Appendices to Public Sector Discussion Paper

Appendix	Description
Appendix A	*Definition of a public sector entity and structure of the public sector in Australia*
Appendix B	*Factors that could be used to answer the 'who should publicly report' question* - which discusses a broad range of possible principles, criteria, thresholds and ways of operationalising those thresholds that could be combined to answer the 'who' question
Appendix C	*Possible types of specified financial statements* – options available to prepare financial statements that could be combined with the factors identified in Appendix B to answer the 'what' question
Appendix D	*Possible levels of assurance for financial statements* – discusses levels of assurance (audit or review) that might be appropriate for various types of financial statements and related issues
Appendix E	*Impact on the sector* – detailed analytics showing the impact of each threshold on the public sector using financial data obtained from public sector entities
Appendix F	*Information collected from public sector entities* – data collected for the purpose of the analysis in Appendix E

Contents

APPENDIX A

What is the 'public sector'?

A1. The public sector of Australia is a large and disparate conglomeration of various public sector entities including statutory bodies/authorities, departments, controlled entities (for example, for-profit companies), government-owned enterprises and public sector officials.

A2. The Australian government is a federal system of Government with 3 tiers:

- The Australian Commonwealth (or Federal Government) – the national government is regarded as the first tier or level of government. It passes laws and is responsible for regulation which affects our whole country, but limited to within the powers outlined in s 51 of the Constitution.

- State or Territory (regional government) – The second tier of the Australian government consists of six states and two territories, namely Western Australia, South Australia, New South Wales, Tasmania, Victoria, Queensland, Northern Territory and the Australian Capital Territory.

- Local Government (municipal government) – Local governments, also called councils or the third tier or level of government, are responsible for and deliver many community services (such as public transport, waste disposal and development assessment). Their establishment, powers and responsibilities are defined in state-based legislation.

A3. The Australian Constitution defines the powers of the Commonwealth and its relationship with the States and Territories. The powers of local governments are defined by state government legislation in each state. Local government, while not part of these constitutional arrangements, forms the 'third tier' of government.

A4. At the heart of the governance arrangements is the separation of power between parliament, executive government and the judiciary, known as the 'three arms of government'.

A5. Each 'arm of government' uses different terminologies for entities. For instance, at the Commonwealth level, an entity means a Department of State which is a parliamentary department responsible for that portfolio made up of a number of other entities such as an entity listed in the *Public Governance, Performance and Accountability Act 2013* (PGPA Act), generally referred to as agencies.

A6. The Australian states and territories adopt a similar structure with statutory authorities or administrative units replacing agencies, and directorates replacing departments[1]. Appendix A of the AASB Research Report 6 - *Financial Reporting Requirements Applicable to Australian Public Sector Entities* (Research Report No 6) highlights the differences in the definition of entities in each level of Government and provides more information in Appendix A on what is the public sector in Australia.

1 Victoria, New South Wales, South Australia, Queensland, Western Australia and Tasmania all refer to statutory bodies and statutory authorities. While ACT refers to administrative units and Northern Territory refers to Government Business Division.

A7. The following table sets out the various areas of responsibility and the types of taxes each government raises.[2]

Level of government	Type of activity	Types of Taxes collected
Commonwealth government	National matters: defence, immigration, foreign affairs, trade	Income taxes, corporate taxes, and goods and services taxes.
State/territory government	State/territory matters: schools, hospitals, housing services, roads and railways	Gambling taxes, stamp duty (such as motor vehicle registrations and transfers), property taxes and payroll taxes
Local government	Local matters: rubbish collections, local roads, building regulations, water and sewage and pet control	Council rates, fines

A8. From an accounting standard perspective, currently Aus paragraph 7.2 of AASB 101 *Presentation of Financial Statements* provides the following definitions:

> *Government means the Australian Government, the Government of the Australian Capital Territory, New South Wales, the Northern Territory, Queensland, South Australia, Tasmania, Victoria or Western Australia.*
>
> *Government department means a government controlled entity, created pursuant to administrative arrangements or otherwise designated as a government department by the government which controls it.*
>
> *Local government means an entity comprising all entities controlled by a governing body elected or appointed pursuant to a Local Government Act or similar legislation.*

2 See Responsibilities of the Three levels of Law-Making.

APPENDIX B

Factors that could be used to answer the ‘who should publicly report’ question

Introduction

B1. The objective of this Appendix is to help inform the discussion about possible ways of specifying which public sector entities should be required to prepare GPFSs (however specified) and publicly lodge on a website or table them in Parliament. The principles should be set so that it is clear financial statements are tabled when there are users who cannot demand to see the financial information they need, including those users concerned with economic or political significance.

B2. The financial reporting framework for public sector entities should be coherent, consistent and complete. There should also be a balance between the benefits and costs of preparing and auditing financial statements.

B3. Any framework that is developed to replace the current framework could mix and match from a range of possible criteria such as:

- underlying principles that could underpin decisions about the ‘who’ question (the focus of this Appendix) and the ‘what’ question (the focus of Appendix D);
- criteria that could best reflect the chosen principle(s);
- thresholds that could best reflect the chosen criterion/criteria; and
- approaches that could best operationalise the chosen threshold(s).

B4. The key considerations provided could be used to determine an appropriate principle for determining who needs to prepare and publish GPFS. In addition legislators will also need to adopt a cost/benefit overlay to ensure that the regulatory burden is appropriate.

B5. The possible alternative principles, criteria, thresholds or ways in which the thresholds might be operationalised are identified in this Appendix but these are not an exhaustive list of factors that could underpin who should report. Furthermore, those that are listed are not necessarily mutually exclusive, and more than one principle could be selected to determine who should report.

B6. The advantages and disadvantages listed for each factor are also not exhaustive, but give some insight into the types of issues that should be considered in assessing their suitability for a revised framework in particular circumstances.

B7. Although this Appendix is presented separately from Appendix C, there is expected to be a significant relationship between the ‘who’ and the ‘what’ questions. In particular, a broad ‘who’ would mean more public sector entities would be required to report and therefore it is likely that more Tiers of GPFSs (i.e. the ‘what’) would be required to help facilitate proportionate regulation. The inverse is also expected to be true, whereby a narrower ‘who’ would result in the need for fewer Tiers to be available to cater for fewer cohorts of entities.

B8. The following discussion considers each of these possible principles in turn.

1. Principles that could underpin decisions about the ‘who’ question

1.1 Public Accountability

Overview

B9. Where a public sector entity has ‘public accountability’ (as defined by IFRS) it would have an obligation to lodge GPFSs on the public record.

B10. As per B1 of AASB 1053 *Application of Tiers of Australian Accounting Standards,* the notion of public accountability is consistent with the notion adopted by the IASB in its *International Financial Reporting Standard for Small and Medium-sized Entities* (*IFRS for SMEs*). It is different from the notion of public accountability in the general sense of the term that is often employed in relation to not-for-profit, including public sector, entities.

B11. It is the accountability to those existing and potential resource providers and others external to the entity that make economic decisions but are not in a position to demand reports tailored to meet their particular information needs.

B12. A public sector entity would have public accountability if (as defined by IFRS):

a) its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets); or

b) it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses. This is typically the case for banks, credit unions, insurance providers, securities brokers/dealers, mutual funds and investment banks.

B13. The IFRS definition of public accountability was drafted with a for-profit focus, meaning that this principle would require a commentary accompanying the definition to provide clarification in a public sector entity context. For example, part (a) of the above definition refers to debt or equity instruments traded in a public market but most public sector entities do not use these instruments.

B14. Although there are some who argue that the IASB definition of public accountability may cover some NFP entities on the grounds that they hold funds in a fiduciary capacity for a broad group of outsiders, the IASB definition has a for-profit context that makes it unsuitable for the NFP sector.

B15. The New Zealand External Reporting Board Standard also takes a similar view that some entities may hold assets in a fiduciary capacity for a broad group of outsiders because they hold and manage financial resources entrusted to them by members not involved in the management of the entity. However if they do so for reasons incidental to a primary business, that does not mean that they have public accountability. For example in the context of the public sector, a government whose primary business is the provision of state housing to tenants does not have public accountability if it also manages trust money (rental bonds) on behalf of those tenants as an incidental activity to its primary businesses.[3]

B16. BC46 of AASB 1053 also noted that a modified definition of public accountability in the NFP context would not provide a robust basis for identifying entities falling under different reporting Tiers. This is on the basis that the public sector entities are regarded as publicly accountable in the general sense of the term.

B17. Under this principle, it may only capture WoGs of the Federal, State and Territorial and local government level, and any other public sector entity that meets the definition of public accountability.

Relative merits of the principle

Advantages

- The IASB definition is readily available avoiding the need to draft something new.
- This principle can be easily combined with other principles.

Disadvantages

- It may be too narrow to capture an appropriate group of public sector entities[4]
- The for-profit focus of the terminology may be confusing in a public sector/NFP context as noted in paragraph B10.
- It may be difficult to apply and would require the entity to exercise judgement and interpret the definition of public accountability in its own context, and may not capture entities that the definition intends to capture.

1.2 Public Interest

Overview

B18. A public entity that is deemed to have a 'public interest' may have an obligation to lodge GPFSs for public record. This notion is linked to the information needs of users of GPFS where there exist users who are dependent on GPFS as a basis for making and evaluating resource allocation decisions.

B19. When determining whether an entity is likely to have GPFS users who cannot command for themselves financial statements, there are three key considerations as set out currently[5] in SAC 1[6]

a. The current or potential general purpose external users for an entity. For public sector entities these include:

---

3 Paragraph 11 External Reporting Board Standard A1 *Application of the Accounting Standards Framework*

4 AASB 1053 *Application of Tiers of Accounting Standards* BC 57

5 The notion of primary users of financial statements will need to be reconsidered once the revised IASB's *Conceptual Framework* is released.

6 SAC 1 paras19-23

- existing or potential resource providers (such as lenders and other creditors, donors, members and taxpayers);
- recipients of goods and services (such as beneficiaries and members of the community); and
- parties performing review or oversight functions on behalf of other users (such as advisers and members of parliament). Parliaments decide, on behalf of constituents, whether to fund particular programmes for delivery by an entity. Taxpayers decide who should represent them in government. The greater the number of users the more likely the need for GPFS ('specific public interest').

b. Entities with economic significance or political importance/influence such that the general public has an expectation the public sector entity will report GPFSs publicly (public interest). For public sector entities these might be those of such economic significance that their failure would have significant implications for the economy. Or it might be the nature of the public sector entity's operations is of such political importance to the Commonwealth or State that they attract greater public interest. For example, entities that operate in health, education, defence or transportation. For local governments, it might be the location such as the metropolitan area that attracts greater public interest.

c. The greater the public interest, as represented by economic significance or political importance, the more likely the need for GPFS ('general public interest').

d. The financial characteristics of an entity based on size (for example, value of sales or assets, or number of employees or customers) or indebtedness of an entity. In the case of non-business entities in particular, the amount of resources provided or allocated by governments should be considered. The larger the size or the greater the indebtedness or resources allocated; the more likely it is that there will exist users dependent on GPFS. The greater the resources allocated to an entity by WoG the greater the financial characteristics of that entity.

B20. In addition to the SAC 1 factors, the nature of the public sector structure also needs to be considered. The public sector is currently publicly reporting at many levels – at a WoG level, at general government sector (GGS) level, at department level, at individual statutory agency level and sometimes also at various combinations of departments, agencies and GBEs. From a private for-profit sector entity this is the equivalent of a company providing consolidated financial statements, and separate financial statements for each of its branches (departments and agencies) and subsidiaries (GBEs). As noted in SAC 1, in the public sector the accent on accountability has seen widespread application of the "fund" concept of reporting, which implies a concern with reporting the results of individual funds (eg departments, who are allocated budget appropriations), and accountability of elected representatives and/or officials preparing financial statements for their area of responsibility.[7]

B21. SAC 1 paras 24-25 and Aus para 7.2 currently indicate that most, if not all, government departments and statutory agencies/authorities are reporting entities by virtue of the separation between the parties with an economic interest in the activities (members of the public) and those responsible for the management of those activities. However, SAC 1 paras 29 does not require the preparation of separate GPFS relating to the

---

7 SAC 1, para 10

group of entities comprising the budget sector (that is, those entities which are heavily reliant on the budget for resources) because, without the WoG, they do not form an economic entity.

B22. Based on SAC 1, the implications of applying the factors above is that WoG, whether at the Federal, State, Territorial or local government level, would be identified as a reporting entity because it is reasonable to expect that users will require GPFS to facilitate their decision-making in relation to the resource allocation made by, and the accountability of, those governments. At a lower level of reporting, a number of individual statutory agencies/authorities and departments may also be defined as individual reporting entities because of their economic or political significance and/or their financial characteristics (for example, resources controlled and level of indebtedness. In some cases, these factors may also identify a ministerial portfolio as a reporting entity.

B23. Another consideration is the International Public Sector Accounting Standards Board (IPSASB) conceptual framework, which specifies two types of users that require information for accountability and decision-making purposes - service recipients and resources providers.

B24. The IPSASB identified key characteristics of GPFS users of a public sector entity are that:

- it raises resources (ability to raise taxes or charge fees/levies etc.) from, or on behalf of, constituents and/or use resources to undertake activities on behalf of those constituents; and

- service recipients and resources providers depend on GPFR for information for accountability or decision-making purposes.

B25. Service recipients need information on;

- whether an entity’s resources are used economically, efficiently and effectively;

- whether current levels of taxes or other charges are sufficient to maintain the volume and quality of services currently provided; and

- other non-financial information about the entity’s anticipated future service delivery activities and objectives, and the amounts and sources of cost recoveries necessary to support those activities. This is similar to what is currently required by public sector entity requirements to report on sustainability across Commonwealth, State and local governments in Australia[8].

B26. Whereas resource providers need information on:

- whether the entity is achieving its objective to justify the resources raised;

- whether it is likely that additional resources are needed in the future and the sources of those resources.

---

8 See Table 1 of Research Report 6 for substainability reporting across jurisdictions in Australia

B27. This infers that the greater the resources that a public sector entity raises, manages and/or has the capacity to deploy, the greater the liabilities it incurs and the greater the economic or social impact of its activities, the more likely it is that there will be service recipients or resource providers who are dependent on GPFRs for information about it for accountability and decision-making purposes.

B28. Under this principle, every public sector would likely be captured and considered to have public interest, and require GPFS to be prepared. The factors explained in paragraphs B19a-c may be an effective way to apply differential regulation for public sector entities to segment the population. The level of public interest should be matched with the appropriate level of reporting to balance the costs to preparers and users' needs.

Relative merits of the principle of public interest

Advantages

- Explicitly acknowledges the public's interest in the activities of the public sector, regardless of whether money has been given by the public.
- Explicitly acknowledges the stewardship responsibilities of the public sector and is consistent with the general perception that they should be accountable to the public more broadly.
- It captures users' needs based on the factors and consistent with SAC 1.
- Easily understandable. The public sector receives money via taxes and/or services paid by the general public, resulting in the need to report back to the public.

Disadvantages

- It is too broad and could lead to virtually all public sector entities having an obligation to prepare GPFSs. Different/proportionate Tiers of GPFSs may then be required.
- Imposes reporting requirements by virtue of the nature of being a public sector entity and presents an un-level playing field with for-profit entities that are also recipients of public money but not subject to an equivalent standard of accountability.
- May be confused with the principle of public interest entities[9] used by the Accounting Professional and Ethical Standards Board.
- Difficult to determine criteria that would represent the public interest and determining the types of tiers associated with the level of public interest.

9 Section 290 of APES 110 definition of Public Interest Entity means a listed entity; and an entity defined by regulation or legislation as a public interest entity or for which the audit is required by regulation or legislation to be conducted in compliance with the same Independence requirements that apply to the audit of Listed Entities. Such regulation may be promulgated by any relevant regulator, including an audit regulator.

2. Criteria that reflect the principle(s) underpinning decisions about the 'who' question

Introduction

B29. A principle is unlikely to be specific enough as a practical basis for identifying who should prepare and submit GPFSs on the public record. The following considers the types of criteria and thresholds that could reflect the different principles listed above to bring a greater level of objectivity into answering the 'who' question. The aim would be to identify criteria that are consistent with the chosen principle(s) explained above, and a threshold(s) that is consistent with the chosen criteria.

B30. It is not necessarily the case that only one criterion should be used. However, a multiple criterion approach could add to complexity.

B31. It is difficult to determine the underlying factors which indicate whether a public sector is of public interest. There is presently little research on what criteria best represents these underlying principles, which makes determining who and what should be reported difficult.

B32. To apply the principle of public interest, the following criterion might be used as surrogates, either alone, or in combination.

2. 1 Right representation of the following criteria

(a) Economic significance or political influence

(b) Nature of activities

(c) Structure of activities

(d) Users' needs versus preparers' cost

2.1a Economic significance or political influence

Overview

B33. The criterion of economic significance is likely to be measured by the economic impact on the community as a whole if the public sector no longer operates.

B34. As this measure is not readily determinable, a surrogate measure may be needed such as those government entities that make up 80% of the federal/state budget. However, consideration of specific factors such as location of operation (regional or metropolitan), number of jobs provided by the public sector, or the type of service provided directly to beneficiaries might also be relevant.

B35. The criterion of political influence is likely measured by public sector entities with regulatory powers. Regulation[10] is defined as any rule endorsed by government where there is an expectation of compliance, including legislation, regulation, quasi-regulation

10 *The Australia Government Guide to Regulation*

(such as guidelines and forms) and any other aspect of regulator behavior which can influence or compel specific behavior by business, community organisations or individuals. This criterion would be associated to the nature of activities which have more political influence such as health, education, transport and defence.

Possible consistent criteria

B36. Economic significance could be measured by one or a combination of factors such as:

- Income (appropriations and all other sources of income, determined on a cash or accrual accounting basis)
- Expenses (cash expenditure or expenses determined by accrual accounting)
- Total Assets (determined on a valuation basis at assessment date as per GFS, or in accordance with accounting standards)
- Total Liabilities (determined on a GFS basis, or in accordance with accounting standards)
- Employee benefits (salaries paid or determined in accordance with accounting standards)

B37. A key consideration in determining economic significance is the basis on which the assessment is made – consolidated WoG level, individual entity or a segment of a group entity. Consolidation versus individual financial statements is discussed in detailed in a separate AASB Research Paper.

B38. Another consideration relating to economic significance is that some WoG or public sector entities in smaller territories such as the ACT or NT, may not be captured based on their size relative to the Commonwealth and other states such as VIC, NSW or QLD. However WoG is considered to have public interest regardless of their size, and should be required to prepare GPFS. Applying a percentage against the total income in respect of the total chosen criterion/s may provide a better outcome rather than applying an absolute size threshold.

B39. SAC 1 identifies revenues, assets, liabilities and employee numbers as possible measures of economic significance. Currently all public sector entities are required to prepare GPFS regardless of their economic significance. The current Corporations Act test[11] for small/large proprietary companies is based on revenues, assets and number of employees. There are merits in using these measures for public sector entities as they are readily available, however further considerations to each measure is explained below:

a. income may not be the most appropriate measure for a public sector entity. Income may depend on the appropriations which it receives and is provided by the government based on a number of factors that may not be controlled by the entity. Indeed, if departments are considered akin to branches or segments in the private sector, then appropriations would not be "revenues", but merely the "budget" provided by the parent.

11 The *Corporations Act 2001* defines small and large propriety companies under section 45A.

b. expenses are likely to be a more consistent and appropriate representation of a public sector entity's activities and economic impact as it is likely to have more control over them. However, expenses may be lumpy, as they depend on what income is obtained each year. Expenses may be easier to determine than income (including revenue) as they typically have less accounting issues in the public sector.

c. total assets may have accounting issues specifically in relation to fair value of assets such as heritage assets. A separate AASB project is looking at the issues regarding fair value for the public sector.

d. total liabilities may be an appropriate measure of economic significance for some public sector entities depending on their activities such as those with finance leases or entities that rely on the Government based on borrowings. However entities that avoid external debt and are self-sufficient may be excluded from reporting even though they may earn income from contracts or receive government appropriations, which might give rise to a performance obligation, but are generally not treated as liabilities.

e. employee benefits may only capture larger public sector entities while smaller territories such as ACT and NT may not be captured.

Relative merits of the criterion

Advantages

- Only public sector entities assessed as having an economic impact would be required to report.
- If specified in an objective way, it would be relatively simple to draw a line between who reports and who does not.
- The information required should already be collected and therefore not entail significant effort.
- Allows for proportionate regulation.

Disadvantages

- Need to determine the best criteria: income, expenses, or a combination of factors. It is difficult to determine the right combination of measures and what levels of reporting should be required.
- A threshold such as 80% would require public sector entities to determine which entities constitute 80% of the federal/state budget annually. A different measure may be required for local governments.
- May not capture entities in smaller territories based on their size relative to the Commonwealth and larger states.
- Need to review all size-based tier criteria and adjust the size thresholds for inflation periodically.

2.1b Nature of activities (functions/programs)

Overview

B40. Under this criterion the need to lodge GPFS is dependent on the nature of the public sector's activities. This criterion may correlate with economic significance above as the specific nature of some activities may be of more significant and have more political influence to the public than others.

Possible consistent criteria

Commonwealth level/ Federal government

B41. The federal government has broad national powers. Among other things, it administers laws in relation to defence, immigration, foreign affairs, trade, postal services and taxation;

B42. As outlined in Research Report No. 6, there are 16 portfolios as at 21 December 2017 as shown below which may form a basis on the nature of activities that can be selected. (The number of agencies (including departments) are included within brackets). Within each agency there is likely to be a number of programs that are delivered.

1. Agriculture and water resources (9)
2. Attorney-General's (12)
3. Communications and the Arts (18)
4. Defence (11)
5. Education and Training (8)
6. Environment and Energy (9)
7. Finance (7)
8. Health (19)
9. Home Affairs (5)
10. Human Services (2)
11. Industry, innovation and Science (Jobs and Innovation Portfolio) (8)
12. Infrastructure, Regional Development and Cities (12)
13. Jobs and Small Business (Jobs and Innovation portfolio) (10)
14. Prime Minister and Cabinet (19)
15. Social Services (3)
16. Treasury(18)
17. Veteran's Affairs (2)
18. Foreign Affairs and Trade (8)
19. Parliamentary Departments (4).

B43. Certain portfolios may be more economically significant or politically influential to society than others, such as health, education, infrastructure, social services (eg housing) and defence which have a direct impact on the public in general. However entities within the portfolios may not by itself be individually significant based on their size using expense and/or assets.

B44. Alternatively "non-significant entities" that may not be economically significant within those selected portfolios, but consolidated to the WoG financial statements, may not necessarily need to prepare individual financial statements. This can be achieved by way of including segment reporting based on functions in the WoG consolidated financial statements which encapsulates the 'non-significant entities'.

State/territory government level

B45. State/territory governments have the power to look after laws not covered by the federal government; for instance, hospitals, schools, police and housing services.

B46. Each state/territory government has its own departments and statutory bodies responsible mainly for the functions noted below:

1. Education and Training[12]
2. Environment and natural resources
3. Health
4. Human services
5. Treasury and finance
6. Housing and community development
7. Industry
8. Trade business and innovation
9. Attorney General's
10. Transport.

B47. Similar to what is explained in paragraphs B43-B44, the statutory bodies within the portfolio of the departments shown above can be evaluated based on economic significance as a threshold to identify significant statutory bodies.

Local Government level

B48. Local governments, also called councils, form the third tier or level of government and are responsible for, and deliver, many community services

B49. In general, local government entities provide the services listed below;

1. Airport
2. Animals and pet control
3. Cemeteries[13]
4. Infrastructure services
5. Licenses and approvals
6. Parking
7. Parks and Gardens
8. Waste and recycling
9. Roads and pathways
10. water and waste water services.

B50. Given local governments operate the services above individually, all local governments would be captured and need to lodge GPFS. As such another criterion that may be considered is the location of local governments, ie metropolitan or regional.

---

12 Government schools are included within the financial statements of each state/territory Department of Education and are not required to prepare separate financial statements. This is different to non-government schools that are required to prepare separate financial statements for the Departement of Education and Training or registered with the Australian Charites and Not-for-profits Commission.

13 In South Australia, Victoria, Western Australia, New South Wales and ACT cemeteries are controlled by the state government.

Relative merits of the criterion

Advantages

- Operationally simple, capturing public sector entities that operate specific activities and takes into account specific types of users of public sector GPFS.
- Better reflects user needs.
- Allows for proportionate regulation.
- criteria are transparent and legislator is able to clearly identify when to adjust.
- Reporting based on by function or program is an internationally recognised means of reporting government activities and for comparison purposes can be mapped to the IMF's *Government Finance Statistics Manual 2001*. This provides some useful means of understanding government outlays as it reports according to expenses.

Disadvantages

- May scope in a large number of public sector entities and therefore give rise to the need for additional Tiers of reporting.
- This criterion could be subjective as people may have different perceptions of what is important to them.

2.1c Structure of Public sector

Overview

B51. The Austalian public sector operates under different legal structures and levels:

- WoG of the Commonwealth, state and territorial and local government level.
- departments that are responsible for portfolios made up of a number of other entities such as agencies/statutory bodies
- for profit public sector entities such as GBEs incorporated as public companies or state-owned companies.

Possible consistent criteria

B52. WoG at all levels of government are considered to be the highest level and meet the principles of public interest based on their economic significance, and their ability to raise taxes from the public. As such it is reasonable to expect that users will require GPFS to facilitate their decision making in relation to the resource allocations made by, and the accountability of, these governments.

B53. GBEs conduct commercial enterprises and can act in their own right and exercise certain legal rights such as entering into contracts. As such their reporting requirements fall within the framework for for-profit entities to enable comparability with the GBE's competitors

B54. If we take the fund concept of reporting, departments and statutory bodies may be considered to be an administrative construct designed for internal accountability, rather than necessarily being needed for external accountability. All departments and other entities consolidated into WoG reporting would still need to internally provide information necessary to enable preparation of the WoG financial reports.

B55. As per illustrative frameworks explained in paragraphs B41 to B50 certain portfolios may be more economically or socially significant to society than others, such as health, education and Infrastructure which have a direct impact on the public in general. The “non-significant entities” already consolidated to the financial statements of the WoG may not need to prepare individual financial statements. Instead they can be included as segment reporting or extract of information of the WoG.

B56. The different types of reporting such as reporting an extract of the WoG financial statements, or segment reporting within the WoG may satisfy external accountability based on the level of public interest. The different tiers and the level of reporting will be discussed further in Appendix C.

Relative merits of the criterion

Advantages

- Only those ‘deemed’ structure/s would be required to prepare GPFS
- Simple to operationalise when it is clear which structures are required to report

Disadvantages

- Certain departments and agencies/statutory bodies may still be considered significant based on their nature, such as health, education, transport and defence as described in paragraphs B43 and require external accountability

2.2 Revenue generating/rate raising

Overview

B57. Under this criterion, public sector entities that have the ability to raise rates or collect taxes from the public would be required to prepare GPFS. This measure is objective and aligns with the factors identified in SAC 1 and IPSASB’s key characteristics of a public sector reporting entity’s ability to raise taxes or charge fees/levies etc from, or on behalf of constituents.

Possible consistent criteria

B58. Rate raising entities (public sector entities that levy rates on the public such as local governments)

B59. Revenue generating entities (public sector entities that collect taxes from the public or charges fees for licenses eg. fundraising licenses)

Relative merits of the criterion

Advantages

- Simple to operationalise and captures public sector entities that generates revenue or collect rates from the public

- Inclusion of taxpayers, takes into account user focus and better reflects users’ needs

- Allows for proportionate regulation
- criteria are transparent and legislator is able to clearly identify when to adjust.

Disadvantages

- captures all local governments and does not consider size of the entity
- may only capture some government departments as not all public sector entities have the power to generate revenue and are reliant on budget resources from the government, such as General Government Sector. Entities may not consider themselves as tax generating and merely enabling the legislation/regulation on behalf of the WoG.

2.3 User needs versus preparers' cost

Overview

B60. Based on the AASB Research Paper 6, it is estimated that the Australian public sector spends more than $1 billion on audit and preparation cost of financial statement (excluding valuation cost). Thus it is important to consider cost and benefit in preparing GPFS in both principles.

B61. Where an assessment (by legislation rather than preparers) is made that the benefits (typically to users) of GPFSs would outweigh the costs (typically to preparers) a public sector entity would have an obligation to lodge GPFSs on the public record. Typically a tiered approach would reflect that:

- Smaller public sector entities have limited resources and their associated financial reporting obligations should be commensurate with these
- The greater the level of specific or general public interest the greater the level of reporting requirements.

B62. The Conceptual Framework, paragraphs QC35-QC39 discuss balancing the costs and benefits, noting that cost is a pervasive constraint on the financial information that can be provided by GPFSs and it is important that the costs are justified by the benefits.

B63. In determining who should report, the benefits and the costs of reporting by public sector entities should be weighed up, and reporting only required by public sector entities where it is assessed that the cost of preparing a GPFS is outweighed by the benefits.

B64. A tiered framework reflects the different size and nature of reporting entities and is likely to help smaller public sector entities achieve a better balance between the costs and benefits of general purpose financial reporting.

B65. Legislative changes designed to make financial reporting by public entities more useful and more relevant should also be required to set out the principles for determining who should report.

Relative merits of the principle

Advantages

- Guidance exists in the Conceptual Framework
- Consistent with the considerations that are applied to the principles
- Consistent with the transaction neutrality principle.

Disadvantages

- The determination of cost by one cohort of public sector entities may not be considered as a cost to another cohort, meaning that a single determination of cost may not be applicable to all situations and is subjective.
- The determination of benefits is also subjective. Costs can often be more readily quantified –and preparers are often more vocal/organised than those who stand to benefit the most from financial reporting with concerns about the influence on those making decisions about who should report.
- May not give sufficient focus to the general public interest in some public sector entities.

3 How to operationalise the chosen criteria with thresholds

B66. Regardless of which criteria, or combination of criteria are selected, in order to balance users' needs and cost-benefit of preparing GPFS, a distinction will be needed between those that need to:

- publicly lodge GPFS versus those that have no reporting requirements; and/or
- lodge GPFS and the appropriate form of GPFS, requiring an appropriate tiering of GPFS reporting match with the level of user interest.

B67. The appropriate number of tiers will need to be determined and these 'tiers' will require appropriate thresholds to be matched with the GPFS reporting and level and scope of assurance requirements. For example:

- GPFS Full (tier 1 expenses >A)
- GPFS Reduced Disclosure (tier 2 expenses <A>B)
- GPFS Modified Accrual or service performance and budgetary reporting based on accrual (tier 3 expenses <B>C)
- A cash flow statement (tier 4 expenses < C)

B68. Tiers and thresholds will need to be operationalised in a way that ensures the framework is simple and clear and internally consistent. Tiers and thresholds will also need to work in conjunction with the types of GPFS reporting identified in Appendix D and the level and scope of assurance in Appendix E of this report. Tiers and thresholds should be objective and transparent, so that it is easy to identify when changes should be made. Tiers should be proportionate so that the greater the level of public interest, the greater the level of reporting.

B69. The maximum possible tiers of GPFS and the tiers for who should publicly lodge GPFS are from:

- Full recognition, measurement and disclosure.
- Reduced disclosure (some disclosure modifications to reflect size and nature of public sector entity)
- Modified accrual (some recognition and measurement modifications to reflect size and nature of public sector entity) or performance reporting, balance sheet, profit or loss and cash flow on accrual basis and comparison of budget versus actual profit loss and cash flow on accrual basis
- Simple cash reporting (possibly including service performance report and sustainability report)

B70. The more tiers selected the more complicated the framework is to understand and maintain. For example professionals in the sector and preparers need to know all four tiers, and some education of the Tiers may be required.

B71. In New Zealand, a PBE should report in accordance with Tier 1 Public Benefit Entity (PBE) Accounting Requirements only if it[14]:

- has public accountability; or
- is large[15].

B72. As a result, there are four tiers of reporting in the PBE sector in New Zealand. Tier 1 is the default tier for all PBEs. However, entities that are not large (as defined) and do not have public accountability (as defined) may elect to apply the requirements of another tier if they meet the criteria for that tier.

B73. A multi-tiered approach will be important in operationalising the cost-benefit aspect. This will be an appropriate way to balance the information needs of users and the costs of reporting for different sized entities. In other words, the accounting standards that an entity is required to apply become progressively simpler as the entity moves down the tiers while preparing some form of GPFSs to meet user needs.

B74. When determining thresholds to determine tiers, options include:

(a) using percentiles of the population. For example, if there are 4 tiers, each tier is based on a quartile of the population. However, there might be concerns about:

(i) gaming around a bright line;
(ii) the need to monitor and maintain the line over time[16] and
(iii) entities that are in a smaller state or territory will not be captured compared to the Commonwealth or other larger states.

---

14 Refer to Appendix B of the AASB Research paper on financial reporting requirements for public sector for more information

15 For the purpose of applying the Tier 1 size criteria, a PBE is large if it has total expenses over $30 million. Total expenses means the total expenses (including losses and grant expenses), recognised in its surplus or deficit by an entity in accordance with Tier 1 PBE Accounting Requirements

16 For example, the Explanatory Memorandum accompanying the most recent amendment to the proprietary company financial reporting requirements explains that the amendments were made to monetary thresholds, which had not been updated since 1995, because they became too low a level to determine economic significance and had led to an increasing number of non-economically significant entities being subject to the reporting requirements (see Corporations Legislation Amendment (Simpler Regulatory System) Bill 2007 Explanatory Memorandum).

(b) the nature of activities, structure of public sector entities or rate/revenue raising public sectors could be specified as the threshold that differentiates what is reported.

(c) size based on economic significance as listed in B36, each criterion could be considered individually or as a combination.

B75. Consideration must be given to proportionate reporting based on level of public interest. Different Tiers as described in the next section may be appropriate to meet the users' needs for public sector when considering especially the structure of public sector entities. Given the increasing importance of WoG reporting, all WoGs at all levels of government would be required to prepare full GPFS to meet the requirements of external accountability.

APPENDIX C

Possible types of GPFSs

Introduction

C1. As noted above, many of the issues relevant to answering the ‘what’ question are the same issues relevant to answering the ‘who’ question. Indeed, the two issues are inextricably linked – what should be reported is an integral part of who is to report. Accordingly, this Appendix identifies possible types of GPFS that might be publicly lodged.

C2. The advantages and disadvantages listed for each tier are not exhaustive, but give some insight into the types of issues that should be considered in assessing their suitability for a revised framework in particular circumstances.

C3. For all tiers, other forms of reporting discussed in paragraphs C34 to C43 such as service performance reporting and budget versus actual reporting should also be prepared under this tier in order to address the principles of public accountability and best use of tax payers’ money.

C4. Thus a new standard to specify the requirements of service performance reporting and amendments to AASB 1055 *Budgetary Reporting* might be needed. The information presented should be linked to the financial information presented in the GPFS.

Tier 1 - Full recognition, measurement and disclosure

What is the current requirement?

C5. Tier 1 under current AASB 1053 *Application of Tiers of Australian Accounting Standards* specifies full recognition, measurement, presentation and disclosure requirements including the consolidation of subsidiaries.

C6. As explained in Appendix A, AASB 101 Aus paragraph 7.2 states that in respect of public sector entities, local governments, governments and most, if not all, government departments are reporting entities.

C7. As per paragraph 11(b) of AASB 1053, Tier 1 reporting requirements apply to the GPFS of the Australian Government and State, Territory and local governments. Paragraph 12 to AASB 1053 further states that subject to AASB 1049, GGSs of the Australian Government and State and Territory governments should apply Tier 1 reporting requirements.

C8. In the application paragraphs of SAC 1 *Definition of the Reporting Entity*, the term ‘reporting entity’ is used to denote entities that are required to prepare GPFS because they have users who depend on the GPFS to make decisions.

C9. As discussed in the AASB Research Report No.6, Australian Accounting Standards require only the WoG[17] financial statements and GGS financial statements to use Tier 1 GPFS[18], but legislation or Treasurer Instructions require the majority of public sector entities to use Tier 1. Only South Australia, Queensland and the Commonwealth allow the use of Tier 2 for entities below WoG level.

C10. Australian Accounting Standards[19], compound the problem by stating that most if not all, departments are reporting entities, implying that all agencies and GBEs are reporting entities.

What should be changed

C11. When considering this option, either legislations or amendments to AASB 1053 might be needed in determining whether only some public sector entities are required to prepare full GPFSs.

C12. As discussed in the AASB Consultation Paper[20], the International Accounting Standards Board (IASB) is expected to issue a revised Conceptual Framework titled *Conceptual Framework for Financial Reporting*. Consequent to the application of the revised conceptual framework, amendments to SAC 1 might be needed in determining the appropriate reporting entity concept in relation to the public sector entities.

C13. The other forms of reporting such as service performance reporting and budget versus actual reporting (refer to paragraph C34 to C43 for more information) should also be prepared.

Relative merits of the Tier

Advantages

- Already established Tier, which is maintained by the AASB.
- Includes modifications through Aus paragraphs that take into account public sector specific issues in a transaction neutral way.
- Perceived transparency through maximum disclosure.
- Comparability with private sector entities that have the most public interest and or general purpose users.
- Inclusion of additional reporting such as budgetary reporting and service performance reporting will better meet the user needs.

---

17 WoG refers to Commonwealth, state and territory, and local governments

18 As per paragraph 11(b) of the AASB 1053 *Application of Tiers of Australian Accounting Standards*, Tier 1 reporting requirements apply to the GPFS of the Australian Government, States/Territories and local governments. Paragraph 12 of AASB 1053 also states that subject to AASB 1049 *Whole of Government and General Government Sector Financial Reporting*, GGSs of the Australian Government, and State and Territory governments apply Tier 1 reporting requirements.

19 Statement of Accounting Concept (SAC) 1 *Definition of the Reporting Entity*

20 *Applying the IASB's Revised Conceptual Framework and Removal of Special Purpose Financial Reporting for Entities Required to Comply with Australian Accounting Standards*

Disadvantages

- Users of financial statements may not be sophisticated enough to understand them.
- Preparers may not be sophisticated enough to be able to prepare them.
- Costs of preparing full GPFSs may outweigh the benefits in the public sector.
- Different definitions and applications are being applied by the public sector as there are no standards on Service Performance (if no Service Performance Reporting Standards is developed) that enable the specifics of a public sector entity's operations to be disclosed and still be comparable with other public sector entities.

Tier 2 - Full recognition and measurement and reduced or specified disclosure

What is the current requirement?

C14. The current Tier 2 under AASB 1053 specifies full recognition, measurement and presentation with reduced disclosure requirements including the consolidation of subsidiaries.

C15. Paragraph 13(C) of AASB 1053 states that Tier 2 reporting requirements, as a minimum, apply to the GPFSs of public sector entities, whether for-profit or not-for-profit, other than the Australian Government and State, Territory and Local Governments.

What should be changed

C16. In considering this option, either legislation or amendments to AASB 1053 would be needed to determine which public sector entities are allowed to prepare financial statements under Tier 2 requirements.

C17. As suggested in AASB Consultation Paper[21], the Tier 2 framework in AASB 1053 could be revised to include one of the following options[22], each of which would provide users with the most relevant information about an entity's financial position in a way that is comparable and with minimal change to existing requirements:

- Option 1: Retain the current GPFS – Reduced Disclosure Requirements (RDR) as the Tier 2 reporting framework (full recognition and measurement with reduced disclosures from each Accounting Standard); or
- Option 2: Replace the current Tier 2 reporting framework with GPFS – Specified Disclosure Requirements (SDR) (ie special purpose plus). This framework will formalise the full recognition and measurement with certain minimum disclosures[23]

---

21 AASB Consultation Paper: *Applying the IASB's Revised Conceptual Framework and Removal of Special Purpose Financial Reporting for Entities Required to Comply with Australian Accounting Standards*

22 These options are subject to consultation and may change in the future

23 The recognition and measurement requirements of accounting standards as well as the disclosure requirements of AASB 101 *Presentation of Financial Statements*, AASB 107 *Statement of Cash Flows*, AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*, AASB 1048 *Interpretation of Standards*, AASB 1054 *Australian Additional Disclosures* (noting that AASB 1048 was previously AASB 1048 *Interpretation and Application of Standards* – this is now covered by two Standards AASB 1048 *Interpretation of Standards* and AASB 1054 *Australian Additional Disclosures*).

and four incremental disclosures (AASB 124 *Related Party Disclosures*, AASB 136 *Impairment of Assets*, AASB 15 *Revenue from Contracts with Customers* and AASB 112 *Income Taxes*).

C18. However, in the public sector, as departments and other entities are coverd in the WoG, it might be appropriate to consider a third option with respect to disclosures. If departments and other consolidated not-for-profit entities are considered to be effectively “branches” or “segments” of the WoG then maintaining the recognition and measurement requirements of Tier 1, but having very simplified and targeted disclosures that focus on use of monies and effectiveness of such use might be more appropriate.

C19. Accordingly, the third option for Tier 2 might be:

- Option 3: accrual based full recognition and measurements but disclosure only of a balance sheet, profit or loss statement, cash flow statement with budget versus actual outcomes for the profit and loss and cash flow statements, and a service performance report

C20. Option 3 is based on a Canadian model[24] except for requiring accrual based statements and budgetary reporting. In Canada, those not preparing Tier 1 equivalents prepare an Annual Service Plan Report which includes a service performance report and budget versus actual analysis on a cash basis. Given the public sector has spent significant resources on moving to accrual accounting, and this accrual information is still required to prepare the WoG, it is not considered appropriate to consider a full cash option if there are only two tiers.

C21. The other forms of reporting such as service performance reporting and budget versus actual reporting (refer to paragraph C34 to C43 for more information) should also be prepared.

Relative merits of the Tier

Advantages

- Disclosures are focused on identifying issues users are more likely interested in and appropriately reflect departments and other consolidated entities are effectively branches or segments of the information provided at the WoG level. Accordingly the level of disclosure does not need to be as detailed

- Inclusion of additional focused reporting such as budgetary reporting and service performance reporting will better meet user needs and make it more likely that parliamentarians and other users actually review and use the information

- May result in more understandable reports for less sophisticated users.

- May result in a long-term cost reduction for less sophisticated preparers, although there may be short-term transition costs.

- Information tailored to what users want.

24 This is based on further research on only one state in Canada which is British Columbia (Refer to AASB Research Report No 06 for more information)

- Public sector entities are already required to provide information on performance reporting and financial analysis of budget versus actual information.
- The users of the financial statements will be able to understand how efficiently and effectively the appropriations have been utilized.

Disadvantages

- Users of financial statements may not be sophisticated enough to understand them.
- Preparers may not be sophisticated enough to be able to prepare them.
- Cost of preparing GPFS – RDR may outweigh the benefit for certain groups of public sector entities.
- Current RDR may not be sufficiently distinct enough from full GPFS to make preparing RDR worthwhile.
- Need to develop new Tier (options 2 and 3 only)
- Option 3 may be seen as too little disclosure given the extensive disclosures currently provided.
- Different definitions and applications are being applied by the public sector as there are no standards on Service Performance (if no Service Performance Reporting Standards is developed) that enable the specifics of a public sector entity's operations to be disclosed and still be comparable with other public sector entities.

Tier 3 - Modified accrual GPFS

C22. This would be a new Tier of GPFSs, –with modified recognition and measurement and further disclosure reductions (include notes), when compared to Tier 2-RDR together with service performance reporting and budgetary reporting (further explained in paragraph D25 Part 2 and 3); and

C23. As this is not a current Tier, presently no public sector entity prepares and lodges this form of GPFS. The requirements for this Tier would be located in one comprehensive standard, rather than multiple standards.

C24. When considering this new Tier 3, the AASB and relevant legislator(s) would need to determine which public sector entities should be required to prepare GPFSs Modified accrual or service performance and budgetary reporting on accrual basis, either through legislation or amendments to AASB 1053 to introduce another tier.

C25. When considering this Tier, the AASB (in consultation with the legislators and other stakeholders through due process) would need to determine the modifications to be made to recognition, measurement and disclosure requirements to ensure the balance of cost and benefit.

C26. For illustrative purposes, this Tier 3 may represent a simple form of accrual reporting as adopted by Public Sector Public Benefit Entities (PS PBEs) applying Tier 3 framework in New Zealand. The NZ Tier 3 model for PS PBEs is a separate suite of standards, 59 pages in total, split into sections covering revenue, expenses, assets, liabilities and accumulated funds as well as providing disclosures and illustrative examples.

C27. However, this Tier may not be appropriate in certain circumstances as this option will result in non-uniform accounting policies when preparing consolidated financial statements at WoG level as the modified accrual method is different from the full recognition and measurement principles applied by WoG.

C28. The other forms of reporting such as service performance reporting and budget versus actual reporting (refer to paragraph C34 to C43 for more information) should also be prepared.

Relative merits of the Tier

Advantage

- Already an established framework in New Zealand that could be used as a base.
- May result in more understandable reports for less sophisticated users.
- May result in a long-term cost reduction for less sophisticated preparers, although there may be short-term transition costs.
- Location of the requirements in one standard is likely to be easier to understand and implement.
- Information tailored to what users want.
- Reporting more meaningful for the public sector.
- Public sector entities are already required to provide information on performance reporting and financial analysis of budget versus actual information.
- The users of the financial statements will be able to understand how efficiently and effectively the appropriations have been utilized.

Disadvantages

- A framework adopted from another jurisdiction may require significantly more amendments for Australian specific circumstances.
- This could possibly be a step back from current reporting requirements given almost all public sector entities are on an accrual basis of accounting.
- Additional maintenance costs of the Standard if it differs from the current suite of AASB standards.
- May result in additional short-term costs during the transition period in implementation and education.
- May result in difficulties in preparers, users and auditors moving between sectors, as the fundamental base of using IFRS may change significantly.
- Different definitions and applications are being applied by the public sector as there are no standards on Service Performance (if no Service Performance Reporting Standards is developed) that enable the specifics of a public sector entity’s operations to be disclosed and still be comparable with other public sector entities.

Tier 4 - Cash-based GPFSs

C29. This would be a new Tier of GPFSs, which specifies recognition, measurement, presentation and disclosure requirements on a simplified cash-basis where two options are considered in this paper:

- Option 1 – an example is the cash-based GPFS New Zealand Tier 4 for Public Sector PBEs, which is a complete suite, 31 pages in total. The principles for recognition and measurement are simple and in the terms of cash transactions. Disclosures such as commitments, guarantees and related party transactions are still required, together with a service performance report.

- Option 2 – Similar to the Canadian model where service performance and cash based budget versus actual profit or loss and cash flow are presented (based on the Annual Service Plan Report prepared by certain government departments and agencies in Canada)

C30. As this is not a current Tier of GPFS, no public sector entity prepares and lodges financial statements on this basis.

C31. When considering this option, the AASB and relevant legislator(s) would need to determine which public sector entities should be required to prepare cash-based GPFSs, either through legislation or amendments to AASB 1053 to introduce another tier.

C32. The AASB (in consultation with the legislators and other stakeholders through due process) would need to determine the framework for cash based reporting.

C33. The other forms of reporting such as service performance reporting and budget versus actual reporting (refer to paragraph C34 to C43 for more information) should also be prepared.

Relative merits of the Tier

Advantages

- Already established framework in New Zealand and Canada that can be used as a base.

- Simple one-stop-shop for reporting by public sector entities that fall into this category.

- Preparing financial statements on a cash-basis may be more understandable to preparers without an in-depth knowledge of accounting.

- The financial statements may be more understandable to less sophisticated users as all items are discussed in terms of cash.

Disadvantages

- Additional Tier to be developed and maintained by AASB.

- This could possibly be a step back from current reporting requirements given almost all public sector entities are on an accrual basis of accounting.

- Implications for educating the profession.

- Different definitions and applications are being applied by the public sector as there are no standards on Service Performance (if no Service Performance Reporting Standards is developed) that enable the specifics of a public sector entity's operations to be disclosed and still be comparable with other public sector entities.

What are the current requirements on service performance reporting?

C34. Service performance information is currently required by the Commonwealth, State and local government. Australian Government entities currently report against 650 government programs that are measured by approximately 3,500 KPIs. However, it is still difficult to get an accurate picture of the performance of programs across the public sector because there is no consistency in how it is reported and there are no accounting standards for service performance reporting.[25]

C35. The *Public Governance, Performance and Accountability Act 2013* (PGPA Act) which took full effect from 1 July 2014, underpins the implementation of the *Australian Government's Enhanced Commonwealth Performance Framework* (performance framework). The performance framework requires Accountable Authorities[26] to publish on their entity's website a corporate plan for the entity annually. The publication of a performance statement in the entity's annual report represents the end of the performance cycle.

C36. In Queensland, the Service Delivery Statements (SDS)/Service Performance Statement (included in the annual report) in which each agency details their non-financial performance information presenting service performance measures namely effectiveness measures, efficiency measures, economy measures and other measures of performance such as activity measures, cost measures, process measures, quality measures, location measures, timeliness measures and equity measures[27].

C37. As explained above there are some service performance reporting requirements already specified at commonwealth level, state/territory and local government level (refer to appendix A of the AASB Research Report no 6 for more information).

C38. Adequate performance information allows entities to assess the impact of policy measures and to make informed decisions on the allocation of resources. In addition, performance information and reporting enables the parliament and the public to consider performance of the entity in terms of achieving its objectives and cost effectiveness.

C39. A new standard is required to specify the requirements of service performance reporting be prepared and linked to the financial information presented in the GPFS for public sector entities eligible to apply when required by all Tiers of reporting.

---

25 Department of Finance and Deregulation, Commonwealth Financial Accountability Review, position paper, Sharpening the Focus: A Framework for Improving Commonwealth Performance, November 2012

26 An Accountable Authority for a Commonwealth entity is generally the person or group of persons that has responsibility for, and control over, the entity's operations. Subsection 12(2) of the PGPA Act sets out the person(s) or body that is the Accountable Authority of a Commonwealth entity

27 Performance Management Framework - Measuring, monitoring and reporting performance reference guide issued by Queensland Government

Budgetary reporting

C40. Governments and other public sector entities are accountable to constituents for their use of the resources raised from them, or raised or provided on their behalf. The approved budget of a government or other public sector entity reflects the financial characteristics of the entity's plans for the forthcoming period.

C41. An explanation of differences between actual amounts and the budget amounts will assist users in understanding the reasons for material departures from the approved budget for which the entity is held publicly accountable. Furthermore, when budgeted numbers are compared with actual numbers, it enables the reader to understand the efficiency and effectiveness of the entity's performance

C42. As explained in the AASB Research Report No 6, public sector entities already present budget versus actual reporting based on accounting standards[28] in their annual reports within or outside the financial statements. For the Commonwealth and states/territories, there is a requirement that these Papers are prepared in accordance with the Australian Accounting Standards and AASB 1055 provides the basis for preparing budgetary information. Local government are required to prepare budgeted reports however not all local governments are required to comply with the accrual basis; of reporting[29].

C43. When considering this option, amendments to AASB 1055 might be needed in determining the framework for public sector entities (including local government and departments and statutory bodies/agencies below WoG level) when required by all Tiers of reporting.

Specific accounting issues

C44. As explained in paragraphs B51**Error! Reference source not found.**, entities below WoG level may be eligible to apply a lower tier. Thus financial information of those entities can be presented as a segment in the WoG consolidated financial statements without having to prepare separate financial statements. This would resolve certain accounting issues identified in the Research Report No 6 that are specific to public sector as explained in Table 1 below.However the proposed option 4 in Appendix E presents the scenairo that these entities are still required to prepare Tier 2- GPFS.

Table 1 - Comparison of other accounting issues in presenting separate financial statements versus segment of information

Current accounting requirement	If only segmnet of specified information is required for entities below WoG	Separate financial statements for entities below WoG
Administered items	No distinction required because reporting only what the entity is accountable for as its 'extract' of the WoG	Disclosure required
Machinery of Government	Individual entity accounting reflects what the WoG has	Assessment required to determine the changes and the

28 AASB 1055 Budgetary Reporting

29 See Table 1 of Research Report 6

Current accounting requirement	If only segmnet of specified information is required for entities below WoG	Separate financial statements for entities below WoG
(MoG)	recorded as the assets and liabilities of the individual entity, no gains or losses on transfers or recording of new values	impact on the statements prepared, including gains/losses
Transfer of assets due to changes in MoG	Transfer at book value in the WoG	Transfer at fair value and gain or loss will be recognised
Level of consolidation	Consolidation required only at the WoG level	Duplicated at different levels of government, unless AASB 10 consolidation exemptions permitted

Government Finance Statistics

C45. One of the key principles of GFS is that market value is the default value for reporting - economic flows as well as assets, liabilities, and net worth are all valued at current market prices in the GFS framework. Statistical bases of reporting require all assets and liabilities to be revalued to market value at each reporting date.

C46. However, Australian accounting standards include different measurement requirements and require or permit cost and current values for certain classes of assets and liabilities. The do not currently require all assets and liabilities to be revalued to market value. However, AASB 1049 currently requires that where an accounting standard permits an option that the one closest to GFS must be chosen. Accodinginly, for standards such as AASB 16 which permits either cost or fair value for tangible assets, the fair value option must be selected.

C47. If only WoG and significant agencies prepare Tier 1 GPFS under a tiered framework as explained above, assets held by non-significant agencies may not require fair values or may not require fair value to be determined at the entity materiality level, as the materiality at the WoG level would be significantly higher for most entities. Accordingly, if fair value were determined at the WoG level, at that level of materiality, these fair values could be 'pushed down' to the controlled entities, or alternatively only recorded in the WoG.

C48. As per AASB 1049[30], a reconciliation of the two measures is required when the key fiscal aggregates measured in accordance with the ABS GFS manual are different from the key fiscal aggregates on the financial statements. But this disclosure may not be needed for the entities applying lower tiers of reporting as suggested above.

C49. Amendments to AASB 1049 may be needed to determine which public sector entities are required to prepare GFS financial statements and related reconciliations, depending on whether changes are made to the current Tiers.

30 WOG and general government sector financial reporting

Fiscal sustainability reporting

C50. The intergenerational equity concept should be considered when determining the level of fiscal sustainability reporting. Intergenerational Equity is the principle that taxpayer contributions to the costs of 'social' assets should be spread over time in accordance with the manner in which benefits from such assets are accrued.

C51. In particular local governments are required to report on long term sustainability reporting on long term priorities and resourcing implications with some states such as WA or NSW requiring projections up to 10 years or more. The whole of Commonwealth, New South Wales and Tasmania are the only jurisdictions required to prepare an Intergenerational Report that assesses the growth of the population and how this impacts on fiscal sustainability.

C52. Currently there is no accounting standard for reporting social benefits and there is no mandatory requirement for fiscal sustainability reporting that is consistently applied by any jurisdiction.

C53. Thus a new framework might need to be developed covering the disclosure requirements on fiscal sustainability and social benefits which would be mandatory for public entities.

APPENDIX D

Possible types of engagement and level and scope of assurance that may be provided

Introduction

E1. The level and scope of assurance engagements under the AUASB standards is flexible and can vary in response to the required outcome of the engagement. The AUASB issues four suites of standards:

- Australian Auditing Standards (ASAs) – These standards apply to the audit of historical financial information.;
- Standards on Review Engagements (ASRE's) – These standards apply to a review of historical financial information;
- Standards on Assurance Engagements (ASAEs) – These standards are applied when providing assurance on subject matter other than historical financial information; and
- Standards on Related Services (ASRS) (including Agreed-Upon Procedures) – These standards are used when an assurance practitioner is engaged to provide a report of factual findings.

E2. Under assurance standards there are three levels of assurance provided:

- Reasonable assurance – a high, but not absolute, level of assurance;
- Limited assurance – not as high as reasonable, procedures performed which reduces risk to a limited level;
- No assurance – a statement of factual findings, no assurance is provided.

Audit Engagement (ASAs)

Overview

E3. An audit is performed by an auditor who, based on the audit evidence obtained, forms an opinion as to whether the historical financial information (often in the form of a financial report) has been prepared in all material aspects with the applicable financial reporting framework.[31] An audit opinion provides reasonable assurance which is the highest level of assurance available in the AUASB standards.

E4. An audit also includes the consideration of the qualitative aspects of the entity's accounting practices, including indicators of possible bias in management's judgements.[32]

31 ASA 700 *Forming an Opinion and Reporting on a Financial Report*, paragraph 10.

32 ASA 700, paragraph 12.

E5. In addition to a financial report an audit opinion can also be provided on specific elements, accounts or items of a financial statement[33] as well on a summary financial statement.[34]

E6. Given the reasonable level of assurance provided by an audit, the level of work required to be performed by an auditor is significantly greater than other methods of providing assurance such as a review or assurance engagement.

Relative merits of an Audit

Review Engagement (ASREs)

Overview

E7. A review is performed by an assurance practitioner who can also be the auditor of the entity (including the preceding reporting period). As a result, review engagements on a financial report are conducted under two different review standards, one of which requires additional work[35] if the assurance practitioner is not the auditor of the entity.

E8. A review, in contrast to an audit, is not designed to obtain reasonable assurance that the financial information reported by the company is free from material misstatements. A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review may bring significant matters affecting the financial information to the assurance practitioner's attention but it does not provide all of the evidence that would be required in an audit.[36]

E9. The objective of a review engagement is to obtain limited assurance, primarily by performing enquiry and analytical procedures, about whether the financial statements as a whole are free from material misstatement. The assurance practitioner to express a conclusion on whether anything has come to the assurance practitioner's attention that causes the financial statements to not be prepared, in all material respects, in a accordance with an applicable financial reporting framework.[37]

E10. In addition to a financial report a review can also be performed on historical financial information other than a financial report.[38]

---

33 ASA 805 *Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement.*

34 ASA 810 *Engagements to Report on Summary Financial Statements*.

35 ASRE 2400 *Review of a Financial Report Performed by an Assurance Practitioner Who is Not the Auditor of the Entity.*

36 Explanatory Guide to the Review of a Financial Report – Company Limited by Guarantee, paragraph 14.

37 ASRE 2400, paragraph 14 / ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, paragraph 4.

38 ASRE 2405 *Review of Historical Financial Information Other than a Financial Report*.

Other Assurance Engagement (ASAEs)

Overview

E11. Other assurance engagements undertaken under ASAEs are used to provide assurance (either reasonable or limited) on subject matter which can be non-historical financial or non-financial information. These engagements are designed to enhance the degree of confidence of the intended users about the outcome of the measurement or evaluation of an underlying subject matter against relevant criteria.[39]

E12. The term “subject matter information” means the outcome of the measurement or evaluation of an underlying subject matter against criteria.

E13. Examples of subject matter information on which assurance other than of historical financial information can be provided include:

a. A statement about the effectiveness of internal control (outcome) over the collection of cash

b. Service performance setting out outcomes and outputs

c. A statement about compliance (outcome) results from evaluating the compliance of an entity (underlying subject matter) with, for example, law and regulation (criteria).

E14. An assurance engagement is where an assurance practitioner aims to obtain sufficient appropriate evidence in order to express a conclusion on a subject matter other than historical financial information. These engagements are designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the measurement or evaluation of an underlying subject matter against relevant criteria.[39]

Agreed-Upon Procedures Engagement (ASRSs)

Overview

E15. An agreed-upon procedures engagement is one which an assurance practitioner is engaged to carry out procedures to which the practitioner , the entity and any appropriate third parties have agreed and to report on factual findings. The recipients of the report form their own conclusions from the report prepared.

E16. An agreed-upon procedures engagement is not an assurance engagement, even though similar procedures may be performed, as the purpose of the procedures performed is not to obtain sufficient appropriate evidence on which to base a conclusion. As the assurance practitioner does not assess materiality or engagement risk to determine the evidence gathering procedures to be performed in an agreed-upon procedures engagement, the assurance practitioner is unable to determine whether the evidence is

39 *Framework for Assurance Engagements*, paragraph 10.

sufficient and appropriate to reduce risk to an acceptable level as a basis for a conclusion.[40]

Multi-scope Engagement

Overview

E17. A multi-scope engagement (MSE), is used when the terms of an engagement require the assurance practitioner to address one or more of the following matters:[41]

- More than one subject matter.
- More than one level of assurance.
- An engagement comprising both assurance and agreed-upon procedures (where no assurance is provided).

E18. Some engagements necessitate compliance with the requirements of different reporting frameworks and different AUASB Standards and may therefore involve: [42]

- Evaluation against different criteria, including reporting frameworks;
- The auditor developing a tailored single-form multi-scope auditor's report; and/or
- Reporting requirements prescribed by regulators or other relevant parties.

40 ASRS 4400 *Agreed-upon Procedure Engagements to Report Factual Findings*, paragraph 6.

41 GS 022 *Grant Acquittals and Multi-Scope Engagements*, paragraph 1.

42 GS 022, paragraph 2.

APPENDIX E

Impact on the Sector

E1. To help illustrate the impact from changing the frameworks, the below detailed analysis has been completed. Each figure illustrates the anticipated reduction of burden in the five proposed options being, Option 1: NZ PBE model, Option 2: Public interest and economic significance model, Option 3: Economic significance model, Optoin 4: Public interest based on function model and Option 5: Public interest based on tax/rate generating entities model. .

E2. Each option, explanined further from paragraph E4, explore the implications of each framework on the sector in terms of possible reductions in reporting. The detailed analysis of the burden in each situation is to help inform stakeholders in making a decision which balances the cost and benefit.

E3. For the purpose of the analysis, we have considered 1337 entities in total based on the financial information provided by each state/territory and Commonwealth and publicly available information as shown below:

	# of local government entities	# of Commonwealth departments and state/territory agencies	Total
WOG	0	9	9
CW	0	191	191
ACT	0	24	24
NSW	108	122	230
NT	17	33	50
QLD	77	84	161
SA	68	116	184
TAS	29	23	52
VIC	79	79	158
WA	140	138	278
	518	**819**	**1337**

Option 1 – New Zealand PBE Model

E4. Table 1 shows the outcomes of applying the NZ PBE thresholds[43] in an Australian context. This model applies the NZ PBE thresholds based on expenses. The same thresholds are applied to both Commonwealth, state/territory and local governments. The largest relief in reporting is the number of entities that previously were preparing Tier 1 GPFS would move to Tier 2 GPFS (expenses ≤ $30,000,000). No entities will have additional reporting because public sector entities are already required to prepare Tier 1 or Tier 2 GPFS.

Table 1 - Outcome of applying the New Zealand PBE Model

Reportng under new tier	Current reporting	New Reporting	Comments
Tier 1	1,287	726	
Tier 2	50	517	Moved from Tier 1 to Tier 2
Tier 3		48	Moved from Tier 1 to Tier 3
Tier 4		46	Moved from Tier 1 to Tier 4
	1,337	**1,337**	

E5. Table 2 and Figure 1**Error! Reference source not found.**: shows the breakdown of departments, statutory bodies and local government by state/territory by applying Option 1 – NZ PBE Model.

Table 2 – Option 1 Breakdown of departments/statutory bodies and local government by state/territory

43 Option 1 is not based on NZ PBE model in full which has an additional criteria, if the public sector entity meets the definition of ‘public accountability’, regardless of size are required to prepare Tier 1 GPFS. This means that the analysis does not capture some public sector entities that may have issued debt securities. For further information to the NZ PBE requirements, refer to Appendix B of Research Report 6.

		Departments and agencies				Local government			
State	**Total**	**T1**	**T2**	**T3**	**T4**	**T1**	**T2**	**T3**	**T4**
WOG	9	9	-	-	-	-	-	-	-
CW	191	109	56	10	16	-	-	-	-
ACT	24	17	5	2	-	-	-	-	-
NSW	230	88	27	1	6	71	37	-	-
NT	50	19	13	1	-	-	14	1	2
QLD	161	65	18	1	-	6	71	-	-
SA	184	42	49	13	12	10	56	-	2
TAS	52	11	12	-	-	3	26	-	-
VIC	158	53	19	3	4	78	1	-	-
WA	278	71	49	16	2	74	64	-	2
	1,337	**484**	**248**	**47**	**40**	**242**	**269**	**1**	**6**

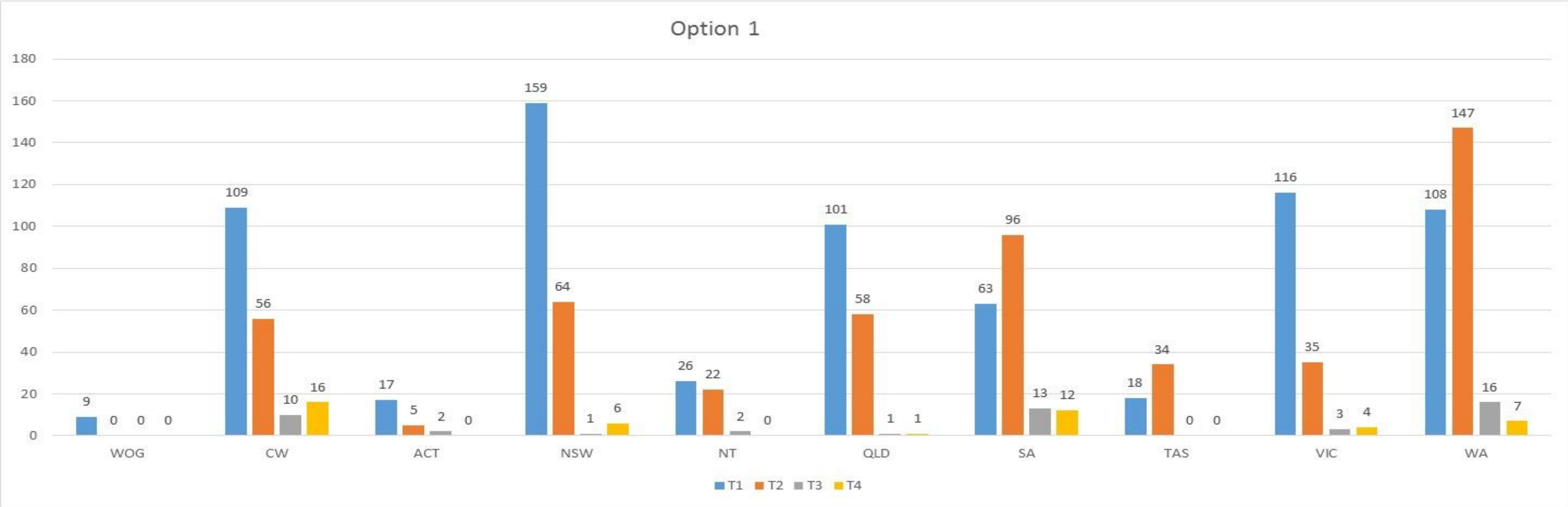


Figure 1 - Outcome of applying Option 1 comparisons by each state/territory (including local government) and Commonwealth

Option 2 – Public Interest and Economic Significance Model – using expenses and total assets and nature of activities as proxy

E6. Option 2 applies nature as a proxy for public interest and total expenses and total assets as proxies for size/economic significance. The nature of activities that were selected were based on their significance/importance to the public, ie health, education, transport, social services/housing and defence/law enforcement. For local governments, significance/importance is differentiated based on regional or metropolitan councils. This proposed framework does not consider local governments as 'WoG' and applies differential reporting based on nature and public interest. The selected threshold for total expenses (≥ $100M) and total assets (≥ $400M) were based on the distribution of those criteria for the population to identify any trends that can be selected as a possible threshold., As shown in Figure 2 and Figure 3 below, there is a smooth distribution of the number of public sector entities based on the selected thresholds. which represent approximately the top 33% or 1/3 of the public sector within the population. A different threshold is applied in option 3 as discussed in paragraph E10 to demonstrate the changes by considering only the top 10% of the entities for the selected thresholds.

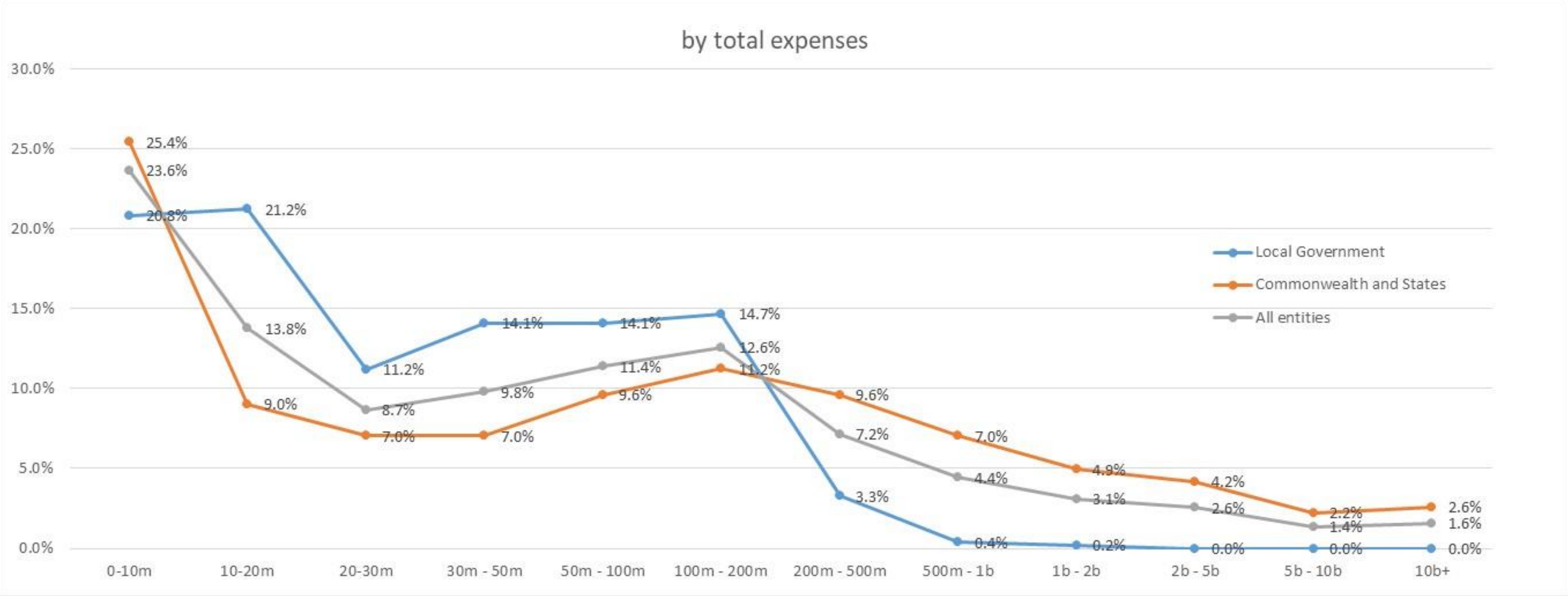


Figure 2 - Distribution of population by expenses

E7. Figure 3 below by Total Assets shows the distribution of the popolation of public sector entities based on their total assets. As show in figure below, 34% or 1/3 of total entities (30.9% of Commonwealth/state and 38.8% of local government) in the population had total assets above $400M.

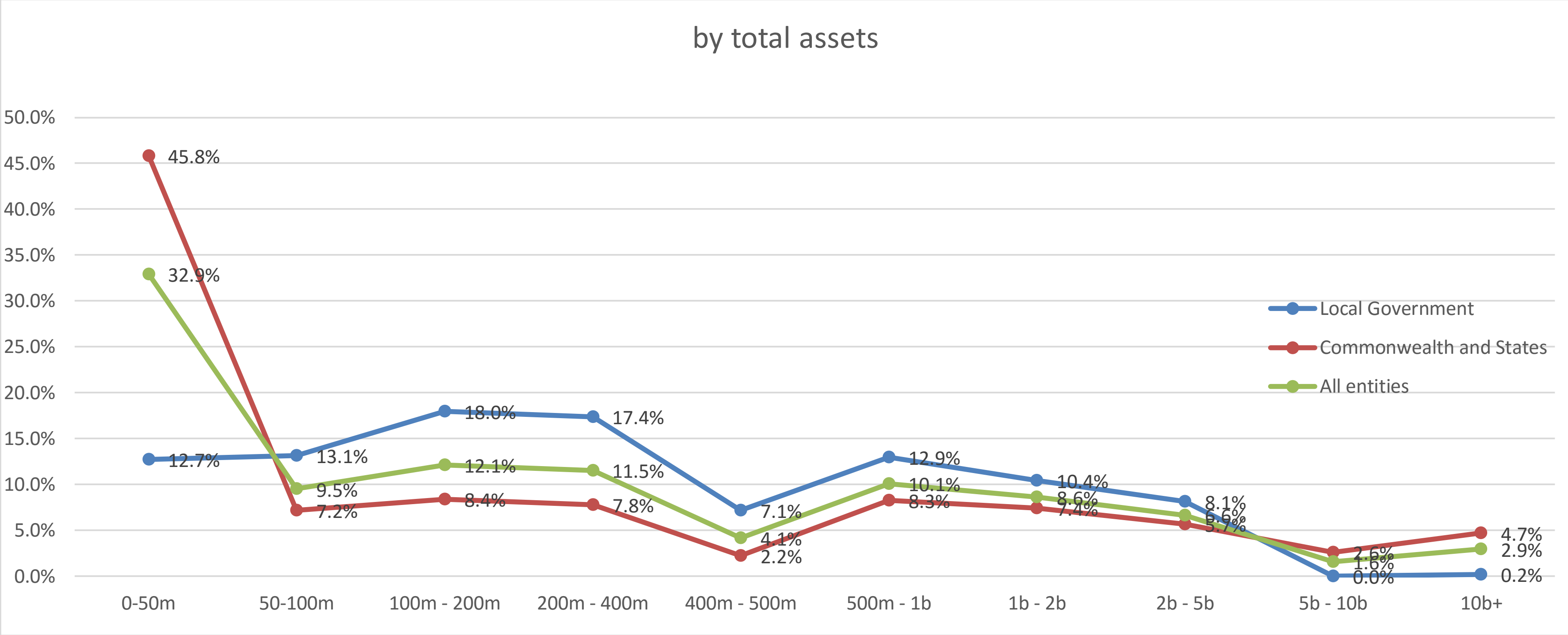
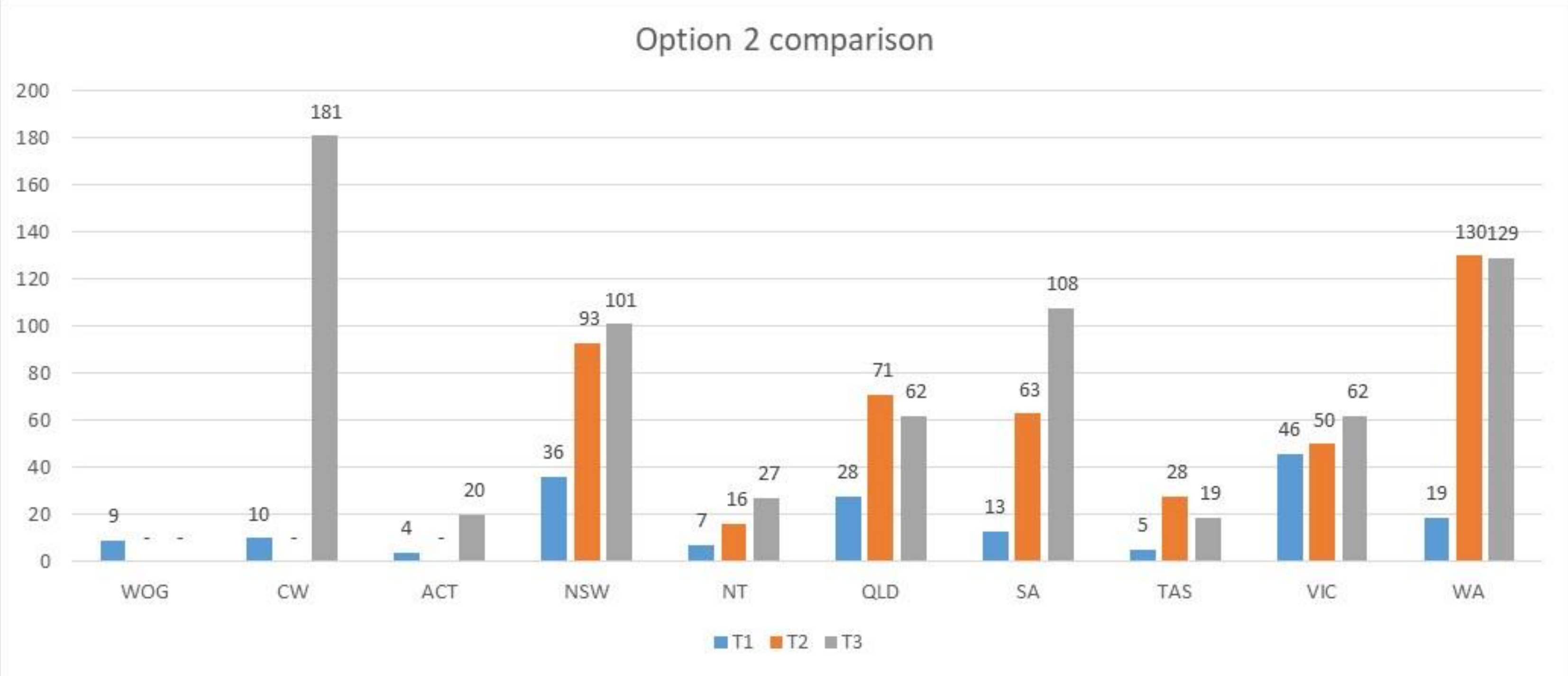


Figure 3 - Distribution of population by total assets

E8. Table 3 and Table 4 below shows the outcome of applying the public interest and economic significance model. The largest relief in reporting is the number of entities that previously were preparing Tier 1 GPFS would move to Tier 2 and Tier 3 GPFS as shaded in yellow (451 and 709 entities respectively). This can be further broken down by Commonwealth/State and local governments where 709 of Commonwealth/state entities and 451 of local governments will move down to Tier 3 and Tier 2 reporting respectively. WoG will continue to report under Tier 1, ie 9 Commonwealth/state WoG, 101 departments/agencies and 67 local governments continue to report under Tier 1 reporting. No entities will have additional reporting because public sector entities are already required to prepare Tier 1 or Tier 2 GPFS.



E9. Figure 4 shows a breakdown of the entities applying Tier 1 to 3 reporting relative to their respective State/territory (including local governments) and Commonwealth.

Table 3 - Outcome of applying Option 2 - public interest and economic significance model

Reporting under new tier	Currently reporting	New reporting	Comment
Tier 1	1,287	177	
Tier 2	50	451	Moved from Tier 1 to Tier 2
Tier 3	-	709	Moved from Tier 1 to Tier 3
	1,337	**1,337**	

Table 4 - Option 2 Breakdown of departments/statutory bodies and local government

		Departments and agencies		Local government	
State	**Total**	**T1**	**T3**	**T1**	**T2**
WOG	9	9	-	-	-
CW	191	10	181	-	-
ACT	24	4	20	-	-
NSW	230	21	101	15	93
NT	50	6	27	1	16
QLD	161	22	62	6	71
SA	184	8	108	5	63
TAS	52	4	19	1	28
VIC	158	17	62	29	50
WA	278	9	129	10	130
	1,337	**110**	**709**	**67**	**451**

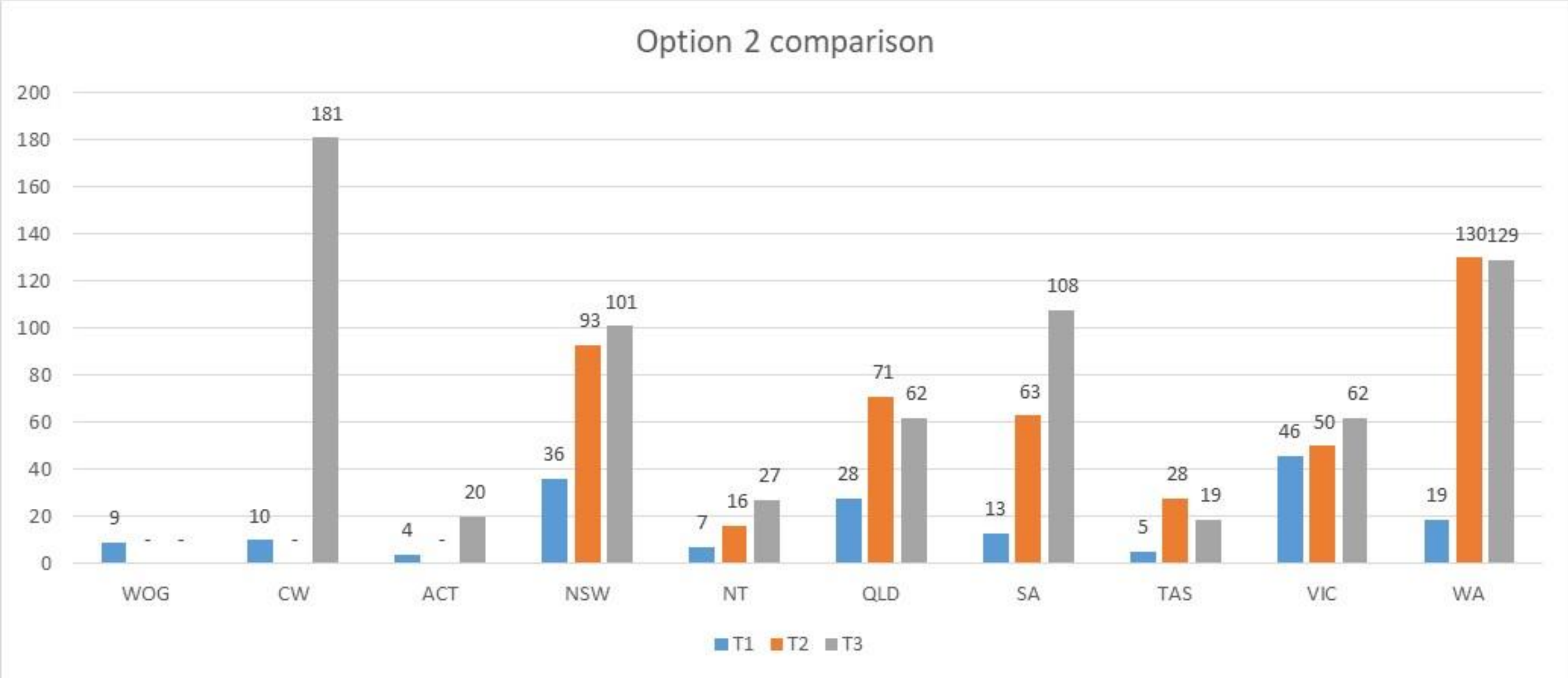


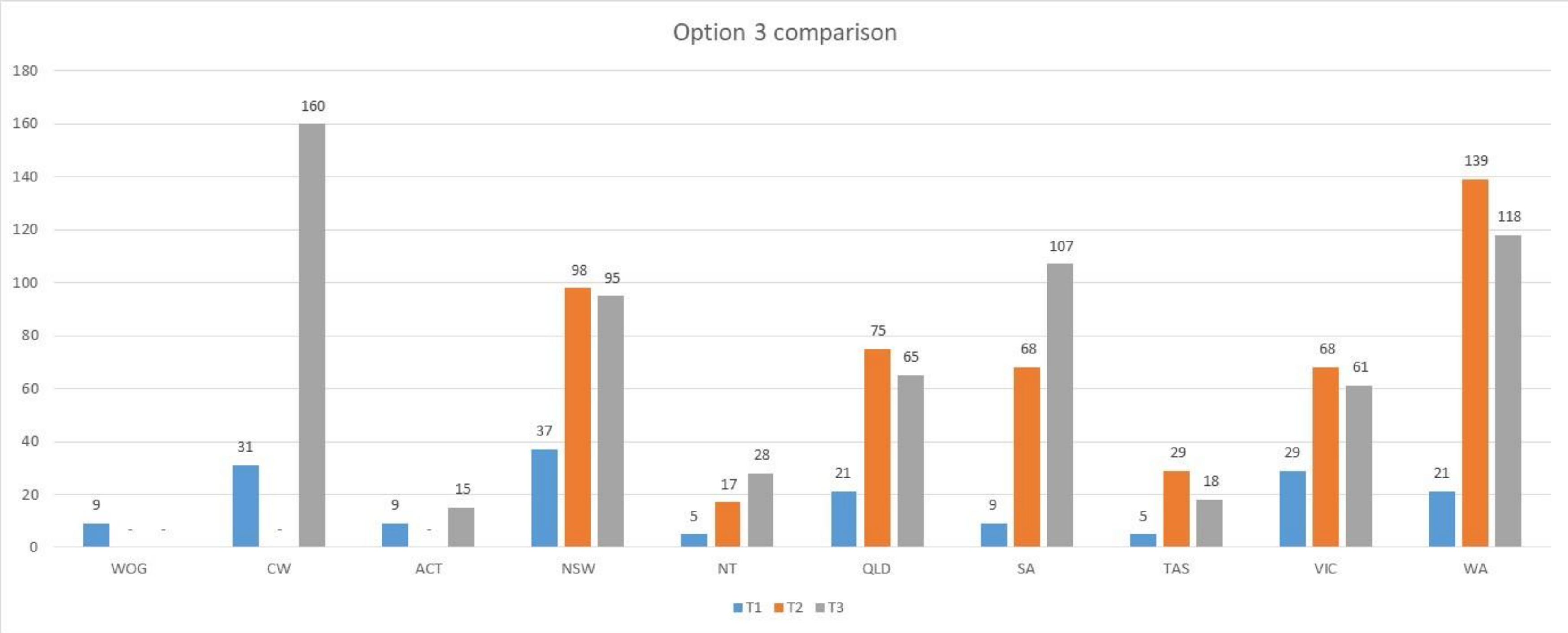
Figure 4 - Outcome of applying Option 2 comparison by each state/territory (including local government) and Commonwealth

Option 3 –Economic Significance Model – using total expenses or total assets as proxy

E10. Option 3 applies total expenses or assets as proxies for size/economic significance. WoG are required to prepare Tier 1 reporting – ie at the consolidated level of each state/territory and the Commonwealth, and each local government entity is considered as a WoG. The nature of activities that were selected were based on their significance/importance to the public, ie health, education, transport, defence/law enforcement and social services/housing. The selected threshold for total expenses was >$1b or total assets over $2.5b which equates to approximately the top 10% of the all departments/agencies and local government. Option 3 is similar to option 2 but the criteria is only based on one single criteria rather than three (nature of activities, expenses or total assets). This is to demonstrate the effects of applying more than one criteria to determine reporting. The selected thresholds are also different compared to Option 2 where this option requires Tier 1 reporting for public sector entities that are within the top 10% of the population based on total assets or total expenses.

E11.

E12. Table **5** and Table 6 below shows the outcome of applying the public interest using economic significance based on either total expenses over $1b or total assets over $2.5b as proxies. The largest relief in reporting is the number of entities that previously were preparing Tier 1 GPFS would move to Tier 2 and Tier 3 GPFS as shaded in yellow (494 and 667 entities respectively). WoG will continue to report under Tier 1, ie 9 Commonwealth/state WoG, 143 departments/agencies and 24 local governments continue to report under Tier 1 reporting. No entities will have additional reporting because public sector entities are already required to prepare Tier 1 or Tier 2 GPFS.



E13. Figure 5 shows a breakdown of the entities applying Tier 1 to 3 reporting relative to their respective State/territory.

Table 5 - Outcome of applying Option 3 - economic significance model

Reporting under new tier	Currently reporting	New reporting	Comment
Tier 1	1,287	176	
Tier 2	50	494	Moved from Tier 1 to Tier 2
Tier 3	-	667	Moved from Tier 1 to Tier 3
	1,337	**1,337**	

Table 6 - Option 3 Breakdown of departments/statutory bodies and local government

		Departments and agencies		Local government	
State	**Total**	**T1**	**T3**	**T1**	**T2**
WOG	9	9	-	-	-
CW	191	31	160	-	-
ACT	24	9	15	-	-
NSW	230	27	95	10	98
NT	50	5	28	-	17
QLD	161	19	65	2	75
SA	184	9	107	-	68
TAS	52	5	18	-	29
VIC	158	18	61	11	68
WA	278	20	118	1	139
	1,337	**152**	**667**	**24**	**494**

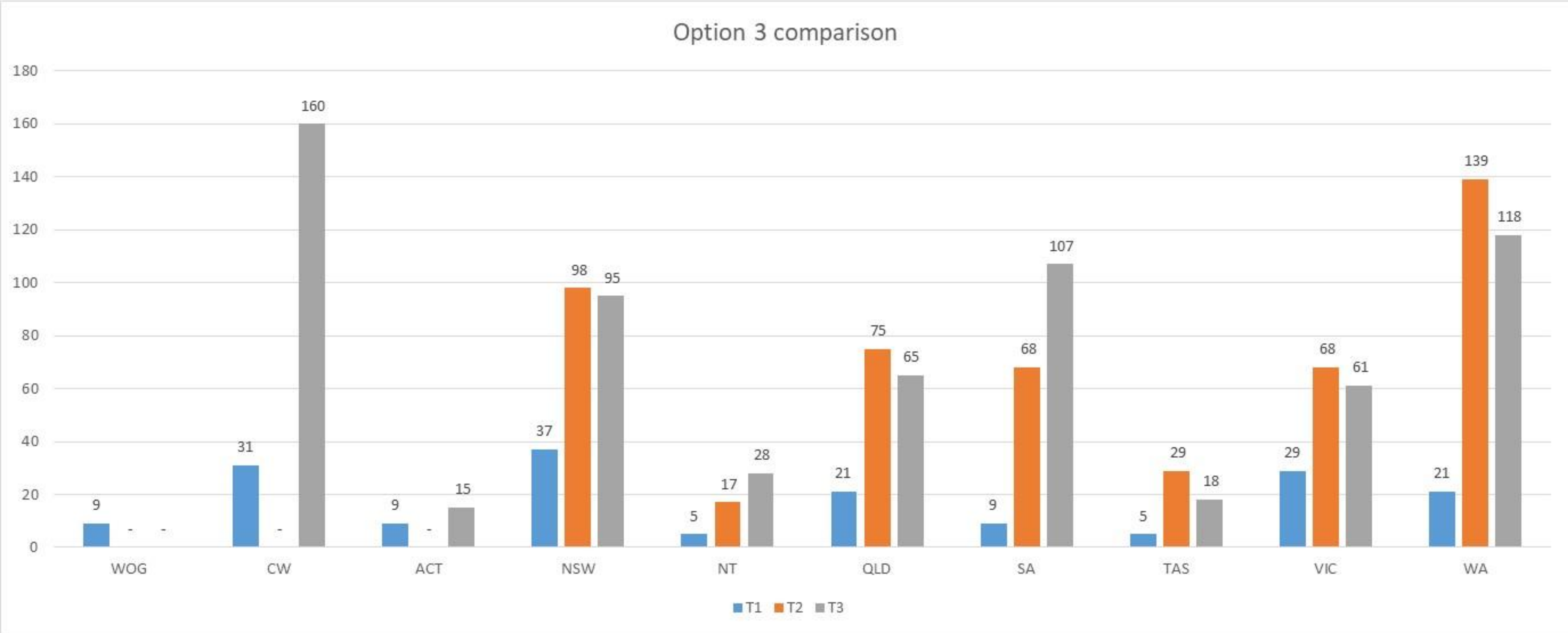
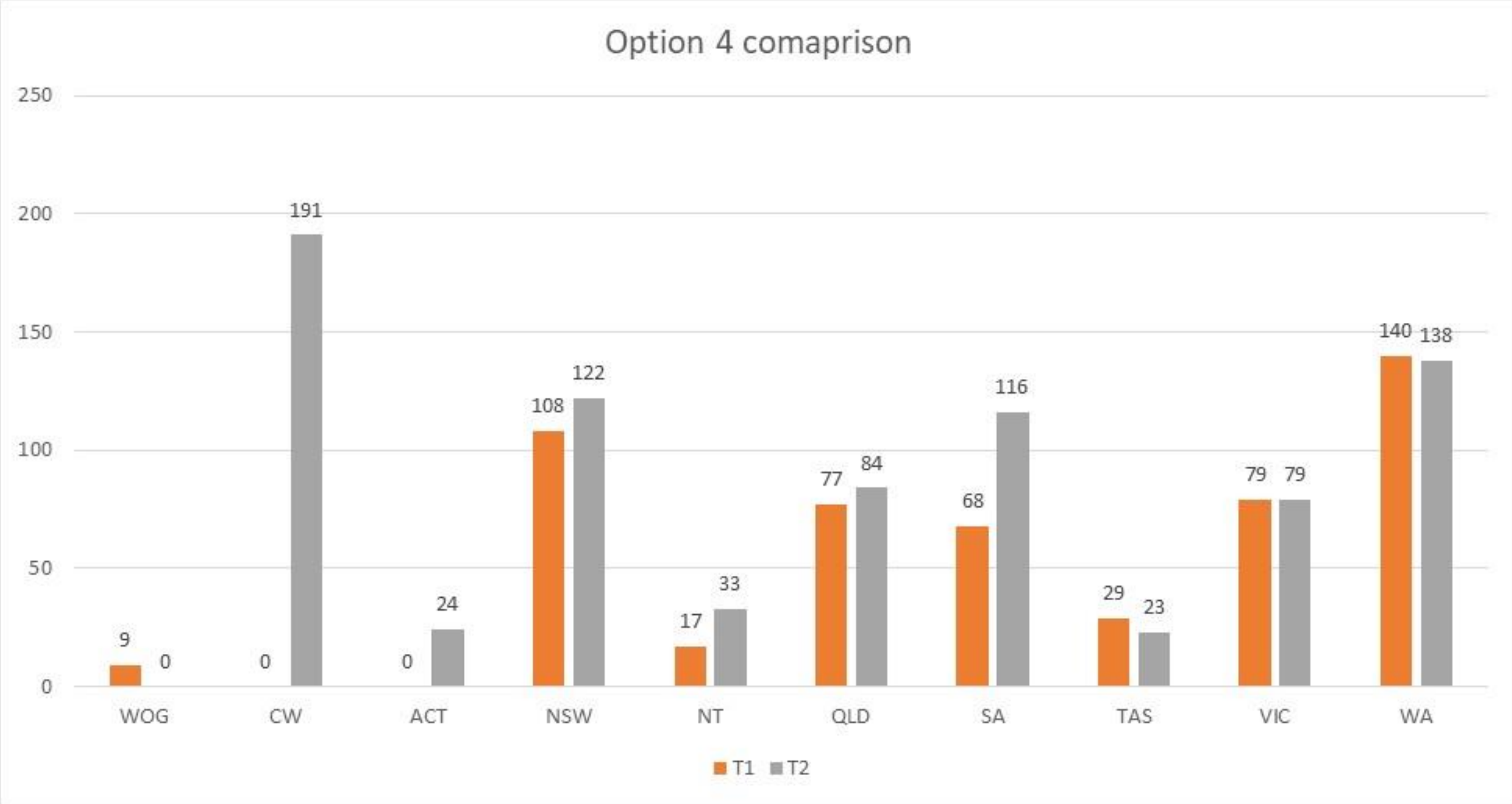


Figure 5 - Outcome of applying Option 3 comparison by each state/territory and Commonwealth

Option 4 – Public Interest based on function

E14. Option 4 applies nature of activities using function as a proxy for public interest. All departments, statutory bodies/agencies represents segments of the WoG. WoG are required to prepare Tier 1 reporting – ie at the consolidated level of each state/territory and the Commonwealth, and each local government entity is considered as a WoG and include information on significant segments or functions/programs of that WoG. Significant functions could be health, education, transport, social services & housing and defence/law enforcement. No information is collected on significant programs of a particular state/territory or Commonwealth, however examples may include the North East Link Project in Victoria or the National Disability Insurance Scheme for the Commonwealth. The current proposal for this option is that significant entities' are still required to prepare Tier 2 - GPFS reporting with all entities below the WoG. However as explain in paragraph C22, if the financial information of significant entities can be presented as a segment in the WoG consolidated financial statements, then they may not have to prepare separate financial statements.

E15. Table 7 below shows the biggest relief is given to those entities (810 entities) below the WoG.



E16. Figure 6 shows a breakdown of the entities applying Tier 1 and Tier 2 reporting relative to their respective state/territory and Commonwealth.

Table 7 – Outcome of applying Option 4 – Public interest based on function

Reporting under new tier	Currently reporting	New reporting	Comment
Tier 1	1,287	527	
Tier 2	50	810	Moved from Tier 1 to Tier 2
	1,337	**1,337**	

Table 8 - Option 4 Breakdown of departments/statutory bodies and local governments

		Departments and agencies		Local government	
State	**Total**	**T1**	**T2**	**T1**	**T2**
WOG	9	9	-	-	-
CW	191	-	191	-	-
ACT	24	-	24	-	-
NSW	230	-	122	108	-
NT	50	-	33	17	-
QLD	161	-	84	77	-
SA	184	-	116	68	-
TAS	52	-	23	29	-
VIC	158	-	79	79	-
WA	278	-	138	140	-
	1,337	**9**	**810**	**518**	**-**

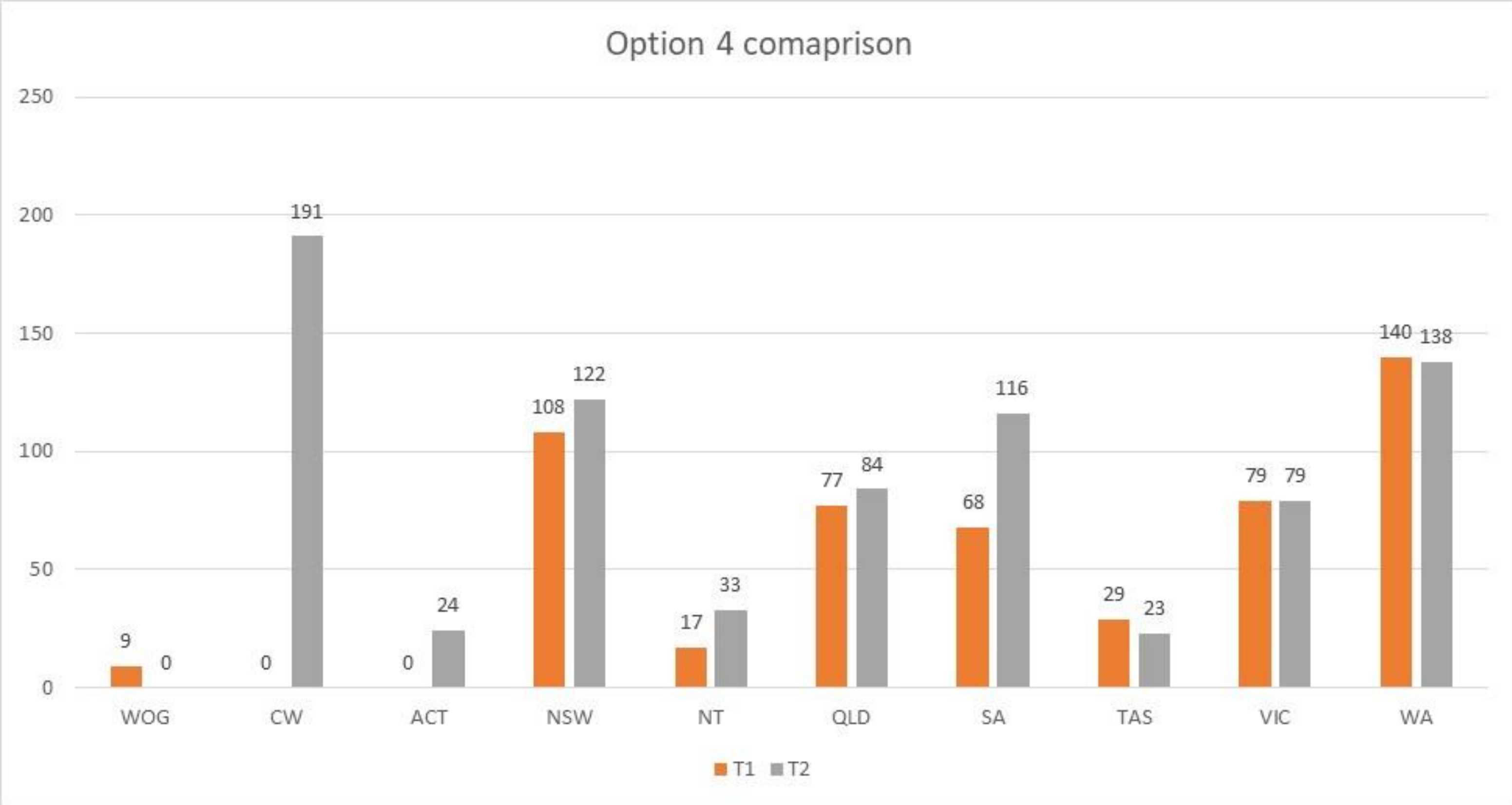


Figure 6 - Outcome of applying Option 4 comparison by each state/territory and Commonwealth

E17. Option 5 is not illustrated due to the difficulties in identifying tax/revenue generating entities.

APPENDIX F

Information collected from public sector entities for the purposes of the analysis in Appendix F

F1. The following questionnaire was sent to the heads of treasury at the Commonwealth, each state and territory in order to collect the financial data for departments and statutory bodies below the WoG for the purpose of applying to each illustrative framework models in Appendix E.

Data requested for each Department
Total income – administered Total income – controlled
Total appropriations
Total expenses – administered Total expenses – controlled
Total assets
Total liabilities

Data requested for each statutory body
Total revenue
Total appropriations
Total expenses
Total Assets
Total liabilities
Relevant department/portfolio

F2. WOG financial information was sourced from WoG consolidated financial statement for the year 2016/17 which was publicly available.

F3. Local government data was sourced from a variety of sources including publicly available data, the Auditor General and the local government associations. The information available included financial information for local government in each state/territory and categorising councils between metropolitan and regional.

F4. The AASB performed analysis using the data provided to produce to produce the results in Appendix F. The AASB made judgements to determine the entities that related to the selected nature (ie Health, transport and infrastructure, education, social services (housing) and law enforcement) based on the name of the entity.

F5. The AASB analysis excludes government corporations.

F6. Commonwealth, QLD and SA allow public sector entities to prepare Tier 2 financial statements. When identifying entities currently preparing Tier 2 financial statements, it is assumed only 50 entities are doing so (based on the information received from SA Treasury) due to unavailability of information on number of entities.