASB work programme for 2017-2019 (addressed in Agenda Paper 3.0).<sup>4</sup>

- 3 A summary of the history of the Board's GAAP/GFS Harmonisation project can be accessed at <http://www.aasb.gov.au/Work-In-Progress/Project-Summaries/GAAP-GFS-Harmonisation-Project.aspx>. No significant AASB activity has occurred with respect to AASB GAAP/GFS harmonisation efforts since the summary was prepared in May 2013, other than the Board's discussion and decision in April 2015 not to further extend the relief previously granted to effectively exempt defence weapons platforms from needing to be measured at fair value.<sup>5</sup> The minutes of the April 2015 meeting also reflect that the Board determined that a review of AASB 1049 should not be undertaken at that stage.

### **Project rationale, objective(s) and link to AASB strategy**

#### Project rationale

(responds to RIS<sup>6</sup> questions *What is the problem you are trying to solve?* and *Why is government action needed?*)

- 4 AASB 1049 was developed as the Board's response to the broad strategic direction from the Financial Reporting Council (FRC) in December 2002 to:

*With regard to public sector reporting, the Board should pursue as an urgent priority the harmonisation of Government Finance Statistics (GFS) and Generally Accepted Accounting Principles (GAAP) reporting. The objective should be to achieve an Australian accounting standard for a single set of Government reports which are auditable, comparable between jurisdictions, and in which the outcome statements are directly comparable with the relevant budget statements.*

(FRC Bulletin 2002/5 18 December 2002,  
as modified by FRC Bulletin 2003/1 11 April 2003)<sup>7</sup>

- 5 The Board conducted a limited PIR of AASB 1049 in 2010. The objective of that review was to identify any material issues at an operational level with a view to improving financial reporting, and resulted in the issue of two Standards making amendments to AASB 1049.<sup>8</sup> Given this focus, the Board has not yet explicitly evaluated whether AASB 1049 has been successful in responding to the FRC strategic direction.

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4 The staff recommendation as to whether the project should be added to the 2017-2019 work programme is included in Agenda Paper 3.0.

5 April 2015 Board minutes, available at:

[http://www.aasb.gov.au/admin/file/content102/c3/M145\\_April\\_2015\\_Minutes\\_unsigned.pdf](http://www.aasb.gov.au/admin/file/content102/c3/M145_April_2015_Minutes_unsigned.pdf)

6 Australian Government Regulation Impact Statement.

7 Original direction: [http://www.aasb.gov.au/admin/file/content102/c3/FRC\\_Broad\\_Strategic\\_Direction.pdf](http://www.aasb.gov.au/admin/file/content102/c3/FRC_Broad_Strategic_Direction.pdf), clarified as set out in:

[http://www.aasb.gov.au/admin/file/content102/c3/Clarification\\_of\\_FRC\\_broad\\_strategic\\_direction.pdf](http://www.aasb.gov.au/admin/file/content102/c3/Clarification_of_FRC_broad_strategic_direction.pdf)

8 AASB 2011-3 *Amendments to Australian Accounting Standards – Orderly Adoption of Changes to the ABS GFS Manual and Related Amendments* and AASB 2011-13 *Amendments to Australian Accounting Standard – Improvements to AASB 1049*

- 6 The Board may consider it timely to add a PIR of AASB 1049 to its active agenda, having regard to:
- (a) the Standard having been operative for periods since 1 July 2008;
  - (b) a PIR of the FRC's public sector strategic direction arguably being an extension of the AASB's work that culminated in the research report *Review of IFRS Adoption in Australia*, which could be viewed as a PIR of the FRC strategic direction on the adoption of IFRS;
  - (c) feedback that an assessment of whether the costs outweigh the benefits is warranted, given AASB 1049 currently requires all public sector entities to fair value all assets permitted by accounting standards to be fair valued; and
  - (d) the ongoing emphasis on GFS results in the reporting of government results and the implications for user needs and understanding of key government fiscal issues.

Project objective(s)

(responds in part to RIS question *Why is government action needed?* through clear identification of the objectives, outcomes or goals of this project)

- 7 The objectives of this project are to:
- (a) evaluate the extent to which AASB 1049 has been successful in its harmonisation of GFS and GAAP reporting, such that the stated FRC objective of the prepared financial statements being auditable, comparable between jurisdictions, and the outcome statements directly comparable with the relevant budget statements, has been achieved;
  - (b) develop improvements to AASB 1049 to better achieve the objective of the FRC strategic direction and the objectives set out in AASB 1049;
  - (c) evaluate whether the costs of applying AASB 1049 outweigh the benefits; and
  - (d) reassess whether there is a need to have a specific Accounting Standard to address the FRC directive.
- 8 The Board will need to liaise with the FRC in relation to carrying out this project and the findings from its evaluation exercise.

Link to AASB strategy

- 9 The Board's strategy for the period 2015-2019 identifies five strategic directions.<sup>9</sup> This project is consistent with:
- (a) strategic direction 1 'use IFRS and transaction-neutrality as a starting point, taking into account cost/benefit considerations and user needs'.

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9 The AASB Strategy 2015-2019 is available on the AASB website at:  
[http://www.aasb.gov.au/admin/file/content102/c3/AASB\\_Strategy\\_2015-2019.pdf](http://www.aasb.gov.au/admin/file/content102/c3/AASB_Strategy_2015-2019.pdf).

The project recognises further amendment may be necessary to IFRS Standards for application by public sector entities – or to AASB 1049 – to address the FRC strategic direction;

- (b) strategic direction 2 ‘take a leadership role in shaping the Australian Reporting Framework’.

The project outcomes are likely to be linked to who should be reporting publicly in the public sector and what format of reporting this should take, including whether all government departments should be reporting entities, and if so, whether such reports should be considered an extract of the whole of government report, or separate standalone reports. Some of the valuation issues are less likely to be of concern if materiality is assessed at a whole of government level rather than department level; and

- (c) strategic direction 4 ‘facilitate and encourage active stakeholder participation in developing standards’.

Staff think the success of this project is dependent on key stakeholder engagement throughout the process, and note that undertaking a project in this regard would show that the Board is being responsive to stakeholder feedback (including on the appropriateness of applying AASB 13 fair value measurement to certain public sector assets).

- 10 It is possible that the Board’s findings from a review of the success or otherwise in harmonising GFS and GAAP reporting may provide some direction to the IPSASB as to whether it could potentially undertake a project in this regard in the future (strategic direction 3 ‘enhance international influence with respect to IASB and IPSASB outcomes’).

## **Project scope**

- 11 Having regard to the rationale for the project and the proposed project objective, staff recommend the scope of this project is to:
  - (a) evaluate and report on the extent to which AASB 1049 has been successful in its harmonisation of GFS and GAAP reporting, such that the stated FRC objective of the prepared financial statements being auditable, comparable between jurisdictions, and the outcome statements directly comparable with the relevant budget statements, has been achieved; and
  - (b) evaluate the costs and benefits of applying AASB 1049;
  - (c) revisit the Board decision on entities to be consolidated or otherwise in GGS financial statements, having regard to the general requirements regarding investment entities introduced subsequent to issue of AASB 1049;
  - (d) identify and develop improvements to existing requirements in AASB 1049 to better enable entities to provide users with information:
    - (i) about the stewardship by each government and accountability for the resources entrusted to it;

- (ii) about the financial position, performance and cash flows of each government and its sectors; and
- (iii) that facilitates assessments of the macro-economic impact of each government and its sectors (AASB 1049.1); and
- (e) make amendments to AASB 1049 necessary to update it for the revised ABS GFS Manual, if not already actioned as part of another project.

12 Staff recommend the project scope of a PIR of AASB 1049 does not extend to incorporating a PIR of other public sector Standards such as AASB 1051 *Land under Roads* and AASB 1055 *Budgetary Reporting*.

### Staff assessment

13 Having regard to the proposed project scope, and project path/milestones, overall staff assess the project as:

- |                         |  |
|-------------------------|--|
| (a) Priority            | Medium                                     |
| (b) Timing              | Not urgent                                 |
| (c) Resource commitment | Moderate-High                              |
| (d) Project length      | 18-24 months (approximation) <sup>10</sup> |
| (e) Project scale       | Major project                              |

### Key stakeholders

(Identification of key stakeholders will assist in planning for the RIS question *Who will you consult and how will you consult them?*)

14 Staff have identified the following as key stakeholders of the project:

- |   |   |
|---|---|
| (a) State, Territory and Commonwealth Departments of Treasury/Finance | (e) Auditor-General Offices in each State/Territory/ National |
| (b) HoTARAC   | (f) Australian Bureau of Statistics                           |
| (c) ACAG  | (g) Public accounts committees                                |
| (d) FRC   |   |

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10 Staff note the Board commenced its previous PIR of AASB 1049 in March 2010 and finalised the project with the issue of AASB 2011-13 *Amendments to Australian Accounting Standard – Improvements to AASB 1049* in December 2011. The scope of this project is broader than that of the previous PIR, and consequently the project length may be longer than 24 months.

## Project milestones

- 15 Staff have identified the following as key milestones of the project. These will be reassessed periodically and revised/extended to ensure the project path remains appropriate and the project can be adequately resourced.

<b>Major project milestones</b>	<b>Staff comment</b>
Present a project plan	Completed (this agenda paper)
Identify the issues on which the Board has previously consulted or received feedback on, and the Board decisions made at that time	This exercise can be largely completed through review of previous Board papers, Board minutes and the Bases for Conclusions accompanying AASB 1049 and its associated amending standards.
Identifying the specific issues to be addressed by the project (refining project scope)	Staff think that it would be useful for the Board to make a preliminary determination of the issues that will be revisited as part of this PIR, in recognition of the fact it has previously made decisions on AASB 1049 subsequent to issue of the Standard. This will help staff plan the focus of any outreach meetings, and may help identify specific persons as key stakeholders.  Staff note that this step may require staff to undertake a review of the revised ABS GFS Manual to understand any significant changes from the existing manual.
Following identification of the specific issues to be addressed by the project, develop a detailed project plan for Board consideration, including the communications strategy	Staff note that key stakeholders should be engaged throughout the process. This could include liaising with the FRC in relation to carrying out this project.  The previous PIR was largely conducted by way of meetings (phone or physical) with key stakeholders, including the Commonwealth and every State and Territory government.
Research – accounting in other jurisdictions, by IPSASB, and relevant academic research on GFS harmonisation activity, Productivity Commission	As part of its consideration of the extent to which AASB 1049 has been successful in achieving its objective, staff think it might be useful to understand the approach to GAAP/ GFS harmonisation taken by selected other jurisdictions, the current views of the IPSASB, and whether there is any academic research commenting on the value in AASB 1049 (or similar pronouncement). In addition, the Productivity Commission may be able to provide guidance on assessing costs and benefits.
Report findings to the Board from targeted outreach activity on the success of, or issues with,	Staff’s preliminary view is that as most of the feedback will be gathered from meetings conducted, it is important to clearly identify the

<b>Major project milestones</b>	<b>Staff comment</b>
AASB 1049	purpose of the meeting and questions to be posed
Conduct any follow-up meetings to obtain further information, as necessary	It may be possible to avoid this if the project scope is clearly defined and feedback to be obtained from the outreach clearly agreed between staff and the Board before the first meeting is conducted
Develop recommendations to address the findings of the outreach activity	The extent of effort involved will be dependent on the findings from the Board's outreach activity and the extent to which key stakeholders may need to be involved in this aspect
Develop report summarising feedback from the PIR, research exercise, and the Board's recommendations	The extent of effort involved will be dependent on the findings from the Board's outreach activity and the extent to which key stakeholders may need to be involved in this aspect
For each recommendation that could result in possible amendment to AASB 1049, analyse possible alternatives that the Board could take, including consideration whether the approach is consistent with the Conceptual Framework	The extent of effort involved will be dependent on the findings from the Board's outreach activity and the extent to which key stakeholders may need to be involved in this aspect
Board makes decisions on how to approach possible amendments to AASB 1049	This may take 1 or more meetings, depending on how many issues are raised and whether the Board is able to agree how it wishes to proceed
Develop proposed amendments to update AASB 1049 for the revised ABS GFS Manual	Staff's preliminary view is that these amendments are likely to be largely editorial in nature
Develop an Exposure Draft (ED), including a Basis for Conclusions	Staff's preliminary view is that the Board's decisions are tested with several stakeholders before an ED is finalised for issue
Board approves the Exposure Draft	Board to determine an appropriate comment period; staff's preliminary view is that this should be no shorter than 60 days, probably longer
Review of stakeholder feedback on the ED	Extent of staff effort will depend in part on the communications strategy
Redeliberation on the ED completed	Depending on the feedback received, this may take between 1 – 2 Board meetings
Develop a fatal-flaw draft Standard for comment by targeted stakeholders	Depending on the feedback received, a fatal-flaw draft may not be necessary
Review of stakeholder feedback on the fatal-flaw draft Standard	Depending on the feedback received, a fatal-flaw draft may not be necessary

<b>Major project milestones</b>	<b>Staff comment</b>
Prepare a draft Basis for Conclusions for Board review	The extent of staff effort will depend on the nature of the feedback received on the ED and the extent to which the Board's decisions differ from those exposed in the ED
Pre-ballot draft circulated for Board comment	Staff effort will be dependent on Board decisions from its redeliberation
Ballot draft issued for voting	Staff effort will be dependent on Board feedback
Standard approved and issued	Minimal additional staff effort involved

### **Resources required**

16 The following resources will be required:

<b>Resources</b>	<b>Expected contribution</b>
(a) Staffing – standard-setting	Technical director/Assistant – Moderate Senior Project Manager/Project Manager – High Intern – High
(b) Staffing – research	Research director – Low Project manager/Assistant/Intern – Low
(c) Project advisory panel	Staff do not recommend a specific project advisory panel be established
(d) Other	Staff think this project should have significant buy-in and contribution from FRC, HoTARAC and parliamentary accounts committees. Staff think this could identify and drive engagement with key stakeholders

### Factors that might add to complexity and length of the project

17 The following factors may add to the complexity and length of the project:

- (a) a change in the project scope;
- (b) the purpose and objectives of targeted outreach meetings with key stakeholders are not clearly planned such that further meetings are necessary;
- (c) appropriate stakeholders are not identified early and continually engaged throughout the process; and
- (d) the capacity of stakeholders to respond to proposals across the work programme as a whole, given (1) the forthcoming application of Standards such as AASB 1058 *Income of Not-for-Profit Entities*, AASB 10XY *Service Concession Arrangements: Grantors*, AASB 9 *Financial Instruments* and AASB 16 *Leases*, and (2) other AASB projects that might require public sector



stakeholder engagement, including the Board’s Australian Reporting Framework and Conceptual Framework projects.

**Related AASB, IASB and IPSASB projects**

18 Staff identified the following as current projects where the outcomes of which may affect, or could be affected by, this project:

<b>Source</b>	<b>Project</b>
AASB	<ul style="list-style-type: none"> <li>• Australian reporting framework (see Agenda Item 7)</li> <li>• Review of the <i>Process for Modifying IFRSs for PBE/NFP</i></li> <li>• AASB 13 for Public Sector Entities (possible new project, see Agenda Paper 3.1)</li> </ul>
IASB	<ul style="list-style-type: none"> <li>• PIR of IFRS 13 <i>Fair Value Measurement</i></li> <li>• Disclosure Initiative: Principles of Disclosure and Primary Financial Statements</li> <li>• Business combinations under common control</li> <li>• PIR of IFRS 10-12 (potentially)</li> </ul>
IPSASB	<ul style="list-style-type: none"> <li>• the IPSASB is expected to begin seeking input on its future work programme shortly</li> </ul>

**Questions for Board members**

Q1 Do Board members agree with the proposed project objective and project scope set out in paragraphs 7 and 11-12?

Q2 Do Board members have any other comments about the proposed project plan?