

Breakfast Event: Future of Public Sector Accounting hosted by CPA Australia, February 2017

KEY DISCUSSION POINTS FROM THE PANEL SESSION

Panellists: Kris Peach, AASB Chair; Ian Carruthers, IPSASB Chair; Karen Sanderson, NSW Treasury; and Karen Johnson, Queensland Audit Office

As a standard-setter for public sector reporting, how does IPSASB see its framework harmonising with other financial reporting sectors and frameworks?

The role of IPSASB and its positioning under the IFAC umbrella have been previously subject to public consultation. Considerations including funding were debated as part of this exercise and it was agreed that the role and position of IPSASB continue to remain appropriate. The question of whether one body can or should set accounting standards for all sectors (as is the case in Australia) remains an interesting one. Challenges remain around the reporting needs of different sectors, the funding arrangements for standard-setting bodies, the similarities and differences between different reporting frameworks etc.

Whilst a number of such issues are up for debate, it is important for IPSASB to continue to maintain dialogue with different standard-setters to avoid significant differences arising. IPSASB's continued joint efforts with the IASB are part of this commitment.

How does the AASB see its future role evolve in public sector standard-setting?

It is possible that at some point in the future the role of the AASB in public sector standard-setting will change. The public sector is part of a global economy and there is a case for international consistency in public sector financial reporting, just as there is a case for consistent financial reporting within global capital markets through IFRS. Ultimately entities in different sectors are addressing the same challenge of presenting their financial performance and position from an economic perspective. Both Australia and New Zealand continue to play important roles in international standard-setting and continue to remain committed to the development of internationally consistent reporting frameworks.

Could IPSAB standards have a role to play in public sector reporting in Australia?

All public sector entities in Australia follow the Australian Accounting Standards (AAS) issued by the AASB for financial reporting purposes. Although the AAS are primarily based on IFRS, they incorporate IPSASB pronouncements where appropriate. It is important for the AASB to not replicate the international efforts of IPSASB in public sector reporting, and Australia's involvement with the IPSASB is important in this regard. The measurement of the performance of governments

and its constituents is carried out in the context of the economy as a whole, and comparability between the public and private sectors can be beneficial. Comparability across public sectors could be one of the benefits in a possible future move to IPSASB standards for public sector reporting in Australia.

Are the currently reported measures the most appropriate, or could there be other measures that could be more appropriate?

Financial reporting is an important measure to demonstrate accountability and stewardship in the public sector. Financial reporting is however fundamentally a backward looking form of reporting and is sometimes perceived as too complex for user understanding. Other forms of public sector reporting may also be important from a user perspective. For example, fiscal sustainability reporting that is forward looking can provide valuable insights into the future.

How does the role of Auditors General fit within public sector reporting?

Auditors general seek to add value to public sector reporting by verification of the accuracy of the financial information being reported, by monitoring and reporting on government performance and by ensuring accountability in the delivery of public service. Their focus continues to be on areas of reporting involving significant management judgement and areas involving a higher level of risk.

Auditors general play an active role in the development and implementation of new accounting standards and pronouncements. They also play a key role in ensuring public sector reporting is simpler and easier to understand by constituents.

What are the future plans for the accounting standard AASB 1049 *Whole of Government and General Government Sector Financial Reporting*?

Operating under a strategic directive from the Financial Reporting Council, the AASB is committed to the harmonisation of AAS with the Government Financial Statistics Manual and AASB 1049 is part of this commitment. Any changes to the AAS affecting public sector reporting should be subject to a cost/benefit analysis, and it is incumbent on the public sector stakeholders to inform the AASB of the need for change based on such considerations.

Features of the AAS can be important at different levels, for example GFS harmonisation may be important at a macro-economic level. Its not clear that asset fair values are as important at a micro level.

The issue of fair value remains challenging in the public sector, given the unique nature of many public sector assets. It is however noteworthy that evolving public sector financial management practices include higher levels of public sector asset disposals, and fair value measures can provide useful information for such purposes. Another example where fair values can be useful is in the event of natural disasters when public sector assets are destroyed or severely damaged. Fair value

measures can provide useful data in such circumstances for asset replacement and restoration purposes.

Is there a role for the AASB in standard-setting for the accountability of the public sector in service delivery?

It is crucial for the AASB to play a role in this space. ED 270 *Reporting Service Performance Information* was developed and issued for public consultation with this in mind but feedback has indicated that further thought and effort is needed to ensure the final standard is fit for purpose. The AASB continues to engage with stakeholders on this project and welcomes any further engagement from relevant public sector stakeholders.

The measurement and reporting of outcomes is one of the challenges to be overcome. For example, whilst the accountability for outcomes may be at an individual departmental level, the outcomes themselves could be arising from the involvement of more than one department or agency. These and other challenges will have to be addressed in the development of any future proposals.

It can be argued that users are familiar with the form and content of financial reports that are based on decades or even centuries of accepted accounting practice and standards development. Whilst new reporting forms such as service performance reporting may be considered more useful, financial reports still have an established role to play in the reporting of public sector performance?

Whilst financial reporting has not fundamentally changed, accounting standards have changed significantly over time. The advent of technology has also had a big impact on the financial data that is available, allowing users to manipulate and utilise the financial information in different ways. The evolution of reporting is a continuous process and these developments are all part of that journey.