

Control in the Not-for-Profit Public and Private Sectors

Proposed Disposition of Substantive Aus Paragraphs in the Superseded AASB 127

Objective

This agenda paper sets out the substantive NFP public sector Aus paragraphs in the superseded AASB 127 and notes how they relate to the existing paragraphs of AASB 10 and the suggested Aus paragraphs, which apply to all NFP entities. Some of the AASB 127 paragraphs are not explicitly addressed in AASB 10 and are not proposed to be included. That message is not necessarily indicated in the AASB 10 paragraph-by-paragraph analysis (agenda paper 5.2) if there is no corresponding paragraph.

AASB 127 Aus Paragraph	Proposed Disposition re AASB 10
<i>Identification of parent entity</i>	
<p>Aus9.1 In certain instances in the public sector a group of entities (e.g. a government and its controlled entities) is a reporting entity, but the parent may not be explicitly identified for financial reporting purposes. This Standard does not deem a parent in such a group to be a separate reporting entity. Furthermore, this Standard does not require the preparation of separate financial statements for the parent, but does require consolidated financial statements to be presented.</p>	<p>Paragraph Aus9.1 is included in AASB 10 as paragraph Aus4.3 but broadened to apply to NFP entities generally and excluding any reference to separate financial statements.</p>
<i>Factors indicating control in the public sector</i>	
<p>Aus17.1 This Standard does not attempt to identify all groups in the public sector that should prepare financial statements. Instead, it describes the factors that are considered in determining whether one entity has the power to govern the financial and operating policies of another entity, whether a group exists and whether that group constitutes a reporting entity. In addition, the Standard identifies the accounting techniques that are employed when the financial statements of a number of separate entities are to be combined. This approach avoids the prescriptive designation of artificial reporting entities and the resulting preparation of meaningless consolidated financial statements.</p>	<p>A paragraph similar to paragraph Aus17.1 is not required in AASB 10. The general introductory statements are already made in AASB 10.</p>
<p>Aus17.2 In the public sector, a parent/subsidiary relationship could be established in the manner outlined in paragraph 13 or, as is more frequently the case, control of another entity by the government may be indicated by the following two factors:</p> <ul style="list-style-type: none"> (a) the other entity is accountable to Parliament, or to the Executive, or to a particular Minister; and (b) the government has the residual financial interest in the net assets of the other entity. 	<p>Paragraph Aus11.1 refers to power from statutory or other arrangements. Accountability to an investor is included as an indicator of power in paragraph AusB19.1. Residual financial interests are identified in paragraph Aus15.1 as illustrating exposure or rights to variable returns.</p>

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<p><i>Accountability of the other entity to Parliament, or to the Executive, or to a particular Minister</i></p>	
<p>Aus17.3 The existence of one, or a combination of a number of the following circumstances, indicate that an entity is accountable to Parliament, or to the Executive, or to a particular Minister:</p> <ul style="list-style-type: none"> (a) the existence of a Ministerial or other government power that enables the government to give directions to the governing body of that entity so that the entity acts as an agent of the government to achieve government policy objectives; (b) Ministerial approval is required for operating budgets; (c) the government has the ability to veto operating and capital budgets of that entity; (d) the government has broad discretion, under existing legislation, to appoint or remove a majority of members of the governing body of that entity. This would include for example, the power of the Minister or a central authority to appoint and remove members of the board of management. The governing body of an entity cannot maintain financial and operating policies that do not have the support of a government if the government has the power under existing legislation to appoint or remove a majority of members of the governing body of the entity. In these circumstances, the government has the power to govern the financial and operating policies so as to meet its own objectives. For control to exist through the power to appoint or remove a majority of members of the governing body of another entity, a government must have broad discretion over their appointment and removal. For example, if the power to appoint or remove a majority of members of the governing body requires an amendment to the current legislation or the creation of new legislation, then the government’s power is not presently exercisable and control does not exist. Also, where the power of the government to remove members of the governing body of another entity only arises under certain restricted circumstances (for example, for reasons relating to a lack of probity), the government would not have the power to govern the financial and operating policies of the entity by virtue of that power (although it may have the power in respect of the financial and operating policies through some other means); (e) the entity is required to submit to Parliament reports on operations that include audited financial statements; such requirements arising either under the general reporting requirements of legislation concerned with financial reporting and/or audit of public sector entities or under that entity’s enabling legislation; or (f) the mandate of the entity is established, or limited, by its enabling legislation. The definition of control requires only that the government’s power to govern the financial and operating policies of another entity is sufficient to enable the government to obtain benefits from the entity’s activities. Enabling legislation relating to the other entity which establishes the broad financial and operating policies of the entity is sufficient to ensure control by the government. However, the impact of 	<p>Many of the factors in paragraph Aus17.3 are reflected in the examples of rights that can give a NFP investor power: see paragraph AusB15.1.</p> <p>Other comments</p> <p>Paragraph Aus17.3(a) – policy direction is included as an indicator of power in paragraph AusB15.1, but the agency reference is not adopted – see comments at paragraph B58.</p> <p>Paragraphs Aus17.3(b) – (d) are reflected in paragraph B12.</p> <p>Paragraph Aus17.3(e) – the requirement to submit reports to the investor is included as an example of an indicator of power in paragraph AusB19.1.</p> <p>Paragraph Aus17.3(f) is reflected in paragraph AusB9.1.</p>

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<p>enabling legislation also needs to be evaluated in the light of other prevailing circumstances. For example, a marketing board whose mandate is created, and limited, by legislation is not controlled by a government if the legislation unequivocally assigns power to govern financial and operating policies to other entities such as relevant commodity producers, and the government does not have the power to appoint or remove a majority of members of the governing body.</p>	
<p><i>Residual financial interest in the net assets of the other entity by the government</i></p>	
<p>Aus17.4 The existence of the following circumstances indicates whether the government has a residual financial interest in the net assets of the other entity:</p> <ul style="list-style-type: none"> (a) the government is exposed to the residual liabilities of the entity; or (b) the government has the right to receive the residual net assets of the entity if that entity is dissolved. 	<p>Residual financial interest is included as an indicator that an investor is exposed or has rights to variable returns – see paragraph Aus15.1.</p>
<p><i>General implications of the concept of control in the public sector</i></p>	
<p>Aus17.5 In the public sector, reporting entities may include Ministerial portfolios, Ministerial departments, statutory authorities or other entities. In some cases the reporting entity may comprise a parent and a number of controlled entities, and in other cases the reporting entity may be the parent or the controlled entity itself.</p>	<p>Paragraph Aus17.5 merely describes some reporting entities. A paragraph similar to Aus17.5 is not required in AASB 10.</p>
<p>Aus17.6 A government will usually control the statutory authorities or corporations that it has established, because the legislation will normally address the financial and operating policies necessary to enable the entity to work with the government in achieving its objectives.</p>	<p>Paragraph Aus17.6 is reflected in paragraph AusB9.1.</p>
<p>Aus17.7 In determining the existence of a group in the public sector, consideration should be given to the controlling entity's ability to deploy the resources under its control and whether there are restrictions on the allocation of funds between activities under its authority. In addition, the ability of the entities to operate for the benefit of the controlling entity is a central characteristic of a group. If an entity is precluded from operating for the benefit of the controlling entity, for example, through the existence of separate administrations, it is clear that the entity would not be included in the group. A Minister may have responsibility for more than one function. Those functions may be encompassed in a single portfolio or administered through a number of portfolios. The specification of separate objectives for each function will usually be an indication of the existence of separate economic entities, regardless of whether the functions are combined in the one portfolio or administered separately through more than one portfolio. Similarly, the financial statements of individual local governments would not be aggregated for the purpose of preparing financial statements in each State or Territory because the combination of such local government bodies would fail to satisfy the definition of a group.</p>	<p>The detail in paragraph Aus17.7 about reporting entities is not covered in AASB 10, however the ability of an investor to deploy resources is covered in paragraphs Aus7.1 and Aus7.2.</p>

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<p>Aus17.8</p> <p>For a government to control an entity, it must have the power to require an entity’s assets to be deployed towards achieving government objectives. This may mean, but need not require, that the government can do, or require the entity to do, one or more of the following with the controlled entity’s assets:</p> <ul style="list-style-type: none"> (a) exchange them; (b) use them to provide goods and services consistent with the government’s objectives; (c) charge for their use; (d) use them to settle liabilities; or (e) hold them. 	<p>The first sentence of Aus17.8 is reflected in paragraph Aus7.1.</p> <p>Paragraph Aus17.8(b) has been reflected as an example in paragraph Aus7.1.</p> <p>The actions listed in paragraph Aus17.8 are consistent with the activities listed in paragraph B11.</p>
<p>Aus17.9</p> <p>Accordingly, a government does not control another entity where:</p> <ul style="list-style-type: none"> (a) it cannot dominate the financial and operating policies of the entity that are necessary to enable the entity to operate towards achieving government objectives, notwithstanding that both entities have similar objectives. For example, a government and a charitable entity funded by that government may share common objectives with respect to care of the homeless. However, the charitable entity is not controlled by the government when its governing body maintains discretion as to how its resources are to be deployed and whether it will accept resources from the government; (b) it cannot benefit from the resources or residual resources of the entity, notwithstanding that it may have the power to govern the entity’s financial and operating policies. For example, where a government acts as a trustee for a trust and its relationship with the trust does not extend beyond the normal responsibilities of a trustee, the government does not control the trust as it cannot deploy the resources or residual resources of the trust for its own benefit; (c) it influences, rather than governs, the financial and operating policies required to enable the entity to operate towards achieving the government’s objectives. The wide ranging powers of governments mean that they can influence the financial and operating policies of many entities, particularly those which are financially dependent on government funding. However, where the governing bodies of those entities maintain discretion with respect to whether they will accept resources from the government, or the manner in which their resources are to be deployed, they are not controlled by the government. For example, this will normally be the case with religious organisations that provide aged-care services. While these organisations may receive government grants for capital construction and operating costs, and the government providing the grant may require them to comply with certain service standards and restrictions on user fees, they will not usually be controlled by the government because their governing body will maintain the ultimate discretion about whether assets are deployed to those services. Furthermore, while private schools, private hospitals, individual local governments and universities may be financially dependent, to a 	<p>Paragraphs Aus17.9(a) and (c) are reflected in paragraph AusB10.1.</p> <p>Paragraph Aus17.9(b) – a trust example is included in paragraph AusB60.1.</p> <p>Paragraph Aus17.9(d) is reflected in paragraph AusB26.1.</p> <p>Paragraph Aus17.9(e) is reflected in paragraph AusB10.1(b).</p>

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<p>greater or lesser degree, on governments or agencies thereof, they would not be considered to be controlled by those governments or agencies for the purposes of this Standard. Therefore, this Standard does not require that the financial statements of such entities be consolidated with the financial statements of a government or government agency;</p> <p>(d) it merely has the power to regulate the behaviour of the entity by use of its legislative powers. The power of government to establish the regulatory environment within which entities operate and to impose conditions or sanctions on their operations does not of itself constitute control of the assets deployed by those entities. For example, governments regulate the operations of entities operating in the gaming industry, but those entities are not controlled by government unless the assets or residual assets of those entities can be deployed for the benefit of government; or</p> <p>(e) its ability to redeploy the assets of another entity for its own benefit is not presently exercisable. For example, under existing legislative arrangements, State and Territory governments do not control local governments because:</p> <ul style="list-style-type: none"> (i) they cannot sell the assets of a local government and redeploy the proceeds from the sale towards the State or Territory budget; and (ii) the governing body of the local government, whether an elected council or administrators appointed by a government, is bound to deploy its assets for the benefit of the local community (and not the State or Territory government). 	
<p><i>Control versus day-to-day management by government</i></p>	
<p>Aus17.10</p> <p>The existence of control for the purpose of this Standard does not require that the government has responsibility over the day-to-day operations of an entity, or the manner in which professional functions are performed by the entity. For example, the legislation governing the establishment and operation of an independent statutory office (such as that of the Auditor-General) sets out the broad parameters within which the office is required to operate, and enables the office to operate in a manner consistent with the objectives set by Parliament for the operation of government. Similarly, notwithstanding the operational independence of the judiciary from the Parliament, the legislative framework within which the judiciary operates is established in a manner consistent with the objectives set by Parliament for the administration of justice. In addition, the government retains the right to the residual assets of statutory offices and judicial entities. Notwithstanding the absence of responsibility for the day-to-day operations of such entities, or the manner in which professional functions are performed in those entities, their assets, liabilities, revenues and expenses are included in the financial statements of the relevant government.</p>	<p>Paragraph Aus17.10 is reflected in paragraph AusB15.2.</p>