

**Analysis of comments made about the Fatal Flaw Review Draft of AASB 105X
*Budgetary Reporting***

The following provides a staff analysis of the comments received on the fatal flaw draft Standard AASB 105X *Budgetary Reporting* (no comments were received on the fatal flaw draft Standard AASB 2012-XX *Amendments to AASB 1049 – Relocation of Budgetary Reporting Requirements*). Only two formal submissions were received – from ACAG (see agenda paper 12.6) and CPAA/ICAA (see agenda paper 12.7), and we received some comments from a Board member. There is significant overlap in the nature of the three sets of comments.

The gist of the comments is presented below, broadly in the order in which they arise in the draft Standard AASB 105X. Those that staff regard as being the more substantive are highlighted with asterisks (***) – they are the comments that staff intend focusing on during the forthcoming meeting.

Comment 1: WoGs/GGSs vs Individual Entities Requirements

The distinction between the two sets of requirements for whole of governments (WoGs) and GGSs on the one hand and entities within the GGS on the other is unclear/confusing. Furthermore, the Draft inappropriately/inadvertently changes/adds to the requirements for WoGs and GGSs. In particular:

(a) *Format of the income statement*

Paragraphs 6(c) and (d): They inappropriately imply that the option in AASB 101 *Presentation of Financial Statements* to present the statement of profit and loss and other comprehensive income as two separate statements is available to WoGs and GGSs. However, because of AASB 1049 *Whole of Government and General Government Sector Financial Reporting*, WoGs/GGSs are required to adopt the single statement format.

Staff analysis of the comment:

Although the AASB 101 option is not available to WoGs/GGSs for financial reporting purposes, it is conceivable that a WoG/GGS would elect to adopt the two separate statements format for its budget. Despite this, we acknowledge that, as drafted, paragraphs 6(c) and (d) could lead to confusion about whether the option is available to WoGs/GGSs.

Staff suggestion for dealing with the comment:

Reflecting back on the drafting of paragraph 6 of the draft Standard, in light of paragraph 10A of AASB 101¹, paragraphs 6(c) & (d) could be deleted and replaced with a new commentary paragraph explaining that although AASB 101 allows for different formats to be adopted for the ‘statement of profit or loss and other

1 AASB 101.10A states: “An entity may present a single statement of profit or loss and other comprehensive income, with profit or loss and other comprehensive income presented in two sections. The sections shall be presented together, with the profit or loss section presented first followed by the other comprehensive income section. An entity may present the profit or loss section in a separate statement of profit or loss. If so, the separate statement of profit or loss shall immediately precede the statement presenting comprehensive income, which shall begin with profit or loss.”

comprehensive income’, if a WoG/GGS adopts a budget format that differs from that allowed for the actual statement by AASB 1049, that format would need to be re-formatted for budgetary reporting purposes. [See struck-through paragraphs 6(c) & (d) and underlined new paragraph 10 of agenda paper 12.3.]

(b) *Explicit requirement to comply with Standards*

Paragraph 6(g): For consistency with paragraph 59(e) of AASB 1049, in referring to “the presentation and classification adopted in the corresponding financial statement”, paragraph 6(g) should make clear that it is referring to presentation and classification ‘as prescribed in accounting standards’.

Staff analysis of the comment:

We agree.

Staff suggestion for dealing with the comment:

Amend the phrase to read “the presentation and classification adopted in the corresponding financial statement prepared in accordance with Australian Accounting Standards”. [See underlined text in renumbered paragraph 6(e) of agenda paper 12.3.]

(c) *Administered items only pertinent to entities within the GGS*

Paragraph 7: Consistent with paragraphs 11(b) and BC15, it should make clear that, because it is referring to administered items, it does not apply to WoGs/GGSs.

Staff analysis of comment:

We agree.

Staff suggestion for dealing with the comment:

Amend the lead-in of paragraph 7 to say “Where an entity’s within the GGS’s budgeted financial information reflecting major classes of administered income and expenses, ...”. [See marked-up text in paragraph 7 of agenda paper 12.3.]

(d)*** *Relevance of revised budgets to explanations of variances*

Paragraphs 10 and 14: These paragraphs appear to expand AASB 1049 requirements relating to revised budgets. In particular, paragraph 10 states, in relation to a revised budget, that it “might need to be referred to in explanations of major variances as noted in paragraph 14”. And paragraph 14 goes on to state that “even where there are no major numerical differences between the original budget and actual amounts, an entity might need to have regard to any revised budgets presented to parliament and include explanations for numerical differences between any revised budget and actual amounts”.

The original reason for referring to revised budgets in AASB 1049 was to address some constituents’ views that preferred revised over original budgets as the basis for budgetary disclosures. This caused the Board to agree to clarify that, in addition to the original budget, the revised budget could also be disclosed. Therefore, it is

inappropriate to extend the references to revised budgets by relating them to explanations of variances.

Staff analysis of the comment:

The principle underpinning the requirement for disclosure of explanations of variances in AASB 1049 is the relevance of such explanations to an assessment of the discharge of accountability and to an analysis of performance of government (see paragraph 65 of AASB 1049²). In developing the fatal flaw draft Standard, the Board concluded that the ‘new’ references to explanations of variances related to revised budgets in paragraphs 10 and 14 would merely clarify the requirement rather than change it. Furthermore, the references in paragraphs 10 and 14 of the fatal flaw draft are expressed in terms of ‘might’ – and therefore merely provide a factor that a preparer should consider in meeting the principle of providing information for users. We think the approach is adequately justified in paragraph BC25 of the fatal flaw draft (see agenda paper 12.3).

Staff suggestion for dealing with the comment:

Retain the references to revised budgets/explanations of variances in the fatal flaw draft, although make a drafting amendment to paragraph 14 to more explicitly say that the matter is only pertinent **if** revised budgets are presented to parliament. [See newly numbered paragraphs 11 and 15 and paragraph BC25 of agenda paper 12.3.]

*(e)*** Implications of summarised budgeted information*

Paragraph 12: The ‘relief’ from making budgetary disclosures in circumstances where an entity’s budgeted controlled items are presented at a summarised level was not previously included in AASB 1049.

Staff analysis of the comment:

The explicit reference to ‘relief’ from providing disclosure of budgetary information “where an entity’s budgeted controlled items are presented at a more highly summarised level than the level of information required by Australian Accounting Standards to be presented in the financial statements” was intended to clarify rather than change the requirements in AASB 1049 and apply equally to WoGs/GGSs and entities within the GGS.

Staff suggestion for dealing with the comment:

Retain the clarification, including for WoGs/GGSs, but amend it to clarify further that: “... the requirements in paragraph 6 do not apply where parliament only receives information about an entity’s budgeted controlled items ~~are presented~~ at a more highly summarised level than the level of information required by Australian Accounting Standards to be presented in the financial statements.” [See newly numbered paragraph 13 of agenda paper 12.3.] Referring to ‘only’ in this suggested amendment

2 AASB 1049.65 states: “The explanations of major variances required to be disclosed by paragraph 59(f) are those relevant to an assessment of the discharge of accountability and to an analysis of performance of government. They include high-level explanations of the causes of major variances rather than merely the nature of the variances.”

is consistent with the fact that summarised information could not be restated to align with the more detailed presentation and classification adopted in the financial statements without drawing on information that was not presented to parliament as part of the budget – this is because the focus of the draft Standard is on budgetary information presented to parliament and not other, albeit budgetary, information.

Comment 2: Formal Requirements vs Conventions for Publishing Budgets

Paragraph BC7 states that there is a formal requirement that budgets are published for entities within the GGS and uses this as the context for specifying the budgetary reporting requirements of such entities. In fact, there is no such formal requirement. Each jurisdiction determines its own budget requirements and some do not require publication of budgets for entities within the GGS. Notwithstanding a lack of formal requirements, some jurisdictions have a convention of publishing such material, which may have contributed to the view stated. ACAG recommends the Board consider the potential impact of inaccurate material in the Basis for Conclusions paragraphs.

Paragraph BC10 identifies that a major consideration in limiting the application of the Draft to public sector entities is that there is no requirement for a private sector entity's budget to be made public. ACAG notes that there is similarly no formal requirement for the budget of an individual public sector entity to be made public, notwithstanding the convention that budgets are published for some individual entities. As noted in ACAG's response to ED 212 it is not the case that a budget is published for each individual entity within the GGS.

Staff analysis of comment:

We agree with the comments about conventions vs requirements.

Staff suggestion for dealing with the comment:

Paragraphs BC7 and BC10 should be amended as follows:

“BC7 ... Furthermore, such entities are a significant group for which there is typically a convention or formal requirement that budgets are published. Accordingly, the current conventions or requirements for governments to present budgets to parliament provide a context for specifying the budgetary reporting requirements for not-for-profit entities within the GGS.”

“BC10 The Board decided not to consider budgetary reporting requirements for private sector entities (whether for-profit or not-for-profit) on the basis that, in contrast to the public sector, ~~there is no~~ it is not typical for there to be a convention or formal requirement to make a private sector entity's budgets public.”

***Comment 3: Implications for Administrative Restructures

Disclosing budgetary information at the agency level, while conceptually desirable, will cause some practical application issues, particularly when new agencies are created or separated from existing agencies. Each jurisdiction has its own legislation, practices and conventions for reallocating appropriations, creating and approving budgets. When aggregated at a WoG/GGS level, these movements do not cause problems. At the individual agency level however, this is not necessarily the case. In NSW, when a new agency is created, or functions transferred, although the appropriation moves, there is no budget for the new agency in its first year of

operations. Any allocation would be purely arbitrary. Alternatively, the budget number for the appropriation would be the only number the agency could disclose.

Paragraph BC16 discusses application of the principles in AASB 105X to a new entity for which no budget was presented to parliament. ACAG members' reading of this discussion is that the Board concludes that the principles of AASB 105X could be adopted by a newly created entity having regard to the section of the original budget for a different entity that was relevant to the new entity. This conclusion seems inconsistent with the requirement that budgetary information need always reflect the original budget presented to parliament. The statement that the new entity 'might provide a comparison' could imply that the new entity could present arbitrarily determined information on the face of its statements, which is not consistent with the requirements of the Draft. ACAG believes it is important Basis for Conclusions material does not suggest alternative applications of requirements.

Staff analysis of comment:

In relation to the concerns expressed about practical application issues, given the Board's policy of principle-based standard setting, it is inevitable that 'practical application issues' will arise. However, we think the principles as drafted (with the amendments to paragraph BC16 we suggest below) is sufficiently robust to be able to be applied in practical circumstances.

We think the comment about paragraph BC16 has some merit – giving rise to our suggestion below for it to be amended (rather than deleted). We think it is reasonable for the Standard to contemplate disclosures being made that are additional to the requirements, and encouraging those disclosures to be made in a way that is broadly consistent with the underlying principles of the Standard.

Staff suggestion for dealing with the comment:

We suggest paragraph BC16 is amended to clarify that the principles could be applied in the circumstances described in that paragraph (ie, certain administrative restructures), but only when appropriate. And, to help ensure it better aligns with the principles, the second last sentence should be amended as follows: "For example, if a new entity is created through a split from an existing entity (that would be ongoing), and this occurs during the budget period, although AASB 105X would not require the new entity to make budgetary disclosures (because no budget relating to the new entity was presented to parliament), the new entity might ~~provide~~ consider providing a comparison to the section of the original budget of the ongoing entity that is relevant to the new entity." [See paragraph BC16 of agenda paper 12.3.]